

Submission

By

**THE
NEW ZEALAND
INITIATIVE**

To the

Government Administration Select Committee

on the

**Local Government (Systems Improvements) Amendment
Bill**

27 August 2025

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SUBMISSION BY THE NEW ZEALAND INITIATIVE ON THE LOCAL GOVERNMENT (SYSTEMS IMPROVEMENTS) AMENDMENT BILL 2025

1. INTRODUCTION

- 1.1 This submission on the Local Government (Systems Improvements) Amendment Bill (**the Bill**) is made by The New Zealand Initiative (**the Initiative**).
- 1.2 The Initiative is a Wellington-based think tank supported primarily by major New Zealand businesses. We undertake research that contributes to the development of sound public policies in New Zealand, and we advocate for the creation of a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.
- 1.3 In combination, our members employ more than 150,000 people. They span the breadth of the New Zealand economy; a well-functioning local government system is essential for economic confidence and sustainable growth. The views expressed in this submission are those of the author rather than the Initiative's members.
- 1.4 The Initiative has a long-standing interest in local government reform. We advocate for local governance that is democratically accountable, fiscally responsible, and conducive to economic growth and development. Our work since the Initiative's establishment in 2012 has highlighted systemic issues in New Zealand's local government and we have proposed solutions to fix them.
- 1.5 We support the Bill. Refocusing councils on core services and strengthening their fiscal discipline is important for addressing public concerns about rising rates and deteriorating infrastructure. The Bill's measures (narrowing the statutory purpose to core services, enhancing performance transparency, enforcing accountability, and easing compliance burdens) are timely responses to long-standing issues in local government.
- 1.6 Our endorsement of the Bill's refocusing of local government does not represent a retreat from our long-standing commitment to localism and the principle of subsidiarity. We remain firmly of the view that public functions should be devolved to the local level wherever appropriate. In other words, our support for a sharper definition of council duties should not be misconstrued as a shift away from devolution; rather, it reflects a practical step to improve local government performance while upholding the core principle that decisions should be made as close as possible to the communities they affect.
- 1.7 Importantly, the Bill's refocusing of local government should be accompanied by safeguards to preserve and strengthen local self-governance. We have consistently argued that empowering local communities must go together with accountability. Accordingly, we advocate measures such as:
- A principled framework for prioritisation rather than a set list of 'core services';
 - Ratepayer referenda for significant discretionary projects;
 - 'Earned autonomy' framework that grants greater powers and flexibility to high-performing councils;
 - Improvements to governance practices and accountability mechanisms; and
 - Targeted incentives to reward councils for achieving positive outcomes.

- 1.8 In combination, these measures would ensure that a renewed focus on core services bolsters rather than diminishes local autonomy and accountability. We support the Bill's approach provided it is balanced with these protections – a balance that keeps faith with the Initiative's long-held localist philosophy.
- 1.9 With this in mind, we consider that the Bill can be improved. Our submission makes a number of recommendations to that end.
- 1.10 Our submission is structured as follows:
- Section 1: Introduction.
 - Section 2: Summary and Recommendations.
 - Section 3: Refocusing Local Government Purpose and Core Services.
 - Section 4: Improving Council Performance and Fiscal Responsibility.
 - Section 5: Strengthening Governance.
 - Section 6: Regulatory Relief and Other Matters.
 - Section 7: Incentives and Fiscal Sustainability.
 - Section 8: Conclusion.

2. SUMMARY AND RECOMMENDATIONS

- 2.1 The Initiative supports the Bill's overarching objective of refocusing councils on 'the basics' of local government. We agree that councils must deliver core infrastructure and services efficiently and transparently, especially given widespread public frustration with steep rates increases and perceived mismanagement.
- 2.2 It has been well documented that council rates have been rising at their fastest rate in decades, outpacing household incomes and any other sub-groups of the Consumer Price Index (CPI).¹ We acknowledge that much of this pressure stems from rising costs for critical infrastructure, responding and recovering from adverse events, and the cost of regulation imposed by central government. However, a lack of fiscal discipline, including spending on activities outside core services and inefficiencies in delivering the basics, has exacerbated the burden on ratepayers.
- 2.3 In our view, the Bill correctly identifies these problems and takes steps to address them by sharpening councils' focus and accountability. Our recommendations aim to ensure the Bill fully achieves its objectives and aligns with best practices in local governance. These are listed as follows:
- a) That the principal Act's section 5 (Interpretation) should include definitions of the terms 'good-quality' and 'cost-effective'. Assessing and determining these should require a robust cost benefit analysis.
 - b) Reframing the 'core services' list in new section 11A as a prioritisation framework that scores activities against:
 - Extent of market failure (public/impure public good, externalities, natural monopoly/congestion).

