



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

**Submission of the
New Zealand Council of Trade Unions
Te Kauae Kaimahi**

on the

Local Government Act 2002 Amendment Bill

to the

Local Government and Environment Committee

PO Box 6645

Wellington

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Contents

Summary.....	3
1. Introduction.....	4
2. CTU Interest and Membership	4
3. NZCTU Policy.....	5
4. Refocusing the Purpose of the Local Government Act	6
5. Fiscal Responsibility	10
6. Intervention and Assistance Framework	15
7. Employment and Remuneration Policies.....	17
8. Reorganisations and Amalgamations	20
9. Increased Powers to Mayors	22
10. Conclusions.....	22

Summary

- This Bill reduces the participation of electors in democratic decision-making processes in their own cities, towns and communities.
- The Bill is marked by an almost complete absence of stakeholder engagement, consultation or opportunity for public input prior to its first reading.
- Provisions in this Bill have been based on highly selective data and also inaccurate data, some of which now has been withdrawn.
- The insertion of a new cost effectiveness requirement in the purpose of the Local Government Act will give precedence to cost over other factors.
- The four well beings in the purpose of the Local Government Act 2002 are important symbolically in describing the wider and longer term accountabilities that councils have to their own communities.
- The proposed limitations on council spending are an affront to democratic processes including elections and full community consultation.
- There has been no excessive wage growth in the local government sector in the last ten years as has been claimed. The data used to support this claim was misleading.
- A cap on local government spending would lead to the erosion of working conditions and would encourage contracting out leading to increased costs.
- The setting of remuneration policies by councils are unnecessary, blur the boundary between good governance and management and are a form of direct government intervention in wage setting.
- The intervention and assistance framework could be used to justify unwarranted government intervention in the running and takeover of a local authority.
- There is no rationale for reporting on the number of staff paid salaries as low as \$60,000. This is inconsistent with the Crown Entities Act 2003 with its requirement to publish salaries over \$100,000.
- The re-organisation proposals in the Bill removes fundamental democratic steps including a right to vote to ensure that electors have a genuine and considered say in reorganisations of their own councils.

1. Introduction

1.1. This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 350,000 members, the CTU is the largest democratic organisation in New Zealand.

1.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

1.3. The purpose of local government as set out in the Local Government Act (2002) is to:

- enable democratic local decision-making and action by, and on behalf of, communities; and
- promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.

1.4. The changes for local government resulting from this Bill, including to the all-important purpose statement, would profoundly alter the functions and roles of local government. The changes would alter the relative power balance between central and local government in the favour of central government and reduce the participation of electors in decision making about their own communities. It could severely strip back council services and functions that are currently provided.

1.5. The CTU is opposed to this Bill for multiple reasons that this submission outlines.

2. CTU Interest and Membership

2.1. Approximately 23,000 full time equivalent workers are employed in local government services. Local government workers span many occupations: librarians; administrators; engineers; policy analysts; call centre staff; gardeners; dog control officers; waste removal, processing and recycling workers; builders; and health, environmental and social service workers.

2.2. The CTU has significant union membership in the local government sector. The Public Service Association (PSA) represents over 6,000 members working in local government. Other unions with sizeable union membership in local government are the Southern Local Government Officers Union (SLGOU) and the Amalgamated Workers Union. The Engineering, Printing and Manufacturing Union, FIRST Union and the New Zealand Educational Institute also have union membership in local government.

2.3. Local government has a direct impact on people's daily lives and in the communities where workers and their families live, work and socialise. The structure of local government and the delivery of local government services affect all of our 350,000 members. This Bill is of major importance to all workers and union members.

3. NZCTU Policy

3.1. The CTU is a values-based organisation and legislative and policy changes are judged by CTU principles of fairness, participation, security, improving living standards, sustainability and sovereignty¹. The Bill does not enhance these principles and its provisions in many places would directly undermine and diminish them.

