

# Mythbusters

Examining common perceptions  
about local government in  
New Zealand

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## **Introduction**

How much do we really know about how well our local council works? Where do we go for information that allows us to determine whether or not the services and processes that we take for granted are up to scratch? In short, how does local government in New Zealand compare with councils elsewhere?

Globalisation and the speed of technological change mean that no sector of our society can afford to be complacent. Councils have a major influence on the quality of life of our communities and what happens in communities dictates what happens in the nation, so local government performance is vitally important to the ongoing prosperity of New Zealand.

When asked to identify factors that are "important to make a real community", Australian residents ranked the presence of a local doctor as the most important in a list of 39 factors, followed closely by families and schools. An "active local council" was ranked 12th equal. The same survey revealed that satisfaction with local government has consistently been higher than both the federal and state governments since 1998, and continues to increase.

So what's the real story? How are councils in New Zealand doing? This report has been designed to examine common assumptions about local government and ask how true they in fact are.

Eugene Bowen  
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## Local government spending is out of control

*Council spending out of control*

(Dominion Post headline, September 2009)

Towards the end of each June councils are busy finalising their annual or long-term plans and determining the level of rates and fees that will apply for the coming year. Almost without fail their decisions will be the subject of media headlines highlighting planned increases and confirming widely held perceptions that rates are increasing unreasonably.

Is this necessarily so? Surely if councils exercised greater fiscal discipline, rates increases could be kept to the rate of inflation? Does the fact that in recent years property taxes have grown more quickly than the consumer price index mean that councils are exercising poor fiscal control?

The two benchmarks most commonly used by academics are local government expenditure in relation to the size of the economy and local government expenditure as a proportion of total public expenditure. The first measure shows a relationship between the rate of economic growth and the rate of council expenditure (see Fig. 1). This contains a certain level of logic as most councils' expenditure is on infrastructure, which is a factor of economic growth.

**Figure 1** Local government expenditure as a percentage of GDP

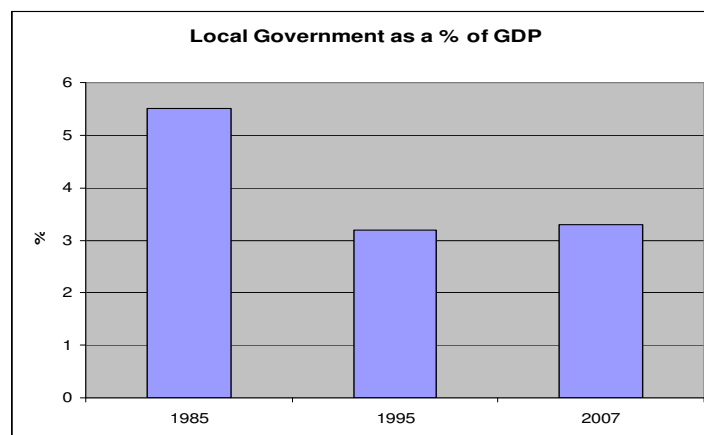
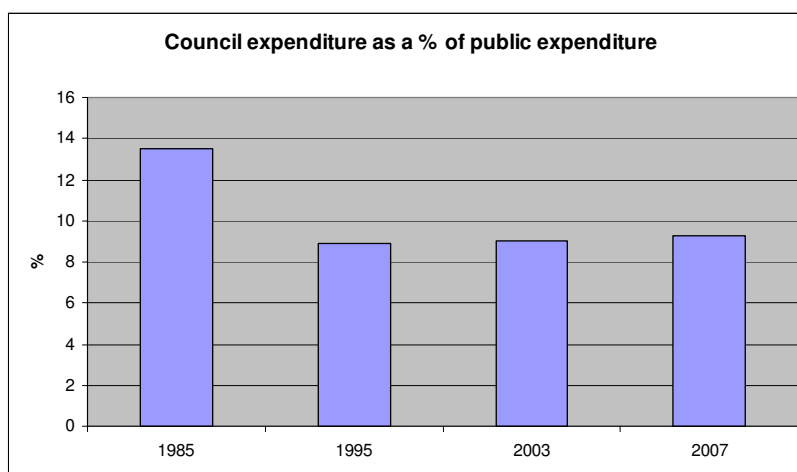


Figure 1 indicates that local government expenditure has remained a relatively consistent proportion of gross domestic product, around 3.1%, since local government reform in 1989. This suggests that local government expenditure tends to match and is possibly driven by the overall demands of the economy. As the economy grows, it creates pressure on infrastructure, such as water and roads, causing councils to increase their investment to respond to greater demand.

A second way of analysing local government expenditure is to compare it with the expenditure of central government and measure any changes in local government's proportion of total public expenditure. Figure 2 is calculated by adding all central and local government expenditure together and then identifying the local government proportion over time.

**Figure 2** Council expenditure as a percentage of government expenditure



As Figure 2 shows, local government expenditure as a proportion of total public expenditure has grown slightly since 2003, although is still considerably less than its share of public expenditure 20 years ago.

Using a different benchmark, some commentators suggest that rates should not be any higher than the consumer price index (household rate of inflation) and criticise councils that go beyond this. This issue is discussed in more depth in the following Myth, which explains that the consumer price index (CPI) is an inappropriate measure as it fails to take into account new and enhanced services or the particular cost drivers faced by councils.

Analysis of council long-term plans suggests that recent increases in rates reflect greater levels of investment in infrastructure. Given that expenditure as a proportion of GDP and public expenditure is relatively consistent, it casts doubt on the argument that expenditure is out of control.

### **Further reading**

For the latest summary of financial information on local government visit [www.localcouncils.govt.nz](http://www.localcouncils.govt.nz)

*Funding Local Government: Report of the Local Government Rates Inquiry.* [www.ratesinquiry.govt.nz](http://www.ratesinquiry.govt.nz)

## **Rates should be capped at the rate of household inflation**

*To protect ratepayers from exploitation from spendthrift councils, a rates cap should be introduced whereby rate increases are capped at the rate of inflation, plus annual population adjustments*

(Muriel Newman, 23 July 2006)

One of the most common criticisms made of local government is that rates should only grow at the same pace as the consumer price index (CPI). Increases above the CPI are regarded by many as an example of financial profligacy, but is this the case? What actually is the CPI and how does it relate to local government?

The CPI, as we discuss in the myth that asks whether rates are fuelling inflation, is a measure of how much household costs change over time. It is determined by measuring changes in a bundle of goods and services that a typical household will use, for example food, furnishings and health services. The question that concerns us is whether an index that measures the cost of running a domestic household is also a meaningful measure of the cost of running local government. After all, councils are not big consumers of Weetbix or any of the other goods in the household basket.

Interestingly, economists recognise a number of price indexes. For example, New Zealand produces a farming index that records what is happening to the cost of the major items that farmers spend money on here and in the United Kingdom. There is even a pensioners' price index, which acknowledges that pensioners' spending patterns are different from the average family (presumably more is spent on food and heating and less on restaurant meals and entertainment).

Local government spends the bulk of its income on materials that go into various kinds of infrastructure, especially roads and pipes. They are activities that use a lot of petroleum-based products as well as construction materials, both of which are in high demand in developing economies like China. To get a more accurate sense of what is happening to local government costs, *Local Government New Zealand* has recently commissioned BERL to develop a local government cost index. This is displayed in Figure 3.

**Figure 3** Local government cost index

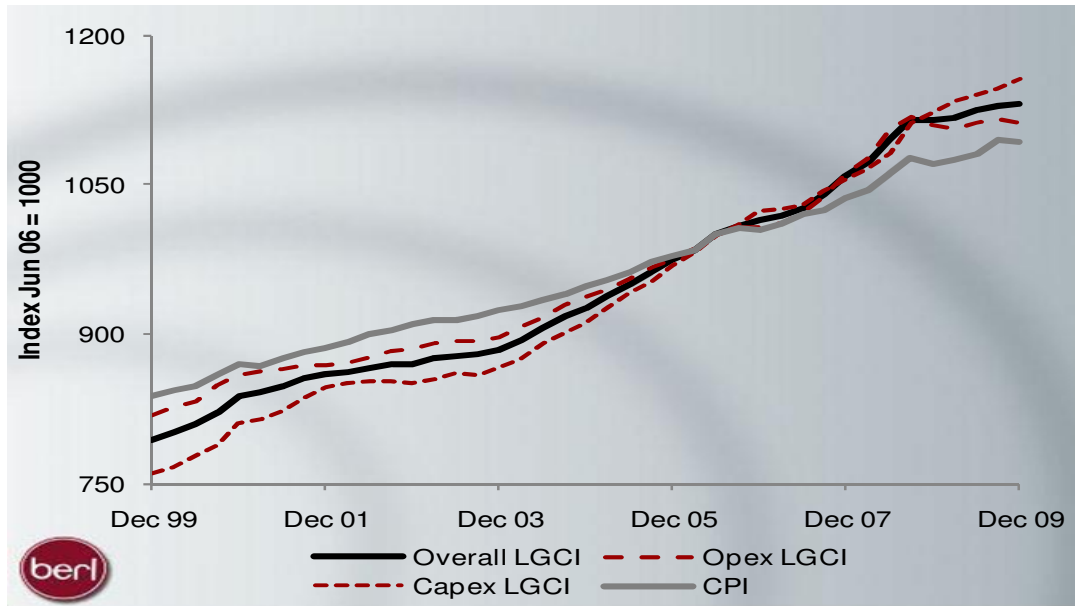


Figure 3 compares councils' operational costs and their capital costs against the CPI and shows that since 2005 both cost indices have exceeded CPI. The black line represents a local government cost index (LGCI), which has been designed by combining both operational and capital costs, in proportion to what councils spend. As shown by the graph, over the last 10 years CPI has grown by 30.6%, whereas the LGCI has grown by 43.9%, a full percentage point higher per year. Taken over the last four years, the gap is even greater.

