



Local Government Funding Review

Submission to Local Government
New Zealand

March 2015



For a better working life

New Zealand Public Service Association
Te Pūkenga Here Tikanga Mahi

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Introduction

Who we are

The New Zealand Public Service Association *Te Pūkenga Here Tikanga Mahi* (the PSA) is the largest trade union in New Zealand with over 59,000 members. We are a democratic organisation representing members in the public service, and the wider state sector (the district health boards, crown research institutes and other crown entities, state owned enterprises, local government, tertiary education institutions and non-governmental organisations working in the health, social services and community sectors).

We have 6,000 members working in local government, a figure that will increase to around 8,000 after 31 March, following the merger of the Southern Local Government Officers' Union. This will make us the national union for local government employees.

In developing this submission we sought the views of

In developing this submission we sought the views of our local government sector committee and utilised the expertise among our wider membership in the sector on this issue.

PSA submission

We welcome the initiative of LGNZ

General comments

The PSA welcomes the initiative of Local Government New Zealand in setting up this Local Government Funding Review. The issue of how to fund local government has been around as the sector itself and it is important that funding is both sustainable for local authorities and affordable for local communities.

Our main focus is on the workforce

Our particular interest is what the future funding of local government means for the workforce, not only in terms of the impact on their job security, pay and conditions, but also on their ability to provide effective services to their communities. However, we are also concerned about the ability of communities to pay, as all of our members are residents or ratepayers and many are low paid.

This review takes place at a time when central government has been trying to clip the wings of local authorities. Among other things the 2010, 2012 and 2014 amendments to the Local Government Act have been designed to:

- narrow the scope of local government e.g. removing the four wellbeings and defining core services

- facilitate private sector delivery of local authority services
- and limit the ability of councils to raise income e.g. imposing debt and rate caps and limiting councils' ability to charge development contributions

A tactical document All of these changes make it timely to challenge the policy thinking behind them and chart an alternative funding future for local government. Unfortunately this discussion document appears to take a tactical rather than a strategic approach. Rather than fundamentally challenging the policy direction which has limited local government's ability to raise funds appropriate to their needs, it looks like it has been written with one eye on what the government might accept. The critical response from the government on the launch of the discussion document suggests that even a cautious approach is not going to be accepted by the government and it may be worth casting the net for ideas a little more widely.

The document also tends to use the language of business and focus on local government's contribution to economic success rather than seeing it as an instrument of local governance, which is representative of local communities. This may also be part of a tactical approach but it provides a rather narrow view of the purpose and functions of local government.

Notwithstanding these limitations the report does raise important issues and we will address these through the four themes set out on page 6 of the document.

Theme 1: A need to develop an effective partnership between local government and central government around shared goals and strategies for the activities pursued by local government, and how those activities can be prudently funded over time.

Part 4 outlines some of the problems that exist in the current relationship between central and local government:

- the increasing cost burden on local government from central government
- lack of understanding and engagement and
- lack of incentives for central government policy makers to consider effects of policy on local government

Government transfers both risk and cost

The PSA agrees that these are real issues but it is worth making the point that the cost transfer is not just about administrative costs, but also the transfer of risk (and thus also liability) from central government to local government when government prescribes functions. The best example of the impact on individuals and local communities of this kind of risk transfer is the 'leaky homes' crisis, which has cost (and continues to cost) communities millions of dollars.

We need to rethink the relationship

We agree that the two principles outlined on p.58 would make a difference, but the problem is in making them happen without a rethinking of the relationship between central and local government.

We submitted to the constitutional review that there should be consideration of the proper constitutional status of local government in New Zealand. Local government has an essential democratic role¹ and its legitimacy as a tier of government should be constitutionally protected, as it is in many European Union states, and in the post-apartheid constitution of the Republic of South Africa.

This would be important in addressing what former Minister of Local Government Rodney Hyde has described as local government's 'dual accountability':

Local government has a dual accountability: it has a democratic mandate from its communities, but is also subject to Ministers' statutory and policy decision making. This creates a basic tension in the relationship between local government and the Executive... At an overarching level, the nature and conventions of the relationship between central and local government and respective responsibilities are not clearly defined. This creates potential for confusion about the degree to which local government is subject to central government direction and to whom local government should be accountable

¹

We know that Local Government New Zealand supports strengthening the constitutional standing of local government and we think that this review should also raise and promote that issue as the basis of a proper partnership.

The principle based partnership

However, we are supportive of the policy direction reflected in the two principles.

- We agree that local government should be involved in all proposals with cost implications for local government and the cost benefit analysis for these proposals should include the costs and benefits for local government, but this should probably go further to say that where a cost is placed on local government then central government should contribute its share
- We also agree that where a policy is intended to generate national as well as local benefits (or generates only national benefits and no local benefits) central government should provide a proportionate amount of co-funding to councils to meet the implementation costs.

¹ Office of the Minister of Local Government (2011), *Smarter Government, Stronger Communities: Towards Better Local Governance and Public Services*, discussion document, p 7-8.

