

NEW ZEALAND BUSINESS ROUNDTABLE

Submission to the Royal Commission on Auckland
Governance

April 2008

Summary

- This submission is made by the New Zealand Business Roundtable, an organisation comprising mainly chief executives of major New Zealand business firms. The purpose of the organisation is to contribute to the development of sound public policies that reflect overall New Zealand interests.
- The Royal Commission's broad-ranging review of the governance of local government in the Auckland region provides an opportunity to make a meaningful contribution to a better institutional and policy framework.
- Present governance arrangements in the Auckland region are unsatisfactory. Legislative limits on councils are inadequate, thereby encouraging them to expand beyond their proper role. Decision-making processes in relation to activities that extend beyond one district within the Auckland region, particularly relating to transport planning, roads and public transport services, are deficient.
- The Business Roundtable believes that the mandate of local authorities should be more tightly constrained. As a general rule, councils should only be permitted to engage in those activities, including regulatory activities, that fall within the proper role of government (as opposed to the private sector) and that should be the responsibility of local rather than central government. These core roles of councils should be enumerated in legislation.
- Councils should be permitted to engage in other activities provided they subject their proposals to binding referenda. The rate of growth in council operating spending should also be capped. Spending proposals that cannot be accommodated within the cap could only be approved by referenda.
- The functions to be undertaken by local government should be given primacy in determining its form. Looking at the number of councils in the region should not be the starting point. The principles of

subsidiarity, exclusive assignment and predominant self-funding should be applied, in addition to those noted by the Royal Commission.

- Region-wide activities should generally be the responsibility of a regional agency (or agencies). Activities that can be undertaken on a less aggregated basis should be assigned to territorial authorities within the region. All local authorities should generally be responsible for their own funding.
- Activities such as transport and the 'three waters' (water, wastewater and stormwater), which mainly entail the provision of private goods or services, should be organised on a more commercial basis. The main roading activities of central and local government throughout New Zealand should be corporatised, either as a single public entity or as a small number of public entities. A single water agency could well extend beyond the Auckland region. The question of whether wholesale supply and distribution (Watercare) should be vertically integrated with local supply and reticulation should be examined. This requires in-depth analysis.
- Smaller councils that are close to their communities have generally focused on their core roles and avoided excessive regulation and a large bureaucracy. The establishment of a single city and amalgamation for its own sake are not supported.
- Community boards, as presently conceived, should generally be abolished, except where they represent a clearly distinct community of interest, for example the Hauraki Gulf islands. The issue of excessive representation would largely be addressed by this step.
- The Business Roundtable believes that the adoption of the proposals contained in this submission would enable the local government sector in the Auckland region to make a much larger contribution to the overall well-being of the residents of the region.

1. Introduction

- 1.1 This submission is made by the New Zealand Business Roundtable, an organisation comprising mainly chief executives of major New Zealand business firms. The purpose of the organisation is to contribute to the development of sound public policies that reflect overall New Zealand interests.
- 1.2 The Business Roundtable takes a close interest in local government, including that in the Auckland region. It has produced several reports on local government and has made submissions on some annual plans of councils in the Auckland region, either alone or with other business organisations. The Business Roundtable is a member of the Local Government Forum. This submission draws on a report by the Forum, *Democracy and Performance: A Manifesto For Local Government*.¹ A copy of *Democracy and Performance* is attached.
- 1.3 Local government has a significant impact on most businesses. Businesses pay about half of all rates levied in New Zealand.² Local government services (such as those relating to transport and the 'three waters') and regulation (for example, affecting resource use, buildings, and health and safety) are very important for many, if not most, businesses.³
- 1.4 More generally, local government constitutes a significant sector of the economy. Aggregate council operating spending, which is growing strongly, is equivalent to over 3 percent of GDP. Councils in the Auckland region account for about one-third of such spending. Local government also undertakes substantial capital spending. Aggregate capital expenditure for the 10 years to 2015/16 is forecast in long-term council community plans to be about \$31 billion, almost double that of the previous 10 years. In 2005/06 ratepayers'

¹ Local Government Forum (2007), *Democracy and Performance: A Manifesto for Local Government*, Local Government Forum.