3.2. The imposition of more control by central government over local government and changing the balance of power through the threat of increased central government intervention risks disconnecting electors from local government.

3.3. The establishment of parameters and financial benchmarks will not only restrict local government spending but remove electors from making choices about spending and priorities in their own local cities, towns and communities.

3.4. The legislative process for this Bill has been rushed. Knowledge among electors about the proposed legislative changes and their impacts is low. This undermines

¹ New Zealand Council of Trade Unions, *Alternative Economic Strategy: Tetahi Atu Ohanga Rautaki: an economy that works for everyone*, 2010.

the principle of sovereignty that people should maintain the power to determine the rules and priorities required for their welfare and development.

- 3.5. Policy changes must be supported by research and based on credible analysis of the data. It is of serious concerns that the Better Local Government (BLG) paper, which is the basis for this Bill, contained not only highly selective examples but also incorrect and misleading data. Some of that evidence was later withdrawn due to it containing serious inaccuracies. We note that the Regulatory Impact Statement (RIS) states:

There is very limited evidence to inform the development of these proposals and the timeframes within which the proposals have been developed have restricted the ability to assess multiple options. As a result the problem analysis and option assessments of specific proposals rely on assumptions that are not or are only partially tested.

- 3.6. There was no consultation in the process that led to the BLG paper on which this Bill is based. The process has had almost no stakeholder involvement beyond what appears to be a very limited amount of engagement with Local Government New Zealand.

4. Refocusing the Purpose of the Local Government Act

- 4.1. The changes to section 3 and section 10 of the Act to “*refocus the purpose of local Government*” are similar to the changes in the 2010 Local Government Amendment Bill. This 2012 Bill proposes to narrow down the purpose and functions of local government even further and remove local government accountability for community, social, cultural and environmental issues.

- 4.2. Given that this Bill has provisions similar to the legislative changes in 2010, and that the wording in that legislation was less restrictive wording in its wording than the current Bill (*that councils have particular regard to core services*), it would be expected that further legislative changes to local government would be based on an assessment of how those changes have worked in practice e.g with the new

Auckland Council. But no analysis of how has been undertaken or provided as yet. The RIS also recognises this, saying *“it is too soon to see the effects of this change².”*

- 4.3. A narrowing down of council functions is unnecessary and unjustified. Isolated examples of failures have been used to justify the need for these changes such as the Hamilton V8 race; targets for NCEA pass rates in the Auckland City LTCCP; and significant rates increases in the Kaipara District Council.
- 4.4. Given that the Government is now supporting the decision of the Auckland Council to sponsor the V8 car races this can no longer be used as a justification. In respect of NCEA pass rates, the Auckland Council has never delivered or intended to deliver education. In respect of the rates increase in the Kaipara District Council, this is a one-off example and an investigation is now underway.
- 4.5. Regrettably, the BLG paper failed to identify many of the successful promotional events that local councils, often in collaboration with central government, have hosted and sponsored such as the Wearable Arts Awards, the 2002 and 2003 America Cup races and the New Zealand international film festivals.
- 4.6. The evidence to support the view that councils are undertaking functions that are not their responsibility is not to be found. In fact the evidence runs in the other direction: that local councils have not been overstepping their role or extending their activities.
- 4.7. The review in 2007 by the Local Government Commission found that the Local Government Act (LGA) 2002 had not led to a proliferation of new activities being undertaken by councils.³ The Local Government Rates Inquiry found that local government works well in meeting the diverse needs of New Zealanders⁴.
- 4.8. The current wording in the Act *“to enable democratic local decision-making and action by, and on behalf of, communities: and ...to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the*

² Regulatory Impact Statement, Better Local Government, March 2012 Para 36.

³ Review of the Local Government Act 2002 and Local Electoral Act 2001 Summary Report.

⁴ Local Government Rates Inquiry (2007): Funding Local Government.

future” is an inclusive statement with the laudable aspiration to enhance and improve living standards for people now and also for future generations. There are legitimate, obvious and important reasons for local government to have a strong role in social, environmental, economic, and cultural projects and activities.

