



Briefing for the

# INCOMING MINISTER OF LOCAL GOVERNMENT

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## Introduction

This briefing has been prepared by the Local Government Centre to provide the incoming Minister of Local Government with an independent perspective on the principal issues confronting the local government sector. The focus is very much on the role which an efficient and effective local government sector can play in helping address the current economic crisis. Areas in which local government will be a key player include:

- Infrastructure development.
- Reducing the compliance burden on business, especially in environmental management and building control.
- Helping resolve some of New Zealand's critical social issues where dysfunction at community level imposes major costs on central government's budget.

## Local Government Centre

The Local Government Centre (“the Centre”) was established in 2006. It sits within the **Institute of Public Policy (“IPP”)** at AUT University and is located in the heart of Auckland’s CBD.

AUT's **IPP** was part of the Metro Project group, which together with the Auckland Regional Council, the Committee for Auckland and a team of international experts developed an action plan for Auckland’s future development. The establishment of the Centre was a logical outgrowth of the Metro Project work. The Centre is New Zealand's first "think tank" specifically committed to local government and local governance research, teaching and consultancy.

The Centre is designed to work alongside both central government and the New Zealand local government sector and individual local authorities, complementing their own policy and research capabilities. It draws extensively on the academic and practical skills within AUT University, which itself is widely recognized for its practical approach in research, teaching and learning as a university which “gets things done”. It also collaborates with academics from other universities who have a specialist interest in local government.

It has strong linkages with similar centres internationally as well as a range of “think tanks”, local government agencies and other ministries. This gives the Centre a unique ability, within New Zealand, to draw on current and emerging thinking and practice. This is particularly valuable at a time when rapid change is affecting local government worldwide.

In 2008 the Centre's main interest has been the future governance of the Auckland Metropolitan Region. Drawing extensively on international research, and input from offshore academics, practitioners and others, as well as its own work, it has generated a number of major papers, and a substantive submission to the Royal Commission.

## Background

The shape of today's local government sector is largely the product of two sets of reforms:

- A process of amalgamation and restructuring in the late 1980s and early 1990s intended to create an efficient scale of operation based on principles of separation of policy and implementation.
- Comprehensive accountability and financial management reforms, culminating in the comprehensive long-term council community plan process including auditor general review.

The reforms were largely successful in addressing the problems identified at the time, but have created a fresh set of challenges which now need to be addressed including excessive compliance costs, a weakening of local democracy, and a growing imbalance between the political and management arms of local government.

As well, local government is under increasing pressure in terms of funding infrastructure investment, including the need to meet ever increasing environmental standards, and the pressures of an ageing population.

Historically, local government has been treated very much as the junior partner within New Zealand's governance arrangements. It lacks its own dedicated ministry and its Minister has normally had a relatively low ranking in Cabinet. One consequence of this relative lack of focus has been that the significance of the local government sector to the delivery of central government's own policy objectives has been easy to overlook. A current example is the governance of Metropolitan Auckland which was dysfunctional for a number of years before the previous government finally accepted that it needed to intervene because of the negative impact on New Zealand's society and economy as a whole.

The balance of this briefing covers what the Centre regards as the most significant issues within local government at the present time from central government's perspective. Our starting assumption is that central government has a vested interest in a strong and effective local government sector as an important player in resolving the current economic crisis. The matters dealt with are:

- The governance of Metropolitan Auckland - the Royal Commission.
- Resource management (and building controls).
- Infrastructure.
- Funding.
- Compliance.
- Structure (Management; representation and engagement).
- The ageing population.
- The leaky homes crisis.

## **The governance of Metropolitan Auckland - the Royal Commission**

It is no exaggeration to say that realising Auckland's economic potential is the single most significant task facing the present government.

The Royal Commission is due to report by 31 March 2009. Within its very wide ranging brief the key focus is on:

- What ownership, governance, and institutional arrangements and funding responsibilities are required to ensure the effective, efficient, and sustainable provision of public infrastructure, services, and facilities to support and enhance:
  - the current and future well-being of the Auckland region and its communities;
  - the performance of the Auckland region as a growth engine in the New Zealand economy and in its role as a key transport hub for New Zealand and the Pacific region;
  - the ability of the Auckland region to compete internationally as a desirable place to live, work, invest, and do business; and
  - the ability of the Auckland region to respond to economic, environmental, cultural, and social challenges (for example, climate change).