² The proportion of rates levied by councils in the Auckland region that is paid by businesses is not known but it could be expected to be similar to that for the whole country.

³ The three waters comprise water, wastewater and stormwater.

equity in councils amounted to \$75 billion (or an average of around \$48,500 per household) and was larger than taxpayers' equity in central government (\$71 billion). For many households such investment would rank second by value after their equity in their home. The average taxpayer equity in councils would exceed the net worth of many households. Ratepayers' equity exceeds the current market capitalisation of securities listed on the NZX (around \$61 billion).

- 1.5 There is substantial scope for the local government sector generally, and that in the Auckland region in particular, to contribute to an improvement in overall community well-being. Community well-being is impaired if the economic return on resources used by local government is not at least equal to that which could be earned elsewhere. Deadweight costs arise because council rates (and compulsory charges that have many characteristics of taxes) affect the behaviour of individuals and firms. Such costs must be taken into account in judging whether the return on resources used by councils is adequate. Community well-being is also reduced if regulations administered by local government are inefficient.
- 1.6 It is implausible that the return on resources used at the margin is adequate.⁴ Some regulation is also inefficient (for example, constraints on land for development in the Auckland region). A larger role for the private sector (comprising firms, not-for-profit organisations and households) is required to boost the overall well-being of the community.
- 1.7 The prime minister recently reaffirmed that economic growth to raise New Zealanders' incomes is the government's "top priority" objective. The rate of economic growth improved in response to economic policies implemented after 1984, but it has declined with policy reversals and remains well below its potential. Unless New Zealand's institutional and policy framework is strengthened, there is little hope of raising the rate of growth in New Zealand's per capita income.

⁴ See *Democracy and Performance*, pp 7-10, for an elaboration.

- 1.8 The Royal Commission's broad-ranging review of the governance of local government in the Auckland region provides an opportunity to make a meaningful contribution to a better institutional and policy framework.
- 1.9 Present governance arrangements in the Auckland region suffer from the following main deficiencies:
- Legislative limits on the role of government are inadequate, thereby encouraging councils to expand beyond their proper role. A more tightly constrained sector would help to address the problems that have given rise to the Commission. This issue is examined in section 2.
 - Decision-making processes in relation to activities that extend beyond one district within the Auckland region, particularly relating to transport planning, roads and public transport services, are inefficient. These activities may involve central government agencies, territorial authorities, the Auckland Regional Council (ARC) and its subsidiaries (which have separate legislative mandates), various coordinating bodies and private service providers. The establishment of agencies to provide infrastructure across the region on a more commercial basis is central to solving this problem and would be a step toward refocusing councils on their proper role. This issue is examined in section 3.
 - The funding of certain amenities or agencies that are said to benefit the entire region is a contentious issue under current arrangements. There are straightforward options to solve this problem. They are discussed in section 4.
 - The perceived inability of the Auckland region to speak with one voice has apparently frustrated central government. This and other governance issues, including the form of local government in the region, are discussed in section 5.
 - Our conclusions are presented in section 6.

2. The role of government

2.1 The overriding term of reference for the Commission is as follows:

[The] Commission [is] to receive representations on, inquire into, investigate, and report on the local government arrangements (including institutions, mechanisms, and processes) that are required in the Auckland region over the foreseeable future in order to maximise, in a cost effective manner, —

(a) the current and future well-being of the region and its communities;
and

(b) the region's contribution to wider national objectives and outcomes

...

2.2 An inquiry into the proper role of local government is central to the Commission's mandate. Furthermore, the form of local government should relate to the activities (including regulatory activities) that local government is to undertake in the foreseeable future. Thus the clear starting point for a review of the governance of local government in the Auckland region is a principled analysis of the proper role of local government.

2.3 Central and local government has an important role in the economy but it is a limited one. The upholding of Individual liberty and the promotion of prosperity requires that government be constrained on a principled basis. There are two primary functions of government. The first is to maintain order and the second is to facilitate the provision of public goods and services.