- 4.9. The removal of these four well-beings in the purpose of the LGA would be lamentable and a step backwards for the future of local government. It will not secure the “brighter future for New Zealand”⁵ that the Hon Dr Nick Smith, stated in his introduction to the BLG paper was the intention of the local government changes.
- 4.10. The shift to a narrow focus for local government is in the opposite direction from where some other governments are heading. The United Kingdom coalition government is reversing the previous centralised approach in favour of greater decision-making by councils and communities⁶. New South Wales is also exploring ways of strengthening the role of local government and creating stronger and better local councils⁷.
- 4.11. One of the objectives of the Bill is clearly a reduction in the range of services that councils currently engage in. This leaves the question as to who will provide those services and whether some of the services that are provided now will still be able to be provided, given the wording that councils are to provide “*local public services*”. For example both in Christchurch and Wellington, the city councils are major providers of social housing. A number of very recent reports into housing affordability have identified the need to increase the stock of social housing available. A withdrawal of the provision of social housing by Wellington and Christchurch City Councils would be a diabolical result given the current housing crisis.
- 4.12. The proposals for central government to impose fiscal restraint are in contradiction to other interpretations concerning local government accountabilities that stipulate

⁵ Better Local Government,- March 2012

⁶ Reid, M (2011) *Does the reform of English Local government contain lesson for New Zealand* Policy Quarterly , 7 (4)

⁷ Cheyne, C, 2012, *Better Local Government Reform Proposals: Improving or Diminishing Local Government*, Policy Quarterly, Vol 8, May 2101 p 40

that local government's primary accountability is to its community. The Department of Internal Affairs confirmed this in its briefing to the Incoming Minister in 2011 saying that:

“Local authorities operate autonomously of central government and are empowered to choose which activities to undertake and how to pay for them. They make these decisions in consultation with the local communities that provide much of their funding. They are accountable to these communities, not Ministers – including the Minister of Local Government”.⁸

- 4.13. The changes proposed in the purpose of local government (Clause 7, proposed s.10 (b)) *“to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses”* reflects a change of major significance and a return to the “efficiency at all costs” approach of the 1990s. Is the intention, therefore, that least cost is the only criterion on which the delivery of services will be based and there is no consideration of quality and all the other factors when assessing contracts and the delivery of services?
- 4.14. How *“most cost-effective”* will be interpreted remains to be seen, but it will be difficult for councils to defend themselves against claims from business (who may or may not be electors, and may or may not have vested interests) that “cost-effective” means “lowest cost”, giving much more weight to cost than to quality, community values, or the sustainable provision of services. It encourages councils to consider privatisation of each of their services on the basis that the private sector can provide them more cheaply, regardless of the effect on the quality, coherence and sustainability of the overall service provided by councils.
- 4.15. Establishing valid cost comparisons are not simple matters. The comparison will be between council “cost” as determined by application of the various accounting rules imposed on them; and the price quoted by other entities that want to perform those services. Accounting rules, if the same or similar to those applied by Treasury,

⁸ Department of Internal Affairs , Briefing to the Incoming Minister of Local Government 2011, page 3

will for example require the use of commercial interest (discount) rates rather than the lower ones available to local or central government, and arbitrary imposition of loadings for “deadweight losses”, supposedly due to funding through rates or taxes, but in practice almost impossible to establish with any rigour. Council costs are often well publicised and provide information for competing and interested parties to undercut in a tender, even if in the long run they know their costs will be similar to or higher than the council’s. Once a service has been removed from a council, the service’s structure is dismantled. It becomes very difficult to reconstruct those services to provide them in the future, or to maintain sufficient expertise to monitor and enforce the quality of privately provided services.