¹ From 2000 to 2025 the CPI rose by 89% while the Local Government Rates & Payments class of the CPI rose by 312%.

- Ability to charge users (user-pays where efficient/equitable).
 - Subsidiarity (can this be undertaken effectively locally?).
- c) If Parliament prefers to retain a statutory ‘core list’ in section 11A, it should be pairing it with safeguards such as:
- Requirements for cost-benefit analysis when elevating lower-priority or merit goods over higher-priority network needs.
 - User-pays where feasible and equitable.
 - Ratepayer referenda above clear expenditure or rate-impact thresholds.
- d) Adding a provision in the Bill that performance monitoring results be reported to Parliament periodically, to enhance oversight and ensure the information leads to continuous improvement.
- e) Regulations on access to information emphasise a presumption of openness and quick turnaround (‘as soon as practicable’), with minimal grounds for withholding.
- f) Clause 25 should be explicit that the standard code of conduct should not inhibit a member’s ability to promote their policy positions or represent their constituents.
- g) Any standard code of conduct should be developed in consultation with the local government sector to ensure it ‘promotes public expectations of local authorities’ positively.
- h) Consider immediately extending the Local Government (Auckland Council) Act 2009’s provisions on Auckland’s mayoral office to all councils, on an opt-in basis. It should also consider the merits of adopting a strong mayor/executive mayor model.
- i) Consider whether elected representatives should have powers of oversight similar to those of company directors.
- j) Require the Department of Internal Affairs to report on council compliance with provisions on codes of conduct, information access, and governance principles.
- k) Consider whether and how the governance oversight of chief executives can be bolstered.
- l) The Department of Internal Affairs should be required to monitor how many councils use a longer second term for the chief executive and whether any governance issues arise from it over time.
- m) Consider how the Bill’s reforms could be complemented by incentive-based mechanisms that align council decision-making with the long-term interests of communities and the nation.

3. REFOCUSING LOCAL GOVERNMENT PURPOSE AND CORE SERVICES

- 3.1 Refocusing local government's purpose and clarifying councils' core services is, in our view, a pragmatic step to ensure that essential functions are delivered effectively as a foundation. Once that foundation is secure, additional responsibilities can still be undertaken or devolved to local authorities where appropriate. This approach is fully consistent with subsidiarity, whereby higher tiers of government intervene only where local bodies cannot effectively fulfil a function.
- 3.2 **Narrowed purpose:** The Bill appropriately refocuses the statutory purpose of local government on core responsibilities and cost-effective service delivery, removing the expansive 'four wellbeings' from the Local Government Act 2002. We strongly support this change. Under Clause 4 and Clause 6, the purpose of local government will once again (as it was from 2012-19) be to enable democratic local decision-making *and* to meet the current and future needs of communities for good-quality local infrastructure, public services, and regulatory functions in a cost-effective way.
- 3.3 An additional purpose of supporting local economic growth and development is included (through Clause 6), but only to the extent it aligns with providing those core services cost-effectively.
- 3.4 This clearer definition of purpose is a welcome reversal of the 2019 amendment that added broad wellbeing goals. In our assessment, the wellbeing mandate, however well-intentioned, allowed councils to justify nearly any activity as falling within their remit. A broad wellbeing purpose has added layers of complexity to council decision-making and has made it harder to prioritise what is most important. It has also made it difficult for residents and ratepayers to hold their councils to account.
- 3.5 While supporting the amended purpose statement, we **recommend** that the principal Act's section 5 (Interpretation) should include definitions of the terms 'good-quality' and 'cost-effective'. Assessing and determining these should require a robust cost benefit analysis.
- 3.6 **Core services prioritisation:** Refocusing on core services is intended to provide clearer direction for councils and help them balance needed investment with rates affordability. It seeks to push councils to concentrate on essentials and deliver value for their communities.
- 3.7 Core services reflect the basic functions local government is expected to perform. We therefore support defining core services (via new section 11A) that councils must 'have particular regard to'. Clause 18 will require councils, when making financial management decisions, to have particular regard to core services and the revised purpose.
- 3.8 We view this as a sensible step to ensure that 'nice-to-have' projects do not crowd out investment in essential infrastructure and services. Some councils have in recent years pursued ambitious developments (e.g. new convention centres and beautification projects) and other 'wellbeing activities' while neglecting fundamental assets such as water pipes and roads and the efficient performance of regulatory services.
- 3.9 The resulting failures and service deficits have undermined public confidence in local government. The Prime Minister's call in 2024 for councils to "focus on the basics