2.4 The first function refers to the general framework in which all interactions within society take place. The establishment and maintenance of the legal system is a key element. It provides people with protection for their lives, liberties and property, and thereby promotes social cooperation and prosperity. These activities are largely the responsibility of central government in New Zealand. Local government, however, has some responsibilities in respect of civil defence (emergency management) and law and order (for example, certain public nuisances), and administers many regulations related to the maintenance of order. Council regulatory activities, such as district plans, affect property rights.

- 2.5 The second function of government recognises that the government may be able to enhance the overall well-being of citizens by facilitating the provision of goods and services that cannot be supplied efficiently through voluntary transactions by individuals, firms and not-for-profit organisations. Such activities involve the provision, funding, or both, of public goods and services. In broad terms, public goods cannot be produced by the private sector with known technology, except under contract. It is usually not possible to charge for them. National defence and streetlighting are commonly cited examples of public goods.⁵
- 2.6 A 1988 officials' discussion paper proposed that the key role of local government should be to provide local public goods that could not be more efficiently provided by the private sector.⁶ The local government sector opposed the proposal. It argued that councils should be free to respond to the democratically expressed wishes of their diverse communities. This approach is reflected in the Local Government Act 2002.
- 2.7 The officials' approach is more consistent with New Zealand's constitutional arrangements. Democratic constraints on local government are too weak to prevent councils from impinging unjustifiably on the autonomy of individuals and business firms. Councils undertake many activities that should properly be left to the private sector. They are encouraged to do so by citizens who lobby for services that they value, knowing that the cost will be spread thinly over other taxpayers or ratepayers who are poorly represented in the political system (such as businesses). Elected representatives and council officers who stand to benefit from a larger budget may also encourage councils to encroach on the domain of the private sector.
- 2.8 Councils are generally poorly placed to judge the diverse preferences of ratepayers and residents for the following reasons:

⁵ The role of the government is discussed more fully and technically in section 3 of *Democracy and Performance*.

⁶ Officials Co-ordinating Committee on Local Government (1988), *Reform of Local and Regional Government: Discussion Document*, Government Printer, Wellington.

- Few ratepayers and residents participate in consultative exercises. Auckland City Council, for example, received only 90 submissions from residents and ratepayers (about 2 for every 10,000 residents) in response to an insert in *City Scene* and questions posted on its website on the Commission.⁷ Consultative exercises are sometimes perceived to be a sham or a waste of time, perhaps because citizens do not believe that their views are likely to influence council decisions. Long-term council community plans prepared under the Local Government Act 2002 are among the most complex plans ever prepared by councils. Most incorporated unsustainable rate increases for the next 10 years that councils are now seeking to reduce.
- Less than half of all voters participate in elections, whereas over 80 percent of voters participate in parliamentary elections. Voters often know little about candidates or their policies. A poll in September 2004 – less than two months before a local body election – found that almost 90 percent of Aucklanders surveyed could not name one member of the then controversial ARC.⁸
- Councils are subject to much less scrutiny by the media and independent agencies than central government.
- The real preferences of citizens are unlikely to be disclosed by consultation exercises and opinion surveys. It is only when a citizen freely gives up one good (often money) for another that real preferences are revealed.

These problems are generally more acute in large regions and districts, such as the Auckland region and cities, where elected representatives are often remote from ratepayers and residents, as the poll referred to above illustrates.

⁷ The insert and questions on the web were general. The absence of proposals may have discouraged participation by residents.

⁸ *New Zealand Herald*, 6 September 2004.