The CPI has been designed to measure the change in prices faced by households. If local government was to hold its rate rises to CPI at the same time that its own costs are rising more rapidly, the most likely outcomes would be decline in infrastructure quality and a drop in the quality of local government services, with both short-term and long-term implications for economic growth.

### Further Reading

BERL (2010) *A Local Government Cost Index for New Zealand*, available from *Local Government New Zealand*

## **Rates increases are fuelling inflation**

*...we still have concerns that domestically generated inflation (particularly in labour costs, local body rates, electricity prices and construction costs) is remaining stubbornly high*

(Alan Bollard, Reserve Bank Governor, 23 October 2008)

It is not uncommon to hear commentators claim, like the Governor of the Reserve Bank, that increases in council expenditure are fuelling inflation, but is this actually true? How do changes in local government rates contribute to inflation?

New Zealand's inflation rate reflects changes in the consumer price index (CPI), which measures changes in the price of a bundle of goods and services over time. When assessing change in price, economists attempt to ensure that they are comparing like with like. As the nature of goods and services changes over time (for example today's cars contain new features like air bags), adjustments need to be made to ensure any increases in cost are not just the cost of the new features.

Local government rates and payments make up 2.16% of the CPI and information is sourced through an annual postal survey of households in a representative sample of 44 councils that collects information on:

- the local authority's levied total rate take (including any regional rate take) on residential assessments for the rating year
- the number of separately rateable residential assessments
- the different assessment groups included in residential assessments
- uniform annual general charges, separate uniform annual charges and fixed charges for residential assessments
- whether the local authority collects rates for one or more regional councils
- variable charges based on property value
- charges and associated information for metered water, if any (used for the water supply class index).

This information is then aggregated to a regional level and weighted, taking into account the number of owner-occupied dwellings, and consequential change from the previous year is incorporated in the CPI.

There are a number of problems with this approach, which potentially overestimates local government's contribution to the CPI. For example:

- quality changes: As noted above, one of the requirements when measuring inflation is to ensure that changes in quality and quantity are factored into the assessment. This does not occur with the local authority section of the index. No attempt is made to identify changes in service quality. For example, if a council moves from pumping raw effluent into the sea to a fully treated effluent system for its waste water, there will be a significant impact on rates. This represents a major shift in the quality of the service, yet the additional cost is treated as inflationary by the survey used to assemble the CPI.
- valuation changes: One of the factors that influence what we pay in rates is the value of our property. The local authority survey is based only on the value of residential properties; however, values can swing between residential and commercial sectors. A shift in value from commercial properties towards residential properties will result in the residential properties paying a higher level of rates. Under the Reserve Bank's methodology, this is considered inflationary! This situation is further complicated where a council has a system of differential rates and changes the differential without necessarily increasing the overall level of rates it is collecting.
- policy changes: Rates may increase as a result of policy decisions to either increase or reduce debt or to finance new investment projects. This kind of investment relates to the cost of a future flow of consumption services and therefore should be excluded from the index, which is meant to measure current consumption. Similarly, many costs borne by local government are created by Government policy. We are not sure local government should be blamed for these.

An analysis of the methodology used to measure the local authority component of CPI by the economics institute NZIER concluded that "the failure to make adjustments for changes in the quality of services provided by local government is likely to result in overestimation of the price movement in local government services funded via rate" (NZIER, 1999, p.13). The Reserve Bank is yet to pay any attention to this observation.

Unless the quality of the information used in calculating local government's share of the CPI is addressed and changes made to the manner in which local government information is collected, we are left with some serious questions about the validity of the Governor's criticism of local government.

### **Further Reading**

NZIER (1999) *A Review of the Rates Component of the CPI*, available from *Local Government New Zealand*

## **The LGA 2002 greatly expanded the scope of local authority powers**

*To give local body councils the power of general competence is foolish in the extreme*

(Member of Parliament during first reading of speech 2002)

Following demands from the local government sector, the new Local Government Act enacted in 2002 (LGA 2002) changed the way local government powers are written. This changed from an *ultra vires* approach, which specified what councils could do, to an empowerment approach, which specified the things councils couldn't do. The suggestion that the LGA 2002 greatly extended local authority powers (and as a result led them to expand into a raft of new activities) is commonly made, but is it true?

Peter McKinlay, of the Auckland University of Technology, has examined this argument and found it wanting. McKinlay concluded that, despite the view that the LGA 2002 gave councils greater powers, it actually constrained councils' powers more tightly than the previous 1974 Act. For example, s598 (1) of the LGA 1974 stated:

*The Council may ... undertake, promote, and encourage the development of such services and facilities as it considers necessary in order to maintain and promote the general well-being of the public and may promote or assist in promoting co-operation in and co-ordination of welfare activities in the district.*

In McKinlay's view, this provision is actually more comprehensive and unconstrained than the new purpose and powers introduced by the LGA 2002. The new statute, while providing a general empowering clause, specifically exempted bylaw-making and funding from the reach of that clause. It also sought to limit the application of the new power through quite restrictive process requirements, particularly around consultation and decision-making.

### **Are councils doing more?**

The related question, that the LGA 2002 has encouraged councils to branch out into new activities, has also been subject to considerable research over the last few years, with at least three reviews examining the question and determining that there is no case to answer.

The first study was undertaken by a joint officials' group, the Local Government Funding Project. In its final report the officials' state:

*No evidence to date has been produced to suggest that local government as a whole is undertaking a wider group of functions than it had prior to 2003. In cases where councils have taken on additional responsibilities these have proved to be quite small in scale and operational in nature. (Funding Project Team, 2006, p.18)*

This view was reinforced a year later by both the *Report of the Local Government Rates Inquiry* (the Shand Report) and the Local Government Commission's *Review of the LGA 2002*.

To the degree that there has been a change in councils' range of services, it is most pronounced in a handful of regional councils that have contributed to regional economic development initiatives, for example the construction of local stadiums. Rather than problems, these decisions should probably be seen as economically prudent, as the regions are often better placed to spread the costs of these services over the full range of beneficiaries, one of the reasons for the reorganisation of Auckland. The Shand Report's observations are a fitting conclusion to this myth:

*The panel does not consider that this empowerment [the LGA 2002] has been a significant driver of increased expenditures. First, the previous legislation contained similar powers, such as the power to promote community welfare. And local government has long been involved in social activities such as public rental housing and construction of major cultural sporting facilities and in commercial operations such as parking buildings and other trading undertakings.*

*There is little that local government is now doing that it has not previously been doing. (Shand, 2007, p.78)*

The Government is currently considering the introduction of a clause that would require councils to think about the issue of core services when considering their role. Interestingly, the Department of Internal Affairs' own analysis revealed that 97% of council expenditure went on those 'core' services anyway, so where's the problem?

Once again claims that local government reform has encouraged council to widen the scope of their activities appear exaggerated.

### **Further reading**

*Funding Local Government: Report of the Local Government Rates Inquiry* (2007), available from [www.ratesinquiry.govt.nz](http://www.ratesinquiry.govt.nz)

*Local Authority Funding Issues: Report of the Joint Central Government/Local Authority Funding Project Team*, downloadable from [www.lgnz.co.nz](http://www.lgnz.co.nz)

Local Government Commission (2008) *Review of the LGA 2002 and Local Electoral Act 2001*, available from [www.lgc.govt.nz](http://www.lgc.govt.nz)

## Councils' spending on 'non-core' activities is responsible for increasing rates

*With ratepayers feeling increasingly powerless, surely it is time to return local government ... back to its core role*

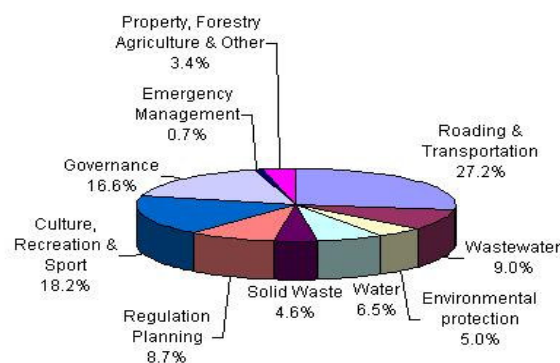
(Former MP, blogger, 2006)

As this statement indicates, one of the claims frequently made by commentators is that rates are going up because councils are increasing the number of activities they undertake and are no longer concentrating on 'core' services. (Note the irony that whatever is 'core' seems to depend on the commentator, as a few years ago abattoirs and municipal electricity departments were widely seen as 'core' services for local government.)

Such criticisms are underpinned by the view that local politicians are easily 'captured' by minority interest groups and, in order to get re-elected, allocate resources to projects of marginal utility, for example events that are visible and popular, such as sponsorship of David Beckham or music in the park programmes. But are such arguments backed up by the data? Are they fair?

The most authoritative recent source of information on local government expenditure, and funding sources, is the report of the Local Government Rates Inquiry, which reported in August 2007. The report noted that in their 2006-16 long-term plans councils planned to spend \$30.8 billion in capital expenditure, almost three times the amount allocated in the previous decade. Their analysis of this expenditure showed that 44% of it was committed to transport, 29% to the three waters (storm, potable and waste) and 18% to community facilities – these are hardly frivolous areas. In addition, the Department of Internal Affairs has provided the following analysis of total council expenditure by function (see Figure 3).

