

THE LOCAL GOVERNMENT RATES INQUIRY

Pakirehua mo nga Reiti Kaunihera a-Rohe

Background information for interested parties

Inquiry panel established by the Minister for Local Government

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www.ratesinquiry.govt.nz

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FOREWORD BY THE CHAIR OF THE INQUIRY PANEL

The Minister for Local Government has set up an independent inquiry into the funding of local government. The Local Government Rates Inquiry is being carried out by a panel of three: David Shand (Chair), Christine Cheyne and Graeme Horsley.

The objective of the Inquiry is to provide the Government with recommendations on how to improve local government funding, covering both rating and other sources of revenue. Rates are primarily driven by council decisions on expenditure, so our Terms of Reference also require us to look at what drives local government expenditure. As well as the rating system, we will be looking at alternative sources of revenue currently available to councils, and at possible new sources of revenue.

The Inquiry will review the existing extensive information about local government funding, and will commission additional work as needed. We are also seeking the views of interested parties and the public at large on the issues raised in the Terms of Reference. We are committed to delivering a high-quality report to the Government, which is based on extensive consultation, is factually based and uses the best information available.

The Local Government Act 2002 requires councils to develop long-term council community plans, which set out their projected long-term funding needs. These plans, adopted in 2006, indicate the level of expenditure proposed on infrastructure and other council facilities and services. This information, together with recent rate rises, has contributed to public concern about the sustainability and affordability of future rates.

It is therefore timely to have a fresh, independent look at the issues involved. The funding of local government expenditure, whether through rates or other forms of revenue, is a complex area. Financial decisions by councils raise important issues of equity (including inter-generational equity) and affordability. They also raise issues about their impact on Maori landowners and on residential, commercial and rural landowners, as well as questions about the quality of councils' financial planning and management.

This paper is designed to inform people about the Inquiry and the issues involved. It also aims to encourage people to make submissions and to participate in the public meetings that will be held in different parts of New Zealand. The health of local government is integral to the wellbeing of New Zealand, and we look forward to engaging with a wide range of New Zealanders, including those in local government, Maori, individual ratepayers and interest groups.

David Shand
Chair

PART 1: INTRODUCTION

Objective

The objective of the Inquiry is:

To consider issues relating to current local government rating, and to other revenue-raising mechanisms, and to provide recommendations to the Government for enhancing rating and other funding mechanisms for local authorities.

The Inquiry panel is required to provide an independent assessment of the issues.

The full Terms of Reference of the Inquiry are attached as an Appendix to this document, and are also available on the Rates Inquiry website:

www.ratesinquiry.govt.nz. The Terms of Reference clearly state:

The inquiry is not a review of the system of local government per se, and in particular of:

- *the purpose, autonomy or structure of local government; or*
- *the principles of democracy, transparency, equity and accountability that local government operates under.*

Rather, the Inquiry is to make recommendations which will help provide councils with the efficient and equitable funding mechanisms they require to exercise their role.

Approach

The Inquiry panel will give thorough consideration to the issues. It will review existing information, undertake additional investigations, obtain expert advice as needed and consult widely through public submissions and meetings.

The Terms of Reference require the Inquiry panel to consider the previous extensive analysis carried out by the Local Authority Funding Project. The Phase 1 and Phase 2 reports¹ of this project provide useful and recent information. These are available on the Department of Internal Affairs website

(http://www.dia.govt.nz/diawebsite.nsf/wpg_URL/Resource-material-Our-Policy-Advice-Areas-Local-Government-Funding-Project?OpenDocument)

¹ One report was prepared in Phase 1 and three reports were prepared in Phase 2. These reports are detailed in the Further Information at the back of this paper.

Submissions and meetings

A key part of the Rates Inquiry is the consultation process, and the panel wants to hear from a wide cross-section of New Zealanders. The consultation process has a number of parts.

- meetings with the general public
- meetings with councils
- meetings with Maori
- meetings with interest groups
- written submissions.

Meetings

The places and dates of public meetings are as follows:

Hamilton	Monday, 26 February
Auckland	Tuesday, 27 February
Wellington	Monday, 5 March
Napier	Thursday, 8 March
Palmerston North	Friday, 9 March
Nelson	Monday, 12 March
Christchurch	Thursday, 22 March
Dunedin	Friday, 23 March
Rotorua	Monday, 16 April
Gisborne	Tuesday, 17 April
Whangarei	Friday, 20 April

Details of times and places will be available on the Rates Inquiry website (www.ratesinquiry.govt.nz).

The Inquiry will consult with Maori through a number of hui. These will provide the opportunity to specifically consider the impacts of rates on land covered by the Te Ture Whenua Maori Act 1993, as well as other more general matters in the Inquiry's Terms of Reference.