‘brilliantly’ – fixing pipes, filling potholes, collecting rubbish” resonated with frustrated ratepayers.² This Bill implements that directive, which we applaud. It should realign councils’ incentives toward maintaining and improving core infrastructure that underpins community well-being in a practical sense (safe water, reliable transport, etc.), rather than diverting resources to peripheral activities.

- 3.10 Clause 7’s list of core services to be included in a new section 11A of the Act is intended to provide important guidance. However, the list, which captures most council spending, makes necessary prioritisation difficult.
- 3.11 Furthermore, any list will be debatable. Some core services, such as local regulation, do not make the list (although councils will still be required to implement regulation imposed by central government). The ‘civil defence and emergency management’ core service excludes the avoidance and mitigation of natural hazards. Some important regional council functions, like biosecurity, are not captured. Meanwhile, some core services that make the list could have aspects many might consider ‘non-core’. For example, ‘network infrastructure’ includes cycleways (which have proven controversial), and some would question whether libraries, museums, reserves, and recreational facilities are as ‘core’ as network infrastructure.
- 3.12 We propose an alternative. A principled approach to prioritising council activities moves beyond fixed statutory lists towards assessing services based on core economic characteristics. Central to this are the concepts of **excludability** and **rivalry** - whether non-payers can realistically be excluded from benefiting, and whether one person’s use diminishes another’s.³ Applying these criteria would provide a flexible, economically grounded framework that recognises the diversity of local services, many of which do not fit neatly into traditional public or private categories. Such an approach enables councils to tailor funding and delivery models according to varying degrees of publicness, congestion, and spillovers, rather than applying a rigid ‘one-size-fits-all’ list.
- 3.13 Most local government functions fall on a spectrum of **impure public goods** and **club/congestible goods**, shaped dynamically by technological, institutional, and social factors. For example, services like stormwater management or local flood protection provide clear community-wide benefits but may be partially excludable or rivalrous depending on geographic boundaries and usage intensity. This perspective cautions against static definitions and encourages regular review and adaptation as conditions change, ensuring that public funding focuses effectively on genuine market failures or externalities.
- 3.14 This classification framework also guides efficient funding mechanisms. Where exclusion is feasible and rivalry exists, user charges or targeted fees can be applied to align costs with beneficiaries, reducing inefficiencies and free-rider problems. Conversely, for goods with significant spillovers or where exclusion is impractical, financing through general or targeted rates remains appropriate, reflecting the broader community benefits and the impracticality of pricing individual consumption. Such mixed financing acknowledges the complexity of local services and supports equitable, accountable resource allocation.

² Rt Hon Christopher Luxon, Prime Minister, *Speech to LGNZ SuperLocal Conference*, 21 August 2024, <https://www.beehive.govt.nz/speech/speech-lgnz-superlocal-conference>

³ The following discussion on public finance criteria is drawn from a series of essays in Cowen, Tyler, *Public Goods and Market Failures: A Critical Examination*. Transaction Publishers (1992).