In the Centre's view the critical policy choices for government, when it receives the Royal Commission's report, will boil down to:

- Will adopting these recommendations ensure timely and effective decision-making and implementation on major region wide strategic issues so that Auckland can realise its full economic potential?
- Will the proposed arrangements for representation at the local level help create the networks and community engagement needed to deal with Auckland's critical social problems?

Although the Royal Commission has been careful not to pre-empt the release of its report, it is already clear that whatever it recommends will be controversial. Major submissions from Auckland's current local authorities differ substantially in their proposed solutions. All have major defects when compared against international experience of comparable situations. None would pass the test of enabling effective decision-making on major regionwide strategic issues. All support a variant on the theme of a single Council with members elected on a ward basis and/or appointed by existing territorial councils. The evidence from the one equivalent example, the merger in 2000 of six local authorities and one regional entity to form the city of Toronto, is unequivocal. Attempting to address the problems of parochialism by abolishing area-based councils and replacing them with a council elected on an area basis simply changes the arena in which parochial battles are fought. The final report of the Toronto mayor's fiscal review panel<sup>1</sup> released in February 2008 comments "the politics of Toronto City Hall has been considered highly parochial for years, making it difficult for the City to agree on macro directions and identify priorities. This has in turn contributed to a "credibility gap" about the effectiveness of Toronto City Council."

There is good reason to believe that the Royal Commission understands the critical importance of recommending regional arrangements that minimise the risk of decisions being subverted by parochial (sub-regional) interests. The Centre considers it likely the Royal Commission will recommend the creation of a region wide authority similar to the Greater London Authority with its directly elected executive mayor. Supporting a recommendation of this type will require both strong political will, and a clear understanding of the quite complex checks and balances needed to ensure the effective and accountable operation of such a structure. Failing to support it could simply perpetuate Auckland's current problems to the detriment both of Auckland and the New Zealand economy, so that New Zealand as a whole continues to be held back because Auckland is not realising its potential.

Another factor for the Minister to take into account is the tendency for higher tiers of government, especially within the bureaucracy, to resist the creation of strong metropolitan governance - this is well documented by OECD and other research.

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<sup>1</sup> a group drawn from leaders in business, academia, unions and the community sector.

The Centre also expects the Royal Commission to put substantial weight on the importance of an effective third tier - perhaps enhanced community boards, perhaps some other set of arrangements. The chairman has certainly spoken positively about the importance of local governance noting that one strong message the Commission has received is to put back the 'local' in local government. Overseas experience suggests that this should be of considerable assistance to central government in dealing cost-effectively with Auckland's critical social issues.

## **Resource management**

Although not just an Auckland problem, a clear theme that emerged from the submissions made to the Royal Commission of Inquiry into Auckland's governance is that the public is highly dissatisfied with the current resource consent process. The resource consenting process is both time consuming, uncertain and costly.

We note that as part of National's Environment Policy 2008 it expressed a desire to focus on:

- Simplifying and streamlining the processes of the Resource Management Act 1993;
- Providing greater central government direction on its direction; and
- Increasing the use of economic instruments rather than regulations.

In the Centre's view a major issue with the consenting process, which covers both resource management and building consents, is how these matters are managed within councils. There is a good case that the way resource management and building consents are managed is as serious a drain on the economy as the actual terms of the legislation itself. We identify the following matters among others:

- Differing processes and practices amongst neighbouring councils (a problem frequently mentioned by property developers within the Auckland region).
- Critically, for building consents, a strongly risk averse approach. Litigation resulting from the leaky homes crisis has highlighted for councils their position as "last person standing" when homeowners have sued because of poor workmanship and/or design. This is exacerbated by a perception that the statutory obligations on local authorities, at least to some extent, carry with them the risk of making the local authority the guarantor of building quality. The result is for a number of authorities to require much more design detail and much more intrusive supervision than would otherwise be required. The consequence is considerable delay and additional cost. One remedy

is to put in place statutory means for limiting local government's liability.