Written submissions

Written submissions will be accepted by the Inquiry until:

4pm on Monday 30 April 2007.

Submissions should be relevant to the Inquiry's Terms of Reference and should clearly focus on the information to be brought to the attention of the Inquiry. Although the Inquiry is eager to hear opinions, it is also interested in the facts that

PART 2: LOCAL GOVERNMENT – PURPOSE, PLANNING AND FUNDING

Purpose of local government

The purpose of local government, as set out in the Local Government Act 2002, is to:

- enable democratic local decision-making and action by, and on behalf of, communities
- promote the social, economic, environmental and cultural wellbeing of communities, in the present and for the future.

Local authorities are empowered to decide what services and activities they need to be involved in to achieve these purposes. As well as delivering specific services, many local authorities choose to be involved in wider economic, environmental, cultural and social development issues. Each local authority thus has a different mix of services and funding arrangements, reflecting the diversity of communities in New Zealand.

However, with this empowerment come obligations for each council to

- *conduct its business in an open, transparent and democratically accountable manner* and
- *give effect to its identified priorities and desired outcomes in an efficient and effective manner,*² and
- *make itself aware of, and have regard to, the views of all of its communities.*³

Planning and accountability processes

The Local Government Act 2002 sets out the processes that local authorities must follow to meet these obligations. Perhaps the most important of these is the requirement to develop a long-term council community plan (LTCCP).⁴ This plan describes the activities of the local authority and how it intends to contribute to community wellbeing over the life of the plan. The plans have to be reviewed at least every three years and cover a period of no less than 10 years ahead. The plans contain a forecast of expenditures and the revenues required to meet these expenditures.

The consultation process associated with the plan provides an opportunity for the public to have a say on the long-term expenditure and funding proposals of their council. Each council must ensure that a process to identify community outcomes is carried out at least every six years for the intermediate and long-term future of its district or region.⁵

Each council is required to prepare an annual report that compares the actual activities and performance against those intended, as stated in the LTCCP and annual plan.

² Local Government Act 2002 s14(1)(a).

³ Local Government Act 2002 s14(1)(b).

⁴ Local Government Act 2002, s93(1).

⁵ Local Government Act 2002, s91(1).

Accountability to the community is also required for any decisions made during the year.⁶ Outcomes as stated in the LTCCP are monitored and progress on achieving outcomes is reported on at least every three years as part of the annual reporting requirements.⁷ The annual report is required to be audited.⁸

Funding

Local authorities obtain their operating revenue from a number of sources:

- rates
- user charges and fees
- contributions from developers who are creating more rateable properties
- transfers from central government (e.g. for roading, public transport and water infrastructure)
- dividends, rents and interest from commercial investments (e.g. local authorities may be owners in whole or part of a port or airport).

In the year ended June 2005, around 56 percent of local authority operating revenue came from rates, 13 percent from central government grants and subsidies, 6 percent from investments, 5 percent from regulatory income (including fees and fines), and 20 percent from other sources (see Figure 1).

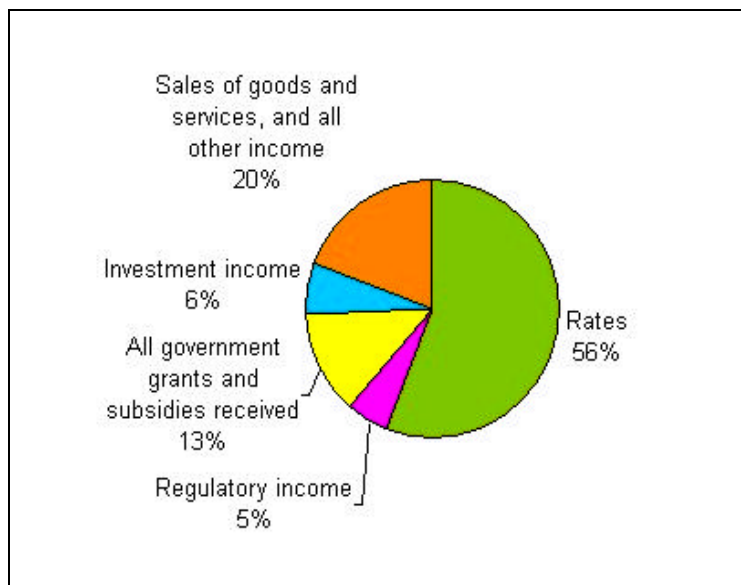


Figure 1 Breakdown of local government operating revenue, year ended June 2005⁹

The figures above do not include borrowings or asset sales. It is common for local authorities to borrow money to finance long-life assets. At 30 June 2005 local authority debt amounted to around \$3 billion, but when considered against the \$62

⁶ Local Government Act 2002 s98(2).

⁷ Local Government Act 2002 s92(1).

⁸ Local Government Act 2002 s94(1).