- 2.9 The Business Roundtable believes that the mandate of local authorities should be more tightly constrained. As a general rule, councils should only be permitted to engage in those activities, including regulatory activities, that fall within the proper role of government and that should be the responsibility of local rather than central government. This is referred to as the core role of councils.
- 2.10 The core role of councils should be spelled out in legislation just as the powers of the legislative branch of the United States federal government are specified in the Constitution of the United States. This approach is also broadly consistent with our constitutional arrangements in which a local authority can only exercise the powers explicitly conferred on it (or are incidental to such powers). Individuals cede to government some of their rights. It is not for government at any level to decide its scope with the balance left for the private sector.
- 2.11 In some cases, councils may wish to respond to the expressed wishes of ratepayers to engage in activities that are not enumerated. Councils should be permitted to engage in such activities provided they subject their proposals to binding referenda. A majority greater than 50 percent of votes cast should be required so that minority groups are not oppressed. In comparable circumstances (for instance, where a company proposes to undertake a 'major transaction') 75 percent support is required.
- 2.12 The rate of growth in council operating spending should also be capped by legislation. Automatic annual adjustments to the cap could be made for any increase in population and economy-wide inflation. The Hutt City Council has voluntarily adopted a rule along these lines. Spending proposals that cannot be accommodated within the cap could only be approved by referenda.
- 2.13 The Business Roundtable recommends that the Commission adopt the approach outlined in paragraphs 2.9 to 2.12. It is consistent with the present statutory purpose and role of local government (Local Government Act 2002, sections 10 and 11) and the status and

powers of local government (section 12), with the exception of the power of general competence which is not supported. The approach also gives effect to the long-established (but often ignored) principle that a tax should only be imposed with the consent of taxpayers.

- 2.14 Compared with present arrangements, the proposed approach would only limit councils in those circumstances where a large majority of ratepayers and residents do not approve certain activities. This approach would therefore give greater weight to democratic principles and be more likely to promote the overall social, economic and environmental well-being of communities than present arrangements.

3. Infrastructure

- 3.1 Principles such as efficiency, fairness, accountability and transparency should apply to all levels of government and to all government activities. The following principles should also apply in allocating the functions of government among agencies:

- The principle of subsidiarity requires that each activity should be the responsibility of the lowest competent authority that is capable of undertaking the activity. This principle is relevant to the division of responsibilities between central and local government, and to the form of local government within the Auckland region. The principle gives primacy to the function to be undertaken.

Activities that need to be undertaken on a region-wide basis (such as regional parks) should, according to this principle, be the responsibility of a regional agency. Proposals that involve a single council for the whole of the Auckland region (even if it entails sub-units for particular districts) are inconsistent with this principle. Some government activities, such as the provision of neighbourhood parks, can clearly be assigned to a government agency that is smaller than a single council for the region.

- The principle of exclusive assignment of government tasks requires that responsibility for each activity be assigned to a single government agency. The application of this principle avoids duplication and minimises disputes, such as 'turf wars', among agencies.

Structures have developed in the Auckland region that breach this principle and lead to confusion and disputes among government agencies, and weaken their accountability. A council in the region has on occasions appealed or threatened to appeal another council's ruling on environmental matters. Auckland City Council and the ARC have had overlapping interests in the redevelopment of Wynyard Point, partly because of the ARC's interest in Ports of Auckland Limited (POAL). Councils have assumed responsibility for certain rail facilities (for example, rail stations) that were previously the responsibility of rail operators. Certain regional committees (such as the Mayoral Forum) and strategies (for example the regional growth strategy) risk blurring responsibility and accountability for local government activities. The ARC's submission to the Commission elaborates on overlapping activities and responsibilities.

The Business Roundtable agrees with the statement in the Commission's *Call for Submissions* (at paragraph 33) that in some instances there may be no clearly desirable line of demarcation. It disagrees, however, with the Commission's initial view that, in such cases, the debate is about the sharing of responsibilities rather than allocating them to one agency. This is a recipe for trouble. The better approach is to clearly assign responsibilities even though some allocations at the margin may be somewhat arbitrary.

- The principle of predominant reliance on own funding requires agencies that are responsible for spending decisions to be generally responsible for funding such spending from revenue

that they raise. The application of this principle requires elected representatives to weigh the merits of spending proposals against the cost of related funding. It is vital to help restrain rent-seeking by interest groups, including elected representatives and those intending to stand for elected office. The principle of predominant reliance on own funding is also essential for the autonomy of any government agency. A comparison of the relative autonomy of councils and district health boards illustrates this point.⁹

- 3.2 According to these principles, region-wide activities should generally be organised on a regional basis. Activities that can be undertaken on a less aggregated basis should be assigned to territorial authorities within the region.
- 3.3 Some activities, such as transport and the three waters, which mainly involve the provision of private goods or services, would be better organised on a more commercial basis. This is consistent with the Commission's mandate to examine the following:

... 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 —

- (i) the current and future well-being of the Auckland region and its communities; and
- (ii) 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; and
- (iii) the ability of the Auckland region to compete internationally as a desirable place to live, work, invest, and do business; and
- (iv) the ability of the Auckland region to respond to economic, environmental, cultural, and social challenges (for example, climate change) ...