- 3.15 An essential insight is that government provision does not imply monopoly control. Contracting out services, franchising, or supporting community-led delivery can enhance efficiency and responsiveness while retaining necessary public oversight. This flexibility avoids the pitfalls of bureaucratic monopolies and fosters innovation, competitive pressure, and better service outcomes - key considerations as councils navigate the balance between public accountability and operational effectiveness.
- 3.16 Governments (central and local) should also be mindful of the implications of technological advances and evolving social norms, which may shift a service's position along the excludability-rivalry spectrum. For instance, innovations like congestion pricing or digital metering can convert previously non-excludable goods into excludable ones, creating new opportunities for efficient cost recovery and demand management. Maintaining a dynamic classification system with ongoing assessment helps ensure that local government remains adaptive and responsive to changing contexts.
- 3.17 Ultimately, this principled, evidence-based approach helps to resolve tensions between subsidiarity - delivering services as close to affected communities as possible - and accountability, ensuring fiscal discipline and prioritisation of core functions. By relying on clear economic criteria, councils and policymakers can make transparent, justifiable decisions about service scope, funding, and delivery models. This aligns closely with our calls for performance-based incentives, cost-benefit analysis, and earned autonomy frameworks to bolster local government efficiency and legitimacy.
- 3.18 Our strong preference is for a flexible framework for evaluating public goods and local government services, which emphasises context-dependent classification and dynamic funding principles. We therefore **recommend** reframing the Bill's 'core services' list in new section 11A as a prioritisation framework that scores activities against:
- Allocative inefficiency, where goods and services are not distributed in a way that maximises social welfare (public/impure public good, externalities, natural monopoly/congestion).
 - Ability to charge users (user-pays where efficient/equitable).
 - Subsidiarity (can this be effectively undertaken locally?).
- 3.19 Applying these principles would not only sharpen councils' core focus but also improve transparency for ratepayers. By clearly linking each service class to its funding rationale, and making that rationale subject to regular review, councils would demonstrate fiscal discipline while preserving flexibility to adjust to new circumstances. The approach also provides a transparent framework for explaining why some council activities are funded wholly from rates, others from a mix of rates and user charges, and some not funded at all.
- 3.20 While we prefer a flexible framework for prioritisation, we **recommend** that if Parliament prefers to retain a statutory 'core list' in section 11A, it should be pairing it with safeguards such as:
- Requirements for cost-benefit analysis when elevating lower-priority or merit goods over higher-priority network needs.
 - User-pays where feasible and equitable.
 - Ratepayer referenda above clear expenditure or rate-impact thresholds.

4. IMPROVING COUNCIL PERFORMANCE AND FISCAL RESPONSIBILITY

- 4.1 Transparency and benchmarks:** We welcome the Bill's provisions to better measure and publicise council performance, as this will empower both officials and the public to hold local authorities to account. Clause 22 of the Bill enables the development of a new performance measurement framework, including setting benchmarks across various aspects of council activity (beyond just financial metrics) and publishing consistent performance information for all councils.
- 4.2 We strongly support this initiative. Introducing comparative league tables or scorecards for councils should give residents a 'better sense of what good looks like' in local government service delivery. It can spur positive competition and peer learning between councils, and inform voters at election time.
- 4.3 The New Zealand Initiative's 2024 survey of local government leaders found overwhelming agreement that central government should reduce intrusive oversight. But there was also an acknowledgement that transparency and accountability mechanisms are crucial for building trust and greater autonomy.⁴ We believe shining a light on performance, especially in infrastructure quality, regulatory efficiency, and customer service, will incentivise councils to lift their game.
- 4.4 Disclosure of spending and financial prudence:** We also support the Bill's new mandatory disclosures of council spending. Requiring councils to report on expenditure on contractors and consultants in their annual reports (Clause 26(11)) is a useful measure. It responds to public concerns about councils relying excessively on external consultants or incurring high contracting costs, which can drive up expenses without clear benefit. Ratepayers deserve to know how much of their money goes to outside advice and services versus in-house delivery.
- 4.5 More broadly, greater financial transparency will shine a spotlight on whether councils manage operations efficiently. The Bill's general policy statement notes that some councils have been spending more than necessary even on the basics, a problem that better reporting and benchmarking can help identify and correct. We commend including measures aimed at curbing such inefficiencies and reinforcing fiscal discipline.
- 4.6 Rates and fiscal sustainability:** The context for the Bill's changes is the acute cost-of-living pressure associated with rising rates, which in 2024/25 jumped by an average of 12%, the steepest increase in at least two decades. Many councils have also set large increases for 2025/26. By refocusing spending on core needs and scrutinising performance, the Bill is intended to moderate the upward trajectory of rates over time. We support this intent. In our view, fiscal sustainability in local government requires expenditure restraint (just as it does for central government).
- 4.7 We note that the government is separately investigating a rate cap mechanism similar to that in New South Wales. The explanatory note explicitly links the new financial

⁴ *Localism: New Zealand Needs a Better System*, New Zealand Herald, 29 August 2024, <https://www.nzinitiative.org.nz/reports-and-media/opinion/localism-nz-needs-a-better-system/#:~:text=A%20survey%20by%20The%20New,Wellington%20to%20town%20halls%20nationwide>

management principle (prioritising core services) to preparing councils for a possible rates capping regime, by encouraging the same mindset that a cap would impose.

