

Monitoring Report November 2017

Introduction

This month the monitoring report looks at a number of recent developments in the ongoing debate about the structure of local government. With a new government in place, unfinished business with the Local Government Amendment Bill, and some signs of a different approach to working at a community level, it's reasonable to expect fresh attention and possibly fresh insight into what constitutes 'fit for purpose' local government and local governance for New Zealand. Recent developments, all selected because of their potential to influence the New Zealand debate, include:

- ☐ A report from the English think tank ResPublica, *The Case for Counties*¹, arguing for significant devolution to and restructuring of local government at the counties level in England.
- ☐ Localism - the Swiss Way, an article in the New Zealand local government magazine outlining the New Zealand Initiative argument that New Zealand local government should be much more like Swiss local government - a multiplicity of small largely autonomous local authorities.
- ☐ NSW legislation enabling the establishment of joint organisations of councils outside metropolitan Sydney.
- ☐ An ongoing stand-off between the Welsh government and local government in Wales over regionalisation of service delivery.

All of these have the common theme of how best to structure local government to ensure effective delivery of services to its communities, including achievement of the outcomes the services are intended to achieve.

ResPublica

This report was supported by the County Councils Network which is a special interest group within the Local Government Association. It's perhaps the best report we have seen discussing the structure of local government for the way in which it strikes a balance between the importance of scale and effective means for collaboration amongst different services on the one hand, and the absolute importance of public legitimacy and genuine community engagement on the other.

Local government within English counties is a combination of single tier - unitary councils exercising all local government functions within the county - and two tier with the county council delivering major services and district councils delivering what are inherently local services. More detail of the split is set out in the appendix to this monitoring report.

The ResPublica report argues the case for creating unitary councils in all of those counties which are not already unitaries. It is an argument based on considerations of scale, coordination, unification of service delivery boundaries, and better enabling efficient and effective services. The report suggests that there is no clear upper limit on the size of a council but that if the benefits of scale are to be realised, then a minimum population of around 300,000 is indicated.

Importantly, the report also argues the need for popular legitimacy ensuring that communities receive real representation.

The following extracts from the report illustrate the two separate sets of arguments:

¹ <http://www.respublica.org.uk/our-work/publications/devo-2-0-case-counties/>

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Requisite scale and coordination

...early intervention measures are difficult to implement given the highly centralised nature of public services in the UK. These are highly centralised, delivered through central government departments and organised in large policy and funding silos. This leads to a standardised 'one-size-fits-all' approach that is less able to respond to, or address the root cause of, more complex problems which often need cross-disciplinary and simultaneous interventions across a range of issues.

Public services frequently operate at a level and scale that restrict the potential for genuine service integration. They prevent the flexibility needed to work across departmental and geographical boundaries. Services are already specified long before local partners are able to influence or align delivery.

Places simply lack the necessary control over public resources to shape and design services to achieve distinct local outcomes. Consequently, many local communities and individuals experience a system that provides overly prescriptive and reactive services that are deeply disjointed and fragmented, with multiple points of access, assessment and referral but with limited continuity of care between agencies and providers. This situation disincentivises local co-operation as delivery organisations compete with each other, unnecessarily and against the common good. It results in wasteful duplication of ineffective activity across services. It limits innovation and the capacity to adapt to local variations, leading to unintended policy outcomes – solving easier-to-help problems but entrenching others – and ultimately, poorer services at higher costs.

Popular legitimacy

To create popular legitimacy, reforms should appeal to citizens' identities and sense of civic pride, and respect local sensitivities and differences...To include citizens, mechanisms to engage participation at the most appropriate level will be important....This makes it explicit that communities must receive real representation connecting them to their council, which requires more than simply a historic geography.

Much of the focus of the report is on improving the outcomes from major social services such as health, education, social welfare, police... Local government has a significant role in respect of each of these, and more, in England, but no or a very minimal role in New Zealand. This should not distract attention from the underlying reality in both jurisdictions of the importance of a joined up approach to service delivery at a local level (as illustrated for New Zealand by the recent productivity commission report *More Effective Social Services*). Instead, the different and lesser role of local government in New Zealand in the delivery of major social services points towards a facilitation/collaboration role in ensuring effective joined up service delivery rather than, as in England, a more substantive delivery role for local government.

There are also course areas of local government responsibility in New Zealand where scale does matter - infrastructure, spatial planning, regional economic development....

What could look like the relative lack of emphasis in the full report on being explicit that communities must receive real representation should not be misunderstood. It appears in the report as a necessary condition for effective local government but one which in the context of the report does not need pages of argument in support.

