

LOCAL GOVERNMENT

  
**think tank**

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Chairman and Members  
New Zealand Productivity Commission  
Wellington

## **Submission on Local Government Funding and Financing Issues Paper**

This submission is made by the Local Government Think Tank, a small group of councils seeking to understand and apply new approaches to the role and function of local government including innovation in how councils work with their communities.

### **Submission approach**

Rather than respond to the individual questions set out in the issues paper, this submission presents a somewhat different perspective for addressing issues of local government funding and financing. It argues that the changing environment within which local government functions, as well as growing concerns about issues such as inequality, growing alienation from the political system and the breakdown of communities requires a new and different approach.

The need for this will also be emphasised as the sector (and central government) begin to understand the implications of restoring the purpose of promoting community well-being. Currently this is seen as simply return to the 2002 situation. The reality will be very different. Since that purpose was last in the act, the understanding and practice of well-being (description, assessment, measurement) has advanced dramatically. Furthermore, there will be a new decision-making role for local government requiring councils to have regard to the impact on each of the four well-beings when making decisions. That has the potential to shifted dramatically away that Council will be required to work with their communities (understanding impact on communities requires understanding and working with communities - see how this practice is emerging for example in the work of the Future Generations Commissioner for Wales).

The submission begins with an overview of what appear to be the predominant current understandings and parameters within which councils function, then comments on some of the current changes focusing primarily on problems with the current consultative process. Generally, existing understandings do not promote clear understandings and confidence as between councils and communities meaning and practice that councils operate without the full trust and confidence their communities, something which significantly constrains their ability to make full use of their existing powers and also arguably denies them a

lot of the knowledge and resource which councils which take more of an engagement/community governance approach are able to access (see examples below).

The submission then goes on to outline a number of possible approaches which would significantly increase the options available to councils.

A thorough treatment of the matters covered in the submission would include detailed review of practice not just in New Zealand but internationally supported by significant case study evidence. That is well beyond the scope of this submission. Instead the submission has been prepared to signal to the Productivity Commission that the changing environment for practice of local governments is markedly changing the options available for councils in ways which would significantly assist in dealing with the resource and governance challenges they currently face.

### **The issues paper approach**

The issues paper presents as a technically very competent assessment of the issues which confront the sector in terms of funding and financing within the current set of understandings and parameters within which councils function. This includes:

- An understanding that local government is representative democracy not participatory democracy.
- A still predominant view that the primary role of councils is the delivery of local infrastructure, regulation and public services - hence the common plea that councils should stick to their core services.
- A reliance on a statutorily prescribed form of consultation as the main means for seeking input from and engagement with a council's communities.
- Separation of the respective roles of elected members and executive intended to replicate practice in the commercial sector but which in reality too often sees elected members deferring to Council management on quite significant policy matters (see this New Zealand Herald article for an example: <https://www.radionz.co.nz/news/national/382070/dunedin-s-rubbish-problem-could-be-shipped-out-of-town>).

A further factor is the increasing recognition that central government agencies are typically too far distant from the communities they serve to be able to take the lead in working with communities to develop solutions to local issues (see the productivity commission's report on more effective social services).

### **Some of the challenges to current understandings and parameters**

*Consultation - is the present process fit for purpose?*

The consultation process mandated by the Local Government Act was criticised by the Shand report as "Most importantly, the special consultative procedure contained within the LGA 2002, which relies heavily on giving public notice of consultation, is not working. The burden of consultation for individual citizens, community groups, elected members, and officers must be reduced by implementing more effective techniques such as focus groups. Better-designed, rather than more, consultation is required." (Para 155)

The diagnosis was reasonable, the proposed solution was already out of line with emerging practice. In the same year as the Shand report was published, a report on best value guidelines prepared by a mix of government and professional groups in the State of Victoria defined engagement as "Engagement is an outcome which can arise out of consultation processes, or other interactions occurring between a local government and its community, such as participation and the gathering and provision of information. Engagement is achieved when the community is and feels part of the overall governance of that community. Local governments have an important role in building stronger communities, and engaging communities is a key means to doing so."

The LGA 2002 style of consultation was subject to a much more detailed and research-based critique in *Rescuing Policy*, a publication of the Ottawa-based think tank Public Policy Forum. The following is an extract from the foreword:

Unfortunately, the old style of public engagement is also part of the problem. I'm referring to the well-worn practice of governments staging stilted stakeholder consultations with citizens that include the usual suspects and interest groups trotting out their often predictable positions and tired advocacy to bored elected representatives and public officials who have likely heard it all before. This is actually the opposite of engagement and effectively serves to turn off and squeeze out those citizens who genuinely wish to participate in a policy dialogue. And too often, that's where it ends.

David Mitchell CEO public policy forum

Despite the obvious and justified doubts about the effectiveness of consultation for purposes such as building a shared understanding of Council initiatives, establishing trust in process and decision-making, enabling councils to understand community perspectives and priorities, successive governments have persisted with the statutory consultation process. The main developments since the Shand report have been additional fine tuning of counsel reporting and accountability requirements, often increasing the complexity and lack of transparency needed to build trust and understanding.

#### *Trust in Local Government*

Such evidence as exists suggests that public trust in local government, especially in terms of financial management is low and certainly too low to claim that councils have the confidence of their communities in terms of how they raise and apply both revenue and capital. As an example the 2015 LGNZ survey of New Zealanders perceptions of local government reported that the bottom three public ratings were:

- Trust to make good spending decisions
- Value for rate dollars spent

- Managing finances

It's interesting to contrast this with experience in some other jurisdictions. New South Wales operates a rate capping regime which limits rates increases to a percentage established through the application of a local government cost index. Exemptions can be granted but require the council to demonstrate it has the support of its community.

Every four years New South Wales councils consult on what's known as the community strategic plan. This has some parallels with the New Zealand long-term plan but is developed in a much more interactive way with the plan treated as the community's plan.

The community strategic plan has become the main source of evidence to put before the rate capping authority (the Independent Pricing and Regulatory Tribunal) in support of the proposition that a council has its community's support for an increase above the cap.

The message for New Zealand councils is the importance of sharing understandings with their communities on what should be done including understandings of things like service levels, and what the council can do to keep costs to a desirable minimum. If but only if that shared understanding exists, councils have more scope to raise the funds they require (one New Zealand Council, Waipa District Council, has taken an approach of this kind with the development of its LTP, starting discussion with its communities more than a year before the formal consultation began. The result was a much higher level of acceptance by its communities of the legitimacy of the council's process and rating/expenditure proposals.

#### *Other challenges*

Councils face a number of other challenges which by themselves merit review of funding and financing. These include the growing proportion of 'asset rich income poor' ratepayers (note: the circumstances of this group should be considered not just from a perspective operates affordability but from a perspective of home ownership costs generally in part because of the significant increases in insurance costs), the differential impacts of growth ranging from rapid population growth to significant decline and hence reduction in the rating base, uncertainty over the future of water and wastewater and the delay and complexities inherent in what is currently a dysfunctional planning and regulatory system for property development.

more points to use:

LGNZ survey results on public trust of financial decision-making.

Public trust of Auckland Council

Waverley city examplimpact of well-being - widespread emphasis on working with communities.