- 4.8 The Initiative acknowledges the appeal of a rates cap to protect ratepayers from excessive increases. However, there are serious challenges that make us urge caution. For example, if rates capping is to be effective in meaningfully reducing rates increases, it would need to apply to much of council spending, not just non-core spending. Yet doing so might risk underinvestment in important infrastructure, larger operating deficits, and higher debt. It could potentially raise concerns for the Local Government Funding Authority. And that is before considering critical design questions such as what the cap would be based on (CPI or an index of local government costs?), whether a cap would be one-size-fits-all or tailored for individual councils' circumstances, and whether an exemption process would allow rates increases above a cap? We therefore caution that a cap, if introduced, must be designed carefully. If it cannot be designed carefully, then it could be harmful and should not proceed.
- 4.9 An alternative to a rates cap would be to use local democratic tools to approve large spending projects over a set threshold of spending or debt, such as requiring ratepayer referendums. This echoes our earlier recommendations that empowering ratepayer participation is preferable to blunt central diktats in enforcing fiscal discipline. We elaborate on incentives and democratic engagement further below.
- 4.10 The Bill gives the Secretary for Local Government the power to issue *discretionary* rather than mandatory power to issue performance measure rules. However, we expect that this power will be used proactively to establish robust standards. In our view, transparency is a powerful sunlight remedy: routine publication of how each council is doing will create natural pressure for excellence and expose any lack of 'value for money' that frustrates ratepayers.
- 4.11 We therefore **recommend** adding a provision in the Bill that performance monitoring results be reported to Parliament periodically, to enhance oversight and ensure the information leads to continuous improvement.

5. STRENGTHENING GOVERNANCE

- 5.1 **Information access for elected members:** A critical governance reform in the Bill is Clause 12's new requirement for a council chief executive to ensure elected representatives have access to documents held by the local authority and are reasonably necessary to perform their duties.
- 5.2 We cannot overstate the importance of this provision. Our research has identified the withholding of information by council bureaucracy as a major barrier to effective local democracy. Currently, some elected members struggle to get timely or sufficient information from officials about council operations, undermining their ability to ask questions, scrutinise decisions, and make informed policy choices.⁵
- 5.3 By mandating information access, the Bill strengthens the hand of elected representatives to carry out their oversight role. This aligns with our recommendations in

⁵ Ibid

Making Local Government Work (2024) to reform information flows and empower elected councillors vis-à-vis council staff.⁶

- 5.4 We note that Clauses 21(3) and 25(9) of the Bill provide regulations to prescribe processes for information requests to operationalise this duty. We **recommend** that regulations on access to information emphasise a presumption of openness and quick turnaround ('as soon as practicable'), with minimal grounds for withholding.
- 5.5 In practice, councillors should not have to resort to statutory requests. A culture shift is needed where council management treats elected members as entitled to know what is happening in their council. This amendment is a big step in the right direction to bolster the connection between councils and communities by ensuring the people's representatives are fully informed.
- 5.6 **Standardised code of conduct and standing orders:** The Initiative supports measures in the Bill that bolster governance standards and democratic accountability within councils. A key change is to empower the Secretary for Local Government to issue a standardised code of conduct and set of standing orders that will be binding on all local authorities (Clause 25 amending Schedule 7 of the principal Act).
- 5.7 Although Local Government New Zealand (LGNZ) has a template code-of-conduct, currently each council adopts its own code. There has been inconsistent practice, and in some cases, they are sometimes used to stifle elected members' ability to hold their councils accountable and represent their constituents. We have been concerned by instances where councillors have been formally censured or silenced for outspoken views that displeased council management or colleagues, even when those views reflected their election promises.⁷
- 5.8 A nationally standard code, **if well-designed**, could prevent such abuses by making expectations clear and uniform and by upholding fundamental democratic principles. We are pleased that the Bill explicitly directs the new code to emphasise freedom of expression for elected members. Ensuring that councillors can freely exchange information and opinions is critical. Local democracy suffers when elected representatives fear reprisal for voicing dissent or raising concerns.
- 5.9 Equally, the code should set standards for professionalism and collaborative behaviour (as the Bill notes, fostering responsibility to work constructively is also a goal) so that robust debate does not descend into dysfunction.
- 5.10 We **recommend** that Clause 25 be explicit that the standard code of conduct must not inhibit a member's ability to promote their policy positions or represent their constituents. There have been cases of councillors excluded from debates and voting because, for example, they have previously called for small rates increases or have advocated on RMA plans and rules from a farming perspective.⁸
- 5.11 We **recommend** that any standard code of conduct should be developed in consultation with the local government sector to ensure it 'promotes public expectations of local