- 4.16. A “*most cost-effective*” requirement also has serious implications for employment relations. We are extremely concerned that it will lead to the erosion of working conditions, wages and careers of workers and professionals employed in local government. A simple way for private competitors to compete is to pay lower wages and provide inferior working conditions, as happens in private prison contracting and elsewhere.
- 4.17. The “*most cost-effective*” test may encourage a local authority to proceed in the same direction that caused mayhem for Auckland earlier this year in the Ports of Auckland dispute. The Ports of Auckland Board proceeded with a plan to drive down labour costs and to bring in a new contract that would had no guaranteed staffing levels or stable employment for the 300-strong workforce.

Recommendation: That the purpose of the Local Government Act 2002 be unchanged with the provisions retained for councils to *promote the social, economic, environment and cultural wellbeing of communities.*

5. Fiscal Responsibility

- 5.1. Powers are given under section 259 (amended by Clause 22), to prescribe “parameters or benchmarks for assessing whether a local authority is prudently managing its revenues, expenses, assets, liabilities, investments, and general financial dealings”. These are not simple guidelines, but can be enforced by the

power of central government to treat breaches of these “parameters or benchmarks” as a “problem” (see the proposed definition of “problem” in the new s.254, Clause 21) that could be used to justify harsh government intervention in, and indeed takeover of the running of, a local authority. The proposed criteria under section 259 are far too wide-ranging and the forms suggested are ill-conceived.

- 5.2. According to the BLG, the intention is to use these powers to impose a similar cap on local government spending to that proposed in the ACT/National confidence and supply agreement. However, the bill goes further than that, also allowing constraints on revenue, expenses, assets, liabilities, investments and other financial dealings (in the words of proposed s.259(1)(dc)). These are supposedly “for assessing whether a local authority is prudently managing” its finances, but in conjunction with s.254 go considerably further than that, giving a reason for central government intervention.
- 5.3. Not only is the fiscal cap proposal bad fiscal policy, but these are matters that the local electorate should, and has every right to, judge for itself and use to make electoral choices between candidates for their local authority. There are valid choices between higher current spending levels combined with low debt versus low spending combined with higher debt which spreads infrastructure costs over time and generations; between ownership of public assets and outsourcing or privatisation; between different levels of expenditure and revenue given a certain surplus or deficit; and temporary increases in surpluses or deficits in the context of conditions such as the state of the national economy or faster (or slower) expansion of the local population or economy.
- 5.4. The CTU opposes the setting of caps on both local and government spending for many reasons. There is no ‘right’ level of government spending – either local or national. A cap in effect wrongly takes for granted that private provision of services is always more efficient. The quality of spending matters as well as the quantity, and the situation matters too. Local authorities also have a stabilising role in times

of economic crisis. The problems are amplified if, as proposed nationally, the cap does not take into account growth in the economy.

- 5.5. Setting a cap assumes that the current rate of spending is either ideal or too high. A local authority may find that there are services more efficiently provided by it than by the private sector, or the private sector fails to provide services in sufficient quantity or fails to provide for people's needs. With a cap, it will be unable to respond to this with a consequent loss in efficiency and/or services for the community or region. Similarly, if a previous council had failed to provide the level of services needed by reducing spending to an unsustainable level, the new council would be prevented from restoring a sustainable level of spending.
- 5.6. For example a number of local authorities have in the past been involved in creating high speed internet infrastructures in their regions. The private sector had failed to provide this on its own, constraining local development. This failure has now been recognised at a national level, and some of that national development is built on local government initiatives.
- 5.7. There are many other examples of local governments taking initiatives that have enhanced the development of their regions or communities, including responding to housing shortages or lack of affordable housing, public transport innovations, and sponsoring events which have brought visitors to the region, which would be difficult, cumbersome or impossible under these rules.
- 5.8. A cap will encourage inefficient and perverse behaviour. If the cap does not apply to capital expenditure, local authorities can escape the cap by identifying as much expenditure as possible as capital, or may tend to overspend on capital projects. If it does apply to capital, then it may encourage them to use expensive alternatives such as leasing or public-private partnerships rather than buying their own equipment. These can be attractive in the short run but more expensive and less flexible in the long run because a monopoly supplier is locked in at commercial rates, with a council contractual commitment to continue annual payments regardless of the use of services and facilities or the economic conditions.

