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**ACT NEW ZEALAND/FEDERATED FARMERS
LOCAL GOVERNMENT REFORM SUMMIT**

**LOCAL GOVERNMENT: TIME FOR A
NEW BLUEPRINT**

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In 1989, after many previous failed attempts, local government was substantially reformed by the then Labour government. The principles of the State Sector Act and the Public Finance Act were applied to the sector, the framework for Local Authority Trading Enterprises (LATEs) was established to permit the corporatisation of trading activities, regional councils were created, and a reorganisation of functions and boundaries reduced around 800 units of local government to under 100. Around the same time ports, airports and later power companies were set up as standard – though publicly owned – business operations.

The National government retained its predecessor's reforms and created the Auckland Regional Services Trust (ARST), essentially a transitional 'holding company' for the trading activities of the Auckland Regional Council.

A point worth emphasising is that these changes were not driven by local government; then, as now, local government is typically anti-reform. Most of the credit for them goes to the Labour government, in particular Michael Bassett as the responsible minister.

It is now almost universally agreed, including by most in the sector, that these changes initially led to major improvements in the performance of local government – port reform being a dramatic example. But by and large these gains have run out. Some councils continue to make progress with initiatives such as contracting out of services. Overall, however, the sector has fallen well off the pace, the quality of decision making is poor, councils are too often factionalised and driven by special interests, and some are going backwards.

The argument I want to make is that it is time for a new wave of reform of local government. The sector is too important to the economy and our communities to be allowed to drift. It spends over \$3 of every \$100 New Zealanders earn, ratepayer equity is greater than half the market capitalisation of companies listed on the stock exchange, there are two thirds as many local government employees as full-time farmers, and local government regulation affects every business and household in the country. We need top quality performance in local government if the country is to

prosper, and we are not getting it. I agree with Sir Ross Jansen, one of the architects of the 1989 reforms, that the job was only half done.

The picture varies across the sector – no two councils are the same – but the evidence of general underperformance is compelling. In the far north, the community, supported by central government, rose up and forced the district council to abandon a proposed district plan which was a gross misuse of the Resource Management Act. The Northland Regional Council has exposed ratepayers to business risk through its shareholding in the port company and seen 50 percent of the value of its investment wiped out in the past year. The antics of the Whangarei District Council have seen the resignation of its chief executive and two senior staff, and the Local Government Commission has stepped in to override its attempts to rig elections by abolishing the ward system.

Further south, Auckland is a city suffocating under the weight of local government. Public entities operate the roads, which are clogged, the water supply, which is precarious (the idea of supplying water from the Waikato was first mooted 25 years ago), the sewerage system, which spills raw sewage into the harbour at the bottom of Queen Street, and an electricity system which failed under a backlog of maintenance and investment. Curiously enough, the telecommunications system works – even though it is owned by rapacious capitalists if you believe the Alliance – yet when it was run by the Post Office it was the main infrastructure problem in Auckland in the 1980s: it was often impossible to make calls across town. And the same local government politicians who are responsible for this state of affairs are telling us they want to take over the operations of the ARST.

The Auckland City Council alone has 91 elected representatives, counting those on community boards – two thirds as many as central government. It has refused to cut the number of councillors; the Local Government Commission has had to force it to reduce its size. Auckland City's rates have increased by an average of nearly 7 percent a year since 1990. Papakura District Council, by contrast, has cut rates substantially.

In somewhat lighter vein, Manukau City owns a company that mows lawns in Australia. The latest flight of fancy is in Tauranga where the council – like

its Queenstown counterpart – is having visions of establishing an international airport, which one minister has rightly described as 'crazy'.

The Wellington City Council, which was the laughing stock of the country in the 1980s, made a lot of progress following the 1989 reforms under mayor Fran Wilde, but has reverted to past form. Key decisions are now dependent on the votes of two oddball councillors. In the past year the Council incurred large expenses putting its parking buildings out to tender and then aborted the process. It moved towards a user-pays regime for water with the introduction of an annual charge but now proposes to scrap it, despite the fact that voluntary metering is producing 20 percent savings. Ideologues on the Council have forced a retreat on contracting out of services, even though cost savings of 20-40 percent were being achieved.

