

Submission by



to the

**Governance and Administration Committee**

on the

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

**August 2025**

# **LOCAL GOVERNMENT (SYSTEM IMPROVEMENTS) AMENDMENT BILL SUBMISSION BY BUSINESSNZ<sup>1</sup>**

## **1.0 EXECUTIVE SUMMARY**

- 1.1 BusinessNZ welcomes the opportunity to make a submission on the Local Government (System Improvements) Amendment Bill (“the Bill”).
- 1.2 While BusinessNZ strongly supports the Bill, there are a few specific issues which BusinessNZ wishes to comment on in further detail.
- 1.3 BusinessNZ notes that key reforms in the bill include, amongst other things:
  - A renewed focus on core services in the statutory purpose of local government by removing the four ‘well-beings’ and
  - A requirement to prioritise core services when managing finances and setting rates.
- 1.4 Local Government has a vital role to play in advancing the overall standard of living of New Zealanders. However, that role is not all-encompassing but needs to be established on a principled basis and properly circumscribed.
- 1.5 The business sector pays a significant share of the country’s rates bill, and the level of rates paid is often entirely disproportionate to the level of services received. The situation is exacerbated by the generally wide use of business/commercial rating differentials despite strong evidence supporting their removal. Where councils have agreed to reduce such differentials, they have often been tardy in doing so, tending towards incremental change due to “expenditure pressures”. Rates should be gathered in respect to services rendered, not as a general taxation mechanism, as appears often to be the case.
- 1.6 Other common concerns expressed by the business community include the role and functions of local government (power of general competence), funding allocation mechanisms and mix (including transparency and caps), size of local councils (including the potential for economies of scale), and issues relating to the imposition by central government of further costs on local government via regulation.

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<sup>1</sup> Background information on BusinessNZ is attached as Appendix 1.

- 1.7 Section 1 covers general comments on the Bill while Section 2 covers specific clauses, and proposed amendments to some clauses.
  
- 1.8 Given the diversity of our membership, some members and sectors will have specific issues they wish to comment on in some depth. For example, one Council Controlled Organisation (CCO) has expressed concern about the Bill with its focus on provision of core services, believing that it may restrict the ability of CCOs to diversify into other complimentary activities, including utilising their land to its greatest potential. Secondly, they are concerned with aspects of the disclosure regime (Clause 12 in particular) believing that it may have potentially perverse outcomes, particularly in respect to disclosure of potentially commercially sensitive information. As a result, BusinessNZ has encouraged individual members and sector representatives to make their own submissions raising those issues considered specific to their individual business models.

## **RECOMMENDATIONS**

BusinessNZ **recommends** that the Bill proceeds.

### **Without prejudice to the above recommendation:**

BusinessNZ **recommends** that:

#### **Clause 4 Section 3 amendment (Purpose) 3(d):**

- Delete the word "broad" from 3(d).
- Include in the Interpretation a definition of what "*good quality*" is in the Bill. BusinessNZ would suggest that "*good quality is efficient, effective and appropriate to present and anticipated future local circumstances*"
- Replace "*local public services*" with "*local public goods*" to better reflect the appropriate role that local government should have at a local level.
- Include in the Interpretation a definition of public goods. BusinessNZ would suggest that "*Public goods are non-rivalrous in consumption and non-excludable of consumption*" or words to that effect.

For clarity, 3(d) would now read:

***"Provides for local authorities to play a role in meeting the current and future needs of their communities for good-quality local public goods and performance of regulatory functions."***

BusinessNZ **recommends** that:

#### **Clause 5 Section 5(1) amended (Interpretation)**

- Replace "services" with "goods".

BusinessNZ **recommends** that:

#### **Clause 6 Section 10(b) replaced (Purpose of local government)**

- Replace "services" with "goods".

