

# **PEDG SUBMISSION: LOCAL GOVERNMENT FUNDING AND FINANCING INQUIRY**

## ***Introduction***

Porirua Economic Development Group (PEDG) offers sincere congratulations to the Productivity Commission for excellent work undertaken on this important inquiry. We note that the Terms of Reference were restrictive, but we have been heartened by your findings and recommendations that allude to fundamental flaws in the local government management model and its associated operations.

This submission on your draft report is based on a reasonably detailed knowledge of Porirua City Council (PCC) and its operations but not of the local government sector as whole. However, we are sure that during the course of your review you will have found that attributes of PCC are not unique in the sector.

With a view to offering a constructive critique, we have focused on three chapters. The balance of this response covers the following:

- Chapter 3: Trends in local government revenue, expenditure, prices and debt;
- Chapter 4: Pressures on funding and financing;
- Chapter 5: Improving decision making;
- six questions that remain unanswered; and
- conclusions.

## ***Chapter 3: Trends in local government revenue, expenditure, prices and debt***

We would like to comment on two of the Commission's findings:

*F3.1 Over long periods of time, and with some variation, increases in local government revenue and rates have roughly matched increases in national and household income.*

With reference to PCC, we are unable to concur with this conclusion. Porirua covers a geographical area with comparatively high levels of deprivation, an associated need for benefit support, and a growing area for retirees on fixed incomes – a feature highlighted in your Figure 4.1 with attendant expected growth. Our view is that Porirua incomes have certainly not matched the increases local government revenues and rates.

*F3.4 After adjusting for price inflation...local government operating expenditure (opex) per capita (excluding depreciation and interest) grew at an average of 1.2% a year between 2007 and 2017. ...*

We consider the highlighting of an average of 1.2% per capita annual growth to be misleading. Such a figure sits well with published inflation figures but does not match today's environment in which local authorities account on an accrual and not a cash basis. Accordingly we believe that it would be more appropriate to concentrate on expenses and not expenditure as rates are levied on projected net expenses. We see no reason for exclusion of both depreciation and interest costs from this figure, both of which are funded through rates. Had they been included, in the case of PCC the annual average growth figure would be considerably higher.

## Chapter 4: Pressures on funding and financing

This chapter touches on a series of critical issues. We are supportive of the bulk of the findings, particularly those that allude to the historical practice of past central governments failing to fund activities and obligations passed to local government. We offer comments in respect of two findings:

*F4.10 The Local Government Act 2002 defines the purpose of local government as to “enable democratic local decision-making and action by, and on behalf of, communities”. The nature, quality and extent of services provided by councils is reliant on the quality of their democratic decision-making. [our emphasis]*

Drawing the real sense of the local government management model from the legislation is key here. One can only assume that the legislators had in mind an enthused population who expect empowered representatives to invest scarce and rationed revenues wisely for the benefit of the entire community. This would keep council performance relevant, efficient, effective and honest.

Sadly this does not happen. The “electoral turnout” for local body elections is disappointingly low, clearly demonstrating an apathy amongst voters. This apathy is compounded by the relatively poor quality of candidates who stand for office (and associated compensation offered for the job) and resultant behaviour of council officers. Poor-quality leadership and governance create room for officers to run their own agendas. With PCC this is sadly unchecked and compounded by a “Yes Minister” style of overly-detailed data bombardment completely inconsistent with the capabilities of councillors.

In short, the checks and balances envisaged by the model of local government management simply do not work in practice. Furthermore, low-quality councillors themselves frequently spend ratepayers’ money on frivolous “assets” on behalf of minority groups and ask the wrong questions: e.g. “Would you like more sports facilities?” without clarifying that these mean less money to spend on essential infrastructure and/or higher increases in rates.

