

Report-back on Rating Inquiry Progress



Local Government New Zealand

le pūtahi matakokiri

Rating inquiry focus

To consider items relating to current local government rating, and to other revenue raising mechanisms, and provide recommendations to the Government for enhancing rating and other funding mechanisms for local authorities (TOR 11/06)

The focus of this report is on the spending and funding decisions related to these [council] services. The funding system is under pressure because of significant growth in expenditures, and growing affordability problems with the main source of funding, namely rates (Report 08/07)

....any substantive review of the performance of local government would require extensive data, much of which does not currently exist. (Report,08/07)



Within the Terms of Reference, what were others seeking

Business NZ – *lower rates on business*

Federated Farmers – *lower rates on farmers*

No More Rates – *no rates on anything*

Grey Power – *lower or no rates on the elderly*

What did we want?

In consultation with our members we identified three preferred outcomes:

- audited LTCCP's continue to determine local government priorities and resourcing***
- an increased contribution by Government to reduce rates***
- but no related constraints on local government discretion, including the application of rates***

(Initial briefing to the Rating Inquiry, 2006)

Our concerns with the Independent Rating Inquiry report relate to its tone, its methodology and some of its conclusions

(Zone 2 briefing, 04/09/07)

The Panel's view on local government performance

The Panel considers that some councils are showing insufficient financial restraint....that many have adopted funding policies that are leading to higher than necessary levels of rates

Overall the Panel sees significant problems, both in the financial decision-making processes in local government, and the financial decisions that are being made

Reference to the Auditor-General's comments on the 2006-16 LTCCP's -

The Panel's views on the system

under current practices rates will not be sustainable in 10 years time

The Paneldoes not recommend any change (to the FAR) except for a major new category of urban arterial roads

The Panel considers that a strong case exists for greater central government transfers to meet the cost of three waters infrastructure

...rates should remain the major source of local government revenue but need to be reduced to about 50% of total revenues

little evidence....that the LGA2002 had been a major driver of increased expenditure

the Panel estimates that reductions in the forecast level of rates of between \$300million and \$500 million per year....would be possible by the adoption of this revised funding policy (mainly reduced funding for depreciation)

The Panel's Advice to Government

The main actions required from central government are:

- Providing some new funding sources, some of which involve increased funding from central government, to enable the level of rates to be held at sustainable levels for the next 10 years**
- Further improving rates affordability through the rates rebate scheme and other government income support packages**
- Legislating for some changes in the rating system to reduce complexity, and improve transparency and equity**
- Improving coordination within central government on local government issues and liaising better with local government**

What new funding sources?

- Removal of crown exemptions (\$100M)*
- Increasing the local authority petroleum tax by 2c (\$90M)*
- ..a new Infrastructure Equalization Fund (\$100M, funded from GST)*
- International Visitors' Environment levy (\$43 -108M)*

Government's view

Before the Inquiry

There are a small number of local authorities (fewer than ten) that are approaching their capacity to raise revenue....no systemic funding issues. (Joint Central Government Local Authority Funding Project, 2005)

After the Inquiry

There is no case for generalised central government assistance for local authorities.” (HEFU 12/07)

Many of the Inquiry's recommendations require local government action. Central government can offer support in some areas, but local government needs to take responsibility (HEFU 12/07)

Central Government has made its decisions in light of the fact that, as the Rates Inquiry found.....local authority finances are generally healthy (Minister of Local Government to Councils, 07/08)

Inquiry recommendations: systems and processes

Ratings tools – remove differentials **X**, remove UAGC's **X**, move to capital value **X**, required water metering **X** regional councils development contributions **X**

Exemptions – all except the DOC estate **X**

Maori Freehold Land- under consideration

Valuation – move to a single provider **X**

Rates Rebate Scheme – CPI indexing and increasing eligibility ✓

Consultation planning and accountability – more monitoring **X**, independent agency **X** under consideration

Changed funding practices –reduced provision for depreciation – for local government

What was achieved?

Slightly wider ambit for development contributions

CPI indexing of rates rebate scheme, plus retirement villages and CCO charges

Coastal occupation charges coming ...

Possibly a new rating tool (volumetric charging on waste water)

Very small extension to the fees that are on 'actual and reasonable' basis (possibly)

Slighter smaller set of exemptions (maybe)

Practice improvements to planning, financial management and governance.



What next?

For two out of three of our original objectives there were good outcomes, BUT infrastructure will continue to dominate as a driver of rates

Council performance issues – largely in our hands, with \$ from government

Further major regulatory or legislative change – unlikely

Our political advocacy for funding from Government will continue (PwC, Dollery)