⁹ Information taken from *A Statistical Overview of the Local Government Sector / Local Government Income*, www.localcouncils.govt.nz.

billion in assets owned by local authorities, this is not large.¹⁰ According to the Funding Project interest payments currently amount to something over seven percent of rates income. Sometimes local authorities may also sell assets they no longer require and use the proceeds to reduce the level of rates that would otherwise be required to fund capital items.

Some of the significant sources of funding, including rates, are discussed in more detail below.

Rates

In New Zealand, rates provide the major source of revenue for funding local government expenditure. Rates are basically a tax on real estate property. Some other countries use other means to fund local government, but most make significant use of property taxes.

Almost all property owners in New Zealand pay rates. People who rent property do not pay rates directly, but property owners will take account of the cost of rates when they set the rent. As a result, those who rent properties also have an interest in the level of rates, as well as in the services provided by councils using these rates.

Property values may be assessed in three different ways – on the basis of land, annual or capital value – using valuations prepared in accordance with the Rating Valuations Act 1998. The valuation process is overseen by the Valuer-General. Each local authority, after consulting with their community, can decide which basis to use. Councils can use a mix of these bases, for example land value for its general rate and capital value for a targeted rate.

The Local Government (Rating) Act 2002 provides a number of options for setting rates, such that local authorities can use combinations of general rates, targeted rates and/or uniform annual general charges.

General rates

This is where the local authority decides that all ratepayers should pay for all or part of a particular council service. What each ratepayer pays depends on the assessed value of their property relative to the value of other properties. Generally, the higher the assessed value of the property, the higher the rates. However, councils can decide that different categories of properties should contribute differently to the total general rate. For example a council can decide that commercial and/or industrial properties should pay a different rate per dollar of property value than residential properties. This is called differential rating. Some councils differentially rate rural, rural–residential and urban areas.

¹⁰ Phase 1 Report, *Local Authority Funding Issues*, Report of the Joint Central Government/Local Authority Funding Project Team, 8 July 2005, www.dia.govt.nz.

Targeted rates

This is where a council decides that the cost of a service or function should be met by a particular group of ratepayers (possibly even all ratepayers) on a different basis than its general rate. There is considerable scope for local authorities to target functions in specific areas and to set different levels of rates for different properties. For instance, a targeted roading or water supply rate might be specific to a particular town or locality, or apply to the whole council area and used to provide greater transparency.

Uniform annual general charges

This is a flat dollar charge per property, where all properties pay the same for a delivered service regardless of the value of the property. The total amount of uniform annual charges cannot exceed 30 percent of the total rates set by a council in any one year, excluding uniform annual charges for water and wastewater.

Together, the above options provide councils with considerable flexibility in rate setting, and they can be used to help make rates more affordable for particular sectors and to better reflect the various levels of services that different groups of ratepayers receive.

Central government funding

Central government provides support for local government in a variety of ways, including roading and other aspects of land transport, sewerage, improvements in drinking water, and local authority tourism infrastructure. The level of central government grants and subsidies to local government has been the fastest growing source of funding to local authorities over the last six years. From the year ending June 2000 to June 2006 it has grown 56%, compared to a 45% increase in rates over the same period. In the year to June 2006 the level of central government grants and subsidies to local government totalled \$623.4 million.¹¹

Development contributions

Development contributions from property developers can be required to help local authorities meet the costs of their capital expenditure associated with these developments. Development contributions can be in land or money, and used for purposes such as reserves, network infrastructure or community infrastructure. Local authorities wishing to levy development contributions first need to adopt a policy on these contributions and incorporate this into their LTCCPs.

Investment income

Some local authorities have access to revenue-generating assets, including ports and trading companies. In the year to June 2005/06 local authorities received \$325.9 million from investments or 6.1% of their total revenue. Total investment income has actually declined marginally since 1999/2000.¹² However, income from investments

¹¹¹² Provisional figures, Statistics New Zealand Local Authority Statistics September Quarter 2006.

varies considerably among local authorities, and some regional councils who have port or other assets may receive a significant investment income.

Charges and fees

Local authorities levy charges to contribute to the cost of some facilities (such as swimming pools) and also fees to fully or partly meet the cost of regulatory services, such as those under the Building and Resource Management Acts.

PART 3: MAJOR ISSUES

The following issues are highlighted by the Inquiry's Terms of Reference and will be the focus of its investigation:

- the current level of rates and the level of rates increases
- the drivers for increased local authority expenditure
- the trends in the use of rating tools nationally to fund services
- other sources of revenue currently available to local authorities
- the sustainability of rates
- the Rates Rebate Scheme (and other government assistance packages for families), and local authority rates remission and postponement policies
- the impact of rates on land covered by the Te Ture Whenua Maori Act 1993
- exemptions from liability for rates, including Crown exemptions
- other revenue-raising mechanisms.