- 5.9. The experience with the Tax Payer’s Bill of Rights in Colorado, where a similar policy was introduced, was that local authorities stripped away essential public services such as street lighting and public car park maintenance to comply with caps.
- 5.10. There is no ideal level of spending. It is quality of spending, not quantity, that counts. Comparing spending levels between authorities is fraught with difficulty because different authorities may be providing different levels of services which may be entirely appropriate for the region and in the views of their electorates.
- 5.11. Local authorities also have a role to play in maintaining activity in the economy during an economic recession such as the current one. Had there been a cap on government spending at the national level during the recent economic crisis New Zealand could well have gone into much deeper recession or depression. That was internationally accepted. Local authorities can contribute in a similar way by, for example, bringing forward construction projects, or providing work for people thrown out of work (perhaps with central government financial assistance). At present they can fund this additional expenditure from borrowing or reserves, but under the capped expenditure proposal would not be able to react as swiftly, or even at all. Limits on debt would have similar effects.
- 5.12. Recent International Monetary Fund studies⁹ have showed that sub-national governments in the US, the U.K. and a number of other OECD countries reduced spending and employment in the global financial crisis (pro-cyclical behaviour), undermining the stimulus action taken by central governments to counteract the fall in economic activity (counter-cyclical policies). Property taxes, on which local governments often depend, tend to be pro-cyclical because property prices may not fall or may fall only slowly during a recession or crisis, and taxes on them may change even more slowly, in contrast with income taxes which respond immediately to falling incomes. The pro-cyclical behaviour of sub-national governments was not the case in all countries – for example in Germany and Canada there were counter-cyclical responses from sub-national government too.

⁹ “Great Recession and Fiscal Squeeze at U.S. Subnational Government Level”, by Jiri Jonas, International Monetary Fund Working Paper WP/12/1184, July 2012. “Appendix 3. The Impact of the Global Financial Crisis on Subnational Government Finances”, in *Fiscal Monitor*, International Monetary Fund, April 2012, p.46-52.

However, particularly in the US, many sub-national governments had options that could have assisted the central government's counter-cyclical policies but were discouraged from using them by various forms of "Balanced Budget Rules". The proposed local government regulations could take this form, and the proposed expenditure cap is a related policy, but with even less to recommend it because it does not even require a balanced budget.

- 5.13. Perhaps the intention of the proposal is that services should be cut where new spending is required, that local authorities should be hamstrung in expanding services even where there is a clear need and rationale, and that they should not be able to play any part in assisting a community in difficult economic times. However, these are all fundamental matters which should be decided by the democratic process including elections and full community consultation. The proposed limitations are an affront to that process.
- 5.14. A cap on spending does not assure electors of fiscal responsibility. A council could run a large deficit by lowering revenue (such as rates and user charges) while maintaining expenses at the capped level, leading to increased debt. If in turn the other levers in the bill are used to control revenue and debt too, then councils lose all room to move.
- 5.15. The bill allows a wide range of other constraints. It is difficult to see how any of these can sensibly be applied across the wide variety of local authorities. A cap on debt for example could be damaging to a local authority which has a rapidly expanding population or a legacy of underinvestment in infrastructure. The bill appears to be contemplating that central government will be trying to drive local governments by remote control, without sufficient information or flexibility as to the varied circumstances in each locality.
- 5.16. To the extent that the limitations are a "soft cap" as described by the BLG, these matters become less constraining. But less constrained bad policy is still bad policy. In any case, any local government that ignores the "soft cap" does so at the peril of intervention. It is intimidatory rather than helpful to good local government.

