

THE IMPACT OF GOVERNMENT POLICY AND REGULATIONS ON THE COST OF LOCAL GOVERNMENT

**A report on the extent of costs imposed on local government
by legislation and regulation from 2006 until 2012**

**November 2012
Part one**

***Local Government
New Zealand***
te pūtahi matakōkiri



Preface

Councils are frequently urged to rein in their expenditure and act as efficiently as possible while ensuring the provision of good quality services and world class infrastructure. Yet despite their best attempts, there are a range of costs over which they have no control, these are costs imposed by legislation and regulation over which they have little or no control.

It is a basic feature of a democracy that elected representatives should be held accountable for decisions that they make. Good accountability is achieved when those making decisions are able to exercise discretion about the matters for which they are being held to account, allowing voters to judge whether or not that discretion has been wisely used. By the same measure accountability is diminished when elected members are forced to pass on costs over which they have no control. Who are voters to hold to account?

The issue of higher governments imposing costs on sub-national governments is not unique to New Zealand; it is simply a fact of life for local governments throughout the world. The phrase 'cost shifting' is often used to describe this phenomenon which can include the devolution of functions to local government without funding (unfunded mandates), a requirement that councils raise levels of service beyond what local citizens are prepared to fund (raising the bar) and the imposition of new and more administrative processes (regulatory creep).

Given the wide community interest in the financial performance of councils it is particularly important to better understand the extent of cost shifting in New Zealand, particularly at a time when councils are being criticized for unreasonable rate increases.

This report has been prepared to identify the extent of the three forms of cost shifting affecting councils in New Zealand and inform the debate about the cost of local government. It is part of our ongoing programme of work to inform the New Zealand public about local government so that in the future policy decisions about the sector are similarly well informed.

The report follows on from two previous reports, the first in 2000 and the second in 2006 which similarly mapped the incidence of cost shifting in New Zealand. I believe it makes a telling contribution to the debate about council costs and what is frequently a hidden expenditure driver.

Malcolm Alexander
Chief Executive
Local Government New Zealand.

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That by this Ordinance it is enacted that Municipal Corporations are empowered to erect Light Houses, Beacons, and other works of the highest importance to the prosperity of the Maritime Boroughs, and the safe navigation of their Harbours; yet notwithstanding that works of this nature will necessarily be very expensive in their construction, and still so in the maintenance, no provision whatever is contained in the Ordinance for levying such dues upon shipping as might be necessary to defray the expenditure which will unavoidably arise from the establishing and maintaining such works.

That from the non-possession of powers to levy and enforce such trifling dues as might be necessary, the Bodies Corporate of such Maritime Boroughs will not be able to construct Light Houses etc without a heavy tax upon the rate payers, thus causing the inhabitants of such Boroughs to be doubly taxed.

Mr George Butler Earp, expressing his concerns at an early example of cost shifting proposed by the new Legislative Council when debating the first local government act; reported in the NZ Gazette and Wellington Spectator, 9 March 1842.

Introduction

The Committee's Inquiry has brought to light significant evidence that local government functions have increased, particularly over the last few decades. The Committee recognizes that some of these functions have occurred as a result of policy choice and increased community expectations, while others are a consequence of cost shifting from other spheres of government. (Rates and Taxes: a fair share for responsible local government, House of Representatives, Canberra, October 2003).

The Australian House of Representatives Inquiry into the state of local government's finances undertaken in 2003 highlighted the problem of 'cost shifting'. Cost shifting occurs when a higher level government, in their case a state or federal government, requires councils to provide a service previously provided by the higher level government with no compensation payment. It also occurs when government policies require councils to undertake costly compliance activities, additional regulatory functions without compensation, and apply fees and charges that are not indexed to increases in the cost of provision.

The dark face of the dreaded cost compliance creep is being steadily revealed. Cost creep is the expense born by local authorities in introducing legislation they have no control over. In Whangerei's case just three pieces of legislation have cost the district council – and ultimately the ratepayer – some \$752,000 in the past year or two. The Prostitution Reform Act was a relative bargain at \$30,000 while the Gambling Act came in at around \$40,000 with the LGA 2002 making up the rest (Whangerei Report 6/5/2004)

This is not just an Australian problem. New Zealand councils have become very familiar with the issue ever since the reform of local government in 1989. The issue was also recognised recently by a previous Minister of Local Government, the Hon. Rodney Hide, who, when speaking at the 2011 local government conference in Wellington noted that "there will be a clear assessment of what level of government is most competent to make a particular decision and the cost of any central government intervention in local government should be fully costed."

In our experience the Minister's principle has seldom been met in practice. While central government has excellent processes for reviewing the fiscal impacts of policy proposals on its own budget we find the same discipline to be lacking when it comes to fiscal impacts of proposals on local government. Too frequently legislation and regulations are adopted that have noticeable fiscal impacts on councils. Cost shifting takes three broad forms, namely:

1. **Cost shifting:** the transfer of responsibilities without funding to local government and/or the reduction of funding for a local government activity requiring a greater contribution from rates
2. **Raising the bar:** a requirement on councils to raise the level of service of particular services, beyond what local citizens themselves are prepared to pay for
3. **Regulatory creep:** the imposition of regulations and processes that increase administrative costs and increase the cost of 'doing business'.

Not surprisingly each form of cost shifting has direct fiscal consequences for councils, although providing accurate figures is almost impossible as councils have considerable discretion with regard to the extent to which new responsibilities are implemented. This year our approach is different from previous surveys. In 2006 we categorized cost shifting into four distinct categories; formal devolution, unintended devolution, additional costs and raising the bar. To reduce the complexity of the survey we asked councils in 2011 to categorise their replies into three categories; cost shifting, raising the bar and regulatory creep.

As noted above cost shifting is a universal phenomena, take for example the case of Campbelltown in Australia (see box on next page). The practical problem faced by that council is that costs shifted from higher level governments effectively put pressure on the council's ability to provide the basic services local citizens expected their council to provide. Since elected members are unable to avoid the fiscal implications of cost shifting it is often the programmes over which they can exercise discretion (usually the maintenance of infrastructure) that bear the greatest impact.

The 2012 edition of our cost shifting research not only details recent cost shifting examples but also draws on relevant examples from overseas. In addition we have included in the appendix an example of what an ideal framework for allocating functions between local and central government might look like.

We surveyed all councils in the latter months of 2011 and received fifteen replies. The councils that replied were

- Opotiki District
- Environment Canterbury
- West Coast Region
- Palmerston North City
- Taupo District
- South Taranaki District
- Tauranga City
- Tasman District
- Napier City
- Central Otago District
- Hastings District
- Timaru District
- Horowhenua District
- Wellington City
- Nelson City

Not included in our survey is legislation that has universal application, that is, legislation that puts costs on all sectors of the economy, including local government, for example, the cost of strengthening earthquake prone buildings.

CAMPBELLTOWN residents will have to brace themselves for extensive service cuts or higher rates as Campbelltown Council struggles to find an extra \$5.5 million in its next budget. In the 2008-09 financial year, Campbelltown Council had to come up with an extra \$1.7 million for library services; \$984,000 for Fire and Rescue NSW; \$700,000 in pensioner rebates for council rates; \$337,000 for the waste levy; \$214,000 for the NSW Rural Fire Service; and \$183,000 for NSW State Emergency Services.

The council is expecting an even bigger bill this year. It will also have to find \$500,000 to pay for next year's council election, a cost previously met by the government. Campbelltown Mayor Paul Lake said cuts to services would be inevitable.

"The government started moving things back on us as they cut things out and we have to pick up the slack," he said. "The problem is there's no consultation about what is being moved - the government just goes and does it. Campbelltown Council general manager Paul Tosi said ultimately, it would be the residents who suffered as a result of the cost shifting.

(<http://macarthur-chronicle-campbelltown.whereilive.com.au/news/story/campbelltown-council-hurt-by-nsw-government-cost-shifting-to-the-tune-of-55-million/14/2/11>)

Summary

The 2011 Cost Shifting survey has reinforced the findings of the two previous surveys, undertaken in 2000 and 2007, which government legislation and regulation have created what can only be called a tsunami of costs that councils have no other option than to meet. One difference with previous surveys is the reduction in the number of unfunded mandates and an increase in costs caused by "raising the bar", that is central government requirements that force councils to increase local service levels, particularly in relation to the environment.

COST SHIFTING

The biggest contributor in this category concerned a reduction in funding for road maintenance and renewals which has been experienced by many rural and provincial councils. Second in significance was the cost of the Government's 2008 Waste Minimisation Act. Other cost drivers identified by councils were:

- the dam safety regulations
- increased demands caused by cuts in government funding to services as diverse as school swimming pools and Enviroschools
- costs created by Treaty settlements
- reduced grants for civil defence.

RAISING THE BAR

Raising the Bar refers to costs created by legislation or regulation which have the effect of requiring councils to deliver services at levels greater than local residents, who pay the cost, would willingly agree to – a constant risk when decisions are made by national politicians or officials who lack accountability back to local voters. The two biggest drivers of this category of increased costs appear to be the impact of national policy statements in the context of the Resource Management Act 1991 and reform of the Building Act. Also raised were:

- water and waste water standards
- administration of the Dog Control Act
- the emissions trading scheme.

REGULATORY CREEP

The category we have described as Regulatory Creep is just that, the problem created by a tendency for governments (of every political hue) to increase both the number of regulations councils must comply with as well as the complexity of existing regulations. Important drivers are once again compliance with the long term planning provisions of the LGA 2002; the 2010 amendments to the LGA 2002 and the Public records Act (although enacted in 2005 the costs have only begun to emerge a few years later). Other cost drivers identified were:

- Health (Drinking Water) Amendment Act 2007
- Public Transport Management Act 2008
- Land Transport amendment Act 2008
- the cost of preparing codes of practice for utilities access.

Cost Shifting

In the introduction we defined cost-shifting as the transfer of responsibilities without funding to local government and/or the reduction of funding for a local government activity requiring a greater contribution from rates. In short, decisions over which they have no control, either regulatory or legislative, which result in councils having to increase expenditure.

The practice of shifting costs from one level of government to another is far from new or confined to a single jurisdiction. As the excerpt at the start of this report highlights, when the New Zealand legislative council was debating the first Local Government Act (The Municipal Bill) in 1842 members were split on the topic of who should pay for maritime services. Mr Earl, representing the new settlers of Port Nicholson, found he could not support the Bill because it required the new councils to build "beacons, bouys and lighthouses" yet gave them no ability to "levy dues upon shipping for those public benefits" (ibid). It is first case in our recorded history where local citizens objected to funding services that should have been the responsibility of the national polity. It is an issue that continues today, not just in New Zealand.

In Australia concerns about cost shifting were such that in 2003 the Federal House of Representatives held a formal inquiry into Local Government and Cost Shifting which concluded that the states had "legislated for local government to assume additional responsibilities, or changed regulatory frameworks in such a way as to impose additional costs on councils, without providing matching resources (House of Representatives 2003 p.12). In the United States the issue has been given its own term, "unfunded mandate", used to describe responsibilities that in many cases have initially been passed down by the Federal government to the states before being passed on to local governments, without funding.

This chapter deals with what might be called the classic form of cost-shifting, that is, the allocation of a responsibilities to lower level governments without providing those local governments with either the funding or funding tools to undertake the new responsibility. Compared to our two previous surveys we have found little evidence of this type of cost shifting, the best example, perhaps, being the transfer of responsibility for the regulation of dams to regional and unitary councils – Nelson City Council estimated the cost as between \$20,000 and \$100,000 per annum.

Virtually all other examples falling within the cost shifting category concern reductions in government funding for services either provided by councils or provided directly for communities, resulting in communities seeking a 'top up' to replace funding lost from their local council.

THE LOCAL COST OF TREATY SETTLEMENTS

A new entrant in the survey responses has been the cost of the Government's Treaty of Waitangi settlement provisions that has fallen on councils. It is increasingly common for final settlements to include some form of 'co-governance' or 'co-management' involving local Iwi, central government and councils, with local government left to provide the ongoing administrative support. Taupo District, for example, in relation to the Tuwharetoa settlement, noted administrative costs due to:

- lake management
- access costs to the lake
- the possible expense of managing community discontent once the access situation is more widely known.

Taupo District also identified costs created by the Waikato river settlement, particularly the provision of technical support for the first three years of the new co-governance body and its establishment.