**Figure 4** Local government expenditure by category



Source: [www.localcouncils.govt.nz](http://www.localcouncils.govt.nz)

Figure 4 reveals that 'culture, recreation and sport' accounts for approximately 18% of local government expenditure. This figure needs to be set against the fact that local government provides parks, recreational facilities, libraries, art galleries and museums, as it has done since its establishment in the middle of the 19th century. The relatively small proportion of expenditure, when set against councils' full range of responsibilities, is far from being 'profligate spending'. So what has caused property taxes to increase?

Many factors influence the level of council spending; these include government requirements, the council rate of inflation, community expectations and external events. These can vary from place to place so it can be difficult to generalise. However, a joint central government/local authority project team that examined this issue in 2005 concluded that the factors driving council expenditure were:

- the provision of new infrastructure (network and community)
- the high cost of infrastructure renewal and replacement
- higher community expectations for service enhancements
- lower community tolerance of service failure
- new regulatory roles delegated by Parliament
- increased procedural costs, such as planning and consultation.

Parliament sets the rules that govern the way councils make decisions. These rules require councils to operate a balanced budget, unless it is prudent not to do so. One effect of this rule has been to force councils, unless they can justify not doing so, to raise sufficient income to cover their expenses or else reduce their costs. Expenses are not only the immediate costs of running services but also the decline in the service potential of their assets (depreciation).

Given that most of the factors that influence the cost of local government are outside the sector's direct control, and considering councils' capital expenditure plans for the next 10 years, it is difficult to sustain the proposition that councils are spending too much on non-core activities. Equally unfounded is the notion that there was a time in the past that councils were kept to a narrow range of core roles.

### **Further reading**

*Funding Local Government: Report of the Local Government Rates Inquiry*, at [www.ratesinquiry.govt.nz](http://www.ratesinquiry.govt.nz)

*Devolution: Fact or Fiction; a report on the extent of new functions and costs acquired by local government since reform in 1989*, downloadable from [www.lgnz.co.nz](http://www.lgnz.co.nz)

*Local Authority Funding Issues: Report of the Joint Central Government/Local Authority Funding Project Team*, downloadable from [www.lgnz.co.nz](http://www.lgnz.co.nz)

## There are too many councillors

*Our council has too many councillors and should axe nearly half of them to save ratepayers' money*

(Anonymous submitter)

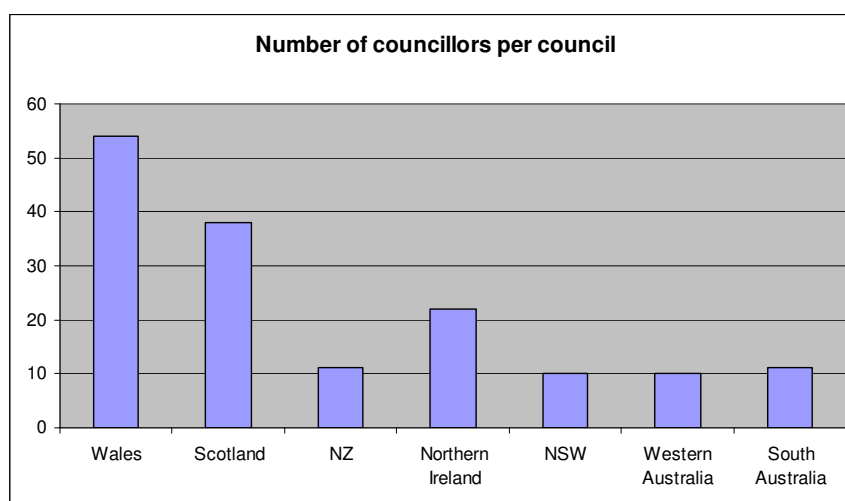
It is not uncommon these days to hear complaints that our districts, cities and regions have too many elected members. The people who make this complaint tend to go on to argue that having fewer elected members will reduce expenditure, cut rates and speed up decision-making. Indeed it is not uncommon for councils to be unfavourably compared with boards of directors, with the assumption that fewer elected members would result in a more focused team, less argument and enhanced governance.

One point made by these critics is that having fewer councillors will reduce the cost of local government. Such views fail to understand how remuneration is calculated: under the New Zealand model, total councillor remuneration is based on population and expenditure and is not affected in any way by the number of councillors. Reducing their number only means the remuneration pool is shared between smaller numbers.

But how many elected members do we need to ensure a community is well represented? After all, one of the principles on which our society is based is the 'no taxation without representation' principle. It is only the fact that governments consist of our representatives that we agree to allow them to tax us, so at what point do councils become unrepresentative?

One way of approaching this question is to compare representation numbers in New Zealand with other democratic countries (see Figure 5).

**Figure 5** Number of councillors per council



When compared with other countries that share the same legal/constitutional history, councils in New Zealand sit at the minimal end of the representation spectrum, and are still declining. As the New Zealand population has grown, the number of councillors has progressively declined (and the creation of Auckland City will see a further decline during 2010), reducing the level of representation. See Table 1:

**Table 1** Number of councillors

1992	1995	1998	2001	2004	2007
1,156	1,128	1,098	1,081	1,023	999

Another way of measuring this is to map the number of representatives to the total population. The result is a ratio of the number of councillors per number of citizens. Table 2 compares New Zealand with a sample of other countries.

**Table 2** International representation ratios<sup>1</sup>

Country	Ratio
France	1:120
Germany	1:250
South Australia	1:2,088
Wales	1:2,376
United Kingdom	1:2,600
NSW	1:3,942
Scotland	1:4,229
New Zealand	1:4,647

Of the eight jurisdictions measured in Table 2, New Zealand has the highest ratio of citizens to councillors. Consequently, it is difficult to sustain the view that we have too many elected members.

### Further reading

Drage, J (2008) *A Balancing Act: Decision-making and representation in New Zealand's local government*, Institute of Policy Studies, Victoria University, Wellington

<sup>1</sup> Figures represent total populations and councillors. The members of sub-municipal bodies, such as community boards and parish councils are not included.

## Why do we need elected members?

Local government in New Zealand is a form of representative democracy and you cannot have representative democracy without elected representatives. However, there are other ways of constituting local government.

Some countries, for example Malaysia, have a system of local government in which councillors are appointed by the provincial authority. Other countries place decision-making authority directly in the hands of appointed officials in local or regional government offices. Some American states have introduced direct democracy, whereby citizens direct their councils through binding referenda.

Do we know which model works best and are elected representatives preferable to appointed officials?

The 'appointed councillors' model has found little favour in international practice, largely due to the opportunities it creates for nepotism and cronyism. Appointed decision-makers tend to act in accordance with priorities set by those in higher levels of authority, reflecting the preferences of those in power rather than issues of concern to their citizens. For example, one of the Government's justifications for 'firing' the elected representatives on Environment Canterbury, was to establish a governance body more able to implement its policy priorities with regard to water. In short, accountability is to the centre rather than to citizens.

Using 'appointed officials' (decentralised government departments) to provide public services addresses the issue of nepotism and cronyism found in the 'appointed councillor' model, but fails to address their inability to respond to local priorities. Accountability is once again vertical, to the centre, and there are risks that officials, as agents, will develop their own objectives regardless of the objectives of the Government, particularly if they are given extensive discretionary powers.

As a principle, if local services are to be paid for by local tax payers, we need mechanisms to ensure public decision-makers are accountable to those same taxpayers. Are they allocating resources in a manner that reflects the views and preferences of the citizens who are funding them?

There are two other reasons for choosing elected local government:

- one reason deals with the practice of democracy and how this contributes to a healthy society. John Stuart Mill, for example, suggested that local government is the prime element in democracy, and has an intrinsic value, regardless of the functions it might carry out.
- the other deals with the importance of decision-makers who can balance different points of view. *The Economist* argues that "for all their failings professional politicians do not look at issues in isolation: they have to decide about many questions and weigh trade-offs. That may not make them popular, but it is part of governing" (*The Economist*, 15 August 1998).

But what about direct democracy? Can't we let citizens themselves make decisions? The Business Roundtable, for example, has argued that local authorities should have a spending limit (for example, spending and rates should not increase by more than population growth plus inflation) with discretion to ease it via referenda. And Wanganui District has successfully used referenda to prioritise discretionary spending projects. Doesn't this suggest that elected representatives could be made redundant?

Referenda are a useful tool for assessing the views of the electorate and resolving certain kinds of issues, but they have some serious limitations. In an article in defence of representative democracy, Richard Ekins, Professor of Political Science at Auckland University, argues that in a strong democracy elected representatives should make law after public deliberation, on the basis that achieving the common good is more important than executing the will of the people. In his view, referenda fail to achieve reasonable law-making, which is a complex and time-consuming task.

Governments are required to make difficult decisions about how resources are to be shared, not just for the current generation but between generations. David Lange made this point succinctly while speaking at the *Local Government New Zealand* conference in 1998, when he stated:

"You cannot have a community of any kind without some means of reaching agreement among its members about who gets what ... Who gets what at the local level is the responsibility of local government ...[it] is the most thoroughly political activity that there is"

Democratic politics is a particular method for resolving political conflicts between competing groups and collective agents in a non-violent way. It is the mechanism we use to find common ground and a critical aspect is the degree to which local citizens believe they are represented around their council table. Cities and districts are complex and diverse places, bringing together individuals and communities with quite different values and objectives.