The following sections consider these issues. Each section provides background information about each issue, drawing on the reports of the Local Authority Funding Project and other sources. Comments are then presented, and a number of questions posed on specific issues to help focus submissions and discussions at meetings. These questions reflect the Inquiry panel's current view on some key issues. Other key questions may be identified in the course of the Inquiry.

1. The current level of rates and rates increases over the next 10 years

Background information

The Terms of Reference note:

The Inquiry has arisen as a consequence of public concern about financial and rates projections outlined in the long-term council community plans and confirmed in local authority rating decisions during the June-August 2006 period.

Each council must develop funding policies that determine how their services will be paid for. That policy will set the total amount to be paid through property rates; the share paid by individual ratepayers is based on the relative value of their property.

Rises in property valuations do not necessarily mean rises in rates. Rather, the level of expenditure a council decides to fund from rates sets the level of rates. For individual ratepayers it is the relative rise in property value that influences the new level of rates. Other things being equal, a property that has risen in value faster than the average will attract a higher-than-average increase in rates.

The Funding Project reports draw on an analysis of the 2006–2016 LTCCPs. The average increase over this 10-year period per household is projected to be around 60 percent (from around \$2,250 to \$3,600), including inflation assumptions. This is not

to say that any particular ratepayer will have this level of increase; increases will vary over different local authorities and over different kinds of ratepayers, depending on the rating policies adopted by each council. The projected increases are strongly influenced by the significant investment many councils expect to make in network and community infrastructure.

Comments

The Inquiry will review these findings in accordance with Clause (b) of the Terms of Reference. We are interested in the level of rates, as well as how communities are involved in council decisions about rates.

Local authorities are required by the Local Government Act 2002 to consult with their communities about their LTCCPs, the financial policies that underpin them, the levels of service being delivered, and the rates that will be required. The consultation gives the public an opportunity to give their views on the proposed expenditure.

The process also provides the public with an opportunity to give the council feedback about the services they want and how much they are prepared to pay for them. Councils must make decisions after carefully considering these views. The consultation process also provides councils with an opportunity to explain the value that communities will receive from proposed projects and services.

The Inquiry will consider how well these consultation processes are understood by ratepayers and used by local authorities. We are also interested in the extent to which citizens receive information to enable them to assess the value they receive from the rates.

QUESTIONS

1. How adequate is the value for money of the services provided by local authority rates?
2. What information is provided by councils about how rates are used and the value for money of the services provided from rates? Is the information adequate?
3. Do people have a good understanding of their opportunities to make an input to their council's long-term plans and rating policies?
4. How widely are these opportunities used by the public?

2. Drivers for increased local authority expenditure

Background information

The Terms of Reference refer to the need to build an understanding of the drivers of expenditure, including:

- population growth and other demographic factors
- the age and state of infrastructure (e.g. roading, water, stormwater and wastewater)
- the need to account for the depreciation of infrastructure and other capital assets
- high community expectations of facilities and services provided by local authorities
- the requirements of higher standards (e.g. for water quality)
- other demands on infrastructure capital, and operating and maintenance expenditure.

One conclusion of the Funding Project was that the provision of infrastructure is *the* key driver of future expenditure needs. Capital expenditure forecasts show that:

- around \$30.8 billion in capital expenditure is planned for the period 2006–2016 (around \$29.5 billion by territorial authorities and \$1.3 billion by regional Councils)
- in real terms this is approximately double the level of capital spending in the period 1994–2003.
- around 73 percent (\$22.4 billion) of this capital expenditure will be for network infrastructure, 18 percent (\$5.6 billion) for community infrastructure and 9 percent (\$2.8 billion) for other expenditure.

New infrastructure often has multiple impacts on rates levels, through the interest costs arising from any new debt, funding of depreciation and required operating and maintenance costs.

The Funding Project also considered the concerns of local government and some ratepayers about costs passed on to local government through the requirements of new government legislation without compensating financial assistance, often referred to by local government as “unfunded mandates”. The new functions are usually accompanied by the powers to charge fees for services, but local government considers that the costs incurred in their policy development and consultation processes remain unfunded. However, the Funding Project concluded that the new mandates were not a significant driver of costs.

Comments

The Inquiry will review the findings and conclusions of the Phase 1 and Phase 2 reports of the Funding Project. We are interested in gaining a better understanding of how the different drivers affect local authority expenditure and of the strategies being adopted to help manage the impacts of different drivers.

QUESTIONS

5. Are there drivers of increased rates, other than those mentioned above, the Inquiry should explore?
6. What are the most significant drivers of local government expenditure?
7. Is asset management planning providing full and accurate information about projected capital expenditure?