TRANSPORT AND ROAD MAINTENANCE FUNDING

The most common response in the cost-shifting category concerned additional costs caused by a reduction in funding from central government for an existing programme or activity, with both territorial and regional councils noting the implications of cut backs in grants from the New Zealand Transport Agency. While the impact has been far from universal (some councils saw an improvement in funding) many rural and provincial councils found that the new financial assistance rate was significantly less.

Napier City estimated the loss in revenue caused by the reduced financial assistance rate (FAR) at approximately \$300,000 per annum, while Hastings District was set to lose around \$1,300,000 annually. Central Otago District Council, a local authority with a large territory but small dispersed population, found that its loss of funding would be in the region of \$70,000 from 2012 onwards.

The reduction in NZTA funding does not automatically translate into higher rates as councils have a number of choices, for example to increase the amount funded by debt or reduce their roading maintenance and renewal programmes and so maintain the existing rates contribution.

Ashburton District councillors were angry at cuts to the central government component of the council's roading budget yesterday, and vowed to lobby politicians.

Chief executive Brian Lester said he had some "bad news" when delivering an update on Local Government New Zealand matters to a full council meeting.

He informed councillors he had just learned of a rate reduction from 47% to 46% of funding for the district's roading. "That's a financial impact of \$86,000 on our rating programme" (Ashburton Guardian 23/9/11).

The dilemma facing councils is that any reduction in maintenance is likely to have major financial implications in the future as poorly maintained roads deteriorate faster than well maintained roads, and require more extensive investment to bring them up to standard.

It is not just road maintenance and renewal; West Coast Region and Tasman District identified cuts in funding for road safety programmes as an issue for regional councils while Tauranga City highlighted the loss of funding for alternative transport options, such as cycling, which they estimate at \$250,000

per annum. In addition they estimate the reduction of funding for community programmes is about \$373,000.

As the subsidy dropped the cost of maintaining the district's roads rose because the government now allowed heavier trucks on roads not designed to carry such loads. Roads wore out faster, cost more to maintain but yet the amount of subsidy the council received this year had dropped by 1%. (Angus McKay, Mayor Ashburton, 31/1/12)

A council that is highly sensitive to changes in the FAR is Southland District Council, as it has a small dispersed population and the country's largest roading network. The council notes that the quality of its roads has a direct correlation with the ease by which Fonterra is able to access local farms. The Mayor of Southland, Frana Cardno, stated:

The flatlining of maintenance money is of major concern to Southland District Council. The constant erosion of this money will lead to reduced levels of service and in the long-term a greater cost to central government and ratepayers (press release 23 May 2011).

She estimated that since the cost of roading work was rising at an average inflationary rate of 3.5% the proposed flat-lining policy will equate to an 11% decrease in available funds.

Local governments own approximately 90% of the roading network with central government owning the remaining share (the state highways). Historically revenue from fuel taxes and registration charges (the national land transport fund) was split 50/50 between state highways and local roads. In recent years a larger share has been allocated to state highways and proportionally less to local roads. As Local Government New Zealand noted in its Briefing Paper to the Incoming Government in 2012 (www.lgnz.co.nz):

From our perspective the government is the steward of the fund (the National Land Transport Fund) with a fiduciary duty to adequately fund maintenance and operations, and fairly balance local, regional and national priorities.

This is not currently happening. The General Policy Statement 2012-21 places unnecessary restrictions on maintenance funding (for local authorities) and diverts a disproportionate and unaffordable level of funding to the development of the state highway network. Any unjustifiable reduction in the level of service offered by the existing local road and state highway networks to fund new state highway developments is not in New Zealand's best interests.

REDUCED GOVERNMENT FUNDING FOR COMMUNITY SERVICES

Frequently councils are faced with demands by other organisations for funding to fill the gap left by withdrawal of government support, something that, in earlier reports, we referred to as 'indirect devolution'. Tasman District Council, for example, highlighted the cost of funding the local Enviroschools programmes which the council estimates to be in the order of \$20,000, along with the cost of additional demands made on their staff due to a reduction in the capacity in the

local office of the Department of Conservation. (NB. The Government reinstated funding for Enviroschools in the 2012 budget)

Taupo District Council noted that the reduction in government funding to not-for-profit organisations caused that council to contribute \$500,000 to upgrade Wairoa House, a facility which houses local social service providers and allows for a range of shared services and over heads.

It is not only roading where reductions in government subsidies are having an impact on council budgets. Both Taupo District and Wellington City Council identified an increasing demand on public swimming pools resulting from an ongoing reduction in funding for the maintenance of school swimming pools, as an issue. Taupo District estimated the cost at \$130,000. (The same issue was highlighted by Whanganui District in the 2006 survey). Taking a different response, Wellington City Council, similarly faced with the cost of having to increase the capacity, and perhaps the number, of publicly funded swimming pools, is looking at the creation of a fund to assist schools to keep their own pools open on the basis that this would be the cheaper than increasing the capacity of the public pool system - a direct subsidy from local to central government.

Similar concerns were expressed by Timaru District Council in relation to the Government's withdrawal of grants for the establishment and operation of Safer Community Councils (see below).¹ The reduction in central government funding for Safer Community Councils has also cost the Napier City Council, faced with closing down the initiative or picking up the funding, \$160,000 per annum.

Timaru District Council is considering options for retaining youth services that will be lost with the withdrawal of a government-funded contract. The two youth-worker roles were originally a joint project between the council and the Social Development Ministry. Presbyterian Support later became involved. However, this year, the ministry decided not to renew its funding for the youth-worker project.

The council's community development committee spent 35 minutes in committee yesterday, discussing the youth workers and safer communities co-ordinator roles. After the meeting, Mayor Janie Annear announced council plans to look at options to retain the youth services. She also said that the safer community co-ordinator's role would be cut back to a half-time position. Until last year, the Government provided project funding which, along with \$30,000 from the council, meant the safer communities role could continue.

Timaru District Council also noted the cost to them of administering the Government's Rates Rebate scheme, approximately \$20,000 per annum, while Napier City Council put the cost of administering the scheme in that council at approximately \$13,000 pa. Similarly Napier City Council highlighted the removal

¹ Safer Community Councils (SCC) were established by in the early 1990s and represented a partnership between the government, councils and local community organisations. A major part of their focus was one of co-ordination and many also promoted community development as a way of making communities safer. Most SCCs were chaired by the local mayor.

of the Government's operating grants for their local civil defence branch as costing them approximately \$12,000 pa.

Another issue is created where governments create grants programmes to assist councils either develop a new service or raise standards of an existing service and then either fail to inflation proof the scheme, reduce the available money over time or change the criteria for applications. One example was the Drinking Water Subsidy Scheme (DWSS) set up in the mid 2000s. The purpose of the Scheme was to assist councils upgrade the quality of drinking water (a major cost pressure, see next section).

Drinking water subsidy changes triple council costs and slash funds (*LGNZ media statement 21/12/10*)

Since councils are required to estimate the costs of future work in their long term plans as well as estimate as accurately as possible how the work will be paid for, including any external funding expected, changes to eligibility criteria can create significant issues. Earlier decisions to broaden the eligibility criteria and then in 2010 to terminate the DWSS (the original allocation was exhausted) resulted in some councils, having committed to undertake upgrades on the assumption of government support, having to go ahead with the work and meet the difference from rates.

In another but different example Wellington City Council reported that the lack of funding for the Police to monitor bus lanes meant that the responsibility had to be delegated to council traffic wardens. As at November 2011 the cost of monitoring the bus lanes had reached \$37,000. Historically this was an activity that would have been undertaken by the NZ Police. (The 2006 survey noted an instance where Christchurch City Council had bought speed cameras so that the Police could better monitor traffic in that city.)

THE WASTE MINIMISATION ACT 2008

Another example of national legislation which created costs for local authorities was the Waste Minimisation Act 2008. This Act set out to encourage a reduction in the amount of waste generated and disposed of and aimed to lessen environmental harm caused by the waste stream. It does this by:

- putting a levy on all waste disposed of in landfills to generate funding to help local government, communities and businesses reduce the amount of waste
- helping and, when necessary, making producers, brand owners, importers, retailers, consumers and other parties take responsibility for the environmental effects of their products through product stewardship schemes
- allowing for regulations to be made making it mandatory for certain groups (for example, landfill operators) to report on waste to improve information on waste minimisation
- clarifying the roles and responsibilities of territorial authorities with respect to waste minimisation

- introducing a Board to give independent advice to the Minister for the Environment on waste minimisation issues.

While territorial authorities receive 50% of the total waste disposal levy money collected these payments are paid out on a population basis and must be spent on promoting or achieving waste minimisation and in accordance with waste management and minimisation plans. (Territorial authorities will be asked to report regularly on how they spent their share of the waste disposal levy.) Horowhenua District noted that the Act had created “new reporting costs related to the allocation of the levy and increased management, administration and communication costs.”

Because councils also contribute to the fund many will receive less than they contributed. For example, Napier City identified the cost of the waste levy at \$14,000 per annum; for Timaru the cost is \$150,000; Wellington City reported that the cost of the levy and the requirement to develop proactive waste programmes amounted to \$600,000 per annum, while Hastings District noted that the levy, at \$10.00 a tonne, cost that council \$780,000 in 2010/11.

A further problem comes from the fact that councils are not the only agency that manages waste. Private companies disposing waste on private sites do not have to pay the levy. Consequently the cost of council services were increased by the legislation but not the costs faced by other providers.

SUBSIDISING REGULATORY FUNCTIONS

Sometimes councils end up subsidising local regulatory functions simply because the legislation that provides councils with the mandate also sets the user fee. In the worst case scenarios these fees are set when the statute is enacted and are not indexed to the rate of inflation. Tasman District Council estimated that the inspection and regulatory functions required by the Sale of Liquor Act were subsidized by ratepayers to the tune of \$50,000 pa. Similarly, the same council estimated the cost of not indexing for the cost of inflation of road maintenance funding, received from NZTA, had cost the council approximately \$500,000 for the first year with an accumulating cost for the next three years.

Councils are responsible for implementing a range of regulations for Parliament however the resulting income from fines is shared with the state. Wellington City Council reported that it pays the Government more than \$400,000 of the enforcement income it receives for monitoring registration and warrant of fitness compliance. There is also a possibility that councils will have to extend their monitoring responsibilities to ensure the road worthiness of tyres, which, if it occurs, will have additional administration costs. Given that councils must pay the full cost of undertaking these inspections it is hard to find a justification for sharing the resulting fine income with the Government.

SHARED FUNDING OF PROFESSIONAL ARTS ORGANISATIONS

A form of cost-shifting that may affect larger metropolitan councils involves the funding of major arts organisations. Wellington City Council noted in its reply to the survey that recent changes in the way in which Creative New Zealand funds professional funding arts' organisations may have fiscal implications for the council. Creative New Zealand has proposed that funding should be shared between itself and local government for the support of professional arts organisations, such as Downstage theatre. To achieve this a formula has been proposed that would determine what should be funded locally by each affected

council, and what should be met and funded nationally, by Creative New Zealand itself.

It would be desirable if an agreed set of investment guidelines and funding formulae became accepted by a range of public funders over the next 2 to 4 years. These 'funding formulae' could identify the proportion of an organisation's total revenue that might reasonably be expected to be met by local authorities. (Creative New Zealand correspondence to Wellington City Council, 2010).

This issue is still to be resolved and discussions are continuing on the principle of some form of shared funding for professional arts organisations.

SUMMARY

Cost shifting, in the sense of councils being required to undertake new responsibilities without funding or facing a reduction in funding for activities previously supported by the state, creates an ongoing pressure on council to increase income, either from rates, user charges or dividends. An example which is pending is the Alcohol Reform Bill which will give local authorities a new role in the regulation of venues that sell alcohol, but no additional funding to undertake that role.

With the exception of reductions in funding for roading and transport, the cost drivers tend to be small to medium, however they are numerous (see Table 1). Some are created by community expectations, especially when faced with a reduction in government support for a well used public service. One of the classic examples, identified in our earlier reports, resulted in councils providing facilities for medical practices in small and remote communities following changes in health policy in the 1990's. Whether councils should listen and act on such community demands is always an arguable proposition, however, councils have a direct interest in seeing communities grow and communities without some form of medical practice are unlikely to be sustainable.