Elected members, because they are our representatives and we have the ability to recall them through regular elections, are the critical element in ensuring that councils provide meaningful representation and act to achieve the common good.

### **Further reading**

Ekins, R (2009) *A Government for the People: The value of representative democracy*, accessed at [www.maxim.org.nz](http://www.maxim.org.nz)

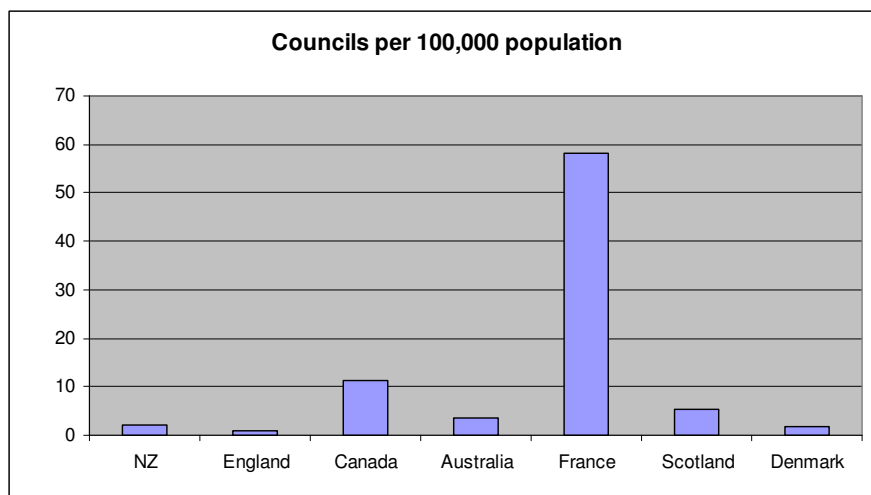
## There are too many councils (New Zealand is over-governed)

The claim that New Zealand is over-governed is one that appears every now and again in the media. It is frequently used in relation to the size of Parliament but some commentators extend it to the total size of government and, in particular, local government. How can we tell whether this is true or not and where is the evidence?

The previous chapter addressed the myth that New Zealand has too many councillors; this myth is similar, although the number of councillors is not directly related to the number of councils. For example, we could have a small number of councils each containing a large number of councillors or vice versa.

How do we compare with the rest of the world? Figure 6 shows the number of councils for every 100,000 people in a number of selected countries:

**Figure 6** Number of councils per 100,000 people



In relation to many of the countries we like to compare ourselves with, New Zealand is placed below the median in terms of the number of councils we have for every 100,000 citizens. But what is the right number?

The number of councils is directly related to the rationale for having local government in the first place. Conventional theory tends to argue that local government exists to allow communities to make decisions about those issues that, in the main, affect only them and for which they receive the benefits – in other words, decisions that higher-level governments cannot make either efficiently or effectively. Consequently, the number of councils in a country is likely to be influenced by the number of its communities (as well as the functions councils undertake). New Zealand, as a long, narrow country, has a large number of defined communities of interest, unlike, for example, countries like Singapore, which has a similar population.

Another way of considering this question is to examine the number of citizens each council represents. Are our councils large or small by international standards?

**Table 3** Average council size by country

<b>Country</b>	<b>Average council population</b>
New Zealand	54,750
Republic of Ireland	33,000
United Kingdom	118,440
France	1,580
Switzerland	2,210
Scotland	153,000
Australia	28,400
Denmark	18,760
Norway	9,000
Netherlands	23,000
Northern Ireland	64,980

Table 3 indicates that the average size of councils in New Zealand is large in comparison with most countries, although not the United Kingdom or Northern Ireland.

In summary, New Zealand has a relatively low number of councils given our population, and the populations our councils represent are relatively large. If this represents a state of being 'over-governed', then much of the world has bigger problems than we have.

### **Further reading**

Drage, J (2008) *A Balancing Act: Decision-making and representation in New Zealand's local government*, Institute of Policy Studies, Victoria University, Wellington

## Local democracy is weak because voter turnout is low

*The problems of local government stem from weak accountability. There is a low turnout at elections, usually no more than 50 percent, despite postal voting. Few voters can identify more than a handful of candidates on ballot papers*

(Business lobby group)

How do we determine the strength of a democracy? Is it simply to do with how many of us vote or are there other factors that are also important? If voter turnout is important, what constitutes a low turnout anyway? We'll consider the second question first.

Why do more people vote for central government in New Zealand than local government, and does this mean local government has a problem? There are a lot of theories that attempt to explain why people vote; after all, voting is not a costless exercise, as voters need to spend valuable time researching the attributes of candidates as well as interpreting the voting instructions, which seem to increase in complexity each election. One explanation economists use to explain differing turnout examines the relative tax 'burdens' of constituencies. In this theory, people's willingness to vote has a positive correlation to the amount they pay in tax.

If we apply this theory to New Zealand, it seems clear that central government, which takes close to 40% of household income in taxes, will attract greater attention from voters than local government, which takes less than 4% of household income. The voting and taxing relationship may also partly explain the differing turnout rates between local government systems; although other factors, such as size of councils and representation ratios are also regarded as influential (see Table 4).

**Table 4** Local government voter turnout (post-1995)

Jurisdiction	Turnout percentage	GDP share
<i>Denmark</i>	72	33
<i>Netherlands</i>	47	15
United Kingdom	35	13
British Columbia	30.7	7.5
Ireland	50	6.8
Western Australia	34	2.9
New Zealand	49.7*	3.1

(\*Average turnout of all councils)

In general, European countries, which have large local government systems that spend considerably more than local government in New Zealand, attract a bigger voting turnout. The United Kingdom seems an exception although the sector's financial impost on local citizens is comparatively small as 75% of its income is derived from its central government. When compared with similar local government systems, New Zealand does not seem to be doing that badly.

Strong democracy is not just about good procedures and electoral turnout (some would argue a smaller number of informed voters is better than a large number of ill-informed ones), democracy is also substantive. After all, in 2003 Kim Jong Il was elected with a turnout rate of 100%, yet few would argue that North Korea was a strong democracy. Substantive democracy involves more than just voting, and local government in New Zealand meets many of the tests of a strong, substantive democracy, for example:

- suffrage is universal and any New Zealand citizen can stand as a candidate (with the exception of those in jail for crimes with sentences of more than two years' imprisonment)
- competition for seats has remained relatively consistent at approximately 2.5 candidates for each position for the last 20 years
- there is a relatively high turnover of elected members (35%–40% every election). This ensures councils are responsive to community concerns
- the Local Government Official Information and Meetings Act (LGOIMA) ensures public access to information
- the law requires councils to consult and consider the views of their citizens.

So the suggestion that local democracy is weak because fewer people vote than for central government appears to be yet another myth.

### **Further reading**

Drage, J (2008) *A Balancing Act: Decision-making and representation in New Zealand's local government*, Institute of Policy Studies, Victoria University, Wellington

## Declining turnout shows people have lost interest in local government

*The exceedingly low voter turnout (shows) that local government is clearly seen as rather irrelevant.*

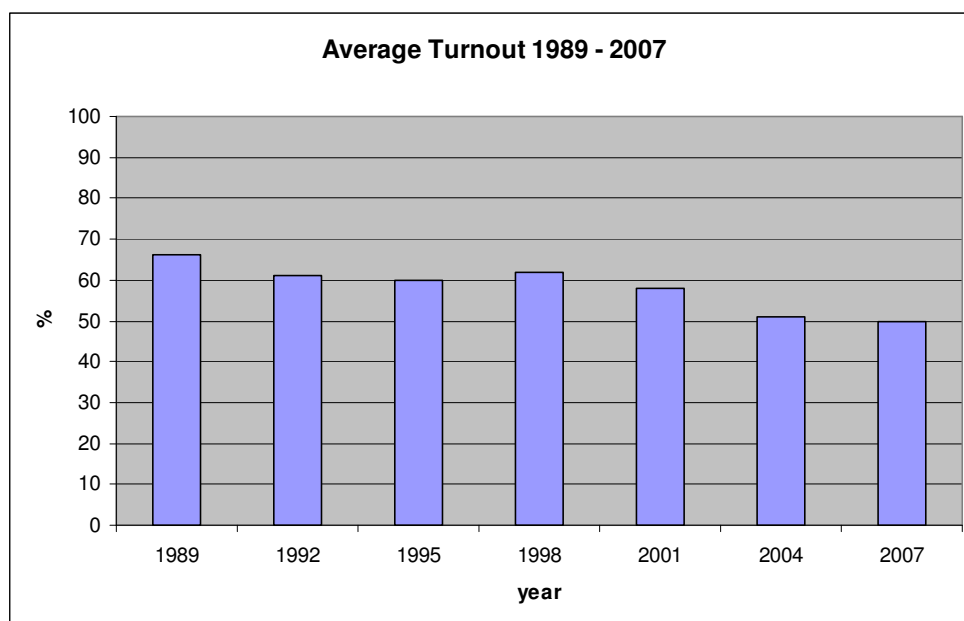
(MP statement, 2001)

Comments like this occur frequently when the results of local authority elections are analysed. They reflect what appears to be a general consensus that the public is increasingly disinterested in local democracy and too apathetic to vote. Is this really true?

The previous myth examined the strength of local democracy in New Zealand compared with other similar local government systems; this myth looks at the trend in voter turnout and asks what recent changes mean.

As Figure 7 shows, the average turnout has tended to fluctuate between 50% and 60% since reform in 1989; however, in 2001 it began a decline which continued through to 2007. Indeed, the decline has been of such concern that we have had a select committee inquiry following the last three elections. Interestingly, successive governments have so far largely ignored the select committee's recommendations.