- Varying capabilities amongst different councils, including difficulty in recruiting and retaining suitably qualified and experienced people (a difficulty which may be lessening in the current economic climate).
- A relative lack of understanding of the opportunity cost of time - that delays because of process can add substantially to the cost of projects, both individually and in general.

The Centre considers that, as a matter of priority, government in partnership with local government and the development industry should review the processes for handling resource management and building consents with a focus on how to improve timeliness and efficiency. This should embrace issues such as critical mass, capability and experience, risk management practices intended to protect local authorities against liability (which might require legislative action), and organisational culture. There may be a case for considering whether consent processes should be handled on a shared services basis, and under the immediate supervision of a management board selected on a "fit for purpose" basis to focus on performance improvement.

## Infrastructure

Infrastructure makes up the greater part of the assets under local government management, is responsible for most of council debt and typically consumes the bulk of local government expenditure. It is widely accepted that New Zealand has a significant infrastructure deficit, and important to understand why:

- Local government's share of infrastructure spending is funded from rates (either immediately from current income, or over time as rates are used to service debt). Despite public perceptions that local authorities are quick to raise rates, the reverse is the case. Most councils are very aware of the political consequences of rates increases. This is one reason why many local authorities have fallen behind in maintaining infrastructure, and been reluctant to invest in new infrastructure (a reluctance which has been lessened somewhat in recent times because of the availability of development contributions, something which reduces the burden on existing ratepayers).
- Infrastructure assets typically have a long life. Logically much of infrastructure cost should be debt funded thus allowing the cost to be spread out over the life of the asset. Perversely, most ratepayers appear opposed to councils taking this approach even though the effect is to reduce the burden on them and transfer it to future years'

ratepayers. This further restricts the willingness of local authorities to invest in infrastructure.

- In recent years, as a consequence of a shift to full accrual accounting, local authorities have been required to depreciate their infrastructure assets. For many councils depreciation is now their single largest operating expenditure. This compounds the burden on current ratepayers when councils invest in new or replacement infrastructure. In practice ratepayers are required both to meet the cost of the new infrastructure investment and to set aside funds, through depreciation, so that future ratepayers can replace the investment when it reaches the end of its life.
- There is a widespread public perception, encouraged by many from the business community, that local authorities should restrict their rates increases to no more than the rate of CPI inflation plus any allowance for additional properties. This approach is flawed on two counts. First, rates not only pay for operating expenditure but ultimately are the only source through which local authorities can raise capital for investment in infrastructure. Expecting councils to stay within CPI inflation is to completely ignore their capital requirements. Secondly, local government inflation is typically higher than CPI inflation - roading costs, for example, have been increasing more rapidly than CPI inflation partly because of the impact of the oil price - oil is not just a transport fuel but a critical component of some major inputs in road construction.

Government should also note that the report of the Independent Inquiry into Local Government Rating, undertaken in much more buoyant economic conditions than currently exist, "identified affordability problems for rates for some sections of the community, which will increase over the next 10 years. This means that under current practices rates will not be sustainable in 10 years' time." It also noted "Capital expenditures are forecast to continue to grow significantly over the next 10 years with cumulative spending on infrastructure of \$31 billion. The largest component of this is transport, followed by the "three waters" (water supply, waste water, stormwater)."



If New Zealand is to realise its economic potential, ongoing and substantial investment in infrastructure is essential. Government, and local government will need to work together to find sustainable and politically acceptable solutions to funding the capital and operational costs involved. We discuss some options in the next section dealing with funding.

## Funding

The Centre regards the report of the Rating Inquiry as both thorough and well researched. Although it identifies medium to long-term problems with the affordability of property rates as a principal source of funding, it also argues that there is no 'magic bullet'. Instead it supports a mix of:

- Increased use of other funding tools such as user charges.
- More reliance on borrowing, especially to spread costs in a way which is more consistent with intergenerational equity.
- A greater emphasis on efficiency.
- Reviewing local government capital expenditure proposals.
- An Infrastructure Equalisation Fund of \$100 million per annum for investment in the "three waters" targeted to less well off communities and driven by public health considerations.