This undoubtedly reflects the fact that the convener of the County Councils Network, and author of the foreword for the report, Baroness Jane Scott, has been the leader of Wiltshire Council since its formation in 2009 and so has overseen what is almost certainly the most comprehensive and successful approach to community engagement and co-governance in English local government.

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Localism - the Swiss Way²

This article sets out the New Zealand Initiative's argument that New Zealand local government, and in some respects our overall political system, should adopt a number of the features of the Swiss system including the reliance on referenda as an important part of policy-making, and the restructuring of our local government sector to create a much greater number of much smaller and more autonomous councils. This would include tax regimes "turned on their head with local authorities being able to hold onto personal and business tax generated by people in their areas." Local authorities would be free to enter into collaborative arrangements with each other to achieve scale in service delivery.

This is really the polar opposite of the ResPublica argument for consolidation of services around local government units of the scale of 300,000 or more, albeit with strong community governance to deal with inherently local matters. Instead, it is an argument that the primary role of local government should be exercised by small councils close to their communities. Claimed benefits include that loss of scale would be offset by greater efficiency, that competition between neighbouring jurisdictions would ensure councils pay close attention to the wishes and needs of their residents, and New Zealand could expect significant acceleration in GDP growth.

The New Zealand Initiative has been a refreshing voice in arguing that big is not necessarily better in local government. Whether its vision of New Zealand as a local government Switzerland of the South Pacific is a separate question and one which needs close examination.

As a starting point, the New Zealand Initiative's arguments are very similar to those which have been put forward in the United States in that country's ongoing argument about the proper role of local government - an argument between so-called 'public choice theorists' on the one hand and 'new consolidationists' on the other. Public choice theorists have argued the case for a multiplicity of small local governments as providing the best opportunity for people to choose the mix of services and local taxes which best suits their preferences. The new consolidationists have argued that larger councils are essential in order to achieve some measure of equity in service provision - small councils populated largely or exclusively by relatively poor people have little chance by themselves of financing the services they need.

Much of the research evidence on the US experience suggests that the small council argument has turned out to be a cover for creating ghettos of the rich as a means of minimising any redistribution towards assisting the cost of serving poorer populations.

The Swiss local government model could be adopted in New Zealand without bringing with it the reliance on referenda. Observers who have seen the damage that referenda have been able to do in the United States - for example, California's notorious proposition 13 - will know that the referendum process is not always benign.

A Swiss perspective on Swiss local government

To get an informed view on the merits of the New Zealand Initiative proposal we invited a colleague who is Prof of politics at the University of Zürich and an internationally regarded authority on local government to comment. As a general point he noted that the growth in Swiss GDP over the past few decades was much more a function of its non-involvement in the Second World War, the nature of the Swiss banking sector (a strong currency, secrecy laws, and a willingness to work with virtually anyone who wanted a bank account) than the structure of local government sector.

More specifically, on the suggestion that local authorities would be able to hold onto personal and business tax generated by people in their area, he had this to say "And decentralization, for that matter, requires some very strong mechanisms of redistribution and equalization of fiscal resources so that tax-competition at the subnational level does not transform in a race to the bottom. In my view, this is something that is cruelly overlooked in the article you sent me. I did not find one single word on the (hugely complicated) mechanisms of fiscal revenue sharing that are at the core of federalism and also of local public finance in Switzerland. If you

² <https://localgovernmentmag.co.nz/lg-magazine/regional-economic-development-lg/localism/>

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just decentralize taxing powers without equalization (as the article seems to suggest), this will most likely result in a super neo-liberal agenda that slims the local state to an extent that there will be absolutely no money left to build or maintain any local infrastructure - let alone upgrade it to Swiss standards... - and especially not to address social policy needs. “

In an interesting parallel with the ResPublica report, recent research thinking in Switzerland is also coming to the view that regional institutions do matter in order to discuss and decide what should be done with services that have a regional scope. In a recent article based on extensive research of public attitudes, and looking at the place of the citizen in the fragmented metropolis, our Zürich contact had this to say "To maintain the quality of democracy in the Swiss city-region, political institutions must shift scale upwards to the city-regional level, be it via amalgamations or via the creation of new city-regional institutions that include democratic participation rights."

Our understanding is that the New Zealand Initiative argument is gaining significant support both amongst members of the Initiative itself and within LGNZ. It is to be hoped that this does not become a distraction from the important question of determining how best to work with communities, recognising their distinct differences. Instead, it would be helpful if the New Zealand Initiative argument were more oriented towards the reality of the role of local government whether it is in Switzerland, New Zealand or elsewhere, which requires a focus both on how to ensure effective services at scale, and a strong voice for local communities. The former necessarily requires some form of regional structure (i.e. a structure which encompasses a sufficient area/population for the effective management of services which require a larger scale), whilst the latter requires both a bespoke approach designed to meet the needs and preferences of particular communities, and a scale appropriate to involving people and their neighbourhoods in a way which gives them a real voice in helping shape their own futures.