At a regional level, Wellington councils commissioned a report on water supply options from Ernst and Young which recommended the establishment of an integrated water company. In an all-too-typical example of lack of political leadership, Wellington mayor Mark Blumsky dropped the idea before it was even publicly debated. After years of resistance, the Wellington Regional Council looks likely to sell its port company and forestry investments, which have probably lost value in the meantime.

Down in the PRC – the People's Republic of Christchurch – spending increases have matched Auckland City's. The council has now run up against a rates limit and is forcing its port and power companies to return capital which it plans to use for still more spending. In shades of Chairman Mao's 'cultural revolution', councillors maintain that Christchurch is 'culturally different' in wanting to maintain public ownership; they haven't noticed that the world has moved on, with even China desperately trying to get rid of state-owned enterprises. Still, visitors – including foreign tourists – can enjoy a subsidised ride on the mayor's loss-making tram, courtesy of Christchurch ratepayers.

Dunedin, sadly, is off the map. With its struggling economy, Dunedin should be trying to make itself the most business-friendly city in the country. But the mayor, with the aid of her speechwriter Chris Trotter, has put up the 'Not Wanted' sign to business, and business has duly responded and gone elsewhere.

It would be easy to extend this catalogue of comedy and tragedy several times over. There are counter-examples like Papakura and the Taranaki Regional Council but they are all too rare. A number of key problems recur across a broad range of councils. A short list is as follows:

- Many councils seem unable to determine their core activities. Christchurch has no idea whatsoever of the proper boundaries between the public and private (commercial and voluntary) sectors. It is now wandering into social welfare activities despite the fact that even Local Government New Zealand agrees that councils have no business in this area.
- Many councils are highly resistant to disengaging from business activities, which impedes rationalisation in industries like ports, airports and electricity and exposes ratepayers to risk. It is quite irrelevant to argue that privately owned businesses can and do fail, just like publicly owned ones. Public policy should be driven by what happens on average. The evidence is clear that on average and over time privately owned businesses out-perform publicly owned ones. Quite simply, councils should not be betting against the odds with other people's money.
- Many councils are woeful mis-managers of infrastructural assets. Cities the size of Auckland around the world are not plagued with its kind of traffic problems. Water and sewerage infrastructure has been allowed to run down across the country. Politicians shy away from raising rates to maintain the facilities and from taking timely investment decisions – Wellington City dithered for 20 years over a sewerage scheme and then opted for an exorbitantly expensive one. Just last year Auckland City set up Metrowater as a LATE and is now talking about scrapping it.
- The current round of funding reviews required under the new local government legislation is throwing up some quite perverse results. Many councils are maintaining that services like water and libraries confer primarily public benefits and should be funded wholly or mainly from rates. Their proposition is that when I have a shower, water my garden or borrow a book from the library, other people get

most of the benefit and should pay for it. The Grey District Council is one of the few to apply some of the principles of the legislation meaningfully and was brave enough to suggest that at least half the benefits of library services went to users; needless to say, it was immediately branded a Business Roundtable lackey. Unless the auditor-general or the courts can put a stop to decisions which are making a travesty of the new legislation, it looks like being ineffectual.

- Huge costs are being imposed on the economy as a result of local government regulatory activities, especially the Resource Management Act. Sir Ron Carter has recently said that any significant public work is likely to take two or three years to achieve consent – a huge investment barrier. The itch to plan and control in a variety of guises, rather than focus on environmental effects, persists. The impact on land and house prices in areas like Auckland and Christchurch has had ripple effects throughout the whole economy. I am doubtful whether the current plans to tinker with the RMA will achieve much. After 6 years' unsatisfactory experience with it, it is surely time to conclude that it is fundamentally flawed.
- The quality of the economic analysis in many councils is abysmal. A couple of years ago Christchurch City tried to tell us that selling assets would mean rates would have to rise. Now they are telling us that merely rearranging debt means rates can go down. They are wrong on both counts. Wellington City refuses to accept that non-residential ratepayers are not taxed on a concessional basis despite advice to the contrary from business organisations, the Treasury and their own professional staff.
- Many councils impose grossly excessive burdens on the business sector, including farming, through rate differentials. This is a typical outcome of political control: we saw it also in telephone and electricity tariffs, which had to be painfully rebalanced. The problem is that residential ratepayers make up the bulk of electoral rolls and politicians pursue their votes rather than the interests of the wider community.