⁶ Ibid

⁷ The New Zealand Initiative (2024), *Making Local Government Work: Fixing the Democratic Void*, <https://www.nzinitiative.org.nz/reports-and-media/reports/making-local-government-work/>

⁸ Ibid

authorities' positively. Once in place, the code should give both councillors and staff clarity about acceptable conduct, and provide mechanisms to address serious misconduct without unduly muzzling elected members' voices.

- 5.12 Governance principles and training:** Clause 10 of the Bill amends the local governance principles (section 39 of the Local Government Act) to explicitly include the principles of free expression for members and of members working collaboratively to set the council's direction.
- 5.13 We support embedding these principles in law. Making them part of the governance principles sends a signal about the culture we expect in council chambers: vigorous debate, but ultimately teamwork in decision-making for the community's benefit. The Bill also requires that newly elected members be briefed on the standardised code of conduct at the start of each term.
- 5.14 This is a sensible step to ensure councillors understand their rights and obligations from the outset. We encourage the Committee to consider whether further induction or training requirements should be recommended. For example, training on standing orders, financial governance, and statutory obligations might improve elected members' effectiveness and reduce friction.
- 5.15 We have previously called for better equipping local representatives with the tools and authority to oversee council operations, including using artificial intelligence.⁹¹⁰ Part of that is clarity of rules and part is capability-building. While much of the latter is outside the scope of this legislation, noting its importance could be valuable for broader reform efforts.

Auckland's Mayoral Model

- 5.16 A further way to improve democratic oversight and strengthen governance would be to strengthen mayoral powers. Auckland Council's legislation uniquely enables it to establish and maintain a mayoral office with staff accountable to the mayor rather than the chief executive. This provides independent advice and support for implementing the mayor's democratic mandate. Hon Simeon Brown, the previous Minister of Local Government, floated this idea in his speech to LGNZ in August 2024, and it was also recommended by *Making Local Government Work*.¹¹¹² We believe there is a strong case for such an office and staff to be available to all councils, on an opt-in basis.
- 5.17 Eventually, we would like to see the adoption of a strong mayor/executive mayor model, used in many international jurisdictions. *Making Local Government Work* shows how Germany's state of North Rhine Westphalia changed its system in the 1990s from a

⁹ Ibid

¹⁰ The New Zealand Initiative (June 2025), *Smart Support for Councillors: AI Tools for Local Leaders*, <https://www.nzinitiative.org.nz/reports-and-media/reports/smart-support-for-councillors-ai-tools-for-local-leaders/document/881>

¹¹ Hon Simeon Brown, Minister of Local Government, *Speech to Local Government New Zealand Conference*, 22 August 2024, <https://www.beehive.govt.nz/speech/speech-local-government-new-zealand-conference-0>

¹² *Making Local Government Work: Fixing the Democratic Void*, Op cit.

system not dissimilar to New Zealand's to one where the roles of mayor and chief executive are combined. It has been widely regarded as a success.¹³

- 5.18 We **recommend** that the Committee consider immediately extending the Local Government (Auckland Council) Act 2009's provisions on Auckland's mayoral office to all councils, on an opt-in basis. It should also consider the merits of adopting a strong mayor/executive mayor model.

Giving Council Elected Representatives the Powers and Duties of Company Directors

- 5.19 *Making Local Government Work* also observed that provisions for governance and management in the Local Government Act do not align well with corporate governance legislation (in the Companies Act), which provides stronger powers for directors. The report suggested reform could strengthen elected representatives' oversight role by adopting corporate governance principles.

- 5.20 We therefore **recommend** that the Committee consider whether elected representatives should have powers of oversight similar to those of company directors.

Summary of Strengthening Governance

- 5.21 In summary, the Initiative believes governance reforms are crucial to remedy what we have called a "subversion of democratic accountability by council administrators".¹⁴ By re-balancing authority favouring elected officials and the public interest, the Bill takes New Zealand closer to more functional local democracy.
- 5.22 We urge the Committee to ensure the Bill's governance-enhancing provisions (code of conduct, information access, governance principles) remain strong and not weakened. We would oppose any amendments that might dilute the freedom of expression principle or the councillor information rights.
- 5.23 We **recommend** the Bill should require the Department of Internal Affairs to report on council compliance with provisions on codes of conduct, information access, and governance principles.
- 5.24 We also urge the Committee to go further in considering making the Auckland mayoral office available to all councils (on an opt-in basis); the merits of moving to a strong mayor/executive mayor model; and whether elected representatives should have powers and duties similar to those of company directors.