TABLE 1: COST SHIFTING SINCE 1996

Building (Dam Safety) regulations 2008	Reduction in funding for school based learn to swim classes picked up by councils	Reduction in funding for Enviroschools
Removal of subsidy for Safer Community Councils	Administering Treaty settlements	Cut in funding for road safety programme
NZTA road maintenance funding cuts	Reduction in Creative NZ funding for major cultural organizations	Loss of funding for cycleways
Landfill waste levy	Bus lane monitoring – Police lack resources	Removal of funding for alternative transport alternatives
Reduction in civil defense operating grant		Requirement to develop a schedule of high risk buildings in fire district

Raising the bar

One of the more difficult types of cost shifting to measure is what we call 'raising the bar'. This occurs when regulations are applied to local governments that have the effect of forcing councils to enhance the quality or standards of existing services – ultimately beyond what users or local citizens would choose if left to their own devices.

Far North District Councillor Ann Court does not need convincing that rate demands have ballooned in recent years. The major contributors, she said, had been the unaffordability of required infrastructure

The problem we as ratepayers face is the unacceptably high capital, operation and maintenance costs falling out of a need to comply with ever tightening environmental standards. All systems must comply with resource consent provisions.

An additional \$58 million would have to be found to meet increasing environmental standards over the next 20 years (Northland Age 9/12/2008).

In many cases the higher service standards have been introduced because the Government believes they are necessary to protect community health and well-being. A problem is created, however, when standards are a 'one size fits all' approach and prevent councils from developing solutions appropriate to local circumstances. The financial implications of raising the bar can be small or large depending on the nature of the activity and the required standards. An example of a relatively small impost was the effect of the Dog Control Act 2003.

DOGS – AN ONGOING STORY

The cost of the 'dogs database' was raised by a number of councils as an example of the Government 'raising the bar'. The Dog Control Act required that a national database of dogs is established and that the cost of this will be shared by all territorial authorities. Napier City, for example, noted that the database had an annual cost of \$15,000. Some councils continue to operate their own local databases as well.

The cost of administering this Act was also raised in the 2006 survey in which councils identified new and additional costs caused by reporting, surveillance and the establishment of new systems.

THE COST OF NATIONAL POLICY STATEMENTS

One of the new pressures facing councils since 2006 has been the Government's adoption of a range of new national policy statements on the environment. National policy statements (NPS) are a policy tool created by the Resource Management Act 1991 to allow the Government to set boundaries within which councils can exercise some discretion when setting regulations or policies or investing in projects and programmes concerned with the environment. The adoption of national standards impacts differently on different councils depending on the degree to which they are required to change local or regional policy settings. For example:

- Tasman District Council reported that the new requirement that councils "give effect" to the New Zealand Coastal Policy" may cost an additional \$100,000 per annum for the next 5 – 10 years.
- Similarly Tasman District expected that the requirement that councils give effect to the National Policy on Freshwater would create a need for a further \$200,000 of rates expenditure over the next 5 – 10 years.
- Central Otago believes the National Environmental Standard for water quality will cost \$10 million over the next seven years with the potential to be higher for waste water discharges.
- Environment Canterbury noted that new national regulations on water metering involved the extension of the council's existing programme plus additional monitoring, data collection and reporting, costing the council approximately \$300,000 per annum.

The Otago Regional Council estimated that the NPS on fresh water quality would cost \$10 million over 7 years.

WATER AND WASTE WATER

An issue that has been raised by many councils, and features in a number of replies to our survey, has been the cost to councils of the Health (Drinking Water) Amendment Act 2007. This Act is intended to "protect the health and safety of people and communities by promoting adequate supplies of safe and wholesome drinking water from all drinking-water supplies." It requires operators (not just councils) to:

- register their supplies
- monitor their water, (through a registered laboratory)
- implement a public health risk management plan (PHRMP)
- take all practicable steps to comply with the drinking-water standards
- ensure an adequate supply and take reasonable steps to protect the source.

The Health (Drinking Water) Amendment Act 2007 also features in the Regulatory Creep Chapter as it was part of a survey undertaken by PWC to identify the cost of administering legislation. In this Chapter we look at the cost to councils and communities, of achieving the required water quality standards themselves. The Health (Drinking Water) Amendment Act 2007 amended the Health Act 1956 and

introduced a duty on all water suppliers to ensure their water is safe to drink. In particular it introduces a statutory requirement that all drinking water suppliers providing drinking water to over 500 people must develop and implement a Public Health Risk Management Plan (PHRMP) to guide the safe management of their supply.

Small rural water schemes in the Waitaki may not be able to survive because of a new regime of testing under new drinking water standards implemented by the Ministry of Health.

The council is spending \$46 million over six years upgrading its 21 water schemes to meet the new standards. However, Cr Mavor's concern was not the cost of upgrading but the annual cost of regular tests under the new standards. This would cost each household getting 1800 litres a day \$420 a year. (ODT 15/4/2010).

Prior to the 2007 amendment higher water quality standards were introduced that forced many councils to invest in the upgrade of their water treatment plans. As noted above the Government of the day introduced the Drinking Water Subsidy Scheme which made approximately \$120 m available to assist low income communities upgrade their schemes (not just councils).

Although in 2010 the previous government placed a temporary moratorium on compliance with these standards, many councils have already upgraded their supplies while others plan to upgrade their water services on the basis that the moratorium will be lifted at some point during the life of their ten year long term plans. Central Otago District Council, a council with an annual budget of approximately \$30m per annum, has noted that the Drinking Water Standards will cost \$3.2m over the next 7 years. *Local Government New Zealand* previously estimated the cost to the sector at around \$900 million.

It is not only the capital and operational costs that drive increased expenditure. Opotiki District reported that the cost to them of monitoring the new drinking water standards is \$15,000 per annum. Waitaki District (see box below) put the costs at \$420 for each household attached to a scheme. Increased compliance requirements for drinking water and waste water are forcing the Mackenzie District Council to take on over \$6 million in debt in the next 10 years. Unlike most other district councils McKenzie's substantial reserves meant it has not had to take on external debt until now.

One council commented that:

Under the previous voluntary system local communities were able to consider the level of quality of supply against the cost to the community of the scheme. While there is a need to ensure a minimum level of quality to ensure the health of the community, the previous system allowed additional options on how to provide that quality without imposing high costs on small communities (Cost of Regulation 2009).

The council has cash reserves of \$6m and working capital of \$2m, but due to insurance costs for our above-ground assets, we must keep some cash in reserves to cover the balance of replacement costs in the event of an earthquake or similar disaster," she said.

"Our underground assets are not insured and in the event of a major disaster, such as happened in Christchurch, we must have sufficient cash to ensure we can meet our financial obligations to trigger government assistance."

Mrs Barlow acknowledged the council had prided itself on its "debt-free" record in the past. Yet the need to meet the Government's increased standards for drinking water quality had forced the council to do so, she said.

"Twizel's upgrade is expected to cost \$4.5m and Fairlie's \$2.2m. Tekapo already has good quality source water and so their upgrade costs are minimal by comparison [\$200,000]," she said.

Changes in legislation can often have indirect costs on local authorities that find themselves having to restructure their organisations and establish new operational and reporting processes. One example has been the ongoing changes made to building inspection services.

CHANGES TO THE BUILDING ACT: ONGOING COSTS

The Building Act 2004 required that councils wishing to provide building inspection services be accredited and, in the process, meet a range of competency standards. A number of councils highlighted the costs of these requirements in their survey responses:

- Timaru District Council identified the cost of building accreditation at \$100,000.
- Napier reported a one off cost of \$80,000.
- South Taranaki reported that building act accreditation is costing \$25,000 to \$30,000 every two years.
- Palmerston North reported that for the 2006-11 period accreditation cost \$90,000 in audit fees and \$400,000 in consultant costs.
- Horowhenua District reported that the cost to them was in the order of \$60,000 for establishment, \$20,000 for accreditation every two years and a per annum charge of \$10,000 for competency assessment.
- Tasman District spends approximately \$58,000 every two years and \$20,000 per annum for audit process.

The Building Act highlights yet another problem, namely the cost of adapting business practices in response to frequent legislative changes. The survey replies highlight the cost to councils of the requirement that building control authorities

become accredited. Since those costs were incurred the building control function is once again under review and new approaches are likely to mean that the cost of accreditation was ultimately for nothing.

OTHER CHANGES THAT HAVE CAUSED THE BAR TO RISE

Changes of the 'raising the bar' type are probably the most common cost driver faced by councils in New Zealand, often because they are created by regulation rather than legislation and the costs faced by councils are often unintended.

New standards for urban buses have been described as "craziness" by Otago Regional Council, which fears it might lose funding if it wants to keep to its higher standards.

The NZ Transport Agency has completed a new national standard for urban buses, ignoring much of the Otago Regional Council's objection to a common mandatory national standard (Otago Daily Times 7/10/11).

The current government's decision to require councils to provide a discount for late processing of resource consents under the Resource Management Act 1991 has resulted in some councils budgeting funds on the assumption that this will result in a real cost. Palmerston North City has allocated \$50,000 for the 2011/12 year to pay for possible late processing discounts.

The emissions trading scheme has a number of implications for councils, particularly landfills (it also provides opportunities to increase income through the sale of carbon credits). Central Otago District Council estimated the cost of the ETS as being between \$250,000 - \$500,000 from 2013 onwards. A cost that will largely be met by increasing land fill fees. The cost of reforestation alone is estimated to cost in the region of \$2.4 million. Napier City identified a one-off cost of \$15,000.

CONCLUSION

As noted above cost shifting caused by higher standards imposed on councils is one of the more common of the cost pressures faced by local authorities, particularly in relation to the environment and the effect of national standards. In some cases councils can pass on the cost through higher user charges, for waste disposal, for example, however where councils face major reorganisation costs, such as accreditation, these costs are likely to be met from general revenue.

TABLE 2: RAISING THE BAR CHANGES

Drinking Water Amendment Act 2007	National Policy Statement (NPS) on water quality standards	Emissions Trading Scheme
Public health risk management plans	Rugby World Cup enhancements	Building Act accreditation
Storm water management plans	MFE's environmental reporting requirements	Regional land transport planning changes
National regulations on water metering – extension of existing programme plus further monitoring, data	Other NPs' e.g. coastal policy; freshwater; renewable energy; electricity transmission	Discounts for late processing of resource consents

collection and reporting		
Freedom camping Act and creation of freedom camping bylaws and a review of council's public places bylaw and seasonal camping policy (by August 2012)		

Regulatory creep

The third category of cost shifting involves what we describe as “regulatory creep,” that is, the imposition of processes and information requirements that increase administrative costs and ultimately the cost of ‘doing business’ without necessarily any improvements in community well-being.

To distinguish regulatory creep from raising the bar and cost shifting we have focused on nationally imposed measures that increase the cost of implementing legislation by requiring higher levels of compliance, such as requests for information, requirements to consult and provisions that make decision-making more complex and time consuming. Cost drivers of this sort often go unrecognized as the government has no system to identify and assess such costs on local government before legislation and regulations are enacted.

The cost of complying with Government legislation is placing a huge burden on local government and ratepayers, and must be reined in, said Lawrence Yule, President of *Local Government New Zealand*.

Since 1989 councils have experienced what can only be called a tsunami of administrative and regulatory costs justified on the basis that they are necessary to improve accountability or transparency. For example, the introduction of annual planning, long-term financial management and different types of financial reporting. While stronger accountability and transparency is important for our democracy at some point the benefits and costs must be balanced.

Government processes, such as the requirement to prepare Regulatory Impact Statements (RIS), ensure that any costs to the Government from proposed legislation and regulation are estimated in advance. This allows Cabinet to balance costs and benefits before making decisions. Unfortunately likely costs to local government are seldom if ever considered.

THE COST OF LONG TERM PLANNING

Starting with the reform of local government in 1989 councils have found themselves faced with a range of new procedural requirements that have made the business of making decisions more complex. Examples include the requirement to develop performance measures for each activity, the requirement to consult with communities before making decisions and the requirement to prepare annual and long term plans. Many of these provisions are taken for granted as typical of an accountable and modern governing system; however they do have costs and the total cost is sometimes overlooked in our enthusiasm to improve accountability or transparency.

In 2009 Local Government New Zealand commissioned Price Waterhouse Coopers (PWC), the international accountancy firm, to assess the cost on local government of four pieces of legislation:

- the LTCCP components of the LGA 2002
- the Public Transport Act 2008
- the Health (Drinking Water) Amendment Act 2007.

THE LAND TRANSPORT AMENDMENT ACT 2008

To undertake this work PWC employed their Standard Cost Methodology (SCM), a methodology used to measure the cost burden of regulation at an administrative activity level. The study was designed to document total administrative costs and the administrative burden.

- Administrative costs are a subset of compliance costs that are additional to the direct requirement of a regulation, such as documenting or reporting the performance of a regulatory requirement.
- Administrative burdens are a subset of administrative costs that represent activities that organisations only conduct because they are required to as a result of regulation or legislation.