**Figure 7** Average voter turnout 1989-2007



So what is the nature of the problem? National participation rates tend to disguise the diversity of turnout, with the established pattern being for smaller rural councils to have higher turnout rates than larger urban councils. Over the period since 1989 the turnout in our 10 largest councils by population averaged 40%, while the turnout in our 10 smallest councils has averaged 53%, but all categories of councils experienced a decline.

Explanations vary. One approach is to see the decline as symptomatic of changing values in the established democracies, where there has been a general decline in turnout across most elections and diminished trust in public institutions. New Zealand is, perhaps, just another example of post-20th century disenchantment.

A more prosaic interpretation points to changes made to the election processes in 2001 and 2004 and argues that greater complexity has simply turned voters off. Those changes have been the:

- extension of the voting period to three weeks
- introduction of district health board elections and an increased number of candidates
- addition of the single transferable vote (STV) as an option
- operation of STV and first past the post (FPP) concurrently in most areas.

Surveys suggest that nearly 24% of non-voters say they intended to vote but didn't have time or simply forgot, possibly because the process is now more time-consuming and complex. Increased complexity is one of the explanations given for the drop in voting numbers in the United States that began in the 1950s as voters faced an increase in the number of ballots and numerous referenda questions.

So how do we explain the decline? Is it due to a change in community values and growing discontent, or is the explanation more basic, reflecting changes to voting processes that simply make the task more difficult?

### **Further reading**

Justice and Electoral Select Committee (2005) *Inquiry into the 2004 Local Authority Elections*, available from [www.parliament.govt.nz](http://www.parliament.govt.nz)

Local Government Commission (2008) *Review of the Local Government Act 2002 and the Local Electoral Act 2001*, available from [www.lgc.govt.nz](http://www.lgc.govt.nz)

## **Central government spends too much on local government**

One of the vexed questions in the field of public finance is finding the right mechanism for funding local government. The challenge is to create a relationship between those who pay and those who benefit from services, in a manner which is affordable and reflects a degree of horizontal equity between councils.<sup>2</sup>

Around the world there is a diverse range of approaches for funding local government; almost no two countries are alike. Models range from local government systems with no independent taxing power, such as the Republic of Ireland, to systems in which councils have significant financial autonomy, such as New Zealand.

Economists generally regard autonomous systems that raise the bulk of their own income as preferable. This is primarily for two reasons.

1. It is more efficient for services that have a limited range of benefits to be funded by the group of people who receive those benefits. This helps improve allocational efficiency because there is a direct link between those who pay and those who receive the service. Consequently, the supply of the service is more likely to reflect demand.
2. It improves accountability because it is clear where responsibility for allocating resources lies. In systems where funding is provided nationally, usually with strings attached, accountability is often blurred.

Disadvantages can arise where local taxpayers end up subsidising central government. This can occur when councils are required to provide services at higher standards than their communities are prepared to pay for, for example the cost of meeting national standards. If national policy-makers don't bear the costs of their proposals, they are more likely to recommend 'Rolls Royce' options.

The other disadvantage is the varied fiscal capacity of communities. In very autonomous systems richer communities will receive more and better local services than poorer communities; some refer to this as a 'post code lottery'. The result is increasing disparity as those councils with better infrastructures will attract greater investment.

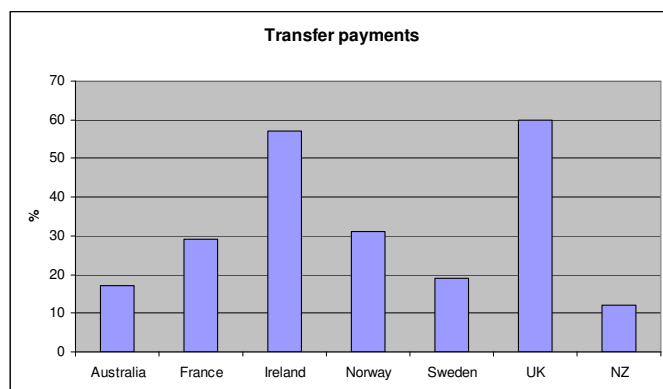
So, how does the New Zealand system stack up?

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<sup>2</sup> Horizontal equity suggests that councils in lower socio-economic areas should be assisted so they can provide similar service level standards to those received by people in better-off communities. In many countries this is achieved by what are known as 'equalisation' grants, which essentially top up revenue-raising powers in poorer towns and cities.

Figure 8 shows how New Zealand compares with a sample of other OECD countries with regard to tied and untied (general) grants. As the figure makes clear, New Zealand features as the lowest, or among the lowest, in both tied and untied forms of assistance. In fact, as the 12% of tied funding comes from petrol tax and road user charges, much of which occurs on council-owned roads (councils own 87% of the country's roads), many in local government argue that it is not really a transfer payment, the Government is simply collecting revenue on councils' behalf.

**Figure 8** Intergovernmental transfers (as % of total revenue)



In short, New Zealand's local government system is one of the most financially autonomous local government systems in world, with councils raising around 88% of their total revenue. In addition, New Zealand, unlike many countries, has no equalisation programme. This provides 'top-up' grants for councils representing low socio-economic communities in order to ensure their residents have access to the same range and quality of services as provided by councils in 'better-off' communities.

Rather than being a cost to central government, many in local government feel that central government is not paying its share. For example:

- council services contribute to national policies and objectives
- many council costs are created by government regulation
- councils are required to provide services without funding
- the Government does not pay rates.

It is difficult not to conclude that this myth has no substance. Local government in New Zealand receives an unusually small amount of central government assistance.

### Further reading

*Funding Local Government: Report of the Local Government Rates Inquiry* (2007), available from [www.ratesinquiry.govt.nz](http://www.ratesinquiry.govt.nz)

## **Local government is not accountable**

*More transparent and accountable local government will provide ratepayers and citizens better means to control council costs and activities.*

(Cabinet Paper)

It is not unusual to hear statements like this that suggest councillors make decisions without considering the views of their citizens, and lack accountability. Are these statements fair, and what do we mean by accountability?

The web defines accountability as “the requirement for representatives to answer to the represented on the disposal of their powers and duties, act upon criticisms or requirements made of them, and accept (some) responsibility for failure, incompetence, or deceit”.

How does this apply at the local government level? Are councillors free agents, able to make decisions with a minimum of citizen supervision, or is there an effective framework of checks and balances in place that protects the public interest? Consider that the current framework has the following features:

- the Local Government Official Information Act ensures public access to information and open meetings
- the Members’ Interests Act 1968 and Secret Commissions Act 1910 prevent conflicts of interest and improper gain
- the Ombudsmen’s Office can investigate breaches of legislation and even overturn decisions made under delegated authority
- the Office of the Controller and Auditor-General has an investigative role and ensures financial probity
- councils must make their plans and budgets available for public inspection and consider submissions with an open mind
- councils must operate within the law and are subject to the courts, including judicial review of their decisions
- the Minister of Local Government can dismiss a council that fails to perform its statutory duties
- decision-makers are subject to election every three years and suffrage is universal.

As this list indicates, government has moved on a long way since Edmund Burke made his famous statement that “your representative owes you, not his industry only, but his judgment; and he betrays instead of serving you if he sacrifices it to your opinion”. In local government, elected members are required by law to pay considerable attention to citizens’ opinions.

Another way of answering the question whether or not elected members are accountable is to compare the framework under which councils operate with that applying to central government. Table 5 compares the decision-making process of the two sectors.

**Table 5** Transparency and accountability

<b>Local government</b>	<b>Central government</b>
Meetings held and most decisions taken in public	Convention of Cabinet secrecy
Agendas usually available to public	Agendas secret
An integrated 10-year plan	No 10-year plan; just very broad-brush fiscal strategy
Public consultation required on draft plan	Conventions of budget secrecy
Budget proposals subject to public submission before council debate	Budgets subject only to parliamentary debate
Levels of services decisions open to public input	Levels of services decisions made by Ministers in public excluded.

While parliamentary and select committee processes are open, the process by which Cabinet determines its policy direction, develops papers and makes decisions, including its budget, is without public input as well as being closed to public scrutiny.

While no political system is perfect, local government is subject to a broad range of accountability provisions that provide community organisations and individual citizens with a range of mechanisms for influencing the decision-making process and seeking recourse in the event of conflict.

Today's elected members face a wide range of constraints on their decision-making processes in order to ensure accountability, constraints that would more than surprise Edmund Burke were he alive today. Unaccountable councils are not!

### **Further reading**

For a list of the accountability mechanisms that apply to local authorities and suggestions of how to apply them, check out Council Watch at [www.councilwatch.co.nz](http://www.councilwatch.co.nz)

## Councils are run by white middle-aged men

*While there is no requirement for councillors to be statistically representative of the population at large, they can be so unrepresentative that they can hardly encompass the different aspirations of the people they represent.*

(Comment on Scottish local government)

An important feature of a democracy is that the citizens get to choose who their elected representatives will be and it is a generally accepted view that governments that reflect the makeup of their communities are more likely to be respected and trusted by their citizens.

Local government legislation is designed to make it as easy as possible for people from all walks of life to stand for and be elected to their local council. In recent years measures to achieve this have included:

- better remuneration – to recompense people for the time spent on council business
- the introduction of wards - to ensure that communities can select people who are more likely to reflect the overall characteristics of their community
- limits on campaign expenditure - to stop rich candidates 'buying' elections.