6. REGULATORY RELIEF AND OTHER MATTERS

- 6.1 Finally, we note the miscellaneous provisions in the Bill that provide regulatory relief and clarify certain legal requirements for councils. We broadly support these changes as pragmatic improvements that reduce unnecessary burdens and update outdated provisions. We will confine our comment to one aspect of regulatory relief.

¹³ Ibid.

¹⁴ The New Zealand Initiative Insights Newsletter, *Making Local Government Work: Fixing the Democratic Void*, 13 December 2024.

- 6.2 Chief executive term extension:** The Bill extends the maximum length of a council chief executive's second contractual term from 2 to 5 years (Clause 34). Under current law, a chief executive is typically appointed for up to 5 years, and may be reappointed for a second term of up to 2 years without readvertising. The Bill will allow that second term to last 5 years. This change presumably aims to give councils more flexibility to retain good chief executives and reduce the frequency of costly recruitment processes.
- 6.3 While we understand the rationale, we urge caution. There is a balance to strike between continuity in management and preventing undue entrenchment of power. As discussed earlier, council chief executives significantly influence council operations and information. Limiting their term was one check to ensure periodic contestability of the role and a chance for fresh leadership. Extending the term means a chief executive could now serve 10 years straight (5+5) without opening the role to new applicants. In some councils, this might work well; in others, it could allow a poor-performing or overly dominant chief executive to remain in place longer.
- 6.4 On balance, we do not oppose the extension, but we believe councils must adopt strong performance monitoring for their chief executives. If a second-term chief executive is to stay on for up to five more years, the council should set clear performance expectations and milestones to justify that extended tenure.
- 6.5 We therefore **recommend** the Committee consider whether and how the governance oversight of chief executives can be bolstered. This could be done through providing mayors and councillors with the powers and duties of company directors (as recommended in *Making Local Government Work*). At the very least, they should be provided guidance or training on chief executive performance reviews.
- 6.6 In short, additional tenure is fine for good leaders, but there must be accountability. Our research into local government dysfunction has often traced issues to breakdowns in the mayor/councillor–chief executive relationship, sometimes with long-serving executives resistant to the agenda of newly elected councils.¹⁵ We therefore emphasise that an extended chief executive term should not be seen as an entitlement – it must be earned and accompanied by diligent oversight.
- 6.7 There should be a watching brief on the impact of the chief executive term extension. We **recommend** that the Department of Internal Affairs be required to monitor how many councils use the longer second term for the chief executive and whether any governance issues arise from it over time. This would allow adjustments in future if needed.

7. INCENTIVES AND FISCAL SUSTAINABILITY

- 7.1 While rules and transparency are important, the Initiative has long stressed the role of incentives in achieving sustainable, high-performing local government.
- 7.2 Our emphasis on incentives reflects a localist approach. It encourages and rewards strong local performance rather than relying solely on top-down control. Under this model, high-performing councils effectively earn greater autonomy and support over time, aligning with the Initiative's view that local authorities should be entrusted with more responsibility when they demonstrate the capacity to deliver. In short, incentivising

¹⁵ *Making Local Government Work: Fixing the Democratic Void*, Op cit.

success helps to empower councils, reinforcing that improvements come from *within* local communities rather than from central mandates alone.