BusinessNZ **recommends** that:

**Clause 7**    **New section 11A inserted (Core services to be considered in performing role)**

- **Each item under core services should be clearly defined in legislation to ensure there are boundaries associated with each so-called core service.**
- **Alternatively, amend the proposed list under clause 11A to read: *"In performing its role a local authority must have particular regard to the efficient provision of local public goods and the administration of appropriate regulation at the local level."***

## **2.0 SECTION 1: GENERAL COMMENTS**

- 2.1 According to Local Government NZ (LGNZ), in 2024 councils across the country were responsible for \$217 billion worth of assets and employed 39,400 staff. In the year ending March 2025, they had a collective spending power of around \$18.5 billion which equates to around 4% of NZ's Gross Domestic Product (GDP)<sup>2</sup>
- 2.2 Ratepayers across New Zealand have continued to face significant rate rises over recent times, often in double digits, while core service delivery continues to be found wanting in such fundamental areas such as roading and water provision. The Government's priority of ensuring that local government does the basics well is supported by the business community.
- 2.3 The business sector pays a significant share of the country's rates bill, and the level of rates paid is often entirely disproportionate to the level of services received. The situation is exacerbated by the generally wide use of business/commercial rating differentials, despite strong evidence supporting their removal. Where councils have agreed to reduce such differentials, they have often been tardy in doing so, tending towards incremental change due to "expenditure pressures." Rates should be gathered to fund services rendered, not as a general taxation mechanism, as appears often to be the case.
- 2.4 Local Government has a vital role to play in advancing the overall standard of living of New Zealanders. However, that role is not all-encompassing but needs to be established on a principled basis and properly circumscribed.
- 2.5 The Explanatory Note to the Bill clearly outlines the problems associated with the current law relating to local government in that it does not adequately focus councils on operating efficiently, on delivering those services that only councils can provide, or on performing those roles that only councils can perform. The Explanatory Note goes on to outline the difficulties of having a very broad purpose statement as currently set out in the Local Government Act 2002, encompassing social, economic, cultural and environmental well-being.
- 2.6 Specifically, the Bill introduces a new purpose statement for local government with the Bill:
- Removing all references to the 4 aspects of community well-being; and

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<sup>2</sup> Source: Local Government New Zealand (LGNZ) and StatisticsNZ Local authority statistics March 2025 quarter (12 June 2025).

- Reinstating the purpose of being focused on the cost-effective provision of good quality local infrastructure and public services; and
- Reinstating the specific core services a local authority must have particular regard to in performing its role.

2.7 These amendments are intended to provide clearer direction for councils and help them balance their spending decisions with rates affordability.

2.8 While BusinessNZ considers that the proposed purpose statement is a giant leap forward towards providing Local Government with a clearer focus, there is still a way to go to ensure that Local Government focuses on its proper role, which is principally the provision of local “*public goods*” rather than local “*public services*,” given that public services could be interpreted as essentially any business or other activity which a council wanted to involve itself with. BusinessNZ considers it would be desirable to focus local government on the provision of local public goods, since the likelihood is that their provision will otherwise be inadequate.<sup>3</sup>

2.9 While on the margins there will always be debate about what constitutes a public or private good, a diagram from a Local Government Forum (LGF) publication, “Local Government and the Provision of Public Goods” (November 2008), provides a very useful overview of some of the key goods and services many local authorities are currently providing. The intention is to categorise the goods and services as either relatively pure public goods, or private goods, based on the fundamental tests of *rivalry in consumption* and *excludability of consumption* (private good) and *non-rivalry in consumption* and *non-excludability of consumption* (public good). This table would provide a good basis on which to focus local government provision of core public goods.

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<sup>3</sup> See Local Government Forum (LGF) publication “Local Government and the Provision of Public Goods” (2008) for a fuller description on the role of local government and the provision of both public and private goods.

		Rivalry in consumption →		
		Public goods		
Excludability of consumption ↓		Low	Medium	High
	Low	Street lighting, street and traffic signs, parks and reserves, civil defence, public health and safety (eg security cameras), and democratic, representative and regulatory functions	Low-use roads, footpaths and cycleways	Remedying marine pollution, biosecurity (pests and noxious plants) and graffiti removal from public facilities and areas
	Medium	Flood protection	Sports grounds, public conveniences and bus ways	High-use roads, tourism promotion, economic development
	High	Museums and galleries	Public libraries, swimming pools, indoor recreation facilities and public venues	Ports, airports, public transport, water and waste water, rubbish disposal, cemeteries, car parks, cinemas and housing
				Private goods