3. Trends in the use of rating tools to fund services

Background information

The Local Government (Rating) Act 2002 expanded the range of rating tools available to local authorities. Tools currently available include:

- general rates
- uniform annual general charges
- targeted rates.

These categories of rates were discussed earlier in Part 2 of this paper. Taken together they provide local authorities with a range of options that can be developed to meet a variety of circumstances. Targeted rates, in particular, provide a flexible tool for councils to allocate the costs of specific services to users.

Councils are obliged to develop policies on rates as part of their annual plan and LTCCP. They must also pass a resolution on rates when adopting their annual plan and complete a funding impact statement which explains how they propose to fund their expenditure. Rates resolutions set out how the different rating tools will be used. Councils here take into account affordability, benefits received and other equity issues in deciding which rating tools to use.

The Funding Project explored the extent to which local authorities are using the full range of rating tools to meet any fiscal pressures and to deal with the impacts of rates on different sectors of the community. It concluded that, although local authorities are making more use of targeted rating tools, relatively little use has been made of tools to better match rates to benefits, address affordability issues and promote understanding

of 'value for money' (e.g. separate invoicing of particular services). The Funding Project also indicated that there is still room for improvement within local authorities in terms of the understanding and effective use of rating tools.

Comments

The Inquiry will review the findings and recommendations of the Funding Project and consider their implications. We are particularly interested in evidence on the effectiveness of the different rating tools available, the extent to which they have been used, the experience of councils and citizens, and the potential for more effective use of these tools. We are also interested in the limitations of the different tools, any unintended consequences of their use, and whether there are other possible rating tools not yet available that should be considered.

QUESTIONS

8. To what extent could greater use of the available rating tools assist local government to address equity issues for particular groups of ratepayers?
9. What are the barriers to the optimal use of the range of tools?
10. How can these barriers be addressed?
11. Does the rating system need to be changed to address any continuing anomalies or inequities?

4. Other sources of revenue currently available to local authorities

Background information

Not all council expenditure is funded through rates, and the ability to generate other revenue will influence council decisions about their total expenditure and the required level of rates. The sources of revenue, other than rates, currently available to local authorities, include:

- user charges and fees
- development contributions
- transfers from central government.
- rents and dividends on investments.
- fines
- grants and donations
- returns from sales of assets
- borrowing.

In the year ended 30 June 2005 local government received some \$5 billion in operating income (GST exclusive). Operating income does not include borrowings.

The Funding Project reports are a useful source of information here. The Phase 2 report¹³ found that:

- recently released figures show that central government assistance to local authorities continues to be the fastest growing source of revenue for local government¹⁴
- most local authorities could make better use of development contributions as a tool for recouping development-related costs, especially in relation to community infrastructure
- there is a generally low level of borrowing as a way to fund council infrastructure and facilities, and most local authorities could make more use of debt as a tool for spreading the costs of projects over a longer period.

Comments

The Inquiry will, in accordance with clause (b) of the Terms of Reference, assess the findings and recommendations of the Funding Project and consider their implications. We wish to gain a better understanding of the advantages and limitations of different sources of revenue for funding local government expenditure, and the potential to make better use of these funding sources. We would also like to know what barriers – if any – there are to the better use of these instruments, and what actions might be taken to enhance their use.

QUESTIONS

12. Should greater use be made of currently available funding mechanisms, other than rates? If so, which ones?
13. Are alternative forms of revenue, such as development contributions and user fees, established through a transparent process? Are they equitable?
14. Is there a case for an increased use of borrowing by local authorities to address inter-generational equity or other issues, such as accelerating infrastructure investment?

5. Sustainability of rates

Background information

The Rates Inquiry is partly a response to public concerns about the sustainability of rates. The issue of sustainability, defined as affordability over time, was considered in the Funding Project. The Funding Project emphasised that “Affordability is a measure

¹³ *Local Authority Funding Issues: An Update*, Second Report of the Local Authority Funding Project Team, December 2006.

¹⁴ Data available through Statistics New Zealand, *Local Authority Statistics*, March 2006 Quarter. The estimates do not include an allowance for 2005 Budget announcements about drinking-water subsidies, nor for commitments to various land transport projects since June 2005. For example, \$120 million has been allocated for road construction and maintenance for the coming year.

of the ability to pay, and should not be confused with willingness to pay or ‘acceptability’ of rates.”

Two of the points made in the Phase 1 and Phase 2 reports of this project were that:

- affordability (and therefore sustainability) issues, where they exist, are more likely to be at the level of individuals and ratepayer groups rather than an issue for local authorities as a whole
- low incomes are the basis of the affordability problem.

Comments

The Inquiry will review the analysis undertaken by the Funding Project and evaluate its conclusions. We are interested in the impact of rate rises on specific groups in the community, particularly given changing demographics over the period of the current LTCCPs and beyond.