The Centre's cross-national comparisons of local government funding systems strongly suggest that, regardless of the mix of local government funding arrangements, local government invariably faces demands for expenditure beyond its ability to fund, and invariably argues that higher tiers of government should make more of their own tax resources available. There is some substance in this argument. It is hardly surprising that central, federal or state governments do place greater weight on their own spending priorities than on those of local government.

That approach can be shortsighted. When the proper functioning of an economy is so critically dependent on infrastructure as New Zealand's is, central government has a strong incentive to ensure that local government can play its full part in delivering the infrastructure which the economy requires. At the same time, government has a responsibility to manage its own fiscal position, especially given the current medium to long-term outlook.

In the Centre's view it is essential that central government work with local government to ensure its funding problems are properly addressed (it is noteworthy that apart from a minor change to the rates rebate scheme the previous government made no decisions in response to the report of the Rating Inquiry). As part of this, central government should encourage local government to do what it can.

At the moment, all councils are in the midst of preparing their next round of 10 year plans (LTCCPs). It is clear that most are looking to cut back expenditure, typically by reducing planned activities. In the Centre's view there are a number of other approaches which should be considered, and where central government can usefully play a facilitative role. Possibilities include:

- A greater use of shared services. There have been some encouraging developments in recent years but far too many local authorities still undertake services in-house which could more efficiently be provided through shared services arrangements. Recent English experience provides ample evidence of the financial and other benefits of sharing both back-office and more recently front-office services - most of the 1.5% per annum reduction in baseline expenditure which English local government has achieved year on year in recent years has come from this source.
- Contracting out not just, or even primarily, to the private sector but to not for-profit providers including community-based entities. Again there is evidence from England and elsewhere that this approach can have benefits including more effective service delivery because of a closer relationship with end users, a strengthening of community capability with resultant benefits for addressing persistent social problems, and enhancement of local democracy. It has the potential, unlike some of the privatisation initiatives of the 1990s, to be a win-win situation both economically and politically.
- A greater reliance on borrowing. There would be merit in following the approach recommended in the recent inquiry into the financial sustainability of local government in New South Wales of adopting sector wide standards for **minimum** as well as maximum targets for local authority debt.
- More use of user charges, especially in respect of water and sewerage services. This does have an initial investment cost associated with metering but also offers long-term benefits through demand management, typically reducing the need for additional and usually major capital investment. It would be desirable to consider the impact on low income households, perhaps through a tiered pricing system.

New Zealand experience of initiatives to improve efficiency within local government, and encourage the use of alternative funding sources such as

borrowing or user charges is mixed. Some authorities have been quite active but the majority, often because of concerns about ratepayer response, or management resistance, have been slow to act. The Centre recommends the government give serious consideration to providing incentives, perhaps along the lines of access to additional funding mechanisms conditional upon meeting pre-agreed targets for the adoption of efficiency measures of the kind outlined above.

Finally, in considering any measures dealing with local government funding, it is important to keep in mind the impact of rating on older ratepayers. It is clear that a number of councils are reluctant to increase residential rates beyond the bare minimum (typically CPI inflation) because of the expected reaction of older ratepayers. This group:

- Is dominated by people dependent primarily on low fixed incomes, and facing cost increases in their own expenditure well beyond the CPI because of the proportion of their total expenditure which goes on high inflation items such as energy and food.
- Is increasingly organising in opposition to rates increases.
- Is three times more likely than younger people to vote in a local authority election thus giving it disproportionate influence and making current and potential councillors very aware of the political implications of rates increases.

The rates rebate scheme provides some assistance but there are limits on the extent to which government can afford to assume the rates obligations of older people, especially as the population ages. The government should be encouraging local government to look at other options for relieving the cash flow burden on older people without compromising the ability to use rates as a principal income source.