Whilst we applaud the philosophy behind the management model provided in the governing legislation, we are saddened by its ineffectiveness in practice. We specifically raise this issue as the Commission has been asked to advise on the Government’s wish “... to understand the factors driving local authorities’ costs, now and into the foreseeable future. It also wants to know whether current funding and financing arrangements are efficient, sustainable and affordable. **If they are not, what new arrangements would achieve these ends?**” – [Overview, page 1, our emphasis]

We believe that the Commission is correct to support retention of the basic rating environment, but fear that existing inefficiencies and inappropriate investments will continue unless the intended model is made more effective in practice. In this context, the requirement to suggest “new arrangements” provides an opportunity to offer advice on fixing the model as a pre-requisite to improving the effectiveness of the funding arrangements.

*F4.11 Community expectations for levels of service from local (and central) government are rising over time in response to factors such as: ...*

- *changes in the age mix of local populations; and*
- *rising incomes (which make it easier for people to meet the costs of better quality and additional services).*

These views may well be perfectly valid in areas where there is a high proportion of working people in the community. However, in the case of Porirua – with its high level of dependency-based families and an ever-increasing population of elderly on fixed incomes – Yes, increasing. But this is not a fair representation.

## **Chapter 5: Improving decision making**

We believe that this chapter of the report is central to issues faced by local government and strongly support the direction of your findings. We comment briefly on the following four findings:

*F5.1 The elected member governance model does not consistently deliver a mix of councillors that collectively possess the full range of skills required for effective governance ... . A lack of skilled councillors can be ameliorated by having a well-qualified and suitably experienced Chief Executive.*

There is a high degree of truth in the proposition that to a concerning extent councillors do not possess the full range of skills for effective governance. That said, is the solution to rely on the Chief Executive?

Good Chief Executives are rare in the local government sector. Having to place reliance on them somewhat undermines the philosophy of the local government management model as envisaged in the 2002 legislation. Around 2013-14 the performance of the Queenstown Lakes District Council CEO – who implemented an efficiency and effectiveness regime in collaboration with the Mayor – was a shining example of how this proposition could work. But we are not aware of other examples of such leadership.

We suggest that an alternative way of overcoming a lack of councillor skills would be co-option of independent resources to assist, proportionate to councils' requirements and size. Some budget funds should be freed for such a purpose in much the same way as having an independent chair of councils' audit and risk committees (as recommended by the Commission)..

*F5.3 The accountability of local government to local communities is highly reliant on the transparency of its processes, decision making, and performance.*

We totally agree. The practice of some councils clouds this accountability, with consultation processes too often treated as nothing more than a “tick the box” exercise by officers. Ex-post feedback is clearly skewed by the manner by which the “public” responses have been non-transparently supplemented and reported back. There is currently neither accountability nor sanctions on the actions of officers in this area.

*F5.6 Whilst the purpose and content of Long-Term Plan consultation documents are prescribed in legislation, the form and manner of engagement is not. Councils are free to undertake early engagement to ask open-ended questions, and use a wide range of techniques tailored to their local communities. Some are doing this effectively.*

Equally some councils are doing this very badly. In the case of PCC, communities are invited to periodic public meetings with both councillors and officers, but there is frequently an overriding sense that consultation is merely a process that has to be gone through, with very little notice taken of public feedback. This is further compounded by ex-post written acknowledgement to submitters that either disregards or dismisses views contrary to propositions advocated by officers.

*F5.12 The effectiveness of decision-making procedures by local government depends on the public understanding, and taking part in, local democratic processes – both of which are notoriously deficient. This weakens the incentives that those processes provide for local governments to be accountable for the quality of their decisions.*

We totally support this finding, recognising that it highlights that the local government management model is fundamentally flawed.

We urge the Commission to further develop thoughts on this issue because it has to be resolved before accurate advice can be proffered on the adequacy of future funding and financing of the local government sector. The sector remains the only major segment in the New Zealand economy that has not been subject to a fundamental effective and efficiency review by central government in recent decades. The private sector was addressed in the 1980s and the core state sector in the 1990s. A focus on local government as part of the wider public sector is long overdue.

