LOCAL GOVERNMENT FORUM

WELLINGTON REGIONAL COUNCIL'S TEN YEAR PLAN 2000 – 2010 AND DRAFT ANNUAL PLAN 2000/01

MAY 2000

WELLINGTON REGIONAL COUNCIL

Towards a Greater Wellington – Investing in the Future
2000-2001 Annual Plan and 2000-2010 Ten Year Plan

1.0 Introduction

This submission on the Wellington Regional Council's (WRC's) 10 year strategic plan and its 2000/01 draft annual plan is made by the Local Government Forum (the Forum). The Forum comprises business organisations that have a vital interest in local government (details are attached)..

We are strongly of the view that the major contribution that the WRC can make to regional growth and employment prospects is to reduce the rates and regulatory burden it imposes on the private sector.

The 10 year strategic plan and the draft annual plan propose a substantial increase in rates (a 12.8 percent increase in 2000/01, with further increases projected until 2004/05). The WRC provides little analysis to support these increases, resorting instead to sweeping statements about "investing in the future", "achieving a greater Wellington" and giving "effect to the collective goals and aspirations of communities". The WRC's statement of its vision and objectives in such expansive terms gives us little confidence that it intends to produce valued local public good outputs at minimum cost. The provision of the latter is the only effective way in which the WRC can do such things as "invest in the future" or "achieve a greater Wellington".

2.0 The WRC's 10 year 'vision'

We are concerned about the WRC's strategic vision outlined in the 10 year plan. The WRC asserts that its role is to create "a better quality of life in our Region" and "a sustainable Wellington Region". The chairman reports that "we believe that the purpose of governments is to give effect to the collective goals and aspirations of communities". He states that "we have decided that a greater future for the Wellington Region means a high quality environment, a prosperous and viable region, healthy people in a safe region, [and] a strong and inclusive regional community". The WRC bases its 10 year plan on these goals rather than on the outputs it delivers.

We do not believe that the WRC's role can be defined in such sweeping terms. Instead, the WRC's role and goals should be defined by a careful analysis of the comparative advantages of the private (including non-profit and voluntary) and public sectors in achieving the varying aspirations of members of the community.

The prime justification for government action is that public goods might be under-provided by the private sector, or that the existence of (large) externalities might lead to the under- or over-provision of some outputs. Governments have a role in regulating private activity when this can improve on economic outcomes.

The focus of local as opposed to central government should be on the performance of regulatory functions conferred on it by central government and the provision of local public goods – ie public goods which provide benefits that are restricted to a particular region. However, the existence of local public goods or externalities is not in itself sufficient justification for council involvement. Many activities produce third party effects, but are privately provided. Account must be taken of how councils operate in practice rather than how they might operate in a perfect world.

The demand for ratepayer-funded services will generally be excessive from an efficiency perspective – a perspective that focuses on maximising community income – if the people and groups using particular services do not face their full marginal social costs. Ratepayers are generally compelled to bear the costs that are imposed on them. For these reasons, the WRC should not use its coercive powers lightly to force ratepayers to fund activities which they could readily fund themselves but which they choose not to fund. Likewise, it should not fund activities of a public good nature where the social costs outweigh the benefits.

Rates distort behaviour and impose economic (deadweight) costs on the community that are additional to the losses in well-being arising from forcing some ratepayers to spend money against their will.

In general, the private sector has a comparative advantage in producing private goods – roughly speaking, goods that can be charged for – that can be supplied on a commercial basis. Private providers normally have the best incentive to ascertain and satisfy individuals' needs at least cost. The WRC should exit from the production of private goods unless there are special reasons for continuing involvement. In this regard, the Forum is frustrated that the WRC has made no apparent progress on divesting its non-core activities so that it can better focus on its core public good responsibilities.

The WRC does not have a mandate or the ability to give effect to the "collective goals and aspirations" of the community. It should instead focus on its comparative advantages – providing local public goods – and allowing individuals to pursue their own goals and aspirations either individually or through voluntary collective action. Even if a majority thinks otherwise on a particular issue, this should not be regarded as a licence to appropriate resources in their interests unless criteria for government intervention are met. Governments must be limited and the rights of minorities respected.

The objectives that the WRC has adopted, such as creating a "high quality environment" and a "prosperous and viable region" do not provide a meaningful basis for assessing performance. Such objectives imply for example, that an improvement in the quality of the environment is desirable irrespective of the cost of achieving it. Any money spent on improving the environment would appear to meet the objective, regardless of how costly or inefficient the measures were. Given the lack of explicit regard for cost, it is impossible to measure the performance of an agency charged with achieving such an objective.

3.0 Comments on specific proposals in the plan

3.1 Overall increase in rates

The WRC is proposing a substantial increase in rates. The increase is not acceptable to the business sector. The WRC's annual and 10 year plans do not provide the rigorous analysis needed to support such a dramatic increase in the WRC's rates and its activities. While objectives such as "improving the environment" and "making Wellington a prosperous and viable region" sound desirable, there is no evidence that the benefits of the policies proposed outweigh the costs (including the deadweight cost of rates funding).

3.2 Environmental management, flood protection, parks

Environmental management, flood protection and the provision of parks are all public good outputs that are rightly the preserve of the WRC. However, there is little analysis in the report to support the proposed increase in activity in all three areas.

We believe that, where possible, those who benefit from WRC expenditure should pay for it. Requiring the beneficiaries to pay helps ensure that ratepayers only lobby for works where the benefits exceed the costs. This principle could be applied to flood protection work. In our view, the beneficiaries of such works should fund 100 percent of the costs rather than the proposed 50 percent.