Another apparently attractive option to reduce the pressure on ratepayers is rate capping – legislating to restrict the extent to which local authorities can increase rates. Experience shows that creates more problems than it solves:

- The financial situations of councils differ widely so that a single cap may have little or no impact on one but severely impact on essential expenditure in others (for example on needed infrastructure upgrades). The apparent solution is to allow councils to seek an exemption – but then central government starts to become the decision maker on what projects or activities individual councils should undertake. There is a risk that this creates a bias against allowing needed expenditure – New South Wales' local government infrastructure crisis is recognised as a direct consequence of rate capping.
- Rate capping creates incentives to find means for avoiding its impact such as more borrowing (a form of rates deferral), asset sales, eg, sale and leaseback of council assets, inadequate allowance for depreciation,

deferral of needed maintenance etc.. Over time these can both seriously weaken local government balance sheets and result in a need for substantial additional operating funding (eg for maintenance catch-up or to service increased debt or lease back commitments).

- In turn there is a risk that central government will then get drawn in to approving local government borrowing, setting minimum standards for infrastructure and eventually itself becoming directly responsible for local government performance, with the inference that it also has a funding responsibility.

Generally the evidence is that rate capping is a politically expedient soft option where the better approach is the hard yards of efficiency improvement, and being upfront with communities about the need to match local government service provision to the communities' ability and willingness to pay.

## Compliance

The regulatory environment within which local government operates has changed dramatically in the past 20 years. In 1988, local government operated on a cash accounting basis, was required to produce only rudimentary annual reports and had no obligation to consult its communities on its spending plans or activities. Since then:

- 1989 legislation required local authorities to adopt accrual accounting, and produce and consult on annual plans.
- 1996 legislation introduced a requirement for 10 year plans, with local authorities to produce a long-term financial strategy requiring them to report on proposed activities, the reasons for those activities, and sources of funding. Crucially, the legislation contained no means of enforcing local authorities to ensure that their ten-year forecasts were based on robust information either in respect of demographic or economic and other trends, or in relation to the cost of maintaining and renewing infrastructure.
- The Local Government Act 2002 replaced the requirement for an LTFS with the requirement for a long-term council community plan based on community outcomes. It included the same requirement for a minimum 10 year forecast of activities, expenditures and sources of funding. Crucially the Act included a requirement for the draft LTCCP to include a report from the auditor-general including the extent to which the council had complied with the requirements of the Act, the quality of the information and assumptions underlying the forecast information provided and the extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service provision.

These successive changes in local government's reporting and accountability requirements have been based on the reasonable proposition that ratepayers are entitled to be informed on the policies, activities and expenditure and funding commitments of the council in the present and for the reasonably foreseeable future. However, what began as a reasonable proposition has now become a major compliance burden. The requirements which the auditor-general now expects local authorities to satisfy in producing LTCCPs is a major preoccupation of senior management and elected members. It is clearly crowding out their primary role of developing and implementing the policies and initiatives which their communities need. As an example, a group manager in one substantial local authority recently reported to the Centre that the process of developing an LTCCP to satisfy the auditor-general's requirements now took 22 months of time during which this was the single major preoccupation of much of management (it is instructive to wonder what would happen to the workings of central government if it faced equivalent compliance requirements).

***The local government sector has a crucial role to play in overcoming the economic and social challenges New Zealand currently faces. The commitment of a major part of the time of senior management and elected members to what is essentially a compliance exercise appears to be a significant misallocation of resources.***

It is important not to undermine the integrity of local government reporting and accountability but also critical to deal with the current compliance burden associated with the LTCCP in particular. Any solution will need to be implemented within the context of the independence of the office of the auditor-general. This may require legislation. Perhaps rather than the current requirement for a report which has the effect of giving the auditor-general the unilateral power to determine how local authorities will prepare LTCCPs, legislation could provide that local authorities in the preparation of their LTCCPs should consult with the auditor-general to seek his advice on the measures they should take but with councils free to decide whether or not to follow it.

This would not only reduce the compliance burden but also avoid the type of problem that arose with the 2006-2016 LTCCPs when the auditor-general required councils to report their forecasts in inflation adjusted dollars. Most of the media and many ratepayers did not know the difference between inflation adjusted dollars and dollars of the day and so wildly overestimated the likely impact of future rates increases. Ironically a measure intended to improve the quality of information available to the public – auditor-general oversight – had the exact opposite effect!