So, have these measures made a difference? Does the makeup of our councils reflect the general characteristics of the community? Table 6 looks at the profile of elected members from the perspective of ethnicity and age.

**Table 6** Elected member profile (%)

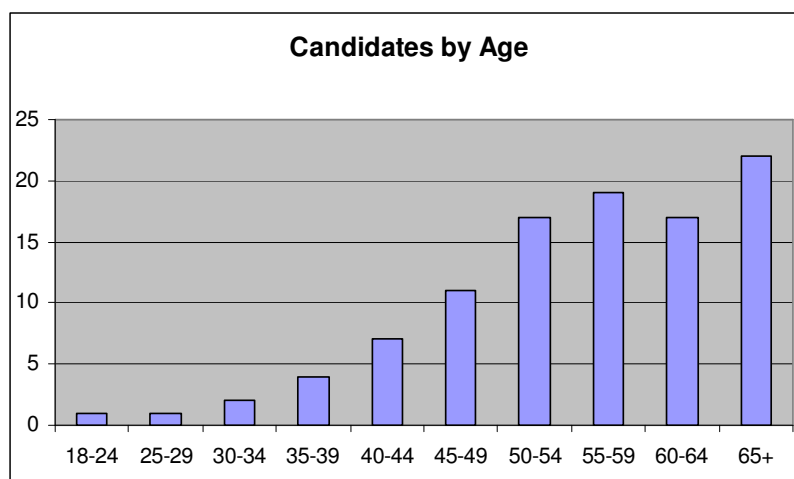
	<b>1998</b>	<b>2001</b>	<b>2004</b>	<b>2007</b>
Māori	5.5	5.3	4.3	4.8
NZ European	93	92	94	87
Other ethnicity	1.5	2.5	1.4	6.3
Age of largest cohort	51-59	51-59	51-59	51-59

(Source: LGNZ survey of elected members)

The participation of women in local government has remained relatively consistent, ranging between 27% and 29% over the last four elections. As well, there has been little change in either the dominant age cohort or the proportion of elected members who identify as Māori. Only in 2007 do we see the emergence of councillors from other ethnic backgrounds in any number.

Not surprisingly, representation is heavily influenced by the nature of people who decide to stand for election. Figure 9 indicates the age of candidates who stood for the 2007 elections.

**Figure 9** Age of candidates



(Source: DIA survey of candidates)

Given the profile of those who stand, it is perhaps not surprising that the dominant age cohort in local government is the 51-59 age group. However, there are times when broad generalisations hide local diversity. While women make up only 29% of councillors in general, in the city or urban councils this figure is 37% and a number of city councils have more women than men sitting around the council table. Table 7 compares New Zealand with a range of other jurisdictions.

**Table 7** Women as a percentage of elected members

Country	% of seats	Country	% of seats
China	22.1	NZ	29
Japan	6.2	Denmark	27
Australia	26.3	UK	29
Scotland	21.6		

(Source: LOGTRI 2001)

As it turns out, some myths actually aren't myths at all; however, by international standards, New Zealand local government is regarded as having a higher proportion of women than most systems (at least, those without quotas).

### Further reading

Irwin, R (2009) *Dancing in the Lion's Den: women leaders in local government*, PhD thesis available from <http://epubs.scu.edu.au/theses/97>

## **People don't trust local government**

*Crisis of confidence looms in local government*

(Don Brash 2006)

If we only read the headlines in our daily papers we would be forgiven for believing people didn't trust their local council, yet surveys indicate that the reality is very different from the headlines.

International surveys generally show that local councils are held in greater esteem than government at the national level. For example, 72% of Americans say they have a great deal or a fair amount of trust in their local government, while only 42% say the same of the executive branch of the US government (Gallup poll, September 2008). This is generally explained by the proximity of councils to citizens and the nature of the services they provide, services that are used on a daily basis.

When asked to identify factors that are "important to make a real community", Australian residents ranked, out of a list of 39 factors, an "active local council" as 12th equal. Most important was the presence of a local doctor, followed closely by families and schools. The same survey revealed that satisfaction with local government has consistently been higher than satisfaction with either the federal or state governments. This is consistent with a survey of NSW residents, taken in 2004, that asked which politicians were most trusted, and identified local councillors as the most trustworthy (42% compared with 36% for federal politicians and 20% for those at the state level).

Positive attitudes towards local government are reflected all over the world. For example, a survey undertaken in 2007 in Minnesota found that 63% of respondents believed city government plays a "very important" role in quality of life, with 35% saying it was "somewhat important". The survey also showed that 80% of respondents had either a positive or neutral attitude towards city government, viewing most cities in the state as "forward thinking, hard working, ethical, essential and smart".

The Values survey, a global survey that traces changes in attitudes across countries, regularly measures trust in government. The 1998 survey, which also involved New Zealand, included a number of questions about local government (unfortunately they were not included in the follow-up 2004/05 version). In the survey:

- 86% of respondents stated they had little control over what central government politicians do in office, compared with 69% in respect of local government
- 13% of respondents said the average citizen had considerable influence on politics at a central government level, while 25% agreed in relation to local government
- 25% of respondents stated that central government was generally responsive to public opinion, while for local government the figure was 39%.

More recently the Kiwis Count survey, undertaken in 2007, found local government rated highly for staff competency and staff keeping their promises, with 76% and 73% respectively. Local government also scored a total satisfaction rating of 73%, compared with 68% satisfaction across all public organisations. Councils also operate regular surveys to find out what their residents think. These consistently reveal high degrees of satisfaction. Table 8 summarises satisfaction with a range of infrastructure services.

**Table 8** Levels of satisfaction with infrastructure services<sup>3</sup>

	<b>Waste water</b>	<b>Potable water</b>	<b>Roads</b>	<b>Mayor/Councillors</b>
Rotorua	78%	93%	80%	58%
Rodney	78.1%	76.1%	60.8%	58.4%
Waikato	42%	51%	58%	59%
Ashburton	81%	84%	78%	69%
Southland	94.1%	72%	75.9%	90.3%
Porirua	88%	94%	88%	N/A

So while trust in government as a whole might be declining (the Values Survey figures cast some doubt on these claims), perception of councils and their services continues to be positive and trust in local government is notably higher than in central government.

### **Further reading**

State Services Commission (2006) *Public Satisfaction with Service Quality 2007: The Kiwis Count survey*, accessed from [www.ssc.govt.nz](http://www.ssc.govt.nz)

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<sup>3</sup> The Rotorua survey was undertaken by the National Research Bureau (NRB) and is available from [www.rdc.govt.nz](http://www.rdc.govt.nz); the Rodney survey was carried out by International Research Consultants Ltd and is available from [www.rodney.govt.nz](http://www.rodney.govt.nz); the Waikato survey was undertaken by NRB and is available from [www.waicdc.govt.nz](http://www.waicdc.govt.nz); the Ashburton survey was carried out by NRB and is available from [www.adc.govt.nz](http://www.adc.govt.nz); the Southland survey was undertaken by Polson Higgs and is available from [www.southlanddc.govt.nz](http://www.southlanddc.govt.nz); the Porirua survey was carried out by NRB and is available from [www.pcc.govt.nz](http://www.pcc.govt.nz)

## **There's no point in making a submission, councils never listen**

*Councils are constantly doing things in the teeth of what local (people) have demonstrated they want and need.*

(New Zealand Listener, January 27, 2007)

How often have you heard the complaint that councils went ahead with a decision despite evidence of widespread disagreement among their citizens, proving that there is no point in making a submission as "they don't listen". Take, for example, the following statement from a business organisation:

*Few ratepayers participate in consultative exercises. Such exercises are sometimes perceived to be a sham or a waste of time, perhaps because citizens do not believe that their views are likely to influence council decisions.*

One of the problems with statements of this sort is that they misunderstand the nature of consultation. Consultation is a process by which citizens and the community generally can make their views known directly to elected members on specific topics. Councils are obliged, before making significant decisions like adopting their annual plan and budget, to consult and consider both written and verbal submissions.

Yet councils are not required to follow the views of the majority of submitters. Rather than numbers it is the quality of the submissions that counts.

Consultation undertaken by councils ensures that elected members are aware of the views of affected citizens before making decisions. The purpose is to help elected members to arrive at better decisions, not to take the decision-making process out of their hands altogether. Elected members have also found that consultation is an important way of identifying options for addressing local issues. In other words, the more views that are considered, the more likely it is that councils will make wise decisions.

When making decisions, elected members are required to consider the needs of future generations. A great idea today might not look so good if considered in the knowledge of the costs it is likely to impose on future generations. Consultation exists to assist them in that process, to ensure decisions enhance the common good.

We should note that when making decisions elected members are not allowed to have 'fixed' or 'closed' minds. The Members' Interest Act 1968 sets out the rules, which are intended to prevent conflicts of interest and avoid bias. In addition, a number of legal judgments now provide a judicial test of what consultation involves. Elected members must approach decisions with an open mind. It is not unusual for elected members who have stood on a particular platform to find themselves barred from voting on that same issue because they have revealed in advance that they do not have an open mind.

If councils fail to listen, why do so many people make use of the opportunity to submit their views to their local authorities? People participate in councils' consultation exercises in many contexts. Table 9 shows the increasing number of submissions that councils have received on their long-term plans (these are prepared every three years).