Fifty six councils, or nearly 70% of the local government sector, took part in the study. In relation to the four statutes the study found that the 56 councils spent 750,000 hours and \$98 million dollars of external spending to comply with the provisions - these figures are broken down below.

PWC concluded that “a significant proportion of the costs associated with legislation is unnecessary and can be avoided. These costs relate to requirements to collect information, prepare material and reporting as part of widespread consultation requirements.”

The survey asked councils to provide information on:

1. time spent – by all council staff on key activities
2. Spending on external consultants/contractors – fees paid for services rendered
3. Other spending – e.g. modifying IT systems to comply with regulations.

Six key activities were mapped:

- becoming familiar with requirements – activities taken by council staff to familiarize themselves with a piece of legislation and its requirements
- gathering and assessing relevant information
- preparing figures
- reporting
- communication
- other activities councils consider relevant.

The task of gathering and assessing relevant information was by far the most time consuming and expensive activity involved in the administration of the four

statutes. PWC estimated that the gathering information activity made up 35% of total time spent by councils on complying with the legislation which equates to 260,000 staff hours or 132 full time equivalent employees. This activity also took up almost 50% of consultant time or \$47 million which was spent on market research, workshop facilitation and advising on policy change.

The second most time consuming and expensive activity was reporting. This involved 130,000 staff hours and approximately \$13 million on consultants.

THE COSTS OF PREPARING THE LTCCP

The components of the LTP (formerly LTCCCP) which were subject to the study are the development of community outcomes; development of a draft LTP; development of a final LTP and amendments post LTP. Considerably more time was spent on long term planning than on implementing any of the other three statutes, a total of 620,580 hours as well as consultant and contractor costs of more than \$48 million. Approximately a third of that time (or 132 full time equivalent staff) was spent on gathering and assessing relevant information.

We would do a lot of this work anyway – we need to plan and budget. However, the level of detail and some of the requirements are excessive. We did a strategic plan in 1996 – it was 40 pages long. Our LTCCP this year is 400!

Most of the work undertaken in preparing LTPs was regarded by councils as good practice and would have been undertaken regardless of the LGA 2002, although the frequency and extent of the work might differ.

PUBLIC TRANSPORT MANAGEMENT ACT 2008

The Public Transport Management Act 2008 (PTMA) was enacted to achieve an integrated, safe, responsive and sustainable land transport system. It specifies the powers of regional councils to set standards for public transport services and regulates the registration of public transport services. The primary tasks for councils are the registration of public transport services and the development of Regional Public Transport Plans.

Compliance with the PTMA was the least expensive of the four statutes studies at 10,000 staff hours and \$1 million in consultant time. Approximately 65% of the staff time was involved in the activity “gathering and assessing relevant information”. Proportionally consultant time was spent on “becoming familiar with the requirements” reflecting its potentially litigious nature. The development of regional public transport plans made up 94% of council staff time and 96% of consultant time. 71% of councils replied that none or very few of the activities would have been undertaken without the passage of the Act.

HEALTH (DRINKING WATER) AMENDMENT ACT 2007

The Health (Drinking Water) Amendment Act (HDWAA) changed drinking water standards from a largely voluntary regime to one that is more rigorously regulated. (The capital costs of this legislation are covered in the section “raising the bar”. This section is primarily concerned with the administration tasks required by the legislation.)

Councils reported approximately 50,000 staff hours spent on the HDWAA and almost \$43 million worth of consultant time. The proportionally high level of consultant time reflecting the engineering and technical nature of the regulations involving skills many councils would not have "in-house". In addition to gathering and assessing relevant information significant amounts of time were also spent on communication and reporting. The most time consuming activity fell in the "other activity" category reflecting times spent on monitoring drinking water, investigating complaints and quality inspections.

Replies indicated that council decision making might have been influenced by the presence of the Ministry of Health's subsidy for capital investment to the degree that some local authorities were over-delivering by providing water quality at a higher standard that they would otherwise have done.

The PHRMP moves from a voluntary system to a mandatory one which has increased the cost per water scheme by one to two million dollars each. This imposes a significant cost on the community. In part this is ameliorated by the Ministry of Health water subsidy (DWSS), but at the same time to obtain this subsidy a higher level of services than the community may have chosen under a voluntary system is required (survey respondent).

The HDWAA was also described as imposing proportionally higher costs on smaller councils. Of the councils that replied to the survey 61% stated that none or very little of the activities would have been performed. While "knowing your system" was regarded as good practice at least one council noted that with the Act their planning and monitoring would have been less comprehensive.

THE LAND TRANSPORT AMENDMENT ACT 2008

The Land Transport Management Amendment Act 2008 (LTMAA) introduced a range of new transport initiatives that applied to councils, namely the development of regional land transport strategies, regional land transport programmes and allowed councils to establish regional fuel taxes. Within a year of its enactment councils had spent 60,000 staff hours complying with its provisions and \$5 million on consultants. Most of the consultant time was involved in the preparation of draft regional land transport strategies. (Expenditure on regional fuel taxes was insignificant with only Auckland region exploring the option.)

One council identified the cost of preparing a regional land transport programme at \$110,000 and expected future iterations to be cheaper. Notably 75% of councils said they would not have undertaken any or few of the legislation's requirements if Parliament had not enacted it. PWC concluded that between 40% - 75% of the cost of complying with the LTMAA was a "cost burden".

"These numbers confirm what the local government sector has long been saying: it is not financially equipped to handle the implementation costs imposed on it by excessive red tape" said Lawrence Yule, President of Local Government New Zealand. "All new legislation must produce benefits that outweigh the costs and for the past few years this hasn't been happening."

MORE ACCOUNTABILITY AND TRANSPARENCY

What on paper and in isolation may appear to be a good idea can, by the time the legislative process is complete, be a very different beast with outcomes contrary to the intent. Recent changes to the Local Government Act are a typical case. The Local Government Act 2002 Amendment Act 2010 was designed to improve transparency, accountability and streamline the planning process in order to make long term plans more accessible. Amongst its changes the amendment required that:

- councils prepare a Pre-election report shortly before each triennial election
- adopt standardised performance measures for a number of infrastructural activities (as well as giving DIA the power to levy councils for the cost of developing the standards)
- make changes to the way in which financial statements were to be prepared, including what the Government described as “plain English financials.”

Change is seldom without cost and a number of councils replied to our survey by itemizing the cost of the new provisions, namely:

- Napier City Council; noted that the new Pre-election report and the additional financial reporting requirements would add \$45,000 to the cost of its long Term Plan (LTP). Other costs, like the new performance measures, were still being assessed when the survey was undertaken.
- Wellington City Council; estimated that the additional cost of the new provisions in the LGA 2002 Amendment Act 2010 would be approximately \$360,000 pa.
- Horowhenua District Council; believed the “duplicate financial reports and pre-election report” would amount to \$30,000 - \$50,000 per annum.
- The West Coast Regional Council estimated the cost of the pre-election report at approximately \$5,000.

Waitaki ratepayers could pay an extra \$70,000 a year to meet the new Government requirements aimed at ensuring local bodies' costs, rates and activities are better controlled. That is the calculation of costs the council faces to meet provisions of the Local Government Amendment Bill introduced by the Minister of Local Government, Rodney Hide.

In a submission to the select committee the council said it would cost about \$100,000 to set up the processes and administration needed to meet the requirements of the new legislation. The council did not support any parts of the Bill that added costs, because the benefit to ratepayers were “low to zero” (Otago Daily Times 2/7/2010)

PUBLIC RECORDS ACT 2005

Many councils reported that they were facing major costs as a result of the Public Records Act 2005, which requires councils to invest in better information technologies and facilities for managing archives. The Public Records Act 2005, sets the framework for information management and recordkeeping in New Zealand and applies equally to local authorities as it is to the government.

The Act's purpose is "to enhance public confidence in the integrity of public records and local authority records". However saving, storing and maintaining records are not without its challenge. An Archives New Zealand survey into local government record keeping practices undertaken in 2010 found that 55 per cent of local authorities have records in a format they can no longer access.

Improvements are being made and approximately 92% of councils now have a formal recordkeeping programme in place, or are working towards one. As an example of the cost Tasman District Council estimated the additional cost of storing and managing their archives at \$60,000 pa.

OTHER ISSUES

One policy area where there has been considerable change over the last decade is transport funding and many of the changes made at the national level can have financial implications for councils at the local level (we have noted in the cost shifting section of this paper the reduction in local government's share of road funding). Changes to reporting requirements and a lack of flexibility in the implementation of legislation can also have costs.

Timaru District noted that the cost of the Road Safety Act planning report cost that council \$10,000, while Hastings District identified the duplication of consultation functions under the regional land transport programme as costing \$12,000 per annum. The cost to Hastings of the New Zealand Transport Agency's reporting requirement was estimated to be \$5,000 per annum.

Another example of a decision made at the national level which had unforeseen financial consequences at the local level was identified by Wellington City. Wellington City Council which reported that the Ministry of Justice has removed the ability of councils to pursue debt recovery through the Small Claims Court. Because the alternative, taking claims to the District Court, costs between \$5,000 and \$15,000 per case (even where a court finds in the council's favour) the likely fine, often only \$200, makes the exercise uneconomical. Consequently Wellington City Council writes off about \$20,000 in small debts each year, regardless of the strength of the council's case.

One issue that was first reported in 2006 and since then ranks as one of the most frequently raised examples of imposed administrative costs is the amount councils pay to have their long term plans audited, and the increasing cost of that audit. The average cost of a Long Term Plan audit is approximately \$83,000 but for small local authorities, like the West Coast Regional Council (see below) it is proportionally much higher.

The West Coast Regional Council is having to fork out nearly double the amount of money it had to only three years ago to get its Long Term Plan audited.

Three years ago, when the last audit was undertaken the council had to hand over \$32,000. That has risen to \$62,000 for this year due to partial funding being pulled by the government and trouble with getting the auditors in.

That's a 3.3% rate rise there, just from the audit (Greymouth Evening Star 10/12/2008).

Changing legislation that governs councils' regulatory roles can have complementary costs on the way in which councils organise their regulatory functions. Currently reforms to the way food safety regulations are delivered are creating costs to councils, particularly retraining and re-organisation costs. This issue was raised by both Timaru District and Palmerston North City in our survey. Timaru also identified that it had spent approximately \$43,000 over the last five years on increased compliance costs to do with rural fire services. Palmerston North City noted that the Rugby World Cup Empowering Authority and the cost of establishing the administrative secretariat involved approximately \$2,228 of staff time.

TABLE 3: EXAMPLES OF REGULATORY CREEP

Codes of practice for utilities access and temporary traffic management	New systems required to align environmental reporting with Government	Road Safety Act Planning reports
Food Bill and impact on contestable food control auditors	Rural fire – increased compliance costs	NZ Transport Agency reporting requirements
RMA 2009 amendments – also brought a wider range of processing options with more costly administration which is not cost recoverable	Rugby World Cup Empowering Authority	Waste minimisation management plans
National regulations on water metering resulting further monitoring, data collection and reporting		

CONCLUSION

Cost shifting is a universal phenomenon and appears to apply regardless of the political hue of the provincial, state or national government of the day. It is also driven by a range of motivations from a simple desire to reduce the cost of the government, such as the cost shifting undertaken by the federal government in the United States during the 1990s, to more considered views that some responsibilities can be handled better by lower level governments. The policy question is whether anything can be done about it? Is there are set of institutional arrangements that can in some way limit the propensity of higher level governments to engage in cost shifting when it suits them?

The report of the federal Australian Government into cost shifting (House of Representatives 2003) made a number of suggestions, some of which might have validity in a unitary state like New Zealand. One comment made by the House of Representative's standing committee, which undertook the review, was that all levels of government must deal with the issue of community expectations and councils must tell "the community that they cannot deliver everything the community expects" (ibid p.15). Sometimes it is necessary to say no rather than step into a void created by a higher level of government. More importantly, in the views of the Standing Committee, is the need to better define roles between local and higher levels of government (see Appendix 1) and the value of developing formalized partnerships that set out mutual understandings between spheres of government (see Appendix 2).

The issue of roles is complicated by the fact that historically urban councils undertake different roles to those provided by largely rural councils.² In addition councils vary significantly in scale and thus capacity to undertake different functions. The issue of functions themselves is also dynamic, often changing over time between spheres of government, often due to improvements in technology. Finally, as the Standing Committee states, local government is diverse and tailors its business to meet community needs. "Given that each council provides local solutions to local issues there are difficulties in formalizing and fixing definitions of roles and responsibilities across the nation" (ibid 16).