This chapter also features a range of recommendations which we substantively support. We offer comments on the first recommendation:

*R5.1 The Department of Internal Affairs, Local Government New Zealand (LGNZ) and the New Zealand Society of Local Government Managers should work together to improve basic governance, including financial governance, skills and knowledge across elected members. In understanding this work, they should consider:*

- *a range of mechanisms, such as formal training; peer support, mentoring (eg. via “sister council” links), and networking; and sharing of resources and best practice; and*
- *a variety of delivery platforms, including online media and collaboration tools.*

*LGNZ should ensure that resources and initiatives are well evaluated.*

This effectively puts any reform and associated improvements of the existing system firmly in the hands of the parties that have vested interests in the status quo. We simply ask the question **“Are any of these nominated entities adequately incentivised and sufficiently independent to ensure that their work leads to a real improvement in the working of the local government management model?”** Their past performance would suggest not!

Our view is that the entities' positions are somewhat compromised. We suggest that a practical solution to this issue could, for example, involve any of the following options:

- the Commission's current proposal, subject to oversight;
- an independent monitoring entity; or
- use of an Officer of Parliament

The proposal offered to date relies on existing agencies working together more effectively than in the past. Notwithstanding possible conflicts of interest, this could work more transparently if such work was channelled through an independent group that oversees the proposed changes. In an ideal world the Treasury would be the traditional source for leadership. However, with a view to ensuring that central government is not seen to be imposing its will on local government, perhaps an independent steering group could undertake this task.

Establishment of an independent and small monitoring entity could provide a simple solution. Such a body could:

- provide the Minister with regular sector-wide briefings;
- identify and closely monitor a small group of relevant key performance indicators (KPIs) across sectoral groups within the sector;
- prepare regular media briefings; and
- publish sector league tables on a monthly basis.

The ownership and organisational form of such a body would need to be carefully considered to ensure that the existing distancing of local and central government is maintained.

The use of an Officer of Parliament to undertake the monitoring function is also a possible option, given its independence from both the Government and the core bureaucracy. The current organisational split between the Controller and Auditor-General and Audit New Zealand may provide a politically acceptable option, subject to appropriate legislative changes.

### ***Questions that remain unanswered***

Our observations since 2013 on the operation of both councillors and officers in Porirua lead us to ask six additional questions:

- Why are existing monitoring regimes ineffective?
- How can better-skilled councillors be attracted?
- How can public apathy to local government issues be overcome?
- How can officers be prevented from using "Yes Minister" tactics?
- How can the basic approach to the annual budget be improved?
- How can councillors receive more balanced policy advice?

### ***Why are existing monitoring regimes ineffective?***

The Commission has rightly identified complexities in current financial and service reporting as being counter-productive. A simplified form of reporting would help, as would the identification of a small range of KPIs that should be central to any monitoring regime and enable benchmarking. Add to this timeliness and monthly public disclosures, and some of the barriers would be broken down.

It is unclear to the public what the Department of Internal Affairs does by way of monitoring, but we believe that this is conducted at a high / Ministerial level and clearly not made public. Equally there seems to be inadequate public feedback to communities about the audit of Long-Term Plans and the opinion of the Controller and Auditor-General thereon.

In short, a combination of simplified reporting, and better timeliness and public disclosures should assist transparency and accountability, thereby making monitoring more effective. As a by-product, this could also engender greater public interest in local government affairs.

### ***How can we attract better skilled councillors?***

The reality is that there exists a cadre of career councillors, many of whom are well-meaning but sadly insufficiently skilled to do an effective governance job in what is a multi-million/billion-dollar business overall. This raises “fit for purpose” questions.

Low compensation is a real problem, particularly when taken in the context of the hours that are expected from these well-meaning part-timers. Compensation needs to be increased and officers need to be directed to ensure that councillors are not constantly over-burdened with excessively detailed documentation. Documentation should be limited to issues that require/demand governance input and decisions, and should be appropriately concise. Much of this should be demanded by the incoming Mayor – assuming that he/she has the adequate skills, vision and ability to manage the Chief Executive.