The WRC notes in the annual plan that its parks are still only regularly visited by particular sectors of the regional community. This raises the question of why some ratepayers should fund the recreation options of other ratepayers and whether these particular outputs are over-provided by the WCR. The plan provides insufficient information to allow any assessment of whether the WRC is providing the optimal number or quality of regional parks. Funding should be frozen until this assessment is carried out.

3.3 Port, forestry and head office and other property assets

The WRC has, yet again, failed to sell its port shares and forestry assets. In 1998 it was reported that "Wellington Regional Council [was] gearing up to sell its $70 million stake in the Port of Wellington and forestry".[1] A year later, it was waiting for the 'right price'. The WRC's chairman cited uncertainty over land holdings as a reason for not selling the port shares. WRC claimed that it was still "finalising a strategy for both forestry and Port Wellington which will establish exactly what would be for sale, if anything, and under what conditions". In the latest report the WRC notes that "at an appropriate time the Council believes it should reduce its exposure to both investments [the port and forestry] and use the proceeds to repay debt". It notes that "further work is required before it will be in a position to sell. Any decision to sell will be subject to consultation with the community".

This is a saga of delay and indecision which would not be tolerated in a well-performing private sector organisation. We do not believe that the WRC should expose its ratepayers to the investment risks associated with port ownership. Further, local government ownership of ports is impeding much-needed rationalisation of the New Zealand ports industry, imposing unnecessary costs on the traded goods sector.

Ownership of port company and forestry assets is not a core role for the WRC. The WRC should immediately appoint advisors to undertake a scoping study and then sell these assets. It should stop making excuses to perpetuate its own role.

We support the WRC's intention to divest its property investments. There is no justification for it continuing to hold ground leases on commercial property. It should also investigate whether disposal of its head office premises and leasing alternatives make commercial sense.

3.4 Governance of the water business

WRC is still talking about options for the reform of the water business – having failed to make substantial progress over the past three years. The fact that such a major business remains an operating unit within the WRC is an indictment of its stewardship.

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1 *Evening Post*, March 23, 1998.

At an absolute minimum, the WRC should move to a LATE structure. It should do this whether or not it amalgamates with other water businesses. Better still, it should sell the business or tender a franchise for its operation (with or without other water businesses in the Wellington region). The advantages of this option with appropriate safeguards ought to be presented to the community. If a franchise option for the regional assets is preferred, this should be offered to private operators through a competitive tender. The WRC should not participate in such a tender.

3.5 Transportation

The WRC should meet the transportation preferences of its ratepayers – and not impose on them public transport 'solutions' that they do not support.
New Zealanders clearly prefer private transport to public transport. A recent report by the Energy Efficiency and Conservation Authority notes that "the relative role of public transport (covering bus, rail, ferries, etc) in most of New Zealand is on the decline".[2] This is despite the substantial subsidies provided to public transport. In contrast, private car ownership has increased rapidly. The job of a public body is to meet valid public preferences.

It is often argued that there is a case for subsidising public transport while roads are inefficiently priced. The introduction of congestion pricing would provide the most efficient means of addressing road congestion problems. Once efficient prices were in place, road operators should be allowed to expand road capacity (subject to Resource Management Act constraints) as soon as peak time road users were prepared to cover the costs. There would be no justification for the WRC taking revenue raised from private road users to subsidise public transport.

If a commercial approach to roading were adopted it would be possible to determine directly whether road users were willing to pay for the expansion of road capacity. Surveys of willingness to pay, which do not require people to back their statements with money, are not a good basis for determining whether projects such as Transmission Gully should proceed.

However, we do not believe that subsidies to public transport are justified even while roads are not properly priced. Giving a subsidy to public transport is not equal to direct congestion charging of road users. Some problems include:

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2 *Energywise Monitoring Quarterly*, Energy Efficiency and Conservation Authority, Issue 14, December 1999, pp 2-3.

- the subsidy targets only one of many substitutes for travel at peak time (other substitutes include people who travel in cars at off-peak times, or who work at home or choose to live close to work);
- the subsidy may increase overall travel at peak time, increasing overall congestion costs;
- when road users transfer to public transport, the reduction in congestion may encourage other road users to travel at peak time (ie it may have no effect);
- even if a subsidy results in a substantial percentage increase in public transport use, this may translate into a small impact on overall transport given the small public transport share of the market; and
- it is not at all clear that the proposed level of subsidy is optimal in any sense.

All travel at peak period involves congestion costs that are not fully reflected into prices. Arguably the problem is that all peak travellers should be paying more to travel at peak, not that some should pay less.

4 Summary

We remain strongly of the view that the major contribution that the WRC can make to regional growth and employment prospects is to reduce the rates and regulatory burden it imposes on the private sector. The WRC has not made a convincing case for increasing rates. We remain disappointed that WRC has failed to exit its non-core activities.

The national economy is struggling because both central and local government in recent years have failed to meet the challenge of continuous policy improvement to encourage investment and job creation. A top priority of the WRC should be to help make the business environment in the region more attractive. Double-digit increases in rates and inefficient infrastructure policies will be negative for business and destroy job opportunities. The exodus of businesses from the Wellington region should be viewed with far greater concern by the WRC. Its planning documents reveal a lack of focus on the core public good roles that it needs to undertake and we submit that they should be fundamentally reappraised.

The Local Government Forum

The Local Government Forum was established in 1994 to promote greater efficiency in the local government sector and to contribute to debate on policy issues affecting the sector. The Forum comprises business organisations that have a vital interest in the activities of local government. The following organisations are members of the Forum:

- Federated Farmers of New Zealand (Inc.)
- New Zealand Business Roundtable
- New Zealand Chambers of Commerce
- New Zealand Employers Federation Inc.
- New Zealand Forest Owners' Association Inc.
- New Zealand Manufacturers Federation (Inc.)
- Property Council of New Zealand Inc.