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A Conversation with the Hon. Dr. Michael Bassett

In Brief:

As municipal governments struggle in a time of tax fatigue and high expectations for services, public tolerance for the old system is fraying. Recent experience elsewhere may offer solutions.

In October 1997 the Frontier Centre for Public Policy presented an overview of New Zealand's local government reforms by the Honorable Dr. Michael Bassett. As a Labour Party MP in New Zealand he was Minister of Local Government and the Minister of Health. Dr. Bassett was responsible for the dramatic reform of local government carried out between 1987 and 1990. Among other things these reforms:

- *Clarified the role of elected councils in relation to the city managers*
- *Imposed a performance-based framework on local government operations with mandatory competition required for the delivery of local government services*
- *Required municipalities to set up all commercial activities as taxpaying businesses facing normal business disciplines.*

The result: dramatic cost reductions, lower taxes, and a performance based culture which stresses efficiency and customer service. Cities and towns now contract out about 75% of their services.

The following interview with Dr. Bassett discusses general municipal reform and implications for Winnipeg's city government.

Frontier Centre: Some people believe that Winnipeg's high property taxes can substantially be traced back to the 1972 amalgamation of 12 municipalities into Unicity. Part of your reform process included amalgamation, but the results have been different than here since your reforms went beyond merely making smaller governments into bigger ones. What was the problem as you see it in the 1972 amalgamation of Winnipeg?

Michael Bassett: It seems that combining or attempting to combine the whole of Winnipeg, pulling in a half million people plus into just one local authority could be a problem. In New Zealand, no local authority is [responsible for] more than about 350,000. There are about three in that range, Wellington, Auckland, and Christchurch, but in all cases there is a degree of contestability within the region. There are four local authorities in the Wellington area. In Auckland there are five local authorities that would be part of the main area. In Christchurch, there are one or two others. Your point is a good one, that it is desirable to have a degree of contestability of size. But, by itself, size doesn't actually really guarantee whether you're going to have successful local government.

It's entirely dependent on the requirements that the legislation imposes upon that local government. There is a size for local government that is too small. In New Zealand, one of the problems [with] a lot of smaller local authorities was that if they were under about 7,500 (and certainly there were lots below 5,000), then you invariably found that you couldn't attract good staff and frequently you had the town planner doubling as the rat catcher or the dog registration officer. There was no degree of speciality at all. Exactly what the optimum level is I don't know.

It might well have been in Winnipeg's interests to have had two or possibly three local authorities, and I imagine that if you really put your mind to it you wouldn't have much difficulty defining communities of interest. I think you'd need to be careful about how you did that. It is not desirable to have all the low-income areas gathered into one local authority,

all the high income into another. It would be much better to try and divide your city in a way where there was a balance.

FC: If we look at New Zealand's largest metropolitan area, Auckland, with over one million people, you said there were six or seven local authorities. So in a sense there is some level of natural competition. The community of Papakura has 45,000 people and runs on a particular model that has produced much lower taxes. Can we assume that eventually Papakura property values will go up as industry is attracted there from other places with a less efficient model?

MB: I think it's likely over time that that is what will happen. It is a powerful beacon and a reminder to other local authorities, the fact that in their midst the five other neighboring authorities have this creature called Papakura which delivers all the same services as the rest of them do, and does so for significantly less money. At least three of the other local authorities share a local paper with Papakura. Papakura's performance is constantly understood by others and it remains as a question mark for residents of neighbouring Manukau City or Auckland City: why is Papakura able to deliver services at such a cheap rate? So there is a degree of contestability, which is desirable.

FC: Before Winnipeg's amalgamation, we had, for example, the City of St. James operating a service delivery model similar to Papakura. They chose to contract a lot of their local services and they became quite well known for their low taxes. Amalgamation forced St. James into a one-size-fits-all system and eliminated its unique, low-tax service delivery model.

MB: The contestability between the municipal communities within the wider Winnipeg area just vanished.

FC: Yes, you were stuck with a one-size-fits-all amalgamation. You mentioned before that you can amalgamate, but you don't want to amalgamate and run it like the Bulgarian post office. Can you describe some of those framework changes that would allow larger scale government to operate on an efficiency basis?

MB: We placed what we can call accountability and transparency arrangements into local government legislation. The legislation of 1989 required councils to be a lot more open in how they set their budgets. Council had to signal its intention to raise [a stated] amount of money each year and lay out the plans for spending. There had to be a formal opportunity for people to object. Councils must advertise what they're doing. They must have an annual plan, they must signal it in advance before they formally adopt it. They must make it absolutely clear what they intend to spend on items within the plan, and only at the point where they have consulted the public and afforded them an opportunity to have their input should the council actually fix its rates. So accountability is important.

Where councillors had put plans before the public and then gone back and changed it, it took several raps over the knuckles in two or three quite serious court cases to realise they couldn't do that. I think you can conclude that the changes resulted in a little more discipline for local government.