Formalised partnerships or agreements (see Appendix 2 for a single issue Tasmanian agreement) are increasingly common around the world. Generally agreements, which tend to be negotiated following each state or national government election, attempt to clarify priorities and rationalize the distribution of powers and resources between governments. The Standing Committee of the House of Representatives notes that "partnership agreements enable states and local government to respond to the articulated needs of their communities through an agreed plan and dedicated resources" (ibid p.17). Essentially the process of negotiating agreements forces governments to enter into dialogue about mutual needs and priorities.

It should also enable protocols and guidelines to be agreed about roles and changing roles, particularly new roles that might have fiscal implications.

² Best illustrated that for most of New Zealand's post Treaty history rural and urban councils had their own statutes which reflected their different scopes.

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Appendix 1: A framework for allocating functions

This report highlights the cumulative impact of central government decisions on local government and in particular their fiscal implications. It highlights an important policy questions, what activities should councils be carrying out and how should they be funded. Activities undertaken by local government tend to fall into one of three categories; they are either decentralized by higher level governments, devolved by higher level governments or they are discretionary, undertaken using councils' general powers.

- Devolution involves the transfer of power, authority or responsibilities from central government to either local or regional governments.
- Decentralisation involves a process which essentially brings the decision-making process closer to the customer of the service under consideration while leaving accountability and responsibility with the centre.

The relation between devolution and decentralisation can be viewed as a continuum and the significant variable in determining whether any function sits at the devolution or decentralisation end of that continuum concerns the level of power or authority that has been transferred. For example a local authority that is providing driver licensing services in which the fees and the administrative processes are set by the Government and are nationally consistent is performing a decentralised service. That council has no authority to vary the nature of the service and is basically a decentralised service provider. Functions at the other end of the continuum are characterised by the degree to which councils can vary the quality and quantity of the service in light of local circumstances and council policy, such as environmental management. Table 1 provides a typology of council functions.

TABLE 4: STATUS OF LOCAL GOVERNMENT FUNCTIONS

Type of Functions	Decentralised Functions	Devolved Functions	Discretionary Functions
Mandate	Delivered on behalf of state, Strong interest in quality and quantity of service	A legislative requirement (maybe self funded) State interest in outcomes.	Function the result of council or community preference
Steering mechanism	Contractual, Output based, Performance targets attached to funding,	Indirect, Minimum standards set by regulation, Incentives e.g. grants	Moral encouragement, Incentives e.g. grants

Decentralised functions tend to represent "core" government functions, such as education, health and/or social services. By their nature they involve the redistribution of state resources but may be delivered at the sub-national level by local governments for efficiency and effectiveness reasons. Because governments are the full or major funder, the quality and quantity of services will be of critical importance and a range of mechanisms are likely to be used to

ensure the government's objectives are given effect by local authorities. These range from detailed performance indicators specifying the nature of the service consumers can expect, such as those used by the United Kingdom, to indirect steering mechanisms which are part of the framework in Denmark. Governments justify their role in setting standards as necessary to avoid "post code lotteries", situations where public services vary according to the district in which people happen to live.

Devolved functions tend to be a statutory requirement, are likely to be largely self-funded and there is unlikely to be a central government agency with oversight responsibility. Commonly devolved functions are local roads, potable water and drainage. As they lack the operational knowledge, generally held by local authorities themselves, and because these functions are largely self-funded, government steering tends to be through less direct instruments than in case of decentralised functions. These can include targeted grants, the imposition of national outcomes standards and direction with regard to decision-making processes and organisational structures. For example, national environmental standards, concerning discharge and water quality, operate as proxy performance targets resulting in improved service standards by councils.

Discretionary functions are those which councils undertake utilising their general powers, either as a result of community pressure or councillor preferences. These functions will vary significantly between jurisdictions and are primarily local. Functions which are commonly, but not always, discretionary include community facilities, recreational activities and city promotional activity. The nature of the central local government relationship is quite different with regard to discretionary activities even though some government agencies will have a significant interest in the existence and performance of such activities. Council performance in the provision of arts, culture, sport and recreation and followed closely by national agencies charged with their promotion. Government departments and agencies concerned with these policy areas use a range of policy instruments to encourage and incentivise councils to both increase their investments and enhance their services, such as earmarked grants, staff exchanges and professional guidance material.

The allocation question

In a speech to the Local Government Conference in 2011 the former Minister of Local Government highlighted the need for some form of framework when he stated:

But I do believe that the Government should sign up to a statement of principle to govern its relationship with local government after each and every election. And it should be required to adhere to these principles unless it has good reason not to. Because otherwise, to be frank, councils will continue getting pushed around every which way. The sort of principles I would like to see recognised are:

1. That there will be a clear assessment of what level of government is most competent to make a particular decision.
2. When central government makes decisions that constrain local decision-making, it will only do so in the national interest.

3. The cost of any central government intervention in local government should be fully costed.

4. If an intervention is considered in the national interest, it should be recognised when developing funding options.

I believe that central government should keep these principles in mind at all times before it makes any decisions relating to local government.

The Hon Rodney Hide Minister highlights the question of which level of government should undertake what responsibility. While public services might be centralised, decentralized or devolved there are different ways of thinking about the appropriate approach for any specific service. There are indeed a range of approaches for determining what is known as the "allocation question". Economists, for example, argue that:

- local (rather than central) government should be made responsible for the provision of services, preference for which vary substantially amongst local communities, as does willingness to pay associated tax costs
- services should therefore be financed predominantly by local (rather than central) governments
- where preferences do not vary substantially between local jurisdictions, there is no reason why such services should remain a local government responsibility and powerful allocative efficiency and equity arguments why they should not (Bailey 1999, p. 226).

The practical implications of such criteria are that functions which typically have small areas of benefit, such as refuse collection and disposal, municipal housing, leisure, recreation and personal social services, are consequently more likely to be appropriate local government services. In contrast functions which have large spillovers, such as cultural institutions like regional orchestras, should be the responsibility of regional governance arrangements.

Bailey (1999), for example, suggests that local government should be responsible for those services where preferences and willingness to pay are likely to be varied, and that such services should be funded locally. National provision should be confined to services where preferences are unlikely to vary between jurisdictions. Oates (1972) introduced the principle of "correspondence" as a way of determining the allocation of functions. This principle suggests that the jurisdiction which determines the level of provision of a public good should include all the individuals who consume the good.

Dollery and Wallis (2001) suggest that local authorities should be responsible for services where the economies of scale are exhausted in their benefit area and note that this principle largely applies to the natural monopolies local authorities are frequently responsible for, such as water and drainage systems. Both authors recognise the difficulty of defining the scope of benefits for any specific service as well as the problem of defining boundaries for services with different benefit areas. However benefit alone may not be the sole consideration when determining allocation of responsibilities. Other factors such as economies of scale and scope, and redistribution, might outweigh the value of decentralisation in any specific policy area, depending on the view of national policy makers. Changes in technology can also affect the rationale for determining whether an activity should be centralised or decentralised.

Table 2 provides a framework that looks at the characteristics of individual services from a supply and demand perspective.

TABLE 5: FINDING THE RIGHT JURISDICTION

Level of Public Provision	Demand-Side factors	Supply-Side factors
Local	Variation in local taste (street lighting, zoning)	Potential for competition between jurisdictions (police protection, road maintenance)
	Common property (urban roads, waste disposal)	
National	Spatial consumption externalities (control of epidemics)	Economies of scale (defence)
	Equity concerns (minimum standards for primary education)	Cross jurisdictional externalities (inter-urban highways)

(Reid 1999, p. 12)

Factors that justify provision by higher order governments tend to involve cross-jurisdictional externalities, the achievement of national equity standards and the existence of significant spatial externalities (e.g. epidemics). Defining the point at which these factors justify high-order provision however is not at all clear cut. Historical debate about the size, role and function of local government has generally been approached as a debate between competing values of democracy and efficiency. Good institutional design is judged on its ability to achieve economies of scale and avoid externalities while providing citizens with voice. Localism and the principle of subsidiarity tend to weight this debate by treating the issue of democratic voice as the normative condition. It changes the policy question away from a question of making trade-offs between competing values to one in which departing from the local is only justified when the benefits are sufficient to justify making an exception. Effectiveness involves finding the appropriate policy settings with regard to size, powers, functions, resources (funding), linkages and responsiveness (local accountability).

Essentially decisions are also required about the relative level of centralisation with regard to those services which society regards as public. Foster, Perry et al (1997) suggest that service centralisation depends on a number of factors:

- legal provisions: at what levels entities can legally provide a service, for example in New Zealand only the Police and a few defined national agencies have the power of arrest
- geographic dispersal of service beneficiaries: where are the beneficiaries of the service are located, if, for example, they are located in a single geographic community efficiency suggests that some form of decentralised delivery would be preferable
- institutional capabilities: the level of expertise – technical, financial and managerial – that is necessary to provide the service
- historical arrangements: how services have been provided in the past; and the resultant societal expectations
- properties of the service itself: economies of scale, variable preferences regarding for quality and quantity, externalities or spill-overs between jurisdictions.

Local governments should be created such that preferences vary little within localities but vary strongly between them (Oates' decentralisation theorem)

In summary services are most likely to be the responsibility of national or regional governments if they have dispersed beneficiaries, a narrow range of preferences, require a high level of specialisation and tend to produce benefits that are difficult to contain within local jurisdictions are most likely to be the responsibility of national or regional governments. Local services are more likely to be those with few spill-over effects and a wide range of preferences and may be labour intensive: for example recreation services exhibit these features. The question of how services are provided – whether directly by governments, by some form of public standalone entity or contracted out to the private or not-for profit sector - is a secondary question – likely to be determined independently by each level of government although the capacity of each level to adequately monitor contracts will have a bearing on such decisions.

While the determination of what services should be nationally provided may be relatively clear, bearing in mind the dynamic nature of social preferences for universal standards, determining the appropriate sub-national scale is possibly more challenging and subject to a larger range of variables because of the diversity of local and regional New Zealand. In their study of governance in Erie County, New York, Foster, Perry et al (1997) suggest that regionalism is not inherently better or worse than localism. Rather it is a matter of locating the attributes of different services along a local, regional continuum, which takes into account the issues discussed above – economies of scale and relative preferences between equity and efficiency, accountability and responsiveness.

Learning from history

Public bodies in New Zealand have thought about frameworks for allocating functions between levels of government for a number of years. One particularly valiant effort was published by the New Zealand Planning Council in 1984 (an adaptation of an earlier framework published by the Advisory Council for Inter-Governmental Relations in Canberra three years earlier).

Prefaced with the qualification that any framework is “naturally influenced by the philosophical perspective adopted” and ability to quantify questions like:

- What is the objective?
- What is the cost and benefit of such involvement?
- Is it more realistic (appropriate) to expect other non-government agencies to deal with it?

The Planning Commission's criteria are set out below.

GENERAL CRITERIA

1. National unity. Those functions for which the nation needs to speak with one voice or to promote an identifiable national image should usually be the responsibility of the national government.

2. Coordination. The coordination of policy development should be the responsibility of the most suitable levels of government involved, which the coordination of the administration should be the responsibility of the lowest feasible level of government.
3. Overriding importance. Functions which are closely interlinked or which are of overriding importance should be allocated first, usually to a central government, and those functions which are dependent on interlinked or over-riding important functions usually should be allocated to the same sphere of government.
4. Multifunctionality. Responsibilities should be assigned to multi-purpose authorities wherever coordination and choice among the responsibilities are of importance, unless they are outweighed by technical efficiency.

CRITERIA RELATED TO RESPONSIVENESS

1. Responsiveness. Responsibilities should be allocated to that sphere of government whose area of jurisdiction corresponds with the area benefiting from the responsibility.
2. Community. Where it is desirable that responsibilities be met either in a manner that is responsive to local conditions or in a manner that contributes to the well being of the community then they should be provided by the government closest to that community.
3. Accessibility. Where it is desirable that the public should have ready access to a particular service then the administration of that service should be the responsibility of the government closest to that service.