The issue of affordability over time is very relevant to that part of the Inquiry that will consider the impact of the Rates Rebate Scheme and local authority rates remission and postponement policies, which are discussed in the next section.

QUESTIONS

15. How should the affordability of rates for communities and individual ratepayers be assessed? What factors are relevant?
16. Which groups of people do you consider are most affected by the affordability of rates? What data is available to determine this?
17. Is the affordability of rates only an income issue, or does it also involve assets held or other factors?
18. To what extent can affordability problems be addressed through greater use of rates rebates and rates remission and postponement policies, or by reverse mortgages and similar mechanisms from private sector sources?

6. Rates Rebate Scheme, other government assistance packages, and local authority rates remission and postponement policies

Background information

The Rates Rebate Scheme provides a subsidy through central government to ratepayers on low incomes who have difficulty meeting rate payments. The Scheme was first introduced in 1973, and in July 2006 changes were made that increased the range of households eligible for assistance and increased the maximum assistance households can receive.

The revised Rates Rebate Scheme provides a maximum rebate of \$500 to ratepayers, whether single, couples or joint home owners. The amount of the rebate is dependent on the level of household income, the number of dependents and the amount of the rates. Most beneficiaries and superannuitants who own their own homes and receive little or no other income will receive the full or partial assistance provided by the scheme. Tables to calculate rate rebates are on the Department of Internal Affairs (http://www.dia.govt.nz/diawebsite.nsf/wpg_URL/Services-Rates-Rebate-Scheme-Index?OpenDocument) and council websites.

In addition, local authorities are able to remit (reduce the rates owing on a property) and postpone the payment of rates if they have remission and postponement policies. This benefits the ratepayers concerned, but potentially increases the burden of rates on others. Other indirect government assistance to meet rates payments is available through income support programs - benefits, housing assistance and the Working for Families package (<http://www.workingforfamilies.govt.nz>).

Some local authorities have developed 'optional rates postponement policies' which do not involve hardship criteria. Instead, they allow ratepayers who are asset-rich but income poor to use the equity in their properties to guarantee the future payment of rates.

The Funding Project Phase 1 report noted that, overall, most local authorities remit or postpone only between 0.3 and 0.7 percent of their total rates take. Hardship is the most common reason for postponing rates. The report also noted that a possible reason for the infrequent development by councils of remission and postponement policies that address affordability is the lack of "detailed income information to operate what is effectively an income redistribution mechanism on a large scale".

The Office of the Controller and Auditor General has recently published a performance audit report on councils' use of residential rates postponement.¹⁵ It was undertaken to provide advice to councils on the development of policies, particularly optional rates postponement policies, in view of the potential risks to council rate incomes if this option were widely taken up.

Comments

The Inquiry will review evidence about the effectiveness of the Rates Rebate Scheme. We are particularly interested in comments about the use and impact of this scheme. We are also interested in the rates remission, rates postponement and any other policies that contribute towards the affordability of rates, the extent of their use and how each contributes individually or collectively.

QUESTIONS

19. How effective is the Rates Rebate Scheme in addressing affordability problems for ratepayers?

¹⁵ *Residential Rates Postponement*, Office of the Controller and Auditor General, Wellington, November 2006, www.oag.govt.nz.

20. How effective are the rates remission and postponement policies in addressing affordability problems for ratepayers?
21. What, if any, barriers are there to the use of these schemes, and what measures might be taken to enhance the use of these schemes?
22. What is the current and likely future impact of these schemes on the revenue policies of local authorities?
23. Are there other ways of addressing issues of hardship caused by rates (for example, the use of reverse mortgages or other financial schemes which might be provided by the private sector)?

7. The impact of rates on land covered by the Te Ture Whenua Maori Act 1993

Background

Land covered by the Te Ture Whenua Maori Act 1993 is Maori freehold land, which is “land whose beneficial ownership has been determined by the Maori Land Court by freehold order”. Maori freehold land is rateable in the same way as general land, unless the Governor General exempts the land from rates, by agreement with the relevant local authority. Councils may also establish rates remission policies with respect to Maori freehold land after appropriate consultation.

The Local Government (Rating) Act 2002 prohibits the sale of Maori land to secure the payment of rates, because this is contrary to the objective underpinning the Te Ture Whenua Maori Act to promote the retention of Maori land in the hands of its owners.

A significant amount of Maori freehold land is not earning income.

Comments

There is a long history of Maori grievance over the valuation and rating of Maori land. Some of this grievance is due to the lack of consideration of the special relationship Maori have with their land, and some has been due to issues such as the accumulation of unpaid rates and the difficulty in paying for these given the non-productive nature of some land and the problems that stem from multiple ownership.