**Source:** Local Government Forum (LGF, November 2008), "Local Government and the Provision of Public Goods."

2.10 It is noted that New Section 11A inserted (Core services to be considered in performing role) states:

*"11A Core services to be considered in performing role*

*(1) The following services are the core services of a local authority:*

*(a) network infrastructure:*

*(b) public transport services:*

*(c) waste management:*

*(d) civil defence emergency management:*

*(e) libraries, museums, reserves, and other recreational facilities.*

*(2) In performing its role, a local authority must have particular regard to the contribution that the core services make to its communities.*

*(3) In **subsection (1)(d), civil defence emergency management** has the meaning given to it in section 4 of the Civil Defence Emergency Management Act 2002"*

2.11 While some of these so-called core services outlined in Section 11A could be considered public goods, they tend to constitute a very broad suite of issues

extending well beyond what are characterised as public goods in the diagram above.

- 2.12 It is suggested that the focus should be on the provision of those goods and services in the top left box (e.g. street lighting etc) which are clearly public goods, with a lower focus on the provision of those goods and services in the bottom right-hand column (e.g. ports etc) which are essentially private goods. This would help more clearly direct councils to core (public good) activities.

### **3.0 SECTION 2: SPECIFIC COMMENTS ON THE BILL**

#### **Clause 4 Section 3 amendment (Purpose) 3(d):**

#### **3.1 "Part 1 Amendments relating to system improvements"**

#### **Clause 4 Section 3 amended (Purpose)**

- 3.2 While there will always be debate around the words used in the purpose statement, the clear intention with the proposed change is that local government should stick to core activities to the extent practicable, with the emphasis on providing the goods and services (including infrastructure) that only local government can provide.
- 3.3 BusinessNZ considers it desirable for local government to focus on the provision of local public goods, since the likelihood is that their provision will otherwise be inadequate. There is little incentive for the private sector to provide goods and services where the return on investment is likely to be low or in the worst case, non-existent.<sup>4</sup>
- 3.4 The distinctive features of public goods are first, non-payers cannot easily be excluded from receiving the benefit others pay for (that is, public goods are susceptible to free riding) and, second, one person's consumption does not reduce the consumption opportunities of others. These are known as the non-excludability and non-rivalry characteristics of public goods.
- 3.5 While BusinessNZ considers that the new proposed section is a vast improvement on the status quo, we consider that it would be prudent to make three adjustments to the proposed purpose statement.

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<sup>4</sup> See Local Government Forum (LGF) publication "Local Government and the Provision of Public Goods" (2008) for a fuller description on the role of local government and the provision of both public and private goods.

- 3.6 The first change, BusinessNZ would recommend deleting the word “broad” from proposed section 3(b) as it implies a wide mandate whereas BusinessNZ wants a greater focus on local public goods as per above.
- 3.7 The second change, is that it would be desirable to define what “*good quality*” is in the Bill. BusinessNZ would suggest that “*good quality is efficient, effective and appropriate to present and anticipated future local circumstances.*” This would help define the role of councils and assist them to plan and prioritise activity at a local level, taking into account local circumstances and ratepayers’ willingness to pay and trade-offs they may be prepared to make given the costs and benefits of particular options.
- 3.8 Regulators usually have strong incentives to minimise their own risk by imposing higher standards than might otherwise be justified. Because regulators do not bear the costs associated with their decisions (costs will ultimately be passed on to consumers), they may over-regulate rather than be aware of, or adequately consider, the cost/quality trade-offs consumers are willing to make. Given that each is unique, individuals will have different risk profiles - some may be willing to pay a considerable amount to minimise risk, while others may want to invest little in reducing real or perceived risk.
- 3.9 From an economic perspective, risk involves a consideration of two matters:
1. The need for more resources, including time and money in order to reduce risk; and
  2. That people’s actions, in light of what must be given up in terms of increased cost or whatever else is seen as desirable, indicate an acceptable level of risk well short of zero.
- 3.10 The third change BusinessNZ would recommend is that “*local public services*” be replaced with “*local public goods*” to better reflect the appropriate role that local government should have at a local level.

