

**LOCAL GOVERNMENT RATING INQUIRY
SUBMISSION OF THE PORIRUA STEERING GROUP
[On behalf of the citizens of Porirua City]**

April 2007

1. INTRODUCTION

This submission is made by the Porirua Steering Group on behalf of the citizens of Porirua City.

The Group consists of representatives from all sectors of the city, and brings together the views of Maori, urban and rural residents, community organisations and the business sector. It responds to the challenge the Government made when it established the Local Government Rating Inquiry in November 2006.

The Terms of Reference set by the Government for the Inquiry members is 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.”* This appears to limit the Inquiry to directing itself only to finding remedies for public disquiet about local authority rates. However, it is the basis of this submission that the property taxation system known as “rating” is fatally flawed, and that is evidenced by the growing opposition to the anomalies and hardships it generates. The public demand for action is what led to the establishment of the current Inquiry and we will show that there are alternative and fairer ways of funding the services provided to the people of New Zealand by local government and which the Inquiry should report upon to the Minister of Local Government.

2. BACKGROUND HISTORY OF LOCAL GOVERNMENT IN NEW ZEALAND

Because of its origins as a British colony, New Zealand adopted the Westminster style of government, including the provision of local services to the country’s population through a subordinate tier, known as “local government”. It is worth stating here that this second tier is not independent of the central government and is a “creature of statute” with all its powers and indeed its continued existence being at the will of Parliament. This was amply evidenced early in the colony’s history by the Government’s summary abolition of the six provincial councils system of local governance and the extent to which the central government continues to prescribe the powers of local government, including extensive controls and monitoring procedures. And of course the Government has the ultimate power to dismiss councils and appoint commissioners to run their affairs.

Following the abolition of provincial local government in 1876, the Municipal Corporations and Counties Acts was passed by Parliament and the existing collection of roads boards, coastal communities and 4 metropolitan cities became the system of local government which led to the current structure. At that time it consisted of 63 counties and 45 municipalities in various forms, all for a population of some 300,000.

Subsequent reforms of local government have taken place over the years, generally through legislation rather than voluntarily. By 1950 the population had increased to approximately 2 million and local territorial government had grown to 125 county councils and 134 towns, boroughs and cities. In 1989 the population had grown further to 3 million, served by a collection of 631 units of “local government”, with 5229 elected members. The Government of the day undertook a sweeping reform which saw this top-heavy governance dramatically reformed into the current structure. Given some of the anomalous units created and growth in devolved functions, it is likely that there will be further reforms in the future.

What is clear is that the focus of local government has been considerably widened over the years. In the early days of the colony the emphasis was on opening up the country and people moving inland from the coastal fringes. This meant that “local government” was concerned with building roads, primarily for agricultural production and transporting products to ports for export. In rural parts of the country this was done originally by locally formed “roads boards”, which were effectively cooperative groups of land owners who paid their share of the costs in proportion to the value of their land.

As communities grew and land was cleared local government was concerned to provide protection against flooding. And as towns and cities grew from the communities, it was necessary to provide collectively for the disposal of solid and liquid waste. The seasonal fluctuations in rainfall also meant that water supplies from roofs or streams could not be relied upon and local government was challenged to provide storage and piped systems to deliver potable water to households.

In modern times the concerns of local government have responded to changes in the health and wealth of their localities. Having largely satisfied the “basics” of life, namely water, sewerage and roading, people now expect their councils to provide for cultural, leisure and recreational activities. In some areas councils have become involved in housing and the reforms of the 1980s also led many councils to become participants in economic development and employment promotion, all far from the property related activities of flood protection, transportation, refuse disposal and drinkable water supplies.

3. FUNDING THROUGH PROPERTY RATING

As mentioned previously, New Zealand largely modelled itself upon the “home country”, including its system of local government. It is also worth reminding ourselves that modern local government in the British areas of influence have largely evolved only over the past two centuries. Their method of funding their service provision was through a tax on property, because the services provided at the time were largely directed towards the liveability and productivity of property, which made sense of charging according to the value of the property created by those services. Furthermore, it was simple to collect a property tax and penal remedies for failure to pay were readily at hand, namely compulsory sale.

Other forms of taxation had been tried in the UK and had failed miserably. An example is poll-tax, when the Peasants Revolt of 1381 nearly led to the downfall of King Richard II, a fate similarly met by Margaret Thatcher 600 years later. England

also tried to tax windows in buildings, a crude form of property tax which resulted in many old building today still containing bricked up windows.