FC: What about transparency, or making costs and results of spending obvious to all?

MB: Local government, particularly those that had a lot of [commercial operations], ran rather like the wider NZ economy, that is, a bit like a Bulgarian post office - no one knew what was in what account. It was impossible to tell how much services cost. One of the purposes of change was to find out how much things cost so that you could compare and work out where you were getting a good deal.

The legislation obliged local authorities to set up Local Authority Trading Enterprises or LATEs. Every activity had to be put in a separate account and had to be dealt with as an entity in its own right. Subsidies were recorded and everything was out in the open.

The requirement for running any commercial activity in a transparent manner is also equally important. If you're engaged in electricity distribution or gas distribution or you've got a forest, as Dunedin had, or if you've got motels as Napier had, then you've got to run those as a commercial entity, as a LATE. If they receive any assistance from the ratepayer in any way, that's got to be obvious and above board and everybody's got to know that the taxpayer is pouring money into keeping the motels going, for instance.

FC: Often here we will find that the city council gets involved in small operating issues like local zoning. These are items its professional administrators should more appropriately handle. Your local government legislation clearly separates the role of the council from that of the administration. How do you prevent a system developing where,

when you have a problem with a service, citizens contact their councillor to work the system to deal with the complaint?

MB: In our system, issues of that kind would almost certainly be taken up in the first instance with the Community Board. [For] example, Auckland City has six or seven Community Boards. They are elected on the same day as the mayor and councillors. They consist of seven elected members within the ward, plus the two or three [elected] councillors. So a Community Board is likely to number nine or ten people.

The Community Board people are paid a small honorarium. The councillors, when they attend the Community Board meeting, don't get paid a second time; they are paid in their own right as councillors an honorarium, but they go along to the Community Board. The aggrieved citizen, who is worried about a stop sign or wants to see some progress on Anderson Park or feels that there ought to be a sculpture commissioned to recognize some famous local citizen and it should be put in the park down the road would normally take those issues up with the Community Board.

These boards have some clout. They are democratic organizations in the sense that all registered electors have an opportunity to vote for them and they do it on the ballot paper on the same day as the council is elected. Some of the people who get on those bodies are small-minded people, but after all, that is the smallest level of what is essentially parochialism, your local riding operation within what is a larger level of parochialism, the city as a whole.

On a big picture basis, the clearer identification of roles between the council, as the board of directors, and the chief executive, who handled operating functions, was the single most important administrative change. We scrapped the idea of a permanent chief executive. All are on contract, most of them for five years. That was a very important move because there was another problem with local government. You had a permanent chief executive but you had councillors who didn't have too much to do and would come in and second-guess what the chief executive was doing. The new system more clearly separated elected from administrative functions.

FC: Winnipeg is experimenting with some internal delivery reforms called special operating agencies. These are internal business units that enjoy considerable autonomy from the bureaucratic rules within government systems that bog down services and raise costs. Essentially, they are a watered-down version of your LATE model. Your LATEs are subject to less favoritism. To create a neutral playing field, your legislation requires government services organized as LATEs to pay GST, pay cost of capital, and other items that private suppliers pay. What is the point of that?

MB: Our government debated long and hard when the GST legislation was passed, whether there would be exemptions. Absolutely the right decision was made that everything was taxed, all goods and services including and government services [with] no exemptions. There are ways in which you can claim it back, but it is a system which has no major anomalies simply because everything was included. Lots of people wanted us to exempt food and doctors fees and others wanted us to exempt property taxes (called rates in NZ). There was an element of a tax on a tax - we had GST on rates, too. But our answer to that is that rates ought really to be regarded as a fee for a service. That places a real responsibility on you to ensure that the services the council delivers have a user-charge basis.

FC: Let's go beyond that, though. There's also the cost of capital. There's also, I would imagine, is a corporate income tax on a LATE, for example. It does generate profit; it's required to generate a certain return. My understanding is that that's required again in New Zealand to have neutrality.

MB: There's no exemption for LATEs vis-à-vis any other enterprise or service provider.

FC: So they would pay income tax?

MB: Yes, on the same basis as everybody else. The only exception to paying income tax is if you come within the ambit of being a charitable organization and the income tax department is very careful at defining tightly what is a charitable organization. There's no doubt that a trading organization of a local authority doesn't fit that category.

FC: In Winnipeg we have an electricity supplier called Winnipeg Hydro, owned by the city. Since it's a government organization, it is exempted from paying corporate income tax. Consequently there is a perception out there that government ownership means lower costs. Isn't that a distortion?

MB: Seems like it to me!

FC: Now, you tax your hydro companies even if the government owns them.

MB: They couldn't advance any argument for being treated like a charity. That was one of the absolute principles of our reform mechanism. I mean, as soon as you gave a tax break to some organization then distortions came into the operation. You immediately gave an advantage to the local authority that a private concern which may have wanted to tender to do those jobs couldn't match! So you'd always load the thing in favour of the LATE and you couldn't ever contemplate going out to tender. Well, we simply made the decision that it was a level playing field.