Transport and the three waters are examined below.

⁹ The principles discussed are due to Wolfgang Kasper, see Kasper, Wolfgang (2005), 'Local Autonomy - Healthy Local Democracy', submission to The Independent Inquiry into the Financial Sustainability of Local Government in NSW, volume two of the final report, <http://www.lgsa-plus.net.au> (last accessed 7 April 2008).

Transport

- 3.4 An efficient transport system is vital for people's quality of life and prosperity. The quality of roads, including access and safety, is an ongoing issue in all regions of New Zealand. The levels of congestion in Auckland (and some other urban areas) are rarely found in urban areas of other developed countries of comparable size and geography.
- 3.5 As proposed in the 1998 report, *Better Transport, Better Roads*, improved governance arrangements and more efficient road pricing are necessary to focus roading authorities on providing value for money for road users.¹⁰ Technological advances have made direct pricing options feasible in many locations and further advances can be anticipated in the foreseeable future. Councils seem reluctant to voluntarily introduce more efficient road pricing although, along with Transit New Zealand, some support toll roads where alternative roads are available.
- 3.6 The main roading activities of central and local government should be corporatised, either as a single public entity or as a small number of public entities. Central government or local government, or a combination of both, would own these entities at least initially. The roading entities should be required to move toward direct pricing in a competitively neutral environment. Rates would not generally be used to part-fund local roading projects. Taxpayers or ratepayers should, however, fund services that are not appropriate to charge to motorists, for example footpaths, and any valid net external costs.¹¹
- 3.7 Corporatisation has produced large benefits in other areas. It would produce useful information on the willingness of road users to pay for the use of roads of a particular quality and lead to more appropriate investment and use decisions. Commercial arrangements for the

¹⁰ Ministry of Transport (1998), *Better Transport, Better Roads*, Ministry of Transport, Wellington.

¹¹ An external cost arises when a transaction imposes costs on an unrelated party who is not compensated. Similarly, an external benefit arises when an unrelated party gains from a transaction. Smoke arising from a fire may impose an external cost on nearby homeowners. The pleasure that a passer-by derives from a resident's garden constitutes an external benefit.

management of existing and new roads are becoming increasingly common overseas.

- 3.8 The provision of train, bus, ferry and taxi services is a private good activity. Those services should generally be privately provided. The grounds for the subsidisation of mass passenger transport services are weak, especially where appropriate road pricing applies. Such pricing is likely to apply during the life of new long-lived investment projects and in the timeframe set for the Commission. Subsidies for public transport should be scaled back and new investment projects should be subject to rigorous value-for-money evaluation.
- 3.9 A separate regional entity, like the ARC, would be required to fund public transport services if they are to be subsidised. In that event, the entity should fund all forms of passenger transport that are to be subsidised and it should be predominantly responsible for raising its own funding. The agency funding such services should not be permitted to be a provider of mass passenger transport services. Unsubsidised services should not be discouraged (other than by subsidisation of certain services) or prohibited as has sometimes been suggested.
- 3.10 Business groups have been frustrated by deficient governance arrangements for transport. This is the main reason why some have advocated the establishment of a single city and one plan for the Auckland region. The Business Roundtable shares their concerns and objectives but believes that a more commercial approach, as outlined above, is feasible over the next few years and is therefore a better way forward.