- 5.17. If these provisions were simply to encourage reporting in a way that enables informed benchmarking between local authorities to allow councils to identify areas for improvement, and allow electors to draw their own conclusions, there might be sense in them, though it is not clear what they would add beyond generally accepted accounting standards. Their conversion into “prescribed parameters or benchmarks” (proposed s.259 (1) (dc)) and then into “problems” (proposed amendment to s.254) transforms them into dangerous policy.

The regulation making powers in part 1, clause 22 that would prescribe parameters or benchmarks for assessing whether a local authority is prudently managing its revenues, expenses, assets, liabilities, investments, and general financial dealings are opposed and should be deleted.

6. Intervention and Assistance Framework

- 6.1. The Bill extends the current powers available to a Minister to intervene on the grounds that “*assistance should be provided before it is critical*”. This sounds reminiscent of other examples of driving up the view that there is a crisis and the government responding with a heavy handed legislative response when the claim that there is a crisis is neither supported nor proven.
- 6.2. The assumption in the Bill is that if there is a “*problem*”, central government can manage the “*problem*” by their intervention better than local government can. This has the effect of removing from local government functioning the important principle and practice of subsidiarity – that matters ought to be handled by the smallest, lowest, or least centralised competent authority.
- 6.3. The provisions to intervene in this Bill “*when there is a problem*” are a significant increase in Ministerial power over local government. Intervention in local government affairs by Ministerial intervention causes deep resentment in a community as was demonstrated by the Ministerial decision to sack the entire Environment Canterbury Council.

- 6.4. The criterion for intervention in this Bill is on the basis of a “*problem*” which is defined. But the wording of a “*problem*” and who defines what is as a problem are both contentious issues and very subjective and especially prone to the whim and view of the current political party in government.
- 6.5. The need for increased intervention powers also ignores the existing mechanisms that already ensure local government is accountable such as the role of the auditor general and the consultation requirements in the LGA.
- 6.6. This type of power and lessening the threshold related to its use will have a muzzling and constraining effect on local democracy and the participation of citizens in local decision making. Increasing the powers of central government in the affairs of local government will turn local governments into little more than forms of crown agencies. If government is able to step in all sorts of ways what message does this send to the electors who voted for the council?
- 6.7. Local election turnout rates are low now and extending the powers of central government sends the opposite message to the community about the need to increase participation and the strength of local government. In an analysis of the reforms, Cheyne warns that,
- “A diminution of local government weakens not just local democracy but democratic institutional arrangements and institutions¹⁰”.*
- 6.8. Of course some powers of intervention are required and are necessary. But the role of central government in issues that may call for some sort of intervention should be limited and prescribed tightly.

There should be restricted uses in the Local Government Act of powers of intervention with an independent agency to be charged with the power to scrutinise and monitor any intervention by central government in local government.

¹⁰ Cheyne, C, 2012, *Better Local Government Reform Proposals: Improving or Diminishing Local Government*, Policy Quarterly, Vol 8, May 2101 p 40

7. Employment and Remuneration Policies

- 7.1. The Bill empowers councils to set policy on the number of staff to be employed and their remuneration. Prescribing in law the processes to set this policy are unnecessary and are direct government interference and control in wage setting.
- 7.2. We strongly oppose this proposal and support the PSA's position that this amendment "is both unnecessary and regressive".¹¹ The proposal goes beyond the practices and powers of central government, despite the then Minister of Local Government stating in the BLG paper that "*central government elected representatives have capacity to set staffing caps and remuneration policy.*"¹²
- 7.3. We have already expressed concerns about the place in legislation for councils to be required to deliver services in a way that is "*most cost-effective*" and how this could be interpreted in relation to staffing, wages and working conditions.
- 7.4. The setting of a staffing cap is a move by central government to introduce policies and practices that it has been using in the core government sector into the local government sector. The effect of capping numbers in the public sector has been that Departments and Ministries are not filling vacant posts, there is widespread use of fixed term contracts and greatly increased use of contractors¹³. This staffing cap has seen a blowout in workloads and serious morale issues in some government departments. For example, a leaked survey of 2,800 employees In the Department of Internal Affairs revealed more than a third felt "disengaged" and another 56 per cent felt ambivalent.¹⁴
- 7.5. Setting a policy on staff numbers blurs the lines between governance and management and confuses governance and management responsibilities and accountabilities.