Maori landowners are subject to affordability and other rating issues (such as the rapid increase in the valuation of coastal land) in the same way as non-Maori landowners. The Inquiry is interested in these issues. However, we want to focus on the distinctive impacts of rates on land covered by the Te Ture Whenua Maori Act 1993. There may also be impacts on local authorities revenues that need to be considered.

QUESTIONS

24. What are the major issues involving the rating of land covered by the Te Ture Whenua Maori Act 1993, and how can these best be managed?
25. Is the existing basis of the valuation of Maori land appropriate? If not, what alternative approaches could be considered?
26. Do policies aimed at improving the affordability of rates fully recognise affordability issues facing Maori landowners?
27. Are there grounds for providing rates exemptions for categories of Maori land other than those in Schedule 1 of the Local Government (Rating) Act 2002?

8. Exemptions from liability for rates, including Crown exemptions

Background information

The Local Government (Rating) Act 2002 sets out a list of 22 different categories of property that are exempt from most rates, and a further three categories of property that are 50 percent exempt. All such categories are fully liable for targeted rates when they receive the services relating to those targeted rates (e.g. water rates). The categories of land include:

- national parks and reserves
- schools and other educational establishments
- public hospitals
- land used for religious worship
- Maori customary land
- the operational areas of airports and ports
- the road and rail networks.

A full list of non-rateable land is given in Schedule 1 of the Local Government (Rating) Act 2002.

The rationale for the exemptions is generally that the properties concerned:¹⁶

- are held for public good purposes, and/or
- have little or no economic use, and/or
- do not consume services provided by local authorities.

¹⁶ *Crown Contributions in Lieu of Rates*, Funding Project report, November 2006, pp 3.

The Funding Project concluded that, for most councils, non-rateable land does not appear to cause affordability issues for the local authority, although it may add to issues that already exist. The Funding Project was generally (but not unanimously) of the view that there is a case to consider Crown contributions in lieu of rates where the costs to the local community of Crown use of land may exceed the benefits. The Funding Project also noted that other Crown payments (e.g. roading contributions) might balance the rates foregone on some Crown-owned land.

Comments

The Inquiry will review the findings and recommendations of the Funding Project on these issues and will carry out further analysis as required to meet the Terms of Reference. We want to gain a better understanding of the rationale behind rates exemptions (for both Crown and non-Crown land), the extent to which the rationale remains valid, and the ongoing need for exemptions. We are also seeking clear information on the impact of exemptions for both local authorities and the organisations that qualify for exemption.

QUESTIONS

28. Is the rationale for exemptions on Crown and non-Crown land still valid?
29. Are the current statutory provisions for exempted land reasonable and appropriate?
30. Are there other categories of land that should be recognised for the purposes of exemptions?
31. What would be the impact of reducing or removing exemptions?

9. Other revenue-raising mechanisms

Background information

Rates (property tax) systems are not universally used to raise funding for local government expenditure. There are other potential tools that may supplement, or possibly even replace, rates. In a report on alternative tax bases for local government (http://www.dia.govt.nz/diawebsite.nsf/wpg_URL/Resource-material-Our-Policy-Advice-Areas-Local-Government-Funding-Project?OpenDocument), the Funding Project listed a number of commonly proposed alternatives to rates for funding the expenditure of local government. These included:

- local income tax – a local government equivalent of the present tax on personal incomes, which could be administered locally or collected centrally and distributed to local authorities

- local consumption tax – a local government equivalent to the present GST, in the form of a broad-based tax on the consumption of goods and services, which could be administered locally or collected centrally and distributed to local authorities
- industry- and commodity-specific taxation – a catch-all category for a variety of taxes that apply only to specific industries (e.g. tourism through a ‘bed tax’) or to particular commodities (e.g. automotive energy through a petroleum tax)
- citizens tax – a tax on every adult citizen at a uniform rate, sometimes known as a ‘poll tax’
- payroll tax – a tax levied on employers as a percentage of payments on wages and salaries.

The Funding Project also developed a set of criteria for assessing alternative funding sources based on tax principles used by Treasury in the evaluation of taxation policy. The Funding Project concluded that:

... none of the alternatives provide a clear and compelling alternative to property taxation as a means of funding a local government sector that has traditionally had a high level of autonomy and a high level of accountability to its communities.¹⁷

However, it also concluded that some of the tools discussed might be used to supplement rates in some situations (e.g. industry- or commodity-specific taxes could be used to generate funding for some specified activities).

Comments

Alternatives to the rates system would not alter the level of funding required for local authorities to implement their expenditure plans. Instead, they would change the distribution of the funding burden.

Moving away from the current approach to other tax-based revenue raising systems would have major implications. Nonetheless, the Inquiry wishes to consider the sources discussed by the Funding Project and any other options that offer a practical, revenue-raising alternative to rates, and that satisfy efficiency, equity and other principles.