Water

- 3.11 As argued in *Democracy and Performance*, the three waters should be supplied on a more commercial basis. The problems identified by the parliamentary commissioner for the environment in 2000 and 2001 can be traced in large part to the multiple and conflicting roles of

the public agencies involved with water, blurred accountabilities, the absence of customer choice and a lack of commercial focus.¹²

- 3.12 Other network industries, such as electricity and telecommunications, have been reformed. Attempts to reform the water industry have been allowed to lapse. As with roading, water activities should be corporatised and operated on a fully commercial basis, while retaining local government ownership, at least initially. A single water agency's mandate could extend beyond the Auckland region. The question of whether wholesale supply and distribution (Watercare) should be vertically integrated with local supply and reticulation should be examined.
- 3.13 Use-related charges for water are the norm in the Auckland region but these are determined administratively and do not necessarily reflect the economic value of water and the value of assets invested.¹³ Proper pricing of water would confer environmental advantages by discouraging its waste.¹⁴
- 3.14 Various forms of private participation in water supply and wastewater disposal, including franchising and contracting for services, have also generally produced major benefits for consumers and the wider community in New Zealand and other countries, including Australia and England. Moreover, water supply in rural and isolated areas, including in the Auckland region, is a private responsibility.

¹² Parliamentary Commissioner for the Environment (2000), *Ageing Pipes and Murky Waters: Urban Water System Issues for the 21st Century*, Parliamentary Commissioner for the Environment, Wellington and Parliamentary Commissioner for the Environment (2001), *Beyond Ageing Pipes and Murky Waters: Urban Water System Issues for the 21st Century*, Parliamentary Commissioner for the Environment, Wellington.

¹³ The Parliamentary Commissioner for the Environment recently noted that pricing may be part of the answer for allocating water where it is scarce. See Wright, Jan (2007), 'Dairy Farming Impact on Water Quantity and Quality: Briefing to Parliament's Primary Production Committee', <http://www.pce.govt.nz> (last accessed 8 April 2008).

¹⁴ An Australian Productivity Commission discussion paper on urban water reform states, "There is now widespread support for the view that the centralised urban water model is neither economically efficient, nor effective in achieving an appropriate balance in supply and demand over time." The paper concludes that the "potential gains from a well-functioning urban water market are sufficient to warrant a comprehensive public review of urban water to determine the extent to which a more market-oriented focus could be pursued". See Productivity Commission (2008), *Towards Urban Water Reform: A Discussion Paper*, Productivity Commission Research Paper, Melbourne, pp xxix and xiv.

- 3.15 The tax bias against the corporatisation of council activities should be addressed. Non-standard arrangements (such as so-called charitable payments in lieu of dividends) that appear to have arisen as a consequence should be unwound.

Other regional activities

- 3.16 There are some other functions that might arguably be the responsibility of a regional agency such as region-wide environmental regulation, regional parks and aspects of safety (for example, emergency management and harbourmaster functions). On the other hand, a case might be made for most, if not all, such activities to be the responsibility of territorial local authorities because they do not necessarily need to be supplied on a regional basis. We think the principle of subsidiarity should apply wherever possible.
- 3.17 The Business Roundtable shares the concern of the Rodney District Council that the ARC has unduly restricted growth in the region. Constraints on the development of new land for residential and commercial purposes within the Auckland region, which were applied for doubtful environmental reasons, have contributed to a rapid rise of land prices that have made housing in the Auckland region unaffordable for many. They are economically and socially harmful.
- 3.18 The Business Roundtable believes that if the ARC (or a successor organisation) is to have a role in the environmental area it should be tightly circumscribed and focused on genuine externality issues that extend across the whole of the region. Changes to key legislation such as the Resource Management Act are required because changes to governance arrangements alone will not solve the problem.
- 3.19 The subsidisation of most tourism or economic development activities is not a core role of government at any level. A subsidy to one activity requires a tax to be placed on another activity. Individuals ultimately pay all taxes.

3.20 The present structure of the ARC group is problematic. The statutory mandates of the separate subsidiaries create undesirable tensions within the group.

- The ARC's investment in Ports of Auckland Limited should be sold. Ports are a private good activity. Public ownership of POAL is an obstacle to the rationalisation of ports within the country in response to global shipping developments.
- The investment funds held by Auckland Regional Holdings should be applied to fund worthwhile infrastructure over the near term rather than allocated over the long term. (This is broadly equivalent to returning surplus funds to ratepayers, which is not permitted under current legislation.) Investment portfolios are generally undesirable as they break the nexus between current spending and current taxing, and lead to wasteful spending that would not be supported by elected representatives and ratepayers if rates were required to be raised.
- The Auckland Regional Transport Authority should be fully integrated within the ARC if it is to be responsible for funding mass passenger transport, or it should become a stand-alone funder of mass passenger transport in the region.