- Despite their protestations to the contrary, many local government politicians show little interest in local democracy. This is apparent in the resistance of Auckland councils to a referendum which would allow citizens to decide between a share giveaway and continuing political control of ARST assets. George Gair tried to tell us that people couldn't be trusted with such a decision because they had a short-term focus: imagine that from a member of the political class that is usually focused on the next election. Auckland's mayors will clearly fight to maintain political control and the power and patronage that goes with it.

More generally, the problems of local government fundamentally stem from the weaknesses of democracy at this level. There is a low turnout at local government elections, despite the introduction of postal voting which was introduced in 1989 with the aim of increasing participation. Voters have little idea of who or what they are voting for, mayors do not head political parties and cannot necessarily deliver on manifestos, governance and management roles are confused, and media coverage of local government is sparse relative to central government. There is minimal public participation in the annual plan process and often it is a charade – councils tend to go on the volume of submissions on one side of an issue rather than their merits. As a result, council policies are frequently driven by activist and special interest groups, ranging from anti-casino campaigners to heritage and sporting lobbies.

The reality at the turn of this century is that most people are disillusioned with politics at all levels, and want to have as little to do with the political process as possible. Governments have greatly over-reached themselves; they have proved to be poor vehicles for delivering many of the services people want. Politics has become the preserve of career politicians – in the case of local government, people with time on their hands like beneficiaries, retirees and failed business people. Of course there are exceptions, but too many have made council politics a full-time job and engineered fees which give them a comfortable living.

What are the solutions to these problems? My answer is straightforward: local government should be drastically slimmed down. The genius of the American constitution and the recipe for economic success is limited government at all levels, and a democratic system with clear constraints,

checks and balances. David Hawkins, mayor of Papakura, has even questioned whether we would need local government at all in 20 years' time.

I believe we need another major round of reform. I don't believe local government is capable of making the necessary changes from the bottom up – it has never done so the past. Central government must make them from the top down.

In New Zealand, local government operates within a framework laid down by central government. It is perfectly open to central government to change that framework, as it has done many times. Changes to the framework are being mooted right now in the form of the proposed roading reforms. They are strongly supported by most business and road user organisations, but local government is predictably opposed to them – Christchurch is spending huge amounts of ratepayers' money to defend its vested interests. The proposed changes would dramatically alter the face of local government, as roading is its single largest activity.

I suggest the government should build on the roading reform model in respect of all the major business activities of local government. It is absurd that roading in this country is provided by 75 separate roading operators (74 councils plus Transit New Zealand). It makes eminent sense to put roading management in the hands of one or a handful of roading companies. Similarly, it is absurd that water and sewerage is supplied by over 70 councils when a handful of operators (Scotland has three for a population of 6 million) could do a far better job.

The situation is no different with the other utilities. We have 35 power companies whereas most people in the industry believe the number should be well below 10. And privatisation and ownership rationalisation of airport and port companies is proceeding at a snail's pace, years after they were corporatised. Even Australia has privatised most of its main airports.

I suggest the straightforward approach with roading and with water and sewerage would be for the government to set up a number of companies, initially with central and local government shareholding as appropriate. Ratepayers could then be polled as to whether they wanted ownership to

remain in council hands or whether they preferred to own them directly through a share giveaway.