There are at least two councillor conundrums:

- what constitutes adequate and appropriate compensation for their time, effort and expertise? and
- how much time should communities really expect councillors to invest in their roles?

To start the process to overcome these issues the following could be considered:

- on a fiscally-neutral basis, allocate increased funding for councillor compensation;
- consider reducing the number of councillors to release funds to better compensate those remaining;
- ensure that reports and proposals submitted to councillors are relevant and concise; and
- support councillors with independent external sources of advice (see later question below).

### ***How can public apathy to local government issues be overcome?***

Overcoming voter apathy to local government elections and issues is fundamental to making the model and democracy work effectively. This can only be achieved over time but can be aided by:

- transparency of performance through the publication of simplified (shorter) financial statements and associated performance measures;
- effective use of the media to broadcast local government issues;
- a sense that community input matters, is heard and acted upon or taken into account;
- availability and use of effective and relevant training courses on local government governance (mayors, councillors) and management.

### ***How can officers be prevented from using “Yes Minister” tactics?***

In some councils, officers issue lengthy, complicated and late papers for key council meetings. Pressure is then applied to councillors to make decisions because of legislative time constraints. Councillors are rushed, often without fully understanding the consequences. This practice must stop.

A future monitoring regime could well not only monitor, assess and sample regular reports from officers, but also liaise with the Mayor and other councillors to ensure that their information needs are being met in a timely and appropriate manner and (as required) informed by independent advice.

### ***How can the basic approach to the annual budget be improved?***

The annual budget process, which sets both business and domestic rates, seems to focus around the question of *how to keep the increase in rates down to a minimum*. This suggests that officers prepare their departmental budgets on a *cost-plus* basis and that this forms the basis for further budget discussions and internal negotiations.

A *cost-plus* mentality was the issue that the Treasury had to overcome and that led to the financial management reforms for the core state sector in the late 1980s and early 1990s.

Given prevailing circumstances, it would seem appropriate to base the construction of the local government budgets on a more fiscally responsible basis, featuring:

- a zero-based approach to the budget construction, underpinned with options on the impact of reduced funding of say +/- 3%, 5% and 10% (without resorting to offering up low-hanging “*Washington monuments*”);
  - prioritise deliverables to essential services;
  - a primary focus on service deliverables rather than the desired levels of expense consumption;
  - a known maximum percentage increase that could be considered for rates; and
  - abridged and easily understood presentation of budgetary choices for councillors.
- 
- It is essential that on an annual basis officers focus on how to produce and deliver services more cost-effectively and efficiently. That process should also include the

voluntary identification and elimination of services that do not adequately contribute to the council's a known maximum percentage increase that could be considered for rates;

- Past service delivery should not be seen as confirmation of future service quality or delivery, particularly for non-essential service items.

### ***How can councillors receive more balanced policy advice?***

The existing structure of local government provides for councillors to obtain their policy advice and briefing from officers. This contrasts dramatically with central government ministers, who receive policy advice from a variety of sources:

- their department and officials' committees;
- central agencies – the Treasury, State Services Commission and Department of the Prime Minister and Cabinet;
- departmental officers and political advisors located in Ministers' offices; and
- their party and constituency offices.

The Mayor and councillors have only council officers. Clearly a better balance is required that could involve both compensated and uncompensated sources, such as:

- community groups;
- advisory panels; and
- officers and advisors attached to the Mayor's office and independent of council managers; etc

If the excessive power of officers is to be diluted, then elected representatives should have access to independent policy advice.

### ***Conclusions***

This Commission's draft report highlights the depth of effort and work that has gone into the inquiry, as well as its restricted terms of reference.

We substantively support the thrust of the main recommendations as qualified by our comments above. We wish you every success in creating an environment within which government can better ensure that the spirit behind the 2002 empowering legislation is better operationalised.

Should you wish to discuss any of our submission, we would be pleased to meet again with the inquiry team.

Yours sincerely



Andrew C Weeks FCA  
PEDG Chairman