4. Funding of regional amenities

4.1 Auckland City and some of the other councils commonly claim that certain of their facilities benefit the region as a whole and should be funded on a regional basis. There are several straightforward solutions in respect of most of the relevant activities. The Auckland City Art Gallery and Auckland Zoo could become the responsibility of the ARC (or another regional body). An alternative option would be for Auckland City simply to charge non-residents (or all residents) admittance fees to recover costs.

- 4.2 Some 11 organisations or activities would be funded on a regional basis if a private bill currently before parliament were passed. Examples include the Auckland Philharmonia Orchestra, Auckland Rescue Helicopter, Auckland Theatre Company and the Coastguard Northern Region. The Museum of Transport and Technology and Auckland War Memorial Museum are presently funded on a similar basis to that proposed for the 11 organisations.
- 4.3 Responsibility for genuine regional amenities and for related funding should rest with the ARC (or another regional body) in keeping with the principles noted above. If territorial authorities choose to establish so-called regional amenities in the future or agree to fund them, they should not subsequently be permitted to impose the cost on regional ratepayers.

5. Other issues

One Voice

- 5.1 The suggestion that a single local authority would speak with one voice for the Auckland region is predicated on the assumption that the interests of all sections of the region are the same. This is not true. The region is diverse. It ranges, for example, from typical rural settings to the Auckland City central business district, and includes the relatively isolated Islands of the Hauraki Gulf.
- 5.2 The population of some areas is growing strongly (for example, new residential areas in Manukau City) but other areas are growing slowly. Statistics New Zealand's medium population projections from 2006 to 2031 for the region as a whole show slow growth, averaging just 1.4 percent a year, in contrast to frequent claims to the contrary and the impression conveyed by focusing on the projected population count at some distant time. Recent revisions to population projections have generally been in a downward direction.
- 5.3 Traffic congestion and cycle lanes are perceived to be important issues in some parts of the region whereas the sealing of metal rural

roads and the introduction of reticulated water and wastewater services are key issues elsewhere. Some parts of the region are serviced by a heavily subsidised commuter train service but large parts of it, such as North Shore City, are not.

- 5.4 Smaller councils that are close to their communities have generally focused on their core roles and avoided excessive regulation and a large bureaucracy. It is the larger councils that have expanded well beyond their proper role and are relatively unresponsive to their communities. The accountability of larger councils is often weak. These factors, together with the benefit of competition among councils for residents and businesses, argue against amalgamation for its own sake.
- 5.5 While it is easy to point to apparent inefficiencies, such as the number of agencies or chief executive officers, such superficial indicators may well be misleading. There are multiple producers in the competitive sector each with a chief executive officer, an accounts receivable function and one or more business establishments, but no one would seriously argue that efficiency would be improved by creating a single large enterprise for a region or district.¹⁵ Much deeper analysis is required to judge the form of government and number of councils that might be appropriate.
- 5.6 Economies of scale or scope are often claimed in the provision of government services but, in the absence of a competitive market where ideas are tested, it is difficult to know whether they exist. Moreover, administrative decisions on the boundaries of regions and districts largely determine the scale and scope of government services rather than economic factors.
- 5.7 It may be more convenient for central government to interact with one entity, but that does not necessarily mean that the interests of the citizens of Auckland are best served by compromises made behind

¹⁵ Similarly, products and services supplied to final consumers often include inputs provided by many firms. Apple's iPod, for instance, comprises about 450 generic parts that are produced by dozens of firms in several countries. See Varian, Hal R (2007), 'An iPod Has Global Value: Ask the (Many) Countries That Make It', *New York Times*, 28 June.

closed doors. Taken to its limit, the argument would justify a single council for all of New Zealand.

