

## Questions and Answers

### **Costs of Regulation on Local Government**

*Nature and size of compliance carried by regional and territorial authorities - October 2009*

#### **Why did Local Government New Zealand (LGNZ) commission this report?**

The local government sector is often called upon to implement, monitor and enforce compliance with legislation enacted by Parliament. Costs in terms of both time and expenditure can be incurred by local government, placing substantial burden on the sector, and consequently ratepayers.

Although anecdotal suggestions have been made about the extent legislative requirements have contributed to increases in local government costs and the reasons behind this, little work has been done to quantify the cost burden. This report is our attempt to inform the debate with some factual analysis.

#### **Why did the report focus on the financial impact of just four pieces of legislation?**

This study was not designed to capture costs for all central government legislation; as such a project would be too expensive and difficult to define. Focusing on a limited number of topical statutes allowed us to maximise participation by councils as well as stay within budgetary limits.

It's recognised that councils are busy and it would be a challenge to examine compliance costs for all central government legislation. Instead LGNZ decided on an approach where a small number of recent legislative initiatives were selected, after consultation with its members.

#### **Which four pieces of legislation were selected for the study?**

- Long Term Council Community Plan (LTCCP) components of the Local Government Act 2002
- Public Transport Management Act 2008
- Health (Drinking Water) Amendment Act 2007
- Land Transport Management Amendment Act 2008.

#### **Why did LGNZ select these particular Acts?**

The four Acts studied are examples of legislation which were either viewed as causing major compliance costs or were new statutes, enabling us to measure their compliance costs as implementation began. Key selection criteria included the degree to which legislation impacts on different council sectors (regional and territorial), significant impacts on different parts of council business and ongoing versus one-off cost impacts.

#### **Why was the Standard Cost Model (SCM) framework used?**

The SCM framework was used because it has been applied in a number of countries and is widely regarded as an accurate mechanism for identifying the unnecessary costs of regulation, noting that not all costs are unnecessary. It is designed to identify the cost burden of legislation at an administrative activity level. PricewaterhouseCoopers (PWC) has international experience in applying the SCM approach.

#### **How robust are these survey results?**

The participation rate of this study was very good. A total of 56 out of 83 (nearly 70%) LGNZ member councils responded to the survey. The survey had coverage of 72% by total local government operational expenditure, 74% by city and district council population and 91% by regional council population.

A high degree of confidence can be had in the survey results as the study is representative of the sector and can be generalised to represent the impact on the sector as a whole.

**What did the findings show?**

The amount of council staff time and consultant expenditure reported by 56 participant councils in complying with the four legislative initiatives is estimated at 720,000 staff hours and \$25 million in external spending.

**Of the four Acts covered in this study, which had the greatest cost burden?**

The LTCCP components of the Local Government Act 2002 accounted for the highest staff time costs - with over 580,000 staff hours and around \$10 million on consultants complying with this initiative. This is not surprising, given that the LTCCP requirements involve the whole gamut of council activity including the cost of developing long term asset management plans for council activities. The LTCCP is also the major accountability document through which councils engage with their citizens.

**What are the main cost drivers associated with new legislation?**

The cost burdens can mainly be attributed to councils requiring specialist assistance in areas that are unfamiliar, as they are not part of core business. This suggests that lawmakers need to recognise that new legislation can result in real and significant costs and to develop ways, in consultation with expert practitioners from councils, to mitigate these costs. If such costs cannot be mitigated but they generate significant national benefits, there may be a case for compensating councils for these costs.

**How will these survey results help reduce the cost burden from future legislative planning?**

This study identifies where staff time and costs are being incurred in each Act (and its constituent components). As such, the study presents insights in the key areas of cost incidence, and can guide future prioritisation of efforts to reduce the cost burden of legislation, without compromising on the aims of the legislation. This could lead to better legislation, and its contribution to economic efficiency.

**The study showed some councils implement new legislation at less cost than others. Why is this?**

While the survey clearly shows increased cost burden of legislation on councils, an in-depth analysis by council sector groupings revealed significant variations by some councils in terms of staff and external consultant costs. This highlights another benefit to the study, i.e., to demonstrate where councils can share best practice to help reduce cost burdens across all levels (from elected representatives in both central and local government to central government policy advisors, to council front line staff).