NSW and Wales

Both of these jurisdictions have been wrestling for the past few years with the question of how to encourage (require?), regional level arrangements for service delivery where those are deemed appropriate, typically on grounds of effectiveness and efficiency.

Both have lessons for New Zealand as the ongoing saga of how to facilitate (require?) regional service delivery is presumably addressed in the context of what to do with the Local Government Amendment Bill.

As with New Zealand, both of those jurisdictions began with a strong suggestion of the use of amalgamation or at the very least forced regionalisation as the preferred approach.

In NSW the 'fit for the future' initiative began as a collaboration between state government and local government to review the role and structure of government but very quickly morphed into a government led program intended to force amalgamation in order to create councils of requisite scale. Despite what the government clearly believed was a strong enough majority in the state parliament to impose its proposals it ran into very real political difficulties finally abandoning any intention of amalgamating councils (a handful of amalgamations did take place before opposition totally overwhelmed the government agenda).

As part of the overall program the government had signalled an intention of creating what were described as joint organisations for councils outside metropolitan Sydney. These were to be council-based entities intended to undertake one or more services on behalf of groups of councils (themselves making up the joint organisation). Initially there was a strong impression that these entities would be compulsory, and have significant discretion to act independently of their parent councils. After several years of ongoing discussion the state government has finally passed into legislation the Local Government Amendment (Regional Joint Organisations) Bill 2017. Whether or not to form a joint organisation is purely on the discretion of councils and, in broad terms, so is the extent of any activity they undertake. In essence the state government has completely climbed down from any suggestion of legislating to compel councils to deliver activity regionally (there is a possibility that councils will be given some financial incentives to encourage the formation of joint organisations).

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The Welsh experience has gone broadly along the same kind path. In 2015 the then Welsh government introduced legislation proposing forced amalgamation to reduce the number of councils from 22 to 8 or 9. In the 2016 Welsh assembly elections the Minister of local government who had been leading this initiative lost his seat. It became very clear to the Welsh government (which was returned to office) that it had no political mandate for forced amalgamation.

Instead, it announced that councils would be required to deliver major services on a regional basis. In March of this year Peter McKinlay met with senior officials of the Welsh government agency responsible for local government to discuss how the government proposed implementing the requirement for regional service delivery. What became clear during the meeting is that officials were becoming aware the objections they were encountering to regionalisation were not just councils being parochial, but councils very aware of the potential impact on their communities, their local labour markets, and their own capability as councils if they were to lose major functions (for example, the ability to recruit highly skilled management). What they did not yet have was an idea of how the requirement would be implemented. Instead it was a matter being discussed with the Welsh Local Government Association.

Little progress seems to have been made. The following is an extract from a news report sourced from the Local Government Information Unit's daily news feed. The statement followed the annual conference of the WLGA at the beginning of November:

Debbie Wilcox, the leader of the Welsh Local Government Association (WLGA), has called for "a new era of freedom and flexibility" for local councils and said plans to force councils to work together should be dropped. "Forget mandating - forget the need for legislating in 12 months' time, my proposal is each of our four regions should engage in immediate dialogue with the cabinet secretary on the way forward," Ms Wilcox said.

There is a similarity between experience in NSW and Wales on the one hand and New Zealand on the other. In each jurisdiction government politicians have tried to force their vision on local government of the best way forward with regional service delivery. In each of the three jurisdictions the lack of any broad-based political support for compulsory reorganisation has derailed any attempt to force change.

In essence, years of time and effort have been wasted seeking to impose change against the broad run of public opinion. It's meant a considerable delay in dealing with matters which do need some form of resolution, and highlights the importance of government seeking to work collaboratively with local government and in particular to understand the value which communities place on local institutions and the difficulties of trying to impose change in opposition to strongly held community views.

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APPENDIX: Responsibility for Services in County Areas

Many parts of England have 2 tiers of local government:

- ☐ county councils
- ☐ district, borough or city councils

In some parts of the country, there's just 1 (unitary) tier of local government providing all the local services. The 3 main types are:

- ☐ unitary authorities in shire areas
- ☐ London boroughs
- ☐ metropolitan boroughs

County councils

These are responsible for services across the whole of a county, like:

- ☐ education
- ☐ transport
- ☐ planning
- ☐ fire and public safety
- ☐ social care
- ☐ libraries
- ☐ waste management
- ☐ trading standards

District, borough and city councils

These cover a smaller area than county councils. They're usually responsible for services like:

- ☐ rubbish collection
- ☐ recycling
- ☐ Council Tax collections
- ☐ housing
- ☐ planning applications