

Local Government Role & Autonomy: Some additional perspectives

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About this paper

This paper is part of an ongoing series on contemporary policy issues in Aotearoa New Zealand. This series is action-oriented and solutions-focused, with an objective of bringing academic research to bear on the economic, social and environmental challenges facing us today.

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Introduction

This paper is prompted by [To enshrine and define local government once and for all](#), a Briefing Paper by Christine Rose, which presents a useful analysis of central-local government responsibilities. Localism - empowering local government and communities to make more of the decisions currently made by central government - is a current hot topic, with Local Government New Zealand and the New Zealand Initiative launching [Project Localism](#), promoting more devolution and decentralisation.

While generally agreeing with Christine's conclusions my paper seeks to offer some additional perspectives on the two key issues she raises, namely "centralisation" and the "well-beings" or "core services" debate.

Centralisation

Christine repeats the common observation that New Zealand has "one of the most centralised political systems in the OECD". However I suggest we need to distinguish between different aspects of "centralisation" or its counterpart "autonomy", namely:

- The allocation of functions between central and local government
- The extent of centralisation of decision making within central government (e.g. to local or regional offices of central government agencies)
- The degree of autonomy local government has in undertaking its (comparatively with other OECD countries) limited role.

Project Localism covers the first two aspects of decentralisation set out above. Christine's paper points out that government functions such as education, health delivery and policing are central government functions in New Zealand. In many other countries they are local government functions, albeit such as in the United Kingdom, financed largely by transfers from central government. This centralisation is reflected in New Zealand central government expenditure, being 88 percent of total public sector expenditure - compared with [72 percent in the UK and 19 percent in Germany](#). Local government expenditure in New Zealand amounts to less than 4 percent of GDP.

This centralisation in terms of allocation of functions between tiers of government may arguably be appropriate for our country of less than 5 million people. But at least it should be tempered by the second aspect of centralisation – local offices of central government – so that local knowledge and needs are fully considered in the delivery of central government services. I am not aware of any serious analysis of this important second issue in terms of New Zealand local government. And in support of her comments Christine also mentions of cases of central government over-riding local government such as the dismissal of the Canterbury Regional Council and over-riding Auckland Council planning requirements in pursuit of the government’s housing objectives. But she is talking about centralisation in a different sense.

This paper focuses on the third aspect, the degree of autonomy local government has in undertaking its role. New Zealand local government has considerable autonomy in its financial policies and budget decisions compared with many OECD countries. Its position has previously been described as “strong financial autonomy across a small task profile”.¹ I see this financial autonomy as a key determinant of autonomy in local government decision making which should be retained in any changes to local government financing, an issue which is now under review by the [Productivity Commission](#).

However this financial autonomy is tempered by the obvious exceptions of Auckland and Christchurch which must deal with the accumulated infrastructure deficit and the aftermath of the earthquake respectively. This means heavy involvement of central government in their financing decisions.

I also believe that this financial autonomy, along with the generally strong financial position of councils, was a key factor in the then government’s rejection of nearly all of the recommendations of the [2007 Rates Inquiry](#).²

Local government financial autonomy is best measured by the proportion of a council’s own source revenues compared to funding (general or tied grants or loans) from central government. This reflects its capacity to determine its own level of expenditure, its revenue policies, and its expenditure priorities. In this sense reliance on rates is not a bad thing.

¹ “We are LGNZ”, powerpoint presentation by Mike Reid and Karen Collins (undated).

² I acknowledge that I have no hard evidence to back up this claim, given that there never was a formal comprehensive government response to the Inquiry’s recommendations.

Rates are the largest source of income for councils – over 60 percent of total operating income. [The Rating Act](#) provides considerable flexibility as to how councils may allocate the rating burden – on the rating base to be used to reflect property values (capital value, land value, annual value), on using differential or targeted rates for different groups of ratepayers and (within a limit) on the mix between a uniform annual charge and rates based on property values. Water supply may be based on user charges (water meters) or subsumed within rates. Councils adopt their own policies for rates remissions, including on particular land such as Māori land. Councils may (within certain limits) levy development charges to fund capital expenditures associated with particular development projects. Councils may, (within certain prudential limits prescribed by central government), make their own decisions about how to fund their important and increasingly significant capital expenditures – whether by borrowing, by development contributions, or by rates, or even in some cases (subject to central government approval) by levying a regional fuel tax, although central government has indicated that this will only be permitted in Auckland.