In the case of the other main local government-owned utilities – electricity, ports and airports – the government could require councils and trusts to sell down their interests within a defined period. The government's recent decisions on electricity could have the peculiar result of creating almost twice as many local power companies, each with its own board and management. It would be far better to move electricity, port and airport companies into the private sector so as to permit market-driven rationalisation of the industries to occur through mergers and acquisitions, subject to normal competition law. That would put these utilities on the same footing as telecommunications and gas. Internationally, all these utilities are predominantly and/or increasingly in the private sector.

Central government could also require councils to divest other commercial assets such as parking buildings, property investments and forests in a similar way, with the proceeds being applied to debt and rates reductions. These days investors don't leave companies with large amounts of free cash for fear it will be wasted on low-return projects. Similarly, ratepayers should be demanding their money back from such investments; if they really want money spent on core council activities, councils should have no problem justifying such spending out of rates.

This would leave councils focusing on ensuring the provision of local public goods, including local regulation. These are things like civic activities, city parks, streetlighting, civil defence, litter collection and environmental management that will either not be supplied or be under-supplied by the private sector, usually because they can't be charged for. We need councils, as part of the public sector, to be focused on *public* goods; we don't need them to be involved with the supply of *private* goods. The list of genuine public goods is not a long one, and the government should require councils to contract the supply of many of them out to the private sector, as is commonplace in Australia.

If this approach were followed, councils could do a far better job of discharging their essential functions, and council spending and rate burdens could be dramatically reduced. The funding of services would be by way of user charges where appropriate and practicable. Rates should be a residual

source of finance. Differential rating – which did not exist prior to 1976 – could be scrapped. Businesses and other groups would be charged directly for all the services they use, and pay their residual share of rates based on property values without any loading. The number of councillors could be at least halved, and the time needed for council business could be greatly reduced. This could encourage a broader range of talented people to stand for councils.

Such a shedding of functions would also enable a further reorganisation and rationalisation of councils, especially rural ones. Bigger would not necessarily be better, however, in all cases. In Auckland, for example, the need for better coordination of services like roading and water and sewerage would be met by regional utility companies, and it may well be that core public goods are better delivered by smaller units such as the existing ones or through joint ventures between councils.

Such moves might also enable the tier of regional councils to be dispensed with. These were established to avoid the conflict of interest between local government's regulatory role and its role as a service provider. If the major utility services were removed from councils, this conflict would be greatly reduced. The functions of regulation and the provision of a limited range of public goods might be performed by one tier of local government.

This is just a broad sketch of a local government reform agenda. Naturally there are many possible variations of it – David Hawkins, for example, might well wish to go further. I would like to see such ideas debated in an open way. Local government is fond of telling us that it is democratically accountable and must reflect the community's wishes. If it is genuine in that claim it should be informing the community and promoting debate about options – not closing them down like the mayors of Auckland and Wellington. And central government politicians and national organisations like Federated Farmers should be debating whether we can afford as a country to let local government go on much longer in its present state of drift and muddle.

The harsh reality is that New Zealand as a whole has lapsed back into a state of underperformance and mediocrity. Since the mid-1990s, governments have given up on reform and dissipated the benefits of economic

restructuring in a blow-out of government spending. To survive in today's global economy requires a culture of continuous improvement, not do-nothing government. Politicians have stopped talking about ambitious growth rates, our balance of payments position is precarious, unemployment is on the rise, and many families are struggling. These are the results of the so-called 'caring' policies promoted by certain politicians and interest groups. They should be required to defend them as the community suffers the consequences.

There is no doubt that our country could be doing far better. New Zealand or Christchurch is free to decide it is culturally different, but neither is able to repeal the laws of economics. If we fail to heed the current warning signs from the IMF and others, New Zealand will slip back to the economic brink and change will be forced on us. There is a clear consensus internationally on the policies needed to raise national incomes. Governments at all levels need to rein in their spending to make room for private sector expansion, and we need to make up for lost time on microeconomic reform to increase productivity and restore our international competitiveness. High on the microeconomic reform agenda, I suggest, should be a basic reappraisal of the role of local government.