**Table 9** Average number of submissions received by councils

<b>Year</b>	<b>Average no. of submissions</b>
1991/92	67
1994/95	160
1999/00	341
2002/03	424
2006/07	507
2009/10	951

Consultation associated with annual and long-term plans is an example of formal consultation where a council must publish a 'statement of proposal' and invite submissions, as well as allowing submitters to be heard in person. Submission numbers can vary depending on whether or not topical issues are being considered. Proposals to put charges on library books, for example, can generate a lot of local interest. Councils also run many informal consultation exercises and many use their websites to post proposed policies and seek feedback. Today an increasing number of people are making submissions online.

In summary, elected members are required by law to listen and consultation is a way to ensure they are familiar with the range of community views before making decisions. All the evidence suggests that not only do New Zealanders value the opportunity to comment on their councils' policies and plans, they are actively doing it. Consultation fatigue it isn't.

### **Further reading**

Cheyne, C & Comrie, M (2002) *Involving Citizens in Local Government: Expanding the use of Deliberative Democracy*, in J Drage, (ed), *Empowering Communities? Representation and participation in New Zealand's local government*, Victoria University Press, Wellington

## **Local government needs to be more consistent**

*SPCA national chief executive ... told RNZ a national dog register was not working well because of councils' different approaches.*<sup>4</sup>

The need for greater consistency is one of the most often-stated reasons for proposing local government reform, whether it is the consolidation of metropolitan areas like Auckland or changes to regulatory regimes, like building codes and dogs. The fact that councils 'do things differently' is taken as a valid criticism, rather than being a positive recognition that we aren't all the same.

One of the challenges facing those who design national governance systems is to determine which services should be provided uniformly cross the country and which should be left to reflect the needs and preferences of our different communities.

In a national community there is a wide range of services where we expect the quality and quantity to be the same regardless of where you live, such as the right to vote, the right to claim a pension or the right to a fair hearing in court. But there are also a lot of services where the standard will depend on local circumstances or how much people are prepared to pay, for example:

- the nature of library services, such as the nature of the collection and opening hours, can vary considerably, reflecting what communities can, and are, prepared to pay
- councils that have a high proportion of young people tend to provide a broader range of youth services than communities consisting primarily of elderly and retired residents.

Diversity is simply a fact of life and is reflected in the degree of willingness and capacity of communities to pay for local services. It also explains the importance of councils having the ability to experiment with innovative approaches to addressing community issues. There is some evidence that countries that tap into the innovative potential of individuals and communities tend to be wealthier and more successful than those that demand national conformity.

Take, for example, the US and Switzerland. Both countries have federal constitutions that divide power between the centre, states and localities and both strongly defend the right of communities to make different choices with regard to local services. Andrew Sullivan (*New Republic*, 12 December 2004) points out that the basic argument behind federalism was "that different states can have different policies on matters of burning controversy – and that this was ok". In Sullivan's, view the constitution was designed to avoid social and cultural polarisation by allowing local differences to co-exist within the nation.

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<sup>4</sup> *Nelson Mail*, 7/10/2009, p. 8.

While New Zealand is not a federation, the same principles apply. Policy innovation needs sub-national governments with the autonomy and resources to innovate and develop policies to reflect the diversity of their communities. Social coherence at the national level is enhanced by allowing differences to be reflected in policy locally. Wellington does not, and cannot, know all the answers. Governance is becoming more and more complex. As *The Economist* noted, we need "a constellation of power centres in which talented politicians can experiment with new policies" (*The Economist*, 20 February 1999).

One of the big lessons over recent years is the importance of collaborative action at the local level. Local economies will only achieve their potential if local government, businesses, iwi and community sectors work together and there is unlikely to be a standard template. However, there are a number of areas where consistent national standards might be helpful and local government itself has often argued for these. Take, for example, the sector's so far unsuccessful campaign to get a national environmental standard on sea level rise.

Economists also argue that one of the justification(s) for choosing local government rather than local offices of government departments to provide services is the greater capacity of local voters, compared with central decision-makers, to evaluate performance.

A greater risk than inconsistency is the tendency for central government to impose 'one size fits all' approaches. For example, the Government's 'core services' proposal states that rubbish collection will be a core local government service, despite the fact that some councils have previously privatised the service because, in their communities, it can be provided more efficiently by the private sector. Yet another example of Parliament imposing a one size fits all measure that fails to recognise the diversity of localities?

New Zealand is a country that consists of a large number of communities that are marked by ethnic, cultural and demographic differences. Governing them requires a framework that allows local solutions to emerge, for example, the role played by Invercargill City Council in the free polytechnic scheme that sparked the Invercargill economy back into life after decades of decline.

So when people criticise the lack of standardisation at the local government level, just think whether this is indeed the type of service that is best provided in a uniform way. If it is, then perhaps central provision might make more sense.

### **Further reading**

Bailey, S J (1999) *Local Government Economics: Principles and practice*, Basingstoke, Macmillan Press

## Central government needs to give councils more direction

*In a recent article on the state of public policy in Britain and options for change, The Economist commented, disapprovingly, that Britain was the second most centralised nation in the OECD, beaten by New Zealand for the dubious distinction of being the most centralised nation*

(The Economist, 31 October 2009).

Centralisation is essentially the concentration of power in the highest echelons of government. It is associated with distant and unresponsive bureaucracies and diminished opportunities for citizens to influence the direction of public policy. On any scale of centralisation and decentralisation, New Zealand is an outlier and is out of step with international practice. Table 10 examines this by considering council spending as a share of all public expenditure and GDP (figures for Australia are lower due to the role of state governments).

**Table 10** Local government expenditure

Country	Year	Percentage of total government expenditure	Percentage of Gross Domestic Product
Denmark	1994	31.3	19.9
Italy	1993	13	7
France	1992	27.2	5.5
Netherlands	1994	23.1	13.3
New Zealand	2007	9.3	3.3
Australia	1997	5.37	2.5
Norway	1994	60	18.9
Sweden	1994	38	27.5
United Kingdom	1994	27	11

(Adapted from Bailey, 1999, p. 84)

There is considerable debate among academics about whether centralised or decentralised systems are best for economic growth, and at this stage the arguments are evenly matched. There is, however, much less disagreement about the risks associated with centralising power and authority with respect to three other objectives - open and transparent government, responsiveness, and the virtues of civic participation.

Good democracies are designed so that the exercise of power and authority is subject to a range of checks and balances, such as an independent judiciary, an upper house, select committee systems and the distribution of governmental responsibilities between different spheres of government.

From this perspective, local government is one mechanism for distributing power and authority so that public decisions about matters of purely local or regional significance are made locally.

If more decisions are made by local elected members, then fewer decisions will be made by Cabinet in Wellington. This is generally good, as politicians and officials based in our capital are poorly placed to make informed decisions about the quality of life in localities, such as Kaitia or Gore. For a start, they face the problem of information asymmetry; that is, they don't have the same level of information that residents of those towns have about what they value or desire for their futures. Secondly, they tend to take a 'one size fits all' approach to policy-making.

The more decision-making we place in the hands of communities themselves and their local governments, the more we reduce the likelihood of inappropriate policy. In addition, we strengthen social capital by providing better opportunities for citizens to contribute to the governing of their towns, cities and districts. We also strengthen our democracy. As Alexis de Tocqueville noted in the 19th century, a nation may establish a free government, but without municipal institutions it cannot have the spirit of liberty.

While New Zealand local government is regarded as possessing considerable autonomy, its share of public spending and decision-making is small compared with the rest of the developed world. Any attempt to strengthen the government's oversight of local government, and therefore reduce its autonomy, is unlikely to result in optimal policy settings for either communities or the nation as a whole.

### **Further reading**

For anyone wishing to read more about the growing international movement to decentralise decision-making, the following websites are worth browsing:

*Localis*: an independent, non-profit research and policy-making organisation to develop new ideas for local government at [www.localis.org.uk](http://www.localis.org.uk)

*The Institute of Public Policy Research*: an independent, radical and progressive think tank focused on a belief in the importance of fairness, democracy and sustainability at [www.ippr.org.uk](http://www.ippr.org.uk)

*The New Local Government Network*: Established as a network of key opinion formers, NLGN is a dynamic and independent think tank committed to promoting the decentralisation of power, public service reform, enhancing local governance and empowering communities: [www.nlgn.org.uk](http://www.nlgn.org.uk)

*Demos*: a London based think tank focused on generating ideas to improve politics and policy and give people power over their lives: [www.demos.co.uk](http://www.demos.co.uk)

## **If my house increases in value so will my rates**

One of the most commonly repeated myths about local government is that rates are directly linked to the value of properties. In fact, the linkage is nowhere near as direct as this myth suggest.

There are at least two ways of determining the level of property tax residents should pay for their dwellings. In the US, rates are set as a percentage of a property's value. One effect of this is that if values rises then local government income will rise at the same rate, but if property values fall, as they have done recently, local government income will follow, unless the council increases the taxable rate (often set by referendum).

The New Zealand approach is quite different. Councils are required to set their budget for the coming 12 months and then divide the cost by the number of dwellings or rateable units in their districts. The value of our houses, as determined by an independent property valuation company, is used to determine the share that each rateable unit will contribute.

Councils have considerable discretion when it comes to determining how properties are valued and whether all properties are treated equally. Consequently, a number of factors will affect the degree to which an increase in property valuation will flow into an increase in what householders pay in rates. Some of these factors are:

**The use of uniform charges:** As a way of reducing the impact of property valuation on rates, many councils make use of uniform charges (UAC) to fund a proportion of their budgets. UACs are a fixed payment made by all properties, regardless of value. While the law limits the maximum amount a council can raise by way of a uniform charge, some councils have been able to raise 70%–80% of their income in this way. This means that only the remaining 20%–30% of their income is related to property values.