In addition to rates as own source revenues councils have access to user charges and a number have significant dividend income from their part or full ownership of ports, airports and other profitable trading undertakings. For example Ports of Auckland is fully owned by the Auckland Council and Port of Tauranga is 53 percent owned by Bay of Plenty Regional Council. These undertakings are profitable and return useful “own source revenue” comprising on average about 6 percent of operating income to their council owners, adding to their financial autonomy.

But more significantly there is no limit (beyond obviously a political limit) on the total level of rates which may be charged. Unlike many other OECD jurisdictions, such as some Australian states, there is no capping of rates or general local government charges by central government.

Councils are however required by the [Local Government Act Section 100](#) to adopt a “balanced budget” meaning operational revenues should at least cover operating expenditures, although this is qualified to the extent that the budget need not be balanced if it is “otherwise prudent not to do so”. There are also the requirements in Sections 101 and 102 of Local Government Act to manage financial matters prudently and to adopt funding and financial policies which provide certainty and predictability about sources and levels of funding. In the audit of the 10 year Long Term Council Community Plans (LTCCPs) the Auditor-General may comment on cases where council financial policies as reflected in the LTCCP are not financially prudent and if necessary issue a qualified audit opinion on the LTCCP.

Debate continues on the issue of councils’ debt. This debate generates more heat than light. There is nothing to suggest, based on normal commercial criteria, that council debt is at an unsustainable or imprudent level – with the possible exception of two or three smaller rural councils which have experienced troubles with infrastructure projects.

The 2007 Rates Inquiry encouraged councils to use more debt to finance capital expenditures. There are no formal limits on council borrowing (again reflecting their considerable financial autonomy) except for a requirement that councils compare their debt position with certain financial benchmarks, which were developed by the Department of Internal Affairs and set out in the [Local Government \(Financial Reporting and Prudence Regulations\) 2014](#). Supplementing this is the rating of councils' debt by the ratings agencies, the review of councils' 10 year plans by the Auditor-General in terms of their financial prudence, and by the disciplines imposed by the Local Government Funding Agency on those councils wishing to borrow from it.³

This technocratic and legal background highlights the often overlooked degree of financial autonomy enjoyed by New Zealand local government. Greater financial autonomy increases the power of councils to decide on how much to spend and on what. The new government's [Provincial Growth Fund](#) is a "wild card" in this issue. Will it adequately reflect local government priorities?

This is not to say that councils have total freedom to determine their expenditure priorities. Central government imposes various requirements on them such as administration of the Resource Management Act and there are likely to be new water quality standards including drinking water standards which also limit councils' discretion in expenditure decisions. I discuss the related issue of "unfunded mandates" in the final paragraph of this paper.

This financial autonomy should come with requirements for transparency and accountability and citizen consultation. And it does, but only in the form of budgeting and financial reporting requirements which are so onerous and complex that elected councillors and citizens drown in a sea of paper, while council officers largely control the process. Consultation processes are widely perceived as a failure. This must be addressed by the new government if we are to have local democracy. The 2007 Rates Inquiry made a number of recommendations in this area but they were not acted on. Perhaps the Productivity Commission's review will fare better.

Core Services and Well-being

This significant ability of councils to determine their own budgets and expenditure priorities raises the issue canvassed by Christine Rose about the longstanding debate on requirements "to focus on core services" and on the "well-being" objectives in the Local Government Act 2002. My view on this debate is also that it generates more heat than light.

³ See www.lgfa.co.nz for the requirements to be met by Councils borrowing through LGFA - which is a creature of local government, not central government.

It is often alleged that the Local Government Act 2002 requirement that councils pursue the four "well-beings" (economic, social, cultural and environmental) led to a significant expansion by councils into (unspecified) "non-core" activities. This is not supported by evidence, as the 2007 Rates Inquiry concluded.

Firstly local government has long been involved in so-called "non-core" activities. Let me reminisce. New Zealand once had an important economic sector which has been termed "municipal socialism" which still influences own source revenues today. When I was a member of the Wellington City Council in the 1970s it ran the local abattoir, the milk department, the airport and the city electricity distribution system, not to mention much of the local bus service. The port of Wellington was run by an elected harbour board as was the case with ports throughout New Zealand. Electricity was distributed by elected local power boards.⁴

The Wellington City Council then operated, and still does, a substantial public rental housing stock, as did a number of other councils, some with a focus on pensioner rental housing which was specially funded. Are these "core services"?