QUESTIONS

32. What principles should guide the use of revenue sources to fund local government expenditure (including rates)?
33. What practical new revenue sources could, in full or part, be alternatives to rates? What are the comparative advantages and disadvantages of these alternatives?

¹⁷ Alternative Tax Bases for Local Government, third report of the Local Authority Funding Project Team, December 2006, pp 32.

34. What criteria should be used in assessing the desirability of any alternative revenues to the property tax (rates) system?
35. Are there funding sources that major tourist destinations should have in order to meet the cost of council services used by these tourists?

APPENDIX: LOCAL GOVERNMENT RATING INQUIRY TERMS OF REFERENCE

Purpose

1. To provide an independent assessment of New Zealand's local government rating system and identify options to enhance rates as a funding tool for local authorities.

Context

2. The Inquiry has arisen as a consequence of public concern in light of financial and rates projections outlined in long-term council community plans and confirmed in local authority rating decisions during the June – August 2006 period.
3. The Government has announced the establishment of an independent inquiry to provide the public, key stakeholders and the local government sector with a mechanism to outline issues relating to the local government rating system and to suggest options to address these issues.

Objective

4. To consider issues relating to current local government rating, and to other revenue-raising mechanisms, and to provide recommendations to the Government for enhancing rating and other funding mechanisms for local authorities.

Tasks

5. The tasks associated with the inquiry will include:
 - a. examine the level of rates, level of rates increases and trends in the use of rating tools nationally to fund services, as well as other sources of revenue currently available to local authorities
 - b. consider the Phase One and Phase Two reports of the Local Authority Funding Project, their recommendations and implications for the future of rates
 - c. develop an understanding of the drivers for local authority expenditure, including, growth, the age and state of infrastructure (e.g. public transport, roading, water and wastewater), requirements of 'higher standards' (e.g. water quality) and other infrastructural demands on both capital and operating expenditure needs
 - d. examine the sustainability of rates as the major revenue-raising tool, having regard to affordability issues for communities, groups within communities, and individuals, particularly those on fixed incomes
 - e. examine the impact of rates on land covered by the Te Ture Whenua Maori Act 1993
 - f. examine the impact of the new Rates Rebate Scheme (and other government assistance packages for families) and local authority rates remission and postponement policies

- g. examine the impact and ongoing need for existing exemptions from liability for rates, including Crown exemptions from liability for rates
- h. provide a report by 31 July 2007 on (a) to (g) above, along with recommendations to enhance rating and funding mechanisms for local authorities.

Submissions

- 6 It is expected that the Inquiry will invite written submissions on an open basis and hear oral submissions from key sector groups identified by the inquiry.

Assumptions

The Inquiry is not a review of the system of local government *per se*, and in particular of:

- the purpose, autonomy, or structure of local government; or
- the principles of democracy, transparency, equity and accountability that local government operates under.

FURTHER INFORMATION

Funding Project reports

Alternative Tax Bases for Local Government, Third Report of the Local Authority Funding Project Team, December 2006.

Crown Contributions in Lieu of Rates, Progress Report of the Local Authority Funding Project Team, November 2006.

Local Authority Funding Issues, Report of the Joint Central Government / Local Authority Funding Project Team, 8 July 2005, www.dia.govt.nz.

Local Authority Funding Issues: An Update, Second Report of the Local Authority Funding Project Team, December 2006.

Other reports

Local Government Funding: A Statement of Issues, A discussion paper presented to the Independent Inquiry into Rating by the Local Government Funding Advisory Group, Wellington, January 2007, www.lgnz.co.nz.

Residential Rates Postponement, Office of the Auditor-General, Wellington, November 2006, www.oag.govt.nz.

Review of Local Government Funding Powers: Progress Report, Department of Internal Affairs Wellington, 18 December 2000

Review of the Rating Powers Act, A discussion paper prepared by the joint Local Government New Zealand–SOLGM Working Party, Local Government New Zealand, Wellington, December 1997.

The Know How Guide to the Local Government (Rating) Act 2002, Local Government New Zealand, Wellington, 2003.

Relevant legislation

Local Government Act 2002

Local Government (Rating) Act 2002

Official Information Act 1982

Te Ture Whenua Maori Act 1993

Websites

The long-term council community plans and the revenue and rates remission and postponement policies of local authorities provide useful sources of information. These are usually accessible through the websites of individual local authorities.

The Department of Internal affairs has information about rating issues on its website: www.dia.govt.nz

Local Government New Zealand^[RG1]: www.lgnz.co.nz

The Office of the Valuer General has information on standards for the valuation of property for rating purposes: www.linz.govt.nz/.

Information on local government, council websites and research on local government is available at www.localcouncils.govt.nz

Statistics New Zealand provides statistics on population and demographics: www.stats.govt.nz.