## Structure (Management; representation; community engagement)

### **Management**

The 1989 restructuring of local government included a statutory separation of the roles of elected members and management. In essence, elected members were to be responsible for policy and management for implementation. The legislation adopted a model under which the chief executive is the sole employee of the local authority and, in turn, is the employer of all remaining staff. The chief executive is also, by legislation, the sole adviser to elected members.

The purpose of this change was to clarify roles in response to a concern, at the time, that elected members were far too inclined to intervene in the workings of council staff, and focus on minutiae, rather than concentrate on the large policy matters confronting councils. The situation was seen to be one of confused responsibilities, opportunism and blurred accountability.

The solution was based on a parallel with the structure of organisations in the private sector, where the separation of the roles of chief executive and board is seen as an important element in promoting a rational allocation of responsibilities, and effective accountability. However the solution paid insufficient attention to the different contexts in which private corporations and councils operate. For example:

- Under the Companies Act it is explicitly the board which is responsible for the management of the company so that the board retains the residual right to intervene when it considers it necessary to do so. In local government a chief executive can, and a number have, told elected members that implementation is none of their business.
- Companies operate to a single metric, maximising shareholder wealth, which is reasonably capable of measurement. In contrast, councils operate to multiple metrics many of which are hard to measure (community outcomes for example) thus weakening accountability of management to elected members for actual performance.
- Councils are statutory monopolies within the district. There is no contestability for the great range of local government services. In contrast, companies normally operate in competitive markets, and are subject to regulatory regimes (for example the commerce commission) designed to support competition and provide for consumer choice. Unlike companies, the performance of councils

cannot be tested by market response, with consumers choosing on the basis of satisfaction with the level and value of service.

Not only is there an absence of external contestability, there is also no internal contestability equivalent to that found within central government. Cabinet has contesting sources of advice - the originating department is required to consult widely, and at an absolute minimum departmental proposals will be reviewed by the Treasury, the Department of Prime Minister and Cabinet and in all likelihood the State Services Commission. In local government the chief executive is the sole adviser.

In addition, Ministers will normally have their own policy advisers providing an independent source of advice from that of the Minister's Department. Elected members in local government have no equivalent. They are required to rely solely on their own skills, experience, knowledge and research, often in areas where they are poorly qualified to make technical or professional judgements.

New Zealand's local authorities are typically large and complex organisations. In the Centre's view the scale and complexity of their activity, and the lack of any contestability of advice, carries with it the risk that managements are effectively beyond the reach of accountability. This is a potentially serious issue which should be addressed as a matter of urgency. Possibilities include:

- A New Zealand equivalent of the overview and scrutiny function within English local government (this provides elected members, in this case non-executive councillors, with the power and resource to scrutinise activities of the council, including holding public hearings and requiring members of management and executive to appear and report on their activities).
- Providing in statute for elected members to have the power to obtain independent advice.
- Considering the size and scale of New Zealand's larger local authorities - there is evidence that this issue is much more serious in large councils than it is in small or medium councils simply because of the scale and complexity of their activity.

## **Representation**

Many query whether New Zealand is over-governed at the local level or whether we in fact have a 'democratic deficit'. International evidence suggests a population level in the order of 10,000-20,000 is about right for establishing neighbourhood or local governance arrangements which are optimal for enabling effective representation. This is on the basis that this is around the size of the normal "community" found within a large local authority - typically deriving its identity from an early history as a discrete village or small settlement which was ultimately absorbed within the larger entity.

It often comes as a surprise to people involved with local government to find that, in terms of the ratio of elected local government members to population, countries like New Zealand, rather than being over-governed, are in fact somewhat under-governed. Auckland City Council's ratio of elected members to residents, based on a population of 404,000 at the 2006 census, is approximately 1: 21,000. In France there is an elected official for every 120 people, which is why French micro-democracy is alive and kicking. In Germany the ratio is 1:250; in Britain it is 1:2,600.

The recent English local government White Paper reflects a real concern their current representation arrangements are not adequate. There is a strong emphasis on increased representation through strengthening the role of neighbourhood or parish councils (the equivalent of New Zealand's community boards). The motivation is quite clear; a strong belief that in order to deal with the complex social issues modern communities now face, there needs to be a much greater degree of integration between councils and their communities and for that matter central government agencies and those same communities.