The fairest form of taxation is income tax, which was originally introduced in 1799 in the UK as a tax to fund the war against Napoleon. As a tax it meets the basic tests of fairness and equity.

While no doubt property tax, or rates as they are commonly known, was a simple and logical tool in early times for funding services which were directed towards the enhancement and productivity of properties, the changed expectations of local government to provide “people related” services has made it a very crude taxation tool and one which has created serious anomalies and hardship for many people in the community. This will be further detailed in our submission.

We have referred to New Zealanders historical adoption of United Kingdom models of Local Government organisation and Local Government Funding. We have also referred to the United Kingdom’s experience of the Poll Tax. It is useful at this time to remind ourselves that recent United Kingdom experience does not provide a model that is appropriate to New Zealand. The United Kingdom experience in recent years has been to increasing centralisation against the European trend. That centralisation has been United Kingdom Treasury driven to a marked extent on the basis that Central Government pays the piper and it must call the tune. A low level of trust in Local Government has produced a badly weakened Local Government, and a burgeoning centralised bureaucracy. There is little evidence of greater efficiency. There will be a temptation in any system that is devised to ameliorate the existing inequities in the rating system to continue to devolve responsibility whilst increasing, power and control in the hands of Central Government. Any successful reform will, of necessity, transfer both money and power from the centre. We recommend study of a recent powerful account of United Kingdom events. (*“Thatcher and Sons” Simon Jenkins Penguin – Allen Lane 2006*). Successful change will require acceptance by Central Government that it is not the source of alternative revenue, but rather the collector and distributor of it.

4. PROCESS FOLLOWED IN PREPARING THIS SUBMISSION

For many years, Porirua City Council has actively promoted reforms to the system of local government funding. On 6 March 2003, Council resolved to establish a Citizens’ Commission to look at alternative funding for local government. The Citizens’ Commission’s Report recommended a change in local government funding from the present system, which is based primarily on a property tax.

In December 2006, a steering group was established to develop a submission from Porirua City. The representatives of this submission included the Mayor (Chair), and representatives of Ngati Toa Runanga, Residents’ Associations, Business Porirua, Grey Power/Age Concern, Rural Ratepayers and Community organisations. The names of the members of the Steering Group are at the end of this submission. The steps followed were as follows:

1. The Steering Group prepared a public discussion document that was circulated to all 16,000 households in Porirua City beginning 4 February 2007.

2. The Steering Group conducted a public meeting on Tuesday 27 February, which was attended by 40 people who engaged in a very spirited debate about the issues before the Rating Inquiry.
3. 160 public submissions were received on the public discussion document. Those submissions were analysed and fully considered by the Steering Group.
4. The Steering Group has considered the public feedback, both from the public meeting, other meetings involving community organisations on this issue, and the submissions received on the public discussion document, in formulating this submission to the Rating Inquiry.

5. THE RATES DEBATE – OUR VIEW ON WHAT’S BEHIND IT?

Recent average rate rises across the Country have consistently exceeded inflation. Depending on how it is calculated, rates rises over the last few years across New Zealand have averaged between 7% and 9% considerably above the rate of inflation.

There are several reasons why rates out-pace inflation, many of which are outside the control of councils. For example:

- ◆ *Cost of construction:* The construction cost index increased by more than 6% in 2005 and 13% in the previous year (compared to consumer price index increases of around 3.5%).
- ◆ *Increased investment in infrastructure:* An analysis of the final 2006 Long Term Council Community Plans for all councils in New Zealand shows that between 1994 and 2004, councils spent \$12 billion on capital expenditure. For the next 10 years, from 2006 to 2016, councils throughout New Zealand will spend \$31.5 billion. Of this, 75% will be spent on network infrastructure, such as roading, water and sewerage reticulation.
- ◆ *Increased community expectations for facilities and services:* Communities are expecting councils to provide an increased standard of basic services, and to provide quality facilities such as libraries, aquatic and recreation centres, art and cultural centres.
- ◆ *Devolution of functions from central government:* Over recent years, central government has passed functions to local government. Councils also face process costs associated with new planning and legislative requirements.
- ◆ *Impact of Changing Property Values Upon Ability to Pay:* One of the issues which has focussed attention on rates burdens is the heated property market and its varying impact upon ratepayers through increases in property values which are not uniform across communities.

6. RATES: OUR VIEW ON WHAT IS THE PROBLEM?

The public submissions received in Porirua were overwhelmingly of the view that:

1. The current property tax-based system is not fair and affordable.
2. The current rating system does not meet the normal tests for taxation of – efficiency, simplicity, transparency, sustainability and fairness.
3. Improvements could be made to the rating system to provide better means of funding local government activities.