¹¹ PSA Submission 2012 Local Government Act 2002 Amendment Bill

¹² Better Local Government- March 2012

¹³ PSA Submission 2012 Amendment Bill

¹⁴ <http://www.stuff.co.nz/dominion-post/news/politics/7208056/Public-servants-hit-a-low-morale-point>

7.6. A policy of staffing numbers, as has been shown by recent experience in the public sector, is likely to increase the use of outsourcing, contracting out and consultants which can increase the overall labour costs in an organisation.

7.7. The RIS confirms the risk of this approach stating,

¹⁵“Too rigid application of policies could result in excessive use of contractors when employment of staff would be cheaper A long run risk is that too restrictive policies gradually lead to a lower quality workforce in local government as more talented workers move to other industries.”

7.8. Our very real concern is that a provision in legislation to set staff salaries will be used by some local authorities as a means to lower staff salaries as a recent example has demonstrated. A motion was put to the Whanganui District Council recently to limit pay increases to 2 percent over the next ten years. It is impossible to predict what the rate for any workers salary will be in ten years time and there should not be any suggestion that it should be done. It is not only impossible, it is unfair and also is likely to be in breach of bargaining provisions in the Employment Relations Act. Fortunately sense prevailed and this motion was defeated.

7.9. The BLG claimed rapidly rising staffing costs. It said that “direct salary costs... rose from \$884 million in 2002 to \$1,608 million in 2010, an 86 percent increase”. Apart from the fact that this is actually an 82 percent increase, it takes no account of changes from external contracting to bringing employment in-house, and who received the increases – senior management or low-paid council staff. The Briefing to the Incoming Minister of Local Government from the Department of Internal Affairs in 2011 states that “The proportion of expenditure on employees has been decreasing, from 29 percent in 1993 to 23 percent in 2010”¹⁶. It is likely that the high degree of privatisation and contracting out that occurred in local government during the 1990s was partially reversed subsequent to the 2002 legislative changes.

¹⁵ Regulatory Impact Statement, Better Local Government, March 2012 Para 105

¹⁶ Department of Internal Affairs, Briefing to the Incoming Minister of Local Government 2011, page 24

7.10. The Labour Cost Index (LCI) is selectively quoted by the BLG, alluding only to “the last three years” and comparing it only to the “core state sector” which has been severely constrained by deliberate government policy. In fact the LCI for local government rose at a rate very close to the private sector with the exception of a brief acceleration in the last quarter of 2007. Between March 2002 and March 2007, the LCI for local government rose 13.1 percent while that for the private sector rose 13.5 percent and central government 16.9 percent. Between March 2007 and March 2008, the local government LCI rose 4.9 percent, the private sector 3.5 percent and central government 2.8 percent. From March 2008 to March 2012, the local government LCI rose 9.2 percent, the private sector 8.7 percent and central government 10.0 percent. For the whole period since the 2002 legislation, the local government LCI rose 29.5 percent, the private sector LCI 27.7 percent and the central government LCI 32.3 percent. These do not demonstrate excessive local government wage rises.

Labour Cost Index increases			
March years	Local Govt	Private Sector	Central govt
2002-2007	13.1%	13.5%	16.9%
2007-2008	4.9%	3.5%	2.9%
2008-2012	9.2%	8.7%	10.0%
2002-2012	29.5%	27.7%	32.3%

7.11. The provision in the Bill for local authorities to report on all employee salaries paid up to \$60,000 and in \$20,000 bands above \$60,000 is ridiculously low and inconsistent with wider public sector practice and sends a very worrying signal. No explanation is given for setting a different standard to that operating now in the wider public sector. Given other provisions in this Bill regarding constraining costs it sends the signal that salaries over \$60,000 are high salaries. This is a preposterous suggestion given an income based on the current average hourly wage as of March 2012 is \$55,993.60.