Important here is the very different nature of representation within central government and local government. In central government Edmund Burke's principle 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" is still sound advice. The purpose of central government is primarily to make decisions which affect the whole of the body politic. In contrast, although councils also make a number of decisions affecting the whole of the district, the role is much more one of making decisions which affect part only and sometimes a small part of its district. Decisions on streetscapes, road maintenance, local parks and much more besides are primarily concerned with the quality of local place and are best made not on the representative principle, but in collaboration with the people who will be primarily affected.

With the exception of some of New Zealand's larger councils, it is hard to make an argument that the problem of representation should be dealt with by dividing councils into smaller units. Rather, as in the English situation and elsewhere, the better approach is to follow the well-known principle of subsidiarity, that is, placing the responsibility for decisions at the lowest possible level. This points to a greater use of a third tier of local government (perhaps enhanced community boards) to deal with matters affecting communities or neighbourhoods rather than entire council districts.

### ***Community engagement***

The research evidence makes a strong case for effective neighbourhood or local governance, both as a means of improving community engagement with the local authority itself, and as almost a prerequisite for dealing with a number of the more complex issues now confronting communities in areas such as housing, social inclusion, antisocial behaviour etc.



It is an implicit recognition, repeated in much of current writing on the role of government (whether central or local), that there are very real limits on the ability of governments, working by themselves, to address the complex issues which face modern societies.

There is a growing acceptance internationally of the need for much closer engagement between local authorities and the communities they serve. The rationale is not just a belief in the merits of local democracy. It is just as much recognition of the knowledge and expertise which resides in individual communities, and a realisation that being able to tap into this is an important factor both in the efficient and effective design and delivery of local services and the strengthening of democracy. It puts a renewed emphasis for New Zealand local government on understanding how best to engage with its communities, and on seeing their knowledge, expertise and commitment as a key resource in addressing local government's statutory responsibility for promoting community well-being.

Every community is different; what works in one place might not work, or might not be appropriate, in another. Implementation therefore needs to be totally guided by the particular character, interests, history and concerns of the community in question, and the existence (or otherwise) of networks, leadership, capability, community organisations and incentives to engage.

In the Centre's view, although community engagement looks as though it is primarily a local government responsibility, it is just as important for central government, especially within its big spending social services programmes. The trick is how to put it in place. Recent English experience shows that simply deciding that a central government agency or local government should be required to engage more effectively with its communities because it makes good fiscal and social sense is far from sufficient. Communities may not want to engage. They may not trust central government or local government. They may lack the resources or capability required or simply have other priorities.

Effective community engagement requires long-term commitment and a good understanding of why communities might want to work in this way. It includes the need for a genuinely partnership approach (most experience of partnership working in New Zealand has been along the lines of government agencies saying "this is how we will work in partnership, sign here").

International experience suggests that working through local government could be the best means for central government to achieve its own objectives for more effective service delivery in areas such as housing, community safety, employment and social inclusion. Local authorities are better placed to offer opportunities which will attract a positive community response. Recent examples include participatory budgeting (a very good way of helping communities understand that resources are limited and trade-offs essential) and asset transfer - passing over the management of important community assets to community-based organisations.

The Centre recommends that government actively explore with local government means of promoting community engagement in ways that will support the achievement of government's objectives. It should do so both because of the real benefits for local democracy **AND** because it can actually be a very effective way of managing demands for government expenditure.

## Ageing

Demographic forecasts project that over the next fifty years the proportion of people in New Zealand over the age of 65 will more than double, from 12 percent in 1999 to 26 percent in 2050. The economic implications of population ageing are pervasive and complex and will impact considerably on the way economies function, for example, as the balance between those in and out of the work force shifts, and as demand for expenditure on superannuation, and on health care for older people increase.

'Aging in place' is the ability to live in one's own home for as long as is comfortably possible. It is widely accepted that this is not just socially desirable, but an effective means of reducing demand for state funded support. It is also clear that for a number of older people the ability to remain living in their own home is dependent on access to a range of services such as home maintenance and personal services, and on the ability to afford the operating costs of running a home. Often the trigger for someone deciding to move from their own home into an institutional arrangement (retirement village, rest home etc) is the inability to afford or access relatively minor services.