Theme 2: Before pursuing fundamental changes to the funding regime, the local government sector needs to assure communities that it is open to innovation in service delivery so as to build confidence over time in the quality of the spending decisions that it makes.

'Innovation' as code for commercialisation

It is this theme that causes the PSA the most concern. We have no issues with the need for local government to make quality spending decisions and to use its limited resources to best effect, but we know that what passes for innovation often comes down to commercialising local government services and operations – either through contracting out or through pushing services and functions off on to council controlled organisations.

Public service ethos

The ethos of public service is a key driver for public sector employees, and for many, it is why they choose to work in the public sector – they want to 'make a difference'. Preserving this public service ethos in either a CCO or contracted out environment presents a considerable challenge to management.

Conflict with public good

The commercial orientation of CCOs, which is supported not only by their structure but also by the appointment of business sector representatives to their boards, can be in conflict with the public good objectives of the council. For example, if a CCO is primarily concerned about the returns on a particular activity, it may overlook the wider contribution to the community, such setting the cost of stadium hire out of the reach of community organisations. If this is true for CCOs it is even more true for contracted out service providers.

Accountability to residents

A key issue for PSA members is whether CCOs and contracted providers can be fully accountable to the parent council and to citizens and residents. Accountability to the community is partly what makes public services different from the private sector. Local government managers and employees have two key accountabilities: they have to look upwards to Council (and sometimes the courts) and outwards to the public (and sometimes the media)². Public sector workers are accountable to specific ethical and professional standards and subject to high levels of scrutiny.

It is a major concern for PSA members that a CCO Board or private contractor may be able to put up user charges or take other actions without reference back to residents.

Efficiency overstated

One perceived advantage of CCOs and private contractors is that they are more efficient, and in the case of CCOs that they can combine the efficiency of the private sector within the framework of the public sector. However, there is both empirical evidence and theory to suggest that the assumption that the private sector is more efficient and cheaper than the public sector is wrong. For example, a 2007 study by the Danish local government union FOA indicated that municipalities

² *Public Value, What it is and Why it Matters*, P3 conference (2008), Department of Labour

could make huge savings by putting an end to outsourcing. FOA's calculations show that every time a municipality increases the extent of private actors by 5 percent, it costs each citizen of that municipality 136 kroner, or 18 euros. Multiply that amount by the number of citizens nationwide, and the figure reaches 3-4 billion kroner (400-500 million euros).³

A 2009 UK report also identified a trend of 'in-sourcing' in local government, whereby services previously contracted out to private providers were being returned to direct Council provision⁴. Reasons for in-sourcing included poor contractor performance, citizen dissatisfaction, and a view that direct delivery provided a way to respond positively to joined-up neighbourhood services, or to tackle big issues such as climate change. In New Zealand over recent years we have seen examples of local authorities bringing CCOs back in-house in both Queenstown Lakes District and Wellington.

Silos

In both the state sector and in local government there is concern that the plethora of arm's length agencies (and of contractors) is contributing to silos that inhibit whole-of-government or whole-of-council co-operation and collaboration. Agencies, once separated out, tend to emphasise their own identity and run the risk of duplicating functions. It becomes harder to manage a systemic response to problems.

Shared services

CCOs are often the model that councils choose for delivering shared services between councils. Changes to the Local Government Act push councils in the direction of shared services, and while we have no in-principle objection to shared services all the concerns raised about CCOs will apply where they are delivered through either a CCO or a private contractor.

Innovation in the workplace

The PSA is much more interested in pursuing innovation that is based on the workplace and utilises the skill and knowledge of the workforce. This means going beyond employer driven engagement systems to empowering workers through high trust workplace cultures where their collective and individual voices can help shape change. We have been promoting such approaches across our membership and in local government we have gained some traction at Auckland Council. The model there is far from fully developed but some progress has been made.

Professional recognition and pay

The other concern that we have with this theme is that a focus on expenditure inevitably leads to a focus on staffing. For local government to be effective it needs to be properly staffed with appropriately qualified workers. The professional disciplines housed within the local authority public service must be acknowledged and the skill base should not be eroded for the sake of saving on wages. The costs

³ From Public Services International (PSI) World News (April 2009). www.world-psi.org

⁴ UK Association for Public Sector Excellence (2009), *In-sourcing; a guide for local authorities bringing services back in-house*. APSE.

to the community of poor quality decision-making and poor quality processes can be considerable.

The Government reflected concern about local government salary levels when it granted local authorities the right to develop remuneration and employment policies affecting staff. We are unaware of any such policies being developed but the mechanism exists and could be utilised at some time in the future.

Staffing numbers

The issue is one of capacity as well capability. Local government has been criticised in the past for the number of staff it employs (for example in submissions to the Local Government Rates Inquiry) but the 2007 rates inquiry concluded that employee costs reflected both the overall increases in labour costs in New Zealand and the growth in the level of local government assets and responsibilities⁵. They had not been a significant driver of expenditure or rates increases, but nonetheless the perception does exist among some in the community and we remain concerned that some councils might respond with staff cutting measures.