CRITERIA RELATED TO EQUITY AND EQUALITY

1. Social justice. Where equality of opportunity is important or where it is necessary to protect the interests of minorities, that responsibility is best monitored and even controlled by a central government.
2. Redistribution. The responsibility of policies intended to redistribute wealth nationally should rest with the national government which should work towards a core of income and wealth distribution concurrently with scope for the state and local government to initiate some variations around this 'core' having a redistributive effect at the State (sic) and local level.
3. Equalisation. The equalisation of units of government should be the responsibility of the level of government next higher than the level of units to be equalised.
4. Uniformity. If uniformity, nationally or state-wide, is required then the appropriate central government should have the main, if not total, central of that responsibility.
5. Portability. Where it is desirable that the rights and privileges conveyed by a responsibility should be portable throughout the nation (or State) then that responsibility should be controlled by the appropriate central agency.

CRITERIA RELATED TO EFFICIENCY

1. Mobility. Functions related to people or things or conditions which may be highly mobile are best handled by higher levels of government.

2. Stabilisation.
 - a. Control of policies and programmes which contribute to the stabilisation of the national economy should be the function of the national government.
 - b. Sub-national governments should not have power to pursue independently policies designed to stabilise regional economies.
3. Internalisation. Responsibility for a function should be allocated to the level of government capable of containing the costs and retaining the benefits of the responsibility within its own boundaries.
4. Economies of scale. Responsibilities should be allocated to the level of government able to provide the responsibility most economically.
5. Regional unity. Where for any reason it is desirable that the unity of a region be recognised, then that responsibility should be vested in an appropriate regional body.

Appendix 2: Example of an inter-government agreement

TRIPARTITE PARTNERSHIP AGREEMENT FOR POPULATION AGEING IN TASMANIA

AN AGREEMENT made the 28th day of August, two thousand and six, and revised in November 2007 after the first annual evaluation between THE AUSTRALIAN GOVERNMENT THE CROWN IN RIGHT OF THE STATE OF TASMANIA, and THE LOCAL GOVERNMENT ASSOCIATION OF TASMANIA

1. PREAMBLE

The Australian Government, the State Government and the Local Government Association of Tasmania (the Parties) agree, within their respective roles and responsibilities, to implement this Partnership Agreement (the Agreement) on mutually agreed terms with the following objectives:

- to deliver improved services from all spheres of government to the community for the care of older Tasmanians
- to improve living and community environments for older people living in Tasmania.

2. PRINCIPLES

The following principles underpin the development of the Agreement:

- The Agreement reflects the desire for improved cooperation between the Australian Government, the State Government and Local Government, aimed at developing a genuine partnership for the health and wellbeing of ageing Tasmanians.
- The Agreement will be implemented in a cooperative manner based on the identification of shared objectives and ways in which all spheres of government can work toward effectively meeting these objectives.
- Any amendment to existing service delivery arrangements will be the subject of contractual arrangements between the Parties to ensure appropriate accountability and transparency of implementation.
- Outcomes from the Agreement should be measurable through agreed performance indicators.
- Changes in responsibilities should achieve overall efficiency across all spheres of government.
- The schedules to this Agreement deal with the specific outcomes the parties wish to achieve together with implementation strategies.

3. DESIRED OUTCOMES

The Partners agree that:

- the development and delivery of services will be streamlined
- the Agreement will result in improved collaboration in implementing standards for aged care facilities
- there will be enhanced provision of aged care services across spheres of government

- there will be an enhanced match between services to meet community need and demand
- there will be increased encouragement of private investment in aged care services
- there will be improved communication between stakeholders leading to better planning and development
- there will be improved access to information regarding ageing and aged care services for the community and non-government providers of care.

4. MONITORING AND REVIEW

A Steering Committee with representatives from each sphere of government will be established to oversee the implementation of the Agreement.

The major roles of the Steering Committee will be:

- supervision of the various Working Groups established to implement the Schedules to the Agreement
- regular monitoring and reporting on progress of the Agreement to each sphere of government
- overseeing the 12 month evaluation and three year review of the Agreement
- approving any new schedules to the Agreement
- considering any outstanding issues raised during the period of the Agreement
- Implementation reports will be made every three months for the first 12 months following the signing of the Agreement and every four.

Appendix 3: Policies that shift costs on to local authorities

Cost shifting is the transfer of responsibilities from central to local government without commensurate funding to undertake those responsibilities. It also covers situations where grants that might have funded an activity might have been reduced, forcing councils to use rates to supplement the activity budget. The results of the three surveys undertaken by Local Government New Zealand are summarized below.

1989 – 2000 SURVEY

Territorial	Regional	Date	Formally devolved functions	Funding
	☐	1989-91	Land Transport <ul style="list-style-type: none"> responsibility for licensing all passenger services in the region regional land transport strategy, regional passenger transport plan, total mobility services 	Not funded
	☐	n/a	Marine oil spill contingency plans	Not funded
☐		1989	Responsibility for activities of Domain Boards following their demise, previously administered by Dept. of Conservation	Not funded
☐		1989-91	Sale of Liquor Act - liquor licensing practices, inspection, enforcement, processing license applications	Set fees - not flexible enough to cover costs
☐		1991	Building Act <ul style="list-style-type: none"> monitoring of Warrants of Fitness for buildings issue of Compliance Schedules building certificates monitoring/review of dangerous or unsanitary building, or deemed earthquakes risks collection of fees for Building Industry Authority monitor fire alarms (previously Fire Service), evacuation plans PIMS requirements requirement to establish administration and recording systems cost of retraining & up skilling staff 	Flexible fee charging available Difficult to recover implementation costs (training, policy development, new forms and systems)

Territorial	Regional	Date	Formally devolved functions	Funding
☞		1991	Fire Services <ul style="list-style-type: none"> • urban fire permits - previous administered by Fire Service • rural fire management code of practice - specifies equipment training, minimum standards 	Able to set fees for permits Other responsibilities not funded
☞	☞	1991	Resource Management Act ³ <ul style="list-style-type: none"> • noise control • matters of national importance, e.g. coastal management, heritage management, clean air administration • state of environment monitoring • historic building landscape and ecological features, hazard mapping and identification • protection of natural features, significant habitats • storage and disposal of hazards • marine farming regulation • Air Quality Management - most air quality functions under RMA - previously carried out by Ministry of Health, including discharge consents • additional notification costs arising from the Ngai Tahu settlement 	Cost of some functions able to be met by fees
☞		1990	NZ Walkways Act - local authorities can be appointed controlling authorities	Not funded
☞	☞	1991-93	Biosecurity Act ⁴ - Unoccupied land, regional animal and plant pest strategies	Not funded
☞		1991-97	Parking & traffic enforcement <ul style="list-style-type: none"> • monitoring offences under Schedule 2A Transport Act 	50% of fines paid to Crown
☞		1994	Drinking water testing, previously carried out by Ministry of Health <ul style="list-style-type: none"> • also monitoring beach water quality 	Fees set under Local Government Act

³ Previously councils administered the Town and Country Planning and Water and Soil Conservation Acts.

⁴ Previously administered Agricultural Pests Destruction Act 1967

Territorial	Regional	Date	Formally devolved functions	Funding
☞		1996-99	Hazardous Substances & New Organisms Act - transfers responsibility that was previously with OSH, Toxic Substances Board, etc. Dangerous Goods Act license fees (prescribed by regulation which has not been over-ridden by the Hazardous Substances & New Organisms Act regime)	Fees set by negotiation. Unable to recover reasonable costs.
☞		1998	Land valuation services - National Property Database <ul style="list-style-type: none"> • Rating Valuation Act - land valuation responsibilities moved to TLAs transferred from Valuation New Zealand • responsibility for preparation of valuation rolls – 1998 	National Property Database not funded but council able to on-sell data to recoup costs
☞		1998	Road Safety - Management of speed limit designations, gazettement on local and secondary roads and evaluations – previously Land Transport Safety Authority	Not funded
☞		1998	Animal Welfare Act 1999 specifies certain functions for TLA's	Not funded
☞		n/a	Food safety administration, including inspection of food preparation facilities in schools and old person's homes – previously responsibility of Ministry of Health	Cost recovery from inspection fees
☞		n/a	Inspection/monitoring of school swimming pools – previously responsibility of Ministry of Health now responsibility of territorials to check compliance	Able to recover actual and reasonable costs

2000 – 2006 SURVEY

Territorial Regional		Date	Formally devolved functions	Funding
P			<p>Responsible Gambling Act – requires councils to adopt a gaming venue policy and review the policy at least once every 3 years</p> <p>Councils are able to recoup costs of administering applications but must pay for consultation, social impact analysis and the triennial review</p>	Ongoing costs as territorial authorities undertake triennial policy reviews. Estimate – minor
P		2003	<p>The Prostitution Reform Act (PRA) 2003 – provides that territorial authorities can develop bylaws to control the location of brothels in their districts and signage relating to businesses of prostitution. TAs can also manage the adverse effects prostitution related activities under the Resource Management Act, and the PRA expressly acknowledges that</p> <p>No mechanism for recouping consultation costs, review costs, nor the cost of defending legal challenges</p>	Ongoing bylaw review (at least every 5 years). Estimate – minor or RMA plan change – estimate - significant
P		Dec. 2002	<p>Water, waste water and sanitary assessments – introduced by the LGA 2002 councils are required to prepare an assessment of all water and sanitary services</p> <p>Councils are not required to implement the assessments</p>	Largely one-off costs incurred as part of the 2006 LTCCP. Councils are taking different approaches (<i>Wanganui estimate cost at \$75,000</i>). Ongoing need to update assessment
P	P	Dec. 2002	<p>Requirement to promote well being</p> <p>There is a view that the new purpose given to local government in 2002 will lead to community pressure on councils to increase the range of issues they are actively involved in – especially in the social sphere</p>	No estimate of cost possible as involvement is a matter for council discretion
P		2006	<p>Earthquake-Prone Building (EPB) Policies</p> <p>The Building Act 2004 requires each territorial authority to adopt an EPB Policy. While councils (through a consultative procedure) adopt an approach suitable for their local factors, the element of risk around EPBs have in many cases led to a proactive costly policy approach</p>	(Wanganui district estimate cost at \$50,000). (Wellington City estimate cost at \$1,000,000 over three years for policy implementation including building evaluation)

Territorial Regional	Date	Formally devolved functions	Funding
	2006	Dam Safety Policies The Building Act 2004 required each regional authority to administer the consent process as well as administer the dam safety scheme and take action on dangerous dams. The approach to dam safety is to be set out in a policy	No estimate available at this stage as policies are currently under development

2007 – 2011 SURVEY

	Cost Shifting	Estimated cost
<i>Nelson City</i>	Building (Dam safety) regulations 2008	\$20,000 - \$100,000
<i>Timaru District</i>	High productivity vehicles	\$10,000
	Safer community councils	Government subsidy removed
	HSNO requirements (Dept. of Labour)	\$30,000 in lost revenue
	Administration of rates rebate scheme	\$20,000
<i>Hastings District</i>	NZTA road maintenance funding cuts	\$1,300,000 annually
	Landfill waste levy (\$10.00 a tonne)	\$780,000 in 2010/11
<i>Central Otago District Council</i>	Reduction in roading financial assistance rate (FAR)	\$70 K per annum from 2012
<i>Napier City Council</i>	Subsidy reductions from New Zealand Transport Agency	\$300,000
	Crime prevention – Safer Community Council co-ordinator	\$160,000
	Civil Defence operating grant – removal of government subsidy for local organisation	\$12,000
	Rates rebate programme (change of subsidy levels)	\$13,000
	Building Act – earthquake prone buildings	\$100,000 (one off)
<i>Tasman District Council</i>	Sale of liquor process	\$50,000 subsidised by general rates
	Department of Conservation restructuring resulting in increased workload by council	Approx. \$10,000 to \$20,000
	Changes to the funding of Environschool shifts cost to council	\$20,000
	Food safety programmes from NZFSA	Approx. \$5000 in staff time per year.