- 7.3 We **recommend** that the Committee consider how the Bill's reforms could be complemented by incentive-based mechanisms that align council decision-making with the long-term interests of communities and the nation.
- 7.4 **Incentives for good performance:** Councils that demonstrate fiscal prudence and effective service delivery could be rewarded with greater autonomy or financial benefits. For example, central government could share a portion of economic growth dividends or tax revenue with councils facilitating housing development or business expansion. Such incentives would encourage councils to actively enable growth (through sound planning and efficient regulation), knowing that their communities will directly benefit financially.
- 7.5 This could address the current misalignment where local authorities bear the costs of growth (infrastructure, congestion, etc.). However, much of the tax benefit (e.g. GST from new construction, minerals royalties) accrues to central government. The Initiative has previously recommended a scheme of sharing GST on new housing with councils to incentivise more land release and construction – a policy that would simultaneously help with housing supply and local revenues¹⁶
- 7.6 We recognise that the Bill itself does not delve into funding tools (and indeed the Minister has ruled out new or increased funding in the short term, focusing on value-for-money first). However, fiscal sustainability of local government in the longer term will likely require giving councils access to growth-related revenue or grants conditioned on outcomes.
- 7.7 In its report, we suggest the Committee signal the value of exploring such incentive mechanisms in future reforms. A carrot-and-stick approach – where good performers are rewarded and poor performers face more oversight – could transform the culture of local government. This idea finds support overseas and in economic theory: competition and incentives can improve efficiency better than blanket rules alone.
- 7.8 **Ratepayer empowerment:** Another incentive-related reform the Committee could consider is facilitating greater direct involvement of ratepayers in fiscal decisions, as a check and balance on council spending. The Bill addresses the supply side of the equation (what councils are required or allowed to do); empowering the demand side (residents and ratepayers) is equally important. We recommend considering an amendment to enable local referenda on significant non-core projects or unusually large rate increases.
- 7.9 As suggested earlier in this submission, a binding referendum of local electors could be required if a council wishes to embark on expenditure outside core services – such as building a new museum or stadium. This would ensure community buy-in for projects that might otherwise strain budgets, and give councils a mandate (or a convenient 'no' if the public rejects the spending). Ratepayer referenda on big-ticket projects and significant rate hikes would enhance localism by giving power directly to the people who pay the bills. It also serves as a disciplinary mechanism: councils would more carefully assess projects if they know they must justify them to voters.

¹⁶ The New Zealand Initiative (August 2024), *Revenue Share for Housing*, <https://www.nzinitiative.org.nz/reports-and-media/reports/revenue-share-for-housing/>

- 7.10 Some international jurisdictions require public votes for certain expenditures, which has been credited with keeping local government responsive and fiscally sound. We submit that introducing a similar democratic check in New Zealand could strengthen the Bill's objectives. It would shift some 'oversight' from central imposition to local consent, a more localist solution consistent with our philosophy of bottom-up accountability.
- 7.11 **Differentiated regulatory treatment:** A further incentive approach links regulatory freedom to performance. Central government could, for example, relax certain regulatory requirements or oversight for councils that meet defined benchmarks. Conversely, councils that consistently underperform might face more intervention.
- 7.12 The concept of 'earned autonomy' could encourage improvement: high-performing councils get more say in local matters (or fewer audits, etc.), which rewards their success and frees up resources. The Bill already provides general regulatory relief to all councils (discussed in the next section), but an adaptive framework could be the next step. This idea was hinted at in the government's *Regional Deals* and other initiatives – partnering with capable councils and building trust through success. We support those moves and see this Bill as part of creating conditions for such partnerships to flourish (by ensuring all councils adhere to basic good practices).
- 7.13 In summary, aligning incentives is key to lasting fiscal sustainability. Rules can stop the worst excesses, but positive incentives and empowered communities drive excellence. The Committee's work in refining this Bill is an opportunity not just to tighten controls but also to lay the groundwork for a more devolved, innovation-friendly local government future. This would be a future where councils are motivated to excel, and those that do are trusted with more responsibility. We encourage the Committee to keep this broader vision in mind and, where possible, to incorporate incentive-based thinking into the Bill or its report on the Bill.

8. CONCLUSION

- 8.1 Supporting a refocus on core local government services is fully consistent with our enduring commitment to localism and subsidiarity. We endorse the Bill's measures to sharpen councils' core responsibilities on the understanding that they will be coupled with robust safeguards for local autonomy. These include ratepayer approval requirements for major initiatives, a performance-based *earned autonomy* framework, strengthened local governance arrangements, and appropriate incentive mechanisms.
- 8.2 By balancing clear expectations for service delivery with these protections for local decision-making, the Bill can improve local government outcomes without compromising the fundamental principle that government functions should be carried out at the most local level possible.
- 8.3 The Bill is a constructive move toward a more disciplined, efficient local government sector, but it can be improved. We believe our recommendations would enhance these outcomes and address gaps (such as better prioritisation of core services, improving democratic oversight, and incentivising good performance).
- 8.4 We hope the Committee finds this submission helpful for its deliberations.

ENDS