**The use of differentials:** Many councils set their rates at a different amount in the dollar value of a property depending on whether the property is residential, rural or commercial. Rural properties tend to be charged at a lower rate than the other two sectors, on the basis that, due to distance, rural residents receive less benefit from council services.

In some councils each sector pays a predetermined share of the rates, which means that if one sector's values increase dramatically they will still only pay the same share of the rates as they did in the previous year. This technique reduces wild swings in values and consequently rates.

Ultimately the effect of an increased valuation on rates will depend on what is happening to the values of your neighbours' properties. Because rates reflect the way the cost of councils is distributed across households, if your property has increased less than other properties (i.e. less than the average increase for the district) you might end up paying less.

By the same logic, if your house value goes down, don't automatically assume your rates will fall because the critical factor concerns what is happening to the average value for your district. If average values fall more than the value of your property, your rates might actually go up!

Another factor that might affect the relationship between changes in your property's value and the level of rates you pay to your council might be the way valuation is undertaken.

- rating systems can be based on the capital value of properties, the land value or the annual or rental value. Until recently two councils used annual value. This system was based on the rental value of properties and so was less affected by sale value
- similarly, some councils use staged differentials so that as properties increase in value the amount they pay in rates increases at a slower rate. Some councils even set maximum caps, so that once your rates bill hits a certain figure all increases stop, regardless of increases in the property's value
- if your property is a Māori freehold property, the valuation might be subject to a discount to reflect the fact that it has no 'market' value in the normal sense of the word (i.e. it cannot be sold).

So it is not necessarily true that rates will increase simply because your property has gone up in value; the relationship between rates and property values is somewhat more complex.

### **Further reading**

*Funding Local Government: Report of the Local Government Rates Inquiry* (2007), available from [www.ratesinquiry.govt.nz](http://www.ratesinquiry.govt.nz)

## **Larger councils are more efficient than smaller ones**

*The Bill's supporters contend that local government is inefficient, unprofessional, and costly.*

(Newspaper comment)

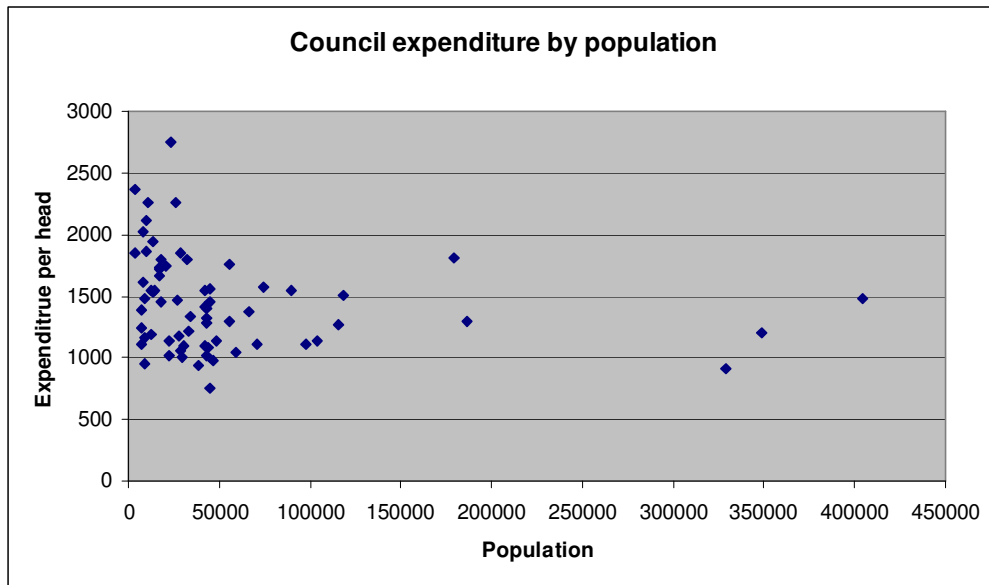
One of the most common assumptions made about local government is that making councils larger will result in greater efficiency and reduce the cost of local government to ratepayers and residents. Supporters of this view point to reduced overhead costs, such as less expenditure on the salaries of chief executives and politicians. Does the available information support this claim, or is there more to the story?

Designing measures of efficiency and comparing council expenditure is enormously complex, as different councils provide different services and even where they provide the same services they may provide them at different service levels. After all, the rationale for local government is to provide those public services where preferences are likely to vary between localities. For example, comparing the cost of waste water services for a council that treats its waste water to a high standard and one that pumps untreated waste directly into the sea simply makes no sense.

A very crude way of looking at the cost of a local authority is to compare council expenditure in relation to each resident (see Figure 10). This spreads the cost of providing services over the entire population served and gives some indication of whether the council's expenditure is high, medium or low for its size. Bear in mind, however, that the data is not adjusted for the different range of services provided (for example, large urban councils will provide a much greater range of cultural and community service type activities) or for the fact that some councils have a large number of non-residential ratepayers, who must also be provided with services.

Noting the above reservations, we might still expect to see, if there is a relationship between size and cost, a pattern in which larger councils are correlated with lower expenditure per person. However, Figure 10 is notable for the lack of such a correlation; indeed, councils that appear to have the lowest expenditure per resident tend to be in the 40,000 to 70,000 population category. How do we explain this?

**Figure 10** Council expenditure per head



The short answer is that the economies of scale argument does not apply to many of the services provided by local government; that is, joining them up does not necessarily make them any cheaper to run. In addition, councils also achieve what economists describe as "economies of scope". This occurs when overheads are spread over a range of similar types of businesses; for example, council engineers frequently oversee a diverse range of services from roads to water.

Large councils can also suffer from diseconomies of scale. This occurs when the scale of a council's operation grows to such a level that more middle managers must be employed to handle the increase in frontline staff. It is also more difficult for elected members to monitor the performance of large councils because of information asymmetries (that is poor information on local needs). A joint Italian/English study of procurement found that larger public bodies paid more for the same basket of goods than smaller public bodies, providing some evidence for the diseconomies of scale argument.

In short, large is not necessarily more efficient. Small councils can arrange their affairs to achieve economies of scale through shared services while maintaining strong democratic control. Similarly, large councils can become very bureaucratic, cumbersome and responsive as elected members find it more difficult to monitor the performance of their staff.

### **Further reading**

McKinlay Douglas Ltd (2006) *Local Government Structure and Efficiency, Local Government New Zealand*

## **Councils have no role in economic development**

*We all know of ratepayers' money wasted on political vanity projects.*  
(Political party press release)

What role should local authorities play in encouraging economic development in their cities, districts and regions? Can they intervene to make the 'boat go faster', or will their interventions only result in ratepayers' resources being allocated to sub-optimal ends? Can council intervention really strengthen well-being?

In a recent report on what constitutes 'well-being', the Young Foundation argues that well-being correlates with particular forms of government and to a lesser extent the results of particular types of government policy. Swiss research shows that well-being is higher in those local authority areas where citizens have greater opportunities to participate in decision-making. In addition, investments in arts, culture and recreation are seen to contribute to social cohesion, economic innovation, regeneration, inward investment and tourism.

In their report on local government's contribution to economic development, BERL defines economic development as setting the platform to enable people to pursue their lives and lifestyles and widen the choices and opportunities of future generations. In their view, at the centre of economics is the mechanism that enables the maintenance, replenishment, enhancement and expansion of the resource base of a community.

But does local government contribute to this, and, if so, how? One way is by finding a point of difference. In an article in the *New Zealand Herald* (13 September 2010) columnist Fran O'Sullivan describes the way some international cities have looked to technology to become 'smart' cities and so improve productivity and the environment for business to thrive. She notes that a 25% saving in the time taken to fill out forms can yield a lift in GDP of 1.5%.

Another way to answer this question might be to look at the Government's Economic Growth Agenda and ask whether or not councils contribute in any way. The Agenda has identified six drivers – leadership, infrastructure, regulation, services, business support and community. The following section looks at how local government contributes to each of these:

- **Leadership:** Local government contributes through its role in local strategic planning. Local authorities are well placed to develop a vision and plan that emphasises economic growth and brings together local business interests.
- **Infrastructure:** Local government contributes through its role as infrastructure provider. Local government investment plays a direct role in creating an attractive environment for businesses to invest.

- **Regulation:** Local government contributes through its regulatory role. Councils can make it easier for new investment, for businesses to grow and create jobs.
- **Services:** Local government contributes through its role in providing local amenities, such as parks and museums. Councils provide services that make their communities attractive to skilled migrants.
- **Business support:** Local government contributes through its support to business and industry development. Councils help small businesses to grow and prosper, for example through promoting the cities and regions on an international stage.
- **Community:** Local government contributes through its contribution to social and community affairs. Councils offer opportunities for democratic participation, which strengthens social capital.

There is increasing recognition of the importance of 'place' in economic development, particularly the importance of cities as a 'magnet' for investment. Professor Philip McCann argues that cities have higher productivity and higher competition, generate more knowledge outcomes, have higher levels of human capital and promote creativity.

Local authorities, as organisations that 'shape' places like cities, play a critical role in ensuring infrastructure and amenities are provided to make their cities attractive to investment and skilled immigrants.

If the future is local, then the role of local government needs to be recognised and appreciated.

### **Further reading**

LGNZ (2010) *Local Government's Contribution to Economic Growth*, a report prepared by BERL Economics, available from [www.lgnz.co.nz](http://www.lgnz.co.nz)

Bacon et al (2010) *The State of Happiness: Can public policy shape people's well-being and resilience?* accessed from [www.youngfoundation.org](http://www.youngfoundation.org)