	Cost Shifting	Estimated cost
	Community road safety programmes: reduction in government funding for safety initiatives and education. Reduction in the Financial Assistance Rate from 75% to 59%.	Approx. \$50,000
	Non-inflation of Government (NZTA) proportion of road maintenance funding for local roads for last 3 years	Approx. \$500,000 for the first year and accumulative impact over 3 years.
	Loss of Government (NZTA) subsidy for cycleways since 2010/11	Approx. \$400,000 per annum.
	ACC WSMP Survey (HR) (excludes wages, includes training PPE etc)	\$50,000 per annum
	Regional broadband (includes staff time)	Up to \$20,000
Tauranga City	NZTA and the removal of funding for alternative transport options (let to local government to pick up)	Funding for community programmes cut by \$373,000. Cost of cycling and walking programme \$250,000 per annum.
<i>South Taranaki</i>	Develop a schedule of high risk buildings in rural fire district	\$7000
Taupo		
	Tuwharetoa settlement created additional costs for lake management e.g possible rental for pipes, jetties etc.	Casts caused by: extra administration work in relation to lake management; access costs to lake; cost of dealing with community anger once access costs are known.
	Waikato river settlement requires council to work with Iwi to develop co-management agreements and amend district plan	Considerable administration costs for first 3 years; a requirement to provide technical services to participants and cost of additional PR.
	Reduction in learn to swim classes by the government and cost to council of picking this up.	\$130,000
	Effect of cuts to non for profit agencies in the district	Council to spend \$500 K to upgrade Waiora House which houses local social service providers.
West Coast Region	NZTA subsidy rates for regional road safety programmes to be reduced.	Approx. \$7000

	Cost Shifting	Estimated cost
Environment Canterbury	Aligning information systems with central government for environmental reporting	\$20,000
Wellington City	Reduction in Creative NZ funding to major cultural organisations	\$2m
	Reduction in state funding for school swimming programmes and pools puts pressure on public pools	\$2m pool made available to assist schools keep their pools open
	Bus lane monitoring – Police lack resources to monitor with traffic wardens being given formal responsibilities	Cost of monitoring \$37K so far (November 2011)
	Vehicle compliance monitoring and suggestion that it be extended e.g. to cover tyres etc	Costs covered by enforcement income however WCC pays more than \$400K to the Crown as its share of enforcement fees.
Horowhenua		
	RMA demands increasing cost of consents for water and waste water, landfill, storm water etc	Staff time involved in increased monitoring and reporting required under the RMA
	Emission trading scheme, especially costs of refusal disposal	Flare installation at refuse station more than \$100,000 per annum.
	Waste levy must be spent in prescribed manner	New reporting costs related to allocation of levy and increased management, administration and communication costs.

Raising the bar – increasing service quality/quantity

Perhaps the most common cause of increased costs in local government is when central government enacts legislation or adopts a regulation that requires local authorities to increase the quality or quantity of locally funded services. This is called 'raising the bar'.

	Activities/functions	Estimate cost
<i>Nelson City</i>	Drinking water amendment Act 2007 & Public Health Risk Management Plans	\$50,000 - \$100,000
<i>Timaru District</i>	Water quality standards	
	Waste levy	\$150,000
	Building accreditation	\$100,000
	Stormwater management plans	\$100,000 for five years
	Higher detail required for Activity Management Plans	
	Regional Land Transport Planning	\$30,000
	Monitoring	Budgeted capital cost of \$30 million over 10 years

	C.A.R.s and trenching	\$100,000 per annum
<i>Hastings District</i>	Earthquake prone Building identification (council owned) and upgrade (cost yet to be known.	\$100,000
<i>Central Otago</i>	Waste levies	\$25,000 per annum
	ETS - landfills	\$250 – 500K from 2013
	ETS – reforestation	\$2.4m in total
	NZDWS – water quality standards	\$3.2m over 7 years
	National Environmental standards for water quality (as interpreted by regional council)	\$10m over 7 years (potential to be higher) for waste water discharges
<i>Napier</i>	National dog database	\$15,000 per annum
	Rugby world cup – enforcement Monumental Events Act	Significant cost still to be determined
	Building consents accreditation (set up costs)	\$80,000 one off
	Building consents accreditation	\$14,000 per annum
	Waste levy	\$14,000 per annum net cost
<i>Tasman District</i>	Water measuring regulations	Approx. \$30,000 per annum
	'Measuring Up' proposals – MfE's environmental reporting plans	Cost may be between \$100,000 and \$150,000 per annum depending on role fo CRIs
	NZ Coastal Policy Statement	Requirement to 'give effect' could see an additional \$100,000 in rates expenditure over next 5 – 10 years.
	National Policy Statement on Freshwater	Requirement to 'give effect' might create an additional \$200,000 rates expenditure over next 5 – 10 years
	National Policy Statement on Renewable Electricity Generation	Requirement to 'give effect' might create an additional \$20,000 rates expenditure over next 2 years
	National Policy Statement on Electricity transmission	Requirement to 'give effect' might create an additional \$20,000 rates expenditure over next 2 years
	Extra requirements for long term plan (LTP) preparation e.g. LGA 2002 changes such as pre-election report; plain English financials; & separate financial strategy. Plus, LTP audit requirements continually raising the bar, e.g. formalising and documenting systems for identifying and mitigating risks	Approx. \$130,000 in staff and consultants time.
<i>Tauranga City</i>	Changes to the LGA 2002 e.g. pre-election report and additional requirements around financial reporting.	Not costed yet
	Bureau of statistics reports – these	Approx. around 1 staff

	are not well aligned, repetitive and add quite a bit of cost as they have to be redone for every report from scratch.	member for a month per annum.
<i>South Taranaki</i>	National dog data base	\$10,000
	Building Consent Authority accreditation	\$25,000 to \$30,000 every two years.
<i>Palmerston North</i>	Resource consent processing – discounts for late processing	\$50,000 set aside in annual plan
	Revisions to the Building Act – accreditation requires investment in policies and procedures and employment of a full time Quality Assurance Coordinator	In the 2006 – 2011 period cost of accreditation \$90,000 in audit fees and \$400,000 in consultant fees.
<i>West Coast Region</i>	LTCCP audit fees	\$52,000 or \$1.60 per permanent resident per annum
<i>Opotiki District</i>	Water standards	\$15,000 per annum for testing
	Roading	Processes for accessing national funding more complex and time consuming.
	Civil Defence and Emergency Management	Process more complex and expensive
<i>Wellington City Council</i>	Waste minimisation regulations and requirement to proactively develop appropriate waste programmes	Waste levy of \$600,000 covers additional waste minimisation programme and delivery costs, possible change due to reduced levies and other risks such as the price for recyclables.
	Code of Practice for Temporary Traffic Management and Code of Practice for Utilities Access	Approx. \$200,000 per annum
<i>Horowhenua</i>	Implementation of National Code of Practice for Utilities Access to the Transport Corridors	\$10,000 - \$20,000 per annum
	National Policy Statements	Actual costs not yet known
	Building Act Accreditation	Set up costs approx. \$60,000, reaccreditation every two years \$20,000 plus \$10,000 per annum for competency assessment etc.
	National dog data base	\$5,000 annually

	RMA (simplifying and streamlining) has resulted in greater complexity of consent processing	Costs not quantified.
	Environmental Health – implementation of voluntary compliance with proposed amendments	Administrative costs

Regulatory Creep

The imposition of new regulations and processes which have the effect of increasing the administrative costs of undertaking responsibilities.

THE 1989 – 2000 SURVEY

Ⓟ	Ⓟ	1989 - 99	<p>Increased consultation costs due to –</p> <ul style="list-style-type: none"> • Resource Management Act consultative requirements with iwi • Local Government Amendment (No3) Act 1996 consultative requirements and duplication of Special Order and Special Consultative Procedures • Annual Plan formation and consultation - increasing compliance requirements for annual plans
Ⓟ	Ⓟ	1991	<p>Administration and information gathering requirements</p> <ul style="list-style-type: none"> • archives legislation requirements • change to accrual accounting - Auditing and compliance costs • purchase of data from Statistics New Zealand • greater data gathering costs due to reduced government involvement in hydrology
Ⓟ	Ⓟ	Ongoing	<p>Increased cost of government services generally</p> <ul style="list-style-type: none"> • cost of copyright maps for district plans, paying for information that was previously free • increased court lodgement fees - particular impact on council as high volumes • DOC able to recover costs e.g. actual expenses & royalties, through processing & authorising proposals made by territorial and regional councils, under the Reserves Act or Conservation Act

	Ⓟ	1991-On	<p>Resource Management Act - As well as devolving responsibility to local government (see section on devolution), the RMA has also imposed additional costs on councils, for example:</p> <ul style="list-style-type: none"> • cost of new district plans, moving from prescriptive to environmental based plans • costs of development/comment on regional plans and interface with district plans • district plans more detailed, more research, preparation and administration • costs associated with reporting to government • national coastal policy, tougher more costly consents • increased cost of compliance in most service delivery areas, especially, sewerage, water, roading, refuse management, harbour structures • consent requirements for landfills and water extraction rights • requirements for solid waste management plans and improved solid waste disposal • additional monitoring requirements • higher environmental standards • evaluation and impact studies
Ⓟ	Ⓟ	1992-On	<p>Civil Defence</p> <ul style="list-style-type: none"> • reduced government disaster recovery funding for cover from 100% down to 60% • reduction in level of insurance of assets against natural disasters • devaluation of cabinet grants for Civil Defence CD) as a percentage of total costs • vehicle subsidy reduced from 50% to 7% • meteorological office forecasts must now be purchased (1998) • accommodation charges introduced for National Civil Defence School courses - previously fully funded (1995) • funding replacement supplies for CD medical kits - previously from Area Health Board • introduction of Emergency Management Groups • added costs of "all hazards" and comprehensive emergency management under proposed new legislation
Ⓟ			<p>Local Government Official Information and Meetings Act -</p> <ul style="list-style-type: none"> • increased administrative and legal costs where conflicts arise • cost of advertising meetings as per new legislation

Ⓟ		1993-On	<p>Regulations and Legislation</p> <ul style="list-style-type: none"> • changes to drinking water standards and classification system, with higher standards for water supplies requiring improved water treatment and higher level of monitoring • introduction of food audit system by Ministry of Health - cost of educating staff, food businesses • requirement to undertake dangerous goods inspectorial services • Hazardous Substances & New Organisms - additional training and increased responsibilities, and compliance costs (1996) • Dog Control Act – higher compliance standards imposed on councils, including the need to have a dog plan (1996) • changes to Notifiable Disease Schedules in Health Act mean more common diseases to be investigated by TLAs
Ⓟ	Ⓟ	1996-98	<p>Local Government Amendment (No 3) Act 1996 requirements, including:</p> <ul style="list-style-type: none"> • legislative requirements for developing funding policies, borrowing policies, and long term financial strategies • costs of extra administration to meet the Act's accountability requirements, such as reporting and monitoring • additional compliance costs for borrowing after appeal of the Local Authorities Loan Act (offset by cheaper borrowing) • development of Asset Management Plans • cost of preparing Long Term Financial Strategies
Ⓟ	Ⓟ	1999	Levy to fund national costs of valuer-General's Office ⁵
Ⓟ		Gradual	<p>Fees set for regulatory functions that are below the actual costs and have not been adjusted for inflation, including:</p> <ul style="list-style-type: none"> • liquor licensing • amusement devices • parking infringement fees • Dangerous Goods Act • hawkers, itinerant traders, mobile shops, under LGA • Litter Act infringement notices

⁵ The move to contestability for valuation services should mean a reduction in overall costs to local government although it involves a transfer of responsibilities.

P	P	1991-96	<p>Public transport</p> <ul style="list-style-type: none"> • reduction/removal of public transport subsidies - TLA assisting regional councils by spending on public transport infrastructures, e.g. bus shelters, road improvements, etc • legal fees increased regarding contentious registrations of passenger transport services • school bus services reviewed – more funding from regional council • human rights legislation affecting requirement for accessible buses increases costs for councils involved in subsidising public transport
P		Ongoing	<p>Roading and Transport</p> <ul style="list-style-type: none"> • state highways reclassified as local roads and transfer of costs • road safety -increased railway crossing standards • reduction in road subsidies • extra administration costs associated with Transit NZ requirements • research projects previously undertaken by Transit NZ now partially funded by territorial authorities • landscaping costs on state highways • additional street lighting, operational and maintenance costs on state highways • abolition of regional petrol tax - costs shifted to rate-payers
P	P	Ongoing	<p>Reduced funding/subsidies in a range of areas, including</p> <ul style="list-style-type: none"> • pensioners housing - loss of subsidy as low interest housing loans lifted to market rates • river and drainage scheme works and maintenance funding • sewerage schemes • soil conservation works • street cleaning • transport subsidies for total mobility, following hospital closures and elimination of health-funded transport subsidies • stormwater subsidies • Ministry for the Environment grants/subsidies • irrigation scheme subsidies, and costs of feasibility studies of irrigation schemes • Rates Rebate Scheme – failure to adjust for inflation has greatly reduced eligibility • community water supply
P		n/a	Proposed Heritage legislation requiring councils to offer rates relief
P		n/a	LATEs - Requirements to establish LATE structures for trading enterprises, including cost of investigation, setting up tax systems, handling tax disputes, and ongoing compliance

THE 2000 – 2006 SURVEY

Territorial	Regional	Date	Additional Costs	Funded/ Not funded
P			The Donnelly Act and subsequent LG Rating Act 2002 forced councils to subsidize school water and sewerage	An average sized rural council estimates the annual cost at \$18,300 pa
P			Removal of ability to disconnect water users as a result of the LGA 2002	An average sized rural council estimates an annual cost of \$15,000 in additional unpaid bills
P			Inability to charge development contributions on Crown related developments. ⁶ Taupo DC calculated that if the law allowed it- the Turangi prison would have paid a contribution of \$200,000	Issues have been raised by councils in relation to the construction of prisons
P	P		Inability to levy a general rate on crown owned land is an opportunity cost for some councils, especially those with large areas of Crown land	The cost to Wellington City is estimated to be \$5m per annum
P			Providing access to Maori landlocked land. As a result of legislation councils can be forced to provide access for landowners wanting access to land locked Maori land – we are only aware of One application since enactment	Cost appears to be minor

⁶ This issue is currently being examined by the joint central local government officials group.