General rates are a property tax. Under a capital value rating system, the amount paid is proportional to the capital value of the property. Its advantages are said to be its simplicity, it is difficult to evade and collection costs are low. However, there was a strong concern from our community. that the present property tax-based rating system is unfair to many sections of the community, and is becoming increasingly less affordable for those on low or fixed incomes and whose rating obligations are disproportionately affected by above-average property value increases that are out of the control of both ratepayers and Councils.

For Porirua City Council, 62% of total operating revenue is from rates income. The remaining 27% comes from fees and charges, subsidies and grants, investment income and invested assets. The average for councils in New Zealand is 57% total revenue from rates income. Porirua has a higher percentage because it has fewer non-rates revenue sources than most other councils, which may have port shares, energy trust shares, forests, and other investment income.

7. RECOMMENDED APPROACH BY THE STEERING GROUP

As set out in the introduction to this submission, the Porirua Steering Group believes that a radical change is required to the present system of local government funding. It believes that the days of property tax are over. While property tax may have been appropriate in the pioneering days of the country, now that the services of local government are directed towards people, not property, it no longer makes sense to tax property and not people for local services which benefit everyone, regardless of the value or occupancy level of the dwelling places.

Recommended Suite of Funding Tools

The Porirua Steering Group therefore recommends the following suite of revenue sources:

- ◆ General revenue sharing from central government (a percentage of income tax or GST) for local public goods.
- ◆ User charges for services, including targeted rates, fees and charges.
- ◆ Other funding tools such as full environmental cost pricing for water services and green taxes.
- ◆ Increase of Financial Assistance Rate for roading to 75% and direct government funding assistance for other infrastructure.

As above, the Porirua Steering Group is recommending that the General Rate (which includes the property tax and the Uniform Annual General Charge) be completely replaced by general revenue sharing from central government (a percentage of income tax or GST) for local public goods.

Phased Implementation

The Porirua Steering Group recognises that this proposal is a radical change, but believes it is necessary and timely for the reasons set out at the beginning of this submission. It may be necessary to phase this in over a number of years. Therefore

the Porirua Steering Group recommends the following suite of funding tools as the first step towards the end result:

- ◆ General revenue sharing from central government (a percentage of income tax or GST) for local public goods.
- ◆ Rates based on property tax that amounts to no more than 20% of the current general rate revenue of the local authority.
- ◆ Retention of the Uniform Annual General Change, fixed at the discretion of the local authority.
- ◆ Maximisation of cost recoverable user charges for services including targeted rates, fees and charges.
- ◆ Removal of exemptions from rating (currently these include schools, hospitals, Crown land and churches).
- ◆ Other funding tools such as full environmental cost pricing for water services and green taxes.
- ◆ Increase of Financial Assistance Rate for roading to 75% and direct government funding assistance for other infrastructure.

Further details on the suite of funding tools are as follows:

CATEGORY A: NEW/ALTERNATIVE REVENUE MECHANISMS

1. General revenue sharing from Central Government.

We recommend that a proportion of Central Government revenues, either income tax or GST, be passed over to Local Government. The principal argument in favour of general revenue sharing is the shift in the role and function of local government in New Zealand since its early development, from being primarily the provision of services to property, to increasingly that of promoting the social, economic, cultural and environmental wellbeing of communities. This requires a changed revenue base. There is a long established principle within New Zealand that expenditures on what are inherently public good activities, especially with a strong social/redistribution component, should be funded from general taxation.

It is recognised that there are two particularly important issues involved in the design of a general revenue sharing between central and local government:

◆ *Distribution*

An important question is how should general revenue sharing be allocated between different local authorities? Should it be income per capita? Should it take account of relative deprivation levels, age structure, population, the relative wealth of individual local authorities? The Porirua Steering Group favours consideration of existing mechanisms, such as those by which District Health Boards are funded which have a per capita basis, modified according to social need.

◆ *Accountability*

The Porirua Steering Group is aware of the likelihood that central government, in return for general revenue sharing, will require local authorities to demonstrate

achievement of agreed objectives against performance indicators set by central government. This will be on the grounds that central government, is the funder and therefore is entitled to require accountability for the effectiveness of the spending. This has clearly created difficulties in the UK including loss of autonomy and accountability at a local level, and the transaction costs associated with reporting against numerous key performance indicators.