The form of local government

- 5.8 The activities to be undertaken by councils should be allocated on the basis of the principles and discussion above. At that point the issue of whether separate regional and territorial authorities are required and whether the boundaries of territorial authorities should be changed would arise. The Business Roundtable believes that the largest gains would come from adopting a more commercial approach to transport (including roading) and to the three waters, as proposed above. We do not think that further gains from significant changes to the boundaries of districts are likely to be large, especially when transitional costs are taken into account.
- 5.9 The Business Roundtable shares the concern expressed by Auckland City Council officers at the excessive number of elected representatives in the region. This essentially arises because community boards were established as a sop when the former municipalities were amalgamated. Community boards generally have limited authority and responsibilities, and they tend to act as a ward or local area interest group. We think community boards should generally be abolished, except where they represent a clearly distinct community of interest, for example in respect of the Hauraki Gulf islands. The issue of excessive representation would be addressed by this step.

Vector Limited

- 5.10 Vector Limited mainly distributes electricity in Auckland and Wellington, and processes and distributes gas. It is listed on the NZX. Some 75 percent of its ordinary shares are held by the Auckland Energy Consumer Trust, which was formed in 1993 when the electricity industry was restructured.

- 5.11 The Trust's income beneficiaries comprise electricity consumers of the former Auckland Electric Power Board. On the 'termination date' (after 80 years unless it is advanced by the trustees), the Trust's corpus is to be applied or paid to those territorial local authorities whose districts were supplied by the former Board. In the meantime, the trustees are required to give preference to the interests of the income beneficiaries.
- 5.12 Auckland City Council and Papakura District Council are reported to be planning to ask the Commission to recommend that the Trust be wound up so that they can take the capital now. Electricity and gas distribution are private good activities that should be left to the private sector. Any concerns on competition grounds should be addressed by regulation, as is the case now, rather than by public ownership. There are no public policy grounds for councils to own businesses to subsidise their core activities.
- 5.13 If any changes are to be made to the Trust at this time, they should generally be the direction of conferring individual tradeable ownership rights on members of the Trust. In recognition of the interest of the councils in the capital of the Trust, some cash settlement in their favour could well be appropriate. However, the Business Roundtable would oppose any proposal that would bring Vector under the control of the councils in the near future.

6. Conclusion

- 6.1 The Business Roundtable's main conclusions are listed below:
- Councils should generally only be permitted to engage in those activities, including regulatory activities, that fall within the proper role of government and that should be the responsibility of local rather than central government. These activities should be enumerated in the relevant legislation.
 - Councils should also be permitted to engage in other activities that are supported by binding referenda.

- The rate of growth in council operating spending should be capped but could be increased by referenda.
- The functions to be undertaken by local government should be given primacy in determining its form. The principles of subsidiarity, exclusive assignment and predominant self-funding should be applied, in addition to those noted by the Commission.
- Region-wide activities should generally be the responsibility of a regional agency or agencies. Activities that can be undertaken on a less aggregated basis should be assigned to territorial authorities. Responsibility for all local government activities should be unambiguously assigned to an appropriate agency. All local authorities should generally be responsible for raising their own funding.
- Activities such as transport and the three waters, which mainly entail the provision of private goods or services, should be organised on a more commercial basis. The main roading activities of central and local government should be corporatised, either as a single public entity or as a small number of public entities.
- A single water agency could extend beyond the Auckland region. The question of whether wholesale supply and distribution (Watercare) should be vertically integrated with local supply and reticulation should be fully analysed.
- The suggestion that a single local authority would speak with one voice for the Auckland region is predicated on the assumption that the interests of all parts of the region are the same, which is not true.
- Smaller councils that are close to their communities have generally focused on their core roles and avoided excessive

regulation and a large bureaucracy. The establishment of a single city or amalgamation for its own sake is not supported.

- Community boards, as presently conceived, should generally be abolished, except where they represent a clearly distinct community of interest, for example the Hauraki Gulf islands. The issue of excessive representation would be addressed by this step.

6.2 The adoption of the above conclusions by the Commission would enable the local government sector in the Auckland region to make a much larger contribution to the overall well-being of the residents of the region.