PROCESS AND ACCOUNTABILITY COSTS (SINCE 2000)

Territorial	Regional	Date	Process and Accountability Costs	Funding
		2002	The cost of complying with the new decision-making requirements. The LGA 2002 introduced a more rigorous decision making process requiring, for different classes of decisions consideration of a range of external factors e.g. the effect on well-being	Largely reflected in a need for additional policy and advisory staff
		2002	Requirement to enhance the capacity of Maori to participate in decision making processes. This provision was introduced by the LGA 2002 and involves increased indirect costs – staff time and consultation – as well as direct costs with councils funding training programmes and other initiatives	Involves a variety of indirect and direct costs. (One council has estimated additional consultation costs of \$117,000 to meet the additional responsibilities to Maori)
		2002	Cost of auditing the draft LTCCP. A three year cost. We expect that the process will run more smoothly in 2009 and that the cost should be less	The cost for middle sized councils appear to be around \$60,000, however this is spread over three years
			The cost of health and safety regulations (OSH) on leisure facilities	Potentially significant across all facilities, including reserves
		2002	The cost of preparing the LTCCP and its various processes. The LTCCP process is marginally more expensive than the LTFS – a new feature is the community outcomes process ⁷	The cost of the community outcomes process ranges from \$10,000 to \$100,000. However this cost is incurred only once every 6 years
		2001	The cost of the Remuneration Authority Levy. Councils must now pay the cost of the remuneration authority – an annual levy	Estimated cost – minor

⁷ There are wildly divergent claims made about the cost of the LTCCP, ranging from zero to half a million dollars. The difference results from whether or not the cost of the LTFS is considered and the quality of a council's LTFS. The LTCCP costs are marginally greater than the LTFS.

Territorial	Regional	Date	Process and Accountability Costs	Funding
		2003	The National Dogs Database (and range of new dog control requirements ranging from classification according to breed, to the micro-chipping requirements and related exemptions (introduced in 2006).	Funded by all territorial authorities according to a formula – limited ability to recoup costs from dog owners
		2002	Weathertight Homes Resolution Service Act The cost of the resolution process and the cost of case settlement/adjudication	Auckland councils estimate anywhere between \$5m and \$500m dependant on liability apportionment case by case

THE 2007 – 2011 SURVEY

	Activities/functions	Estimated costs
Timaru	Temporary Traffic Management	\$50,000
	Road Safety Act Planning report	\$10,000
	Food safety audits	Training costs
Hastings	Regional land transport programme and duplication of consultation functions	\$12,000 per annum
	Rural fire – increased compliance costs	\$43,000 (over last 5 years)
Central Otago	NZ Transport Agency reporting requirements	\$5,000 pa
	Waste Minimisation management plan	\$50,000 - \$70,000 one off cost
Napier	Pre-election report	\$20,000 every three years
	Activity benchmarking	Cost to be determined once new scheme implemented
	LTP and annual plan – additional reporting (financial strategies etc)	\$20,000 pa
	Statistics Department – additional reporting LTP & annual report	\$5,000 per annum
	Emissions trading scheme	\$15,000 per annum (one off)
Tasman	Building Act accreditation – cost of audit	Approx. \$58,000 every two years with staff costs of \$20,000 per annum for audit process.
	RMA 2009 amendments – although the amendment clarified some pathways it also brought a wider range of processing options with more costly administration which is not cost recoverable.	\$20,000 per annum.

	Activities/functions	Estimated costs
	Public records Act compliance (extra automation and facilities)	\$60,000
<i>South Taranaki</i>	RMA changes including discount regulations and national policy statements	\$20,000
	Pre-election report	No known
<i>Palmerston North City</i>	Food Bill and impact on contestable food control auditors	Still to be determined
	Rugby World Cup Empowering Authority and initial costs of establish administrative secretariat	\$2,228 of staff time
<i>West Coast Region</i>	Public Records Act – archive requirements	New expenditure – amount yet to be assessed.
	Pre election report 2013	Approx. \$5000
<i>Environment Canterbury</i>	National regulations on water metering – extension of existing programme plus further monitoring, data collection and reporting	Approx. \$300,000 per annum shifting to more compliance and enforcement over time.
	LGA 2002 amendments – pre-election report, financial disclosure reports etc.	
<i>Opotiki</i>	Pre-election reports	
	Gaming policy reviews	
	Building Act reviews (every 5 years for earthquake and dangerous and insanitary building policies)	
	Food Act – councils taking over roles previously handled by Ministry of Health	
	Building Act – accreditation requirements	
	RMA – impact of National Policy Statements e.g. electricity transmission and renewable energy	
	RMA simplifying and streamlining amendments and discount regulations	
	Freedom camping Act and creation of freedom camping bylaws and a review of council's public places bylaw and seasonal camping policy (by August 2012)	
<i>Wellington City</i>	Pre-election report and financial strategy	Final costs yet to be determined: printing and distribution assessed at \$50,000
	New performance measures	Estimated cost of WCC's share of levy - \$60,000
	Development of additional systems and collection processes to meet new performance standards	Indicative cost estimated at \$250,000
	Policy and planning activities related to RMA changes, NPS's and NES's	Investment in additional planning capability
	The Liquor Act prescribes the fees a council can charge and have not	Increasing ratepayer subsidy, difficult to quantify

	Activities/functions	Estimated costs
	increased since 2000.	
	Accreditation process for building authorities has increased costs. The activity does not run at 100% recovery so costs borne by councils have increased.	Difficult to quantify
	MOJ has removed the ability of councils to pursue debt recovery through the Small Claims Court. Using the district court usually costs between \$5k and \$15k yet where a court finds in the council's favour the fine is well below the cost of pursuing the action, perhaps only \$200. Therefore it is not economical to pursue smaller debts.	Approximately \$20k of small debts are written off each year as a consequence of it being uneconomical to pursue them, even when the council has a tight case.
<i>Horowhenua</i>	Building Act requirements – accreditation and biannual reaccreditation	Initial cost of about \$60,000 per annum and ongoing costs of \$20k every two years for re-accreditation and \$10K per annum for competency assessments.
	LGA 2002 amendment – duplicate financial reports and pre election reports.	\$30,000 - \$50,000 per annum

Unintended Devolution

Unintended devolution refers to the situation where all or some councils have exercised their discretion and taken on extra responsibilities that were previously, but are no longer, provided by government. These activities may have been taken on in response to community demands or to avoid possible negative consequences to the community as a whole. It also applies to functions where local government “tops up” service delivery standards to fill a gap left by any reduction in government services.

Date	Unintended Devolution	Est. Cost
1990s	School library services closure of school library centres and advisory service placing more pressure on public library resources extra library facilities required for "resource based education" school library resources - now held in public libraries	

Date	Unintended Devolution	Est. Cost
1990s	National library service reduced services and subsidies from the national library service loss of interloan services (1996) demise of book bus service (1989) library services facing increased demand from NZQA Training Providers	
1990s	Environmental issues, including: responsibility for tree trimming near power lines discharges, e.g. from septic tanks agricultural collection reserve maintenance - Dept of Conservation pulling out of it, but public will expect them to be kept up to a certain standard	
1993-On	Safer Communities support for Safer Community Councils and other Community Initiatives - set up to assist in community welfare and safety ⁸ reduction in police resources has led to financing security patrols, crime prevention strategies police kiosk rentals safety administration programme	
1994-98	Business and economic development government exit from economic development programmes wind down of Business Development Board and grants provision of start-up funding for small businesses due to withdrawal of Govt. assistance changes to focus of NZ Tourism Board means councils have to pick up costs of marketing and promoting local and regional areas lack of regional development policies by government	
1997/98	Closure of government provided information centres operation of Visitor Information Network Centres as NZ Tourism Board cuts funding link centres and consumer lines, have resulted in pressures on councils to increase support for Citizen Advice Bureaux more inquiries to council community advisers	

⁸ Changes introduced by the Crime Prevention Unit have reduced the cost of supporting safer community councils and a more diverse range of models, such as directly funding councils, is being used. However the change in CPU funding has left some councils funding co-ordinators on their own.

Date	Unintended Devolution	Est. Cost
1997-98	Road safety LTSA funding for Traffic Safety coordinators reduced, picked up by local authorities road safety campaigns - community input through rates required to assist general traffic safety concerns, resulting from lack of visible specialist police resources traffic warden activities - due to reductions in police funding/resources	
Gradual	Community Support increased requests for funding and assistance in health, education and social services areas. Examples include:	
	Support for education grants to schools struggling to survive on bulk funding formulas (no longer an issue since 2000, although councils are often approached by schools for specific assistance, e.g. with facilities, due to perceived shortage in national education funding) support for drug and alcohol education programmes kindergarten, play centre school grants for projects early intervention programmes for primary aged children social workers in schools facilitation for education providers to overcome competitive conflict	
Gradual	Support for health funding of health & disability support groups community health initiatives - with demise of Area Health Boards mental health issues including subsidised housing for "deinstitutionalised" people - as a result of changes to the health system provision of health information services changes to funding criteria and reduced funding from Community Funding Agency and RHAs (now HFA) has lead to increase in requests from community service groups for community grants provided by councils ⁹	

⁹ The re-organisation of the health system that occurred following the 1999 election has removed a number of the issues identified in the 1998 survey.

Date	Unintended Devolution	Est. Cost
	Support for other social services areas, including – Creative Communities Scheme administration Hillary Commission Sport & Recreation Funding scheme admin ¹⁰ involvement in employment schemes strengthening families initiative - council involvement in networking with community groups to assist government departments in increasing their effectiveness total mobility - transport foodbank grants support for new immigrants to settle in NZ at risk youth programmes and funding for youth workers support e.g. accommodation, for voluntary and community based groups many of which are also funded by government and deliver services on its behalf	
	Rural fire management – changes to Fire Service has meant Territorials (TAs) have had to undertake an extended role in rural fire reduction in fire district boundaries, means increased area in TA rural fire districts	
2002?	The removal of the Hillary Commission's Sport and Recreation Scheme has anecdotally led to an increase in funding applications from community recreation groups no longer eligible for SPARC funding	
Gradual	Since 2000 Wanganui District has identified a cost in providing swimming pool access to school children (<i>estimated at \$250,000 pa</i>)	
2002	The extension of general empowerment to regional councils has exposed them to increased funding requests from community organisations and territorial councils	
	<ul style="list-style-type: none"> • Reduction in funding for school based learn to swim classes picked up by councils 	
2006 - 2011	<ul style="list-style-type: none"> • Reduction in funding for Enviroschools 	
	<ul style="list-style-type: none"> • Cut in funding for road safety programme 	
	<ul style="list-style-type: none"> • Loss of funding for cycleways 	
	<ul style="list-style-type: none"> • Reduction in Creative NZ funding for major cultural organizations 	

¹⁰ This scheme was abolished in 2002 and councils are receiving some funding direct from SPARC.

Date	Unintended Devolution	Est. Cost
	<ul style="list-style-type: none"> Removal of subsidy for Safer Community Councils 	

Re-centralisation

This category refers to activities which have ceased being a local government responsibility and have instead become the responsibility of central government or are policies and regulations that have reduced costs on councils.

	Activities/Functions	Approx. Saving
	Money returned from waste levy for minimisation projects	Approx. \$300,000 (2010/11)
	Long Term Plan – reduced activity disclosures	\$20,000 every three years
	Possible shift of building regulation to regional or a national body may reduce cost to councils.	Undermines previous councils expenditure incurred in accreditation process.