BusinessNZ **recommends** that:

**Clause 4 Section 3 amendment (Purpose) 3(d):**

- **Delete the word “broad” from 3(d).**
- **Include in the Interpretation a definition of what “*good quality*” is in the Bill. BusinessNZ would suggest that “*good quality is efficient, effective and appropriate to present and anticipated future local circumstances*”**

- Replace "*local public services*" with "*local public goods*" to better reflect the appropriate role that local government should have at a local level.
- Include in the Interpretation a definition of public goods. BusinessNZ would suggest that "*Public goods are non-rivalrous in consumption and non-excludable of consumption*" or words to that effect.

For clarity, 3(d) would now read:

***"Provides for local authorities to play a role in meeting the current and future needs of their communities for good-quality local public goods and performance of regulatory functions."***

3.11 **Clause 5** Consistent with the above proposed changes, BusinessNZ recommend amending Section 5(1) by replacing "services" with "goods."

3.12 For clarity, proposed section 5(1) would now read:

***"Community outcomes means the outcomes that a local authority aims to achieve in meeting the current and future needs of communities for good-quality local infrastructure, local public goods, and performance of regulatory functions."***

3.13 **Clause 6** Amend Section 10 purpose of local government and replace (b) "services" with "goods."

3.14 For clarity, proposed Section 10 (b) would now read:

***"to meet the current and future needs of communities for good-quality local infrastructure, local public goods, and performance of regulatory functions in a way that is most cost-effective for households and businesses."***

3.15 **Clause 7** **New section 11A inserted (Core services to be considered in performing role)**

**11A Core services to be considered in performing role**

- (1) The following services are the core services of a local authority:
- (a) network infrastructure:

- (b) public transport services:
- (c) waste management:
- (d) civil defence emergency management:
- (e) libraries, museums, reserves, and other recreational facilities.

(2) In performing its role, a local authority must have particular regard to the contribution that the core services make to its communities:

(3) In **subsection (1)(d), civil defence emergency management** has the meaning given to it in section 4 of the Civil Defence Emergency Management Act 2002.

3.16 BusinessNZ considers this list of so-called core services is problematic for a number of reasons.

3.17 First, and probably most importantly, the list includes goods some of which are more of a private good nature so that the justification for their inclusion is weak. See for example, the table outlined above which provides examples of public and private goods.

3.18 Second, the specified 'core' services do not appear to include key public goods which should arguably be on the list (e.g. local regulation of nuisances, the environment etc). Moreover, appropriate management of risk does not appear to be covered with the sphere of core activities.

3.19 In terms of viable solutions, there appear to be a number of options some of which may or may not be acceptable to the Government.

3.20 It could be made clear that local authorities are *required* to focus on the list of core services before looking at other possible activities. However, given that the list includes elements under 11A (e) such as recreational facilities, then unless these are adequately defined, they could mean all things to all people.

3.21 Alternatively, each item under core services could be clearly defined in legislation to ensure there are boundaries associated with each so-called core service.

3.22 However, if none of the above options is considered acceptable, BusinessNZ recommends that a final option would be to amend the proposed list under clause 11A to read:

*"In performing its role, a local authority must have particular regard to the efficient provision of local public goods and the administration of appropriate regulation at the local level"*

BusinessNZ **recommends** that:

**Clause 7    New section 11A inserted (Core services to be considered in performing role)**

- **Each item under core services should be clearly defined in legislation to ensure there are boundaries associated with each so-called core service.**
- **Alternatively, amend the proposed list under clause 11A to read: *"In performing its role a local authority must have particular regard to the efficient provision of local public goods and the administration of appropriate regulation at the local level."***

## **Appendix One - Background information on BusinessNZ**



The BusinessNZ Network is New Zealand's largest business organisation, representing:

- Business groups EMA, Business Central, Business Canterbury, and Business South
- BusinessNZ policy and advocacy services
- Major Companies Group of New Zealand's largest businesses
- Gold Group of medium-sized businesses
- Affiliated Industries Group of national industry associations
- ExportNZ representing New Zealand exporting enterprises
- ManufacturingNZ representing New Zealand manufacturing enterprises
- Sustainable Business Council of enterprises leading sustainable business practice
- BusinessNZ Energy Council of enterprises leading sustainable energy production and use
- Buy NZ Made - country of origin licensing organisation for NZ-made products, NZ-grown ingredients, and NZ-coded software services

The BusinessNZ Network is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

The BusinessNZ Network contributes to Government, tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and Business at OECD (BIAC).