Some local authorities are now experimenting with ways of using the powers they have under the Local Government (Rating) Act to enable older people to draw down the equity in their homes to meet the cost of 'ageing in place' services. The first example is providing the capital component for the Energy Efficiency and Conservation Authority's interest subsidy scheme for home insulation and home heating upgrades. There is widespread interest amongst older persons' advocacy groups in seeing this approach extended to a range of other support services. Although it is primarily a local authority activity, there are very real benefits for central government if people can remain living in their own home longer.

The ageing population will also lead to continuing labour shortages, not only in New Zealand but internationally. A shortage of skilled workers both here and overseas means that New Zealand is competing with other countries in a similar position for the pool of skilled labour. The ageing workforce not only impacts on the supply of labour, it also influences the structure of the workforce.

One response is to encourage older people to remain in the workforce, perhaps on the basis of reduced hours. This has two benefits. It ensures that scarce useful skills remain available. It also contributes to the well-being of older

people themselves as engagement in the workforce is an important element in personal well-being, including maintaining a network of acquaintances.

Another is to recognise and support the role of local government in ensuring that New Zealand remains competitive as a preferred location for skilled workers. The evidence shows that a critical element in this competition is the quality of place - potential employees not only do their 'due diligence' on the prospective employer and the job - they put at least as much if not more time into doing 'due diligence' on the quality of life in the place where they expect to live including education, cultural facilities, recreation and the environment. Much of this is the responsibility of local government. In the current environment of constraints on local government expenditure, maintaining a competitive edge in quality of place is at risk. Central government as part of its growth strategies for the New Zealand economy should ensure that local governments have the resources needed to compete effectively on quality of place.

## The leaky homes crisis

The “leaky homes” crisis needs to be resolved. An estimated 80,000 people across the country are living in homes that have either leaked or are at high risk of leaking, and councils face an estimated total bill of between \$660m and \$2.1 billion.

On 8 October 2008, Local Government New Zealand (“LGNZ”) released the costs of a new model it has proposed to central government to resolve the leaky homes crisis. Kerry Prendergast, the Vice-President of LGNZ, says that “the proposed model is based on central government, councils and homeowners agreeing upfront to pay a proportion of costs to fix these homes, rather than continuing to put homeowners through the stress of making a claim... The current model of homeowners being forced to pay huge legal fees to make a claim to the Weathertight Homes Resolution Service (WHRS) is not in their best interest. We need to move away from the process of apportioning blame and trying to decide where liability lies on a case by case basis... Too much time and money is being spent on the actual process of resolution. It’s time to tackle the fundamental problem of fixing this country’s leaky homes and dealing with the social and financial costs head-on.”

Central government needs to ensure that the leaky homes crisis is sorted out once and for all with a solution that fairly shares the cost. Adoption of the Local Government New Zealand proposal, or a variant of it, might be conditional upon local authorities agreeing to implement one or more of the proposals covered in this briefing under resource management for improving consent management and under funding for improving efficiency respectively.

## Conclusion

This briefing has argued that local government has a crucial contribution to make to two important national objectives:

- Improving New Zealand's economic performance, especially in response to the current economic crisis.
- Contributing, in collaboration with other sectors, to resolving New Zealand's critical social issues.

Ensuring that local government is able to play its full role in both these respects will present government with a delicate balancing act. On the one hand it will want to put in place measures to encourage greater efficiency, and minimise the impact of local government regulation on economic growth. On the other hand it will also want to strengthen local democracy, and local government engagement with communities, as a means of addressing social issues.

The Local Government Centre urges central government to take a measured approach to dealing with local government, recognising the importance of "getting it right" rather than simply responding to the pressures of different interest groups to "do something". This applies equally to complex structural changes, such as putting in place new governance arrangements which will enable Auckland to realise its full potential, and to perennial issues such as the public's dislike of rating as a tax.

Finally, the Local Government Centre wishes the new Minister of Local Government every success in what is one of the most challenging, important and exciting of all portfolios.