FC: I understand that the experiment with LATEs has not been as successful as first hoped.

MB: My assessment is that, while they were a step forward, and they forced councils to examine their objectives rather better, they were really no more than a halfway house. They were bureaucratic, had large overheads, lacked clear objectives and invariably had directors who were often councillors. They didn't break the monopoly in the service, they didn't guarantee "user pay", so after a while the costs began to rise again.

Throughout NZ, the setting up of the LATEs showed about a 10% cost saving. Later, when several councils went to sell their LATEs, there was no bidder! The evidence we have now is that contracting out saves more money than can ever be saved by turning a council-run enterprise into a LATE.

FC: Let's talk again about Papakura, the community of 45,000 in the Auckland area that contracts out all services. Could you give us some of the details?

MB: In 1990, the mayor and the senior council staff and the councillors decided that the savings they were making from running refuse, water and sewerage, roading, footpathing and whatever else they were running as LATEs, were not adequate, and that they could do better. They arrived at the conclusion that the LATE was really not much more than the old council enterprise, the council workshops, the council offices, albeit running their accounting systems more efficiently. It was the same culture, the same workers, the same workplace, the same equipment, and it would be highly advantageous if they were done away with. So the council just simply decided to contract out.

In 1990 the decision was taken to make redundant 110 of the 130 staff currently on the books of Papakura city council. The council was obliged to give one month's notice. The council gave two month's notice and it was generous with redundancy arrangements. The council made its most senior staff available to help the redundant get new employment.

On the very same day, the council announced publicly that it was putting out to tender all those things that had previously been handled by the LATEs. They were astonished to discover how many tenders they got, a lot for refuse (30 plus), a lot for water, less for roading (4). They made their choices and duly tendered these things out. What very quickly became clear was that many of the workers who had received their redundancy arrangements were sought out and employed by the successful tenderers for providing the council services. When you think of it this is not very surprising, because they had the know how. Within 12 months, only one of the 110 staff was still unemployed and 50% of the workers had found jobs with private contractors who were now tendering for the city functions.

FC: The argument here is that the savings from contracting will come out of the hides of the workers.

MB: Well I can't answer that point because I don't know how generous the new Papakura District Council was with its workers' pay. In some cases workers in LATEs had actually been getting as much as double what the going rate was in the private sector. That was true, for instance, of the bus drivers who were employed by the Auckland Regional Authority. What I have heard is that the private companies that tendered did have bonus arrangements, and that's not unheard of in the private sector in New Zealand. It is actually less well known in the public sector. It has been rare for workers employed by a local authority or government to get bonuses.

FC: How many employees is Papakura working with now, what have the savings been?

MB: The number of employees has dropped from 130 to 20 in Papakura district council. There are 16 on the desk out front, running advisory services, and staff [like] the chief executive [and] the accountant, but you've got a total of 20. The savings that have been made in roading (streets), have been in the order of 30%. The savings that have been made in refuse collection have been in the order of 30%. The savings in water and sewerage have actually been higher. The actual

outlay of the Papakura District Council, which in 1990 was around \$13 million every year, is now only around \$11 million. It actually dropped down to \$9 million and has gone up to \$11 million with inflation. So services are still being delivered in Papakura for significantly less than they were in 1990. I don't think any other local authority in NZ can boast that sort of result.

FC: What's the public's perspective on the new model?

MB: The public was asked if they were happy with the services (70% said yes) and whether they thought services were being delivered by the council, by private contractors, some combination of the two, or in partnership with other local authorities. Eighty-two percent thought the council was providing the services!

FC: What is your quick suggestion for Winnipeg based on your short experience here?

MB: There are elements of the Cuff report that are useful, particularly relating to the management structure at the top. I doubt very much whether there's anything in the report, at least not from the various press comments that indicate that there are recommendations for contracting out services. That's where the big savings will be made.

Administrative changes are always the first suggestions for change. They're simple suggestions, made without getting minds around the big issues. Eventually, if one is worried about cost and quality performance, then you have to go a lot further than that. I suspect that the report, if some of its recommendations are implemented, will only go some of the way and it won't be long before you are revisiting the whole question of the cost structure of Winnipeg which appears to be excessive.

As to whether anything would be gained by dividing the city, there are costs and disruptions involved in separating the cities out and arriving at the process of contestability. The gains from doing this are probable but not measurable. The costs might actually not be worth it, whereas there would be big savings that could be made were the city to move on privatization of commercial functions as soon as possible.



Michael Bassett is a Historian and author. He was the Minister of Health and the Minister of Local Government in New Zealand's Labour Government between 1984 and 1990. Dr. Bassett was responsible for promoting the dramatic reform of local government carried out between 1987 and 1990. He resides in Auckland, New Zealand. His most recent book is "The State in New Zealand 1840-1984: Socialism without Doctrines?" published in 1998 by Auckland University Press.