While much of this "municipal socialism" disappeared with the Rogernomics changes of the 1980s, an important legacy remains. While some local governments sold their investment in these bodies, others did not, and as mentioned in the first section of this paper, have significant profitable investments in trading activities such as ports, airports and electricity distribution.

Secondly the previous Local Government Act of 1974 also provided a power of general competence. Section 598(1) provided that "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 cooperation in and coordination of welfare activities in the district." The requirement of the 2002 Act that councils pursue the four well-beings (economic, social, cultural and environmental) however did more than re-state this previous power of general competence. It required a proactive focus on the four well-beings and for them to be integrated into council decision making and reporting. This has not proven an easy task, but the signal is clear.

Thirdly the 2007 Rates Inquiry found no evidence that the provisions of the Local Government Act 2002 had been a significant driver of rate increases. The Inquiry also noted that local government had long been involved in "non-core" activities, such as the provision of public rental housing and as well as supporting cultural activities and sporting events, apart from the "municipal socialism" examples I refer to above.

⁴ As an aside, this was reflected in a "jamboree" of week-long annual conferences separately covering municipalities, counties, electricity supply undertakings and harbour boards. Some elected officials could spend up to a month a year "conferencing", if they were so inclined.

The previous National Government (2008-2017), as part of its support agreement with the ACT Party, amended the legislation in 2012 to require a focus on “core services” which were loosely defined as including roads and footpaths, rubbish collection, water supply and sanitation as well as cultural and sporting facilities. It was unclear what would be “proscribed”.⁵ However it seems clear that it has had no impact on the scope of activities undertaken by councils. It would not be unfair to suggest that this change was political window dressing with the debate being based on posturing rather than evidence. Of course it resonated well with many ratepayers, always convinced of councils’ profligacy.

The new Government’s proposed [Community Well-being Bill](#) will reverse the 2012 amendment. This proposed change is welcome and is consistent with the “well-being” approach to public finances now being promoted in central government. But as pointed out above, councils will need to demonstrate that they are implementing the requirement to address these well-beings.

It can be noted that the [2008/9 Royal Commission on Auckland Governance](#) considered that the “place shaping” role of local government is now widely accepted internationally and that any Auckland Council would be inextricably involved in social issues such as housing, health and employment promotion through its land use planning decisions and other services such as public transport, culture, sport and recreation.

The new Government has referred the issue of local government’s revenue base and costs, including drivers of local authority costs, to the Productivity Commission for report in 2019-20. The Commission should have the time and resources to undertake an evidence-based review which will cover issues related to the core services debate, although it should not give this issue more significance than it deserves.

One final point concerns the issue of “unfunded” mandates where, contrary to overall centralisation, central government has passed on new responsibilities to local government, allegedly without providing additional funding. The 2007 Rates Inquiry examined this in some depth and noted (pages 79 and 82-86) that while unfunded mandates had been a factor in rate increases their significance had been exaggerated. It also expressed the view that these mandates were appropriate roles for local government (e.g. Resource Management Act enforcement, dog control, liquor licensing) and that any additional costs should be covered by user charges.

⁵ See Mike Reid. (February 2018). [Saving Local Democracy: An agenda for the new government](#), p. 9 for examples of non-core activities given by the Minister. These did not appear to be significant. They included Invercargill Council placing a lotto shop in its Bluff service centre along with a branch of Kiwibank (presumably leasing out space to them) and Hamilton Council sponsoring of the Australian V8 competition (which incurred considerable financial losses).

Conclusion

This paper suggests:

- We should note the considerable financial autonomy enjoyed by local government in New Zealand.
- Such financial autonomy is key to local government decision making autonomy.
- Any changes to funding sources should retain and reinforce this autonomy.
- Such financial autonomy requires strong accountability reporting mechanisms.
- Existing mechanisms are overly complex and reduce democratic control and need urgent reform.

About The Author

David Shand chaired the 2007 Commission of Inquiry into Local Government funding (generally known as the Rates Inquiry), was a member of the 2008-9 Royal Commission on Auckland Governance, and is an Adjunct Professor of Public Policy at Auckland University of Technology. In his youth he was a member of the Wellington City Council, 1971-77.

About The Policy Observatory

Based at Auckland University of Technology, The Policy Observatory provides a lens on public policy in Aotearoa New Zealand. We both conduct and commission research on economic, social and environmental policy issues, with the intention of publishing results in a form that is accessible to the general public. We work in a collaborative, networked way with researchers across institutions and in the private sector. Ultimately, we are concerned with how policy advances the common good.