The amendment made by clause 24(5) which would insert a new clause 36A to the Principal Act empowering a local authority to adopt a policy that sets out its policies in relation to employee staffing levels and remuneration is opposed and should be deleted.

Any changes to reporting of salaries should be consistent with the provisions of the Companies Act 1993 which are to report on salaries exceeding \$100,000 per annum and in bands of \$10,000.

8. Reorganisations and Amalgamations

- 8.1. The Bill extensively changes the process relating to how council reorganisation proposals would proceed and be managed in the expectation that efficiencies and better decision-making would be achieved through structural reforms in some New-Zealand local authorities.
- 8.2. The removal of the automatic right of electors to vote on their choice of local government arrangements removes a fundamental democratic right.
- 8.3. The provisions for determining whether an amalgamation proposal has “significant community support” are also likely to cause problems. Who defines who is a leader and how many leaders are required to have significant community support? These are just unworkable and ill-considered proposals.
- 8.4. Much more consideration must be given to amalgamation proposals before they proceed. The idea that amalgamations automatically produce efficiency gains needs more debate. The Australian Centre for Excellence of Local Government concluded¹⁷ that structural reforms do not necessarily translate to lower rates and charges and that there was little evidence that amalgamation generated economies of scale greater than other forms of consolidation.

¹⁷ Australian Centre for Excellence in Local Government, *Consolidation in Local Government, A Fresh Look*, May 2011.

- 8.5. Good reorganisation processes must ensure that they are responsive to community interests and concerns. The processes in this Bill would allow reorganisation proposals to proceed without adequate community engagement or consultation.
- 8.6. Our concern is to ensure that reorganisation proposals are assessed not only on efficiency and effectiveness grounds but also on how they impact upon a local community. Consideration must be given to the impact of changes such as job losses and potential impacts of amalgamations on small communities.
- 8.7. This Bill places more powers in the hands of the Local Government Commission. The powers of the members of the Commission, who are appointed by the Minister of Local Government, would greatly increase in re-organisation proposal processes.
- 8.8. From an employment perspective much more consideration needs to be given to the process arrangements for any staff transitions in amalgamations before allowing amalgamations to occur more quickly than they can now. The employment issues in amalgamations are extensive, including change of location, varying terms and conditions of employment, job sizing, role changing and major disruption to activities.
- 8.9. Local government is an employer of approximately 23,000 full time equivalent workers. Research is currently underway to evaluate the Auckland Councils transition and the impact of its changes in employment and industrial relations, but the anecdotal responses are that the arrangements that were in place would need to be refined for other amalgamations. Unions and staff involved in transitional arrangements in the Auckland amalgamation say the process involves a lot of good will, excellent and intensive communication and willingness by all parties to work together in a co-operative relationship.

Electors must have the opportunity to consider in a reasonable time amalgamation proposals and have the right to vote on them.

9. Increased Powers to Mayors

- 9.1. The concentration of too much power in the hands of the mayor is opposed. Increasing the powers of mayors will lead to a disempowering of other councillors and diminishes the role of these elected councillors.
- 9.2. Extending the powers of mayor's risks placing too much focus on a single individual in local government elections and processes. The personality politics of the mayor could dominate rather than the issues at stake.

10. Conclusions

- 10.1. This Bill introduces profound and unprecedented changes to local government that have not been consulted upon and are not based on sound evidence or analysis. The claim that local government spending is out of control is not substantiated. Decisions to make changes seem to be made on the basis of some incidents and isolated failures that do not reflect the practice in the far greater number of local authorities. The changes proposed would markedly reduce democratic input in local government processes and greatly increase and entrench ministerial power in local government. The proposals for changes to remuneration and staffing policies are unnecessary and represent a move by central government to increase its influence into local government employment matters. The reorganisation proposals reduce democratic steps including the rights to vote in local government reorganisation decisions.