Depreciation

Finally, the review should address the issue of depreciation. We note that the rates inquiry in 2007 argued that there was scope for reducing the extent to which depreciation was funded, stating that the trend toward fully funding it was “a very conservative policy, which will lead to higher than necessary rates over the 10 year period and achieve poor intergenerational equity.”⁶ The Auditor-General’s report on the 2012-22 local authority long term plans⁷ indicated that the trend was continuing with local authorities moving to more fully fund depreciation. In light of the Inquiry’s concerns and the fact that the trends are largely unchanged, it might be a good idea for a review of accountancy practice and funding of depreciation and asset renewal to be carried out.

Theme 3: The diverse nature of New Zealand’s communities raises different challenges

Diversity of activities

The PSA agrees that local government represents diverse communities and that they are becoming more diverse. The chapter on the diversity of local government addresses some of the issues but there are others, as identified by the rates inquiry in 2007:

- visitor numbers
- different proportions of Māori in the population
- Household income
- Property valuation
- Local authority wealth

⁵ *Funding Local Government*: Report of the Local Government Rates Inquiry Pakirehua mō ngā Reiti Kaunihera ā-Rohe, 2007 p. 81

⁶ *Ibid* p. 3

⁷ Office of the Auditor-General, *Matters arising from the 2012-22 local authority long-term plans*, December 2012 p.48

- Diversity of council activities

This last point is important, because notwithstanding the attempts by central government to limit local government to core functions, councils will continue to reflect their various communities and engage in a wide range of activities.

The range of activities and the profiles of expenditure across councils arise from the different expectations of local communities, which are different from the expectations of central government, as well as from each other. Places and communities are changing and changing differently and attempts by central government to impose their expectations are misguided and creating unnecessary tensions.

Some councils are vulnerable

We agree with the paper when it suggests that some communities may simply not have the resources locally to fund necessary services and infrastructure and that there is a good case for government intervention whether through transfers, equalisation payments or contestable funding for specific projects. However, we are concerned to see “right-sizing” and reducing the scope of council activities as a serious option in the paper. The case study of Rangitikei shows that that council is looking at the possibility of private investment in such core activities as delivering a larger rural water supply, as well as cutting back services. Water services are a public good that must remain publicly owned and managed.

Locally raised revenue should be progressive

Councils should have greater ability to raise funds locally to meet their diverse needs but it is important that these revenue collecting approaches are not regressive in nature. Rates, while having their limitations, are progressive to a degree because they are based on property values. But rates can be unaffordable, not only for those on fixed incomes such as the retired, but also those in employment in low paid work. And if rates can cause problems for the working poor then so can other forms of local fund raising. For example, on the minimum wage it takes 15 minutes to earn enough money to pay a 3 dollar road toll. On the prime minister’s salary it takes 2 minutes. High income people tend to work at locations and times that are well served by public transport. Low income jobs tend to be at locations and times that are less well served by public transport.

With growing inequality there are large pockets of the working poor in many council areas and local authorities need to think of them when developing any local income streams.

Theme 4: An appropriate funding mix that includes greater use of tools already available to local government, in particular the use of prices (user charges) where appropriate and a prudent use of debt, especially for assets that have an intergenerational benefit

We do not have a preferred form or mix of funding

The PSA does not have a preferred form or mix of funding for local government but believes that the following points need to be taken into account when designing a funding regime:

- In general, PSA members support the concept of rates: because of the link with property values, it is a transparent and broadly equitable way of raising revenue. Having said that, however, we also believe that, in a time of rapidly rising property values and with local government budgets under unprecedented pressure, there is a limit on how much funding can sustainably be raised through rates.
- The PSA does not believe that tinkering with the current system will solve the underlying issue: local government funding is inadequate for the job it must do, and additional funding must be found.
- Government must compensate local government for any costs incurred when transferring central government responsibilities to local government or requiring new functions of them
- There should be greater ability to raise funds locally but any new revenue measures should be progressive rather than regressive. This should limit the application of user charges (for example, for services that carry any social or public good benefit) and local consumption taxes
- The collection of locally raised revenue should be simple to administer
- Local authorities should not consider privatisation of assets as a means of raising income or reducing debt
- It is worth exploring ways in which visitors who utilise services or facilities in a locality can contribute to the costs borne by residents and ratepayers
- Any discussion of funding must also address the raising of finance, the cost of debt servicing and intergenerational equity associated with spreading debt for new infrastructure. Borrowing to invest in important infrastructure is a legitimate tool for local government
- Central government has a role to play in sharing revenue with vulnerable councils and should not look to amalgamations as the automatic solution when local authorities revenue base is insufficient to provide an appropriate range of services
- It is worth exploring other forms of revenue sharing, such as sharing the taxes collected on economic activity in a region with local authorities in that region
- Local Government New Zealand should consider conducting a review of accountancy practice and funding of depreciation and asset renewal

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