The Porirua Steering Group recommends that the following principles be applied to design of a revenue sharing mechanism:

- ◆ Certainty, both in terms of quantum and continuity of funding through entrenching arrangements in statute; and
- ◆ Independence in the distribution arrangements, for example through an independent commission as occurs in Australia. The Commission could have membership perhaps 50/50 appointment by central government on the one hand and local government on the other for ordinary members, with an independent chairperson.
- ◆ General criteria for distribution should be established in legislation, with specific application determined by the independent commission or other distribution body.
- ◆ There should be no centrally imposed restriction on the powers of Local Government to borrow.

The Porirua Steering Group did not take a position on whether the general revenue sharing should be through income tax or through GST. The advantage of income tax was seen to be the direct link between the level of tax and the ability to pay. The advantage for GST was seen that it is more difficult to avoid than income tax.

Recommendation:

The Porirua Steering Group recommends that a proportion of Central Government revenues, either income tax or GST be passed over to Local Government to fund local public goods.

2. GST and Rates

In the Steering Group's view, it is wrong that GST should be levied on rates to the extent that they are a property tax. This amounts to a tax on a tax and breaches the principles of good public policy.

There is increasing uncertainty as to the extent that certain activities or expenditures undertaken by local government are inherently public goods which should be tax funded, or private goods which should be funded on a user pays basis either individually or collectively. The Steering Group recommends that the Inquiry categorises local government expenditure as either public good or private good. The intention would be that to the extent activities were determined to be public good activities those activities would be zero rated for GST purposes. Obviously, if the Inquiry accepts the submitters' previous recommendation in support of revenue sharing from central government for public good activities, this would not attract GST.

Recommendation:

The Porirua Steering Group recommends that public good activities of Local Government should be zero rated for GST.

3. 24/7 ROAD PRICING

A 24/7 road pricing (or congestion charging) regime presumes that all roads used by powered vehicles should be charged for, with the actual charged depending on time of day, location and nature of the vehicle. It is seen as a natural development in “demand management” with a focus on controlling congestion and other environmental impacts from road use.

The feasibility of 24/7 road pricing has been under detailed consideration in United Kingdom for several years. In December 2006, the UK Government released the report of the Eddington Inquiry, a very detailed study which is strongly supportive of the merits of such an approach to road pricing. The underlying principle is that the transport networks are critical to ongoing economic and social development. However, transport networks are under increasing pressure because of rising demand, which if left unchecked could result in substantial congestion in future years. The objective of 24/7 road pricing, including getting the price right across all modes of transport, would make strong economic as well as environmental sense. A crucial factor in the implementation of 24/7 road pricing is the development of the necessary technology, which is expected to be available in the medium term future. This is known to be a controversial issue. There are some important policy questions to be addressed such as when and how to introduce it (nationally or in selected areas such as New Zealand’s main urban centres), should it be revenue neutral or revenue raising? What existing taxes would it replace? and how would it be phased in, especially if 24/7 road pricing applied only in parts of the country? What does it imply for existing governance, funding and ownership arrangements for New Zealand’s roads and public transport networks? The Porirua Steering Group did not feel it had enough information to take a position at this stage, but recommends a full investigation into 24/7 road pricing.

Recommendation:

The Porirua Steering Group recommends that the Inquiry support a full investigation of the potential for 24/7 road pricing and the policy, technology and other issues that would need to be resolved if it were to be introduced.

4. Full Environmental Cost Pricing for Water Services

Full environmental cost pricing would involve a move to flow-based pricing as a demand management tool in an increasingly water-scarce world. Full environmental cost pricing would include not only the standard cost identified in conventional water businesses, but also the ecological cost associated with taking water from the environment and discharging waste water back into it. Such an approach would significantly increase the revenue from local government water services. In conventional terms, it would be part user-charge and part environmental tax. It could

provide a partial substitute for current rates, and ideally also attract a measure of public support once the relationship between pricing and environmental sustainability is understood.

The implementation of full environmental cost pricing would require both metering of water supplies and agreement on a methodology for charging for waste water, as well as developing acceptable methodology for determining and valuing the negative impact on the environment of waste water. Further issues would include determining how the “excess” revenue would be applied, public resistance to charging for water services and how to deal with equity issues – for example the impact on low income households.

There is already a well-documented relationship between charging and demand for water. Typically, charging for water by meter reduces demand by something in the order of 20% to 30%. That is, if people are aware of the costs of the use of water, they are likely to be more careful and less wasteful. It would fit well with the statutory responsibility which local authorities now have for promoting community wellbeing, including environmental wellbeing, to use a full environmental cost pricing approach.

There would be a significant cost of installing water meters for many local authorities. However, this would be expected to be a relatively short-term impact, because the cost would be offset by reduced capital expenditure on new infrastructure in the medium to long term, as pricing reduces growth in demand.

Recommendation:

The Porirua Steering Group recommends the introduction of full environmental cost pricing for water services.

5. Green Taxes

Green Taxes are taxes applied specifically to promote outcomes which are environmentally positive. It is sometimes argued that the consequence of the ideal green tax is that it would raise little or no revenue, because it is so effective in encouraging the desired environmental outcome. Not all green taxes will necessarily reduce activity to this extent. Some are simply a means of passing on to firms or individuals the full cost of their activity. Polluter pays taxes are justified on this basis, even though they may not significantly reduce activity levels.

A current example of a green tax designed to reduce an undesirable activity is Ireland’s plastic bag tax. This is levied at the rate of 15 cents for each plastic bag within its ambit (basically the plastic bags provided by retail outlets for people to carry their purchases in).

Currently the levy raises the equivalent of around \$NZ34M per year. It has been less effective than expected in discouraging the use of plastic bags which has actually increased by 25% since the levy was introduced. Consideration is being given to increasing the size of the levy so as to act as a more substantial disincentive. In Ireland, the levy is collected by central government and paid into its Environment

Fund to fund environmental projects. If a similar levy were adopted in New Zealand, central collection may also be appropriate. The proceeds (less cost of collection) could be used to fund local government environmental activity or, perhaps, to offset some of the costs imposed on individual local authorities in the environment and conservation areas such as the cost imposed by Conservation Department land.

The same concept could be applied to other environmental “bads” such as bottles or the packaging associated with fast foods.

There would be policy administrative issues to be considered carefully. For example, should the levy be collected at the point of sale or imposed on manufacturers/wholesalers? Should the associated revenue be paid out to local authorities on a per capita basis, or should it be distributed regionally to be applied to priorities agreed between central government and regional councils?

Recommendation:

The Steering Group recommends that the Inquiry supports consideration of use of green taxes, not just as a revenue raising mechanism, but as a means of assisting local authorities (and others) with managing the range of waste and environmental problems associated with modern packaging.

6. Government funding of devolved functions

There is considerable concern in our Porirua community that Government has devolved functions to local government, without corresponding funding or ability to raise revenue to cover the full cost of the service. Examples are the administration of legislation in relation to gaming venues and brothels. Also, there have been new planning and regulatory requirements in areas such as water, waste water and sanitary assessments, drinking water standards, dog control, hazardous substances and new organisms and building control, which have imposed new compliance costs on local government.

The Steering Group is aware of initiatives taken in this regard by other countries. England operates an approach of seeking to provide full compensation for additional functions passed down to local government. Both the recent Australian Inter-Governmental Agreement and the British Columbia Community Charter Act include principles that Government must not assign responsibilities to local government unless there is provision for resources required to fulfil responsibilities, or at least consult to ensure the financial impacts for local government are taken into account. The Steering Group would argue that in the interests of economic efficiency, activities should meet their own full costs. Load shedding from central government on to local government without full compensation, breaches this principle.

Recommendation:

The Steering Group recommends that the Inquiry recommend that government in consultation with local government adopt a set of principles that when central government seeks to impose a further function on local government, that

accompanying the imposition of a further function there will be adequate funding to meet the cost.

7. Removal of Rating Exemptions or Government Funding in Lieu of Rates

The full and part exemptions set out in schedule 1 of the Local Government (Rating) Act 2002 cover a very wide range of activities. Some of them might well be treated as an integral part of the provision of local public goods, for example local reserves. Others, although they may have originally had some rationale, generally now represent a series of random subsidies from the ratepayers of an individual Council to other parties which bear no relationship to local need or benefit. Also, they may subsidise activities which have long been recognised as a responsibility of the tax payer for example, schools and hospitals.

Land which is an integral part of a tax payer funded activity, for example educational land or hospitals, should be fully rated. The current arrangements are a subsidy from the local community to the national tax payer, and they distort understandings of the full economic cost of the activity.

The submitters are opposed to continuation of exemption of rates for Crown land such as the conservation estate; because the Government should not use its superior legislative position to give privilege to its own activities. Instead, it should as a matter of principle, accept that its activity should carry its own full costs. This means that the Crown should accept the same obligation to pay rates, or make an equivalent payment, in respect of land or improvements owned by the Crown or Crown agencies, as applies to other land owners.

There is also an issue of principle in the Rating Inquiry, relating to rates on land covered by the Te Ture Whenua Maori Act 1993. It is not a significant issue in Porirua because of the relatively small area of Maori land. However, from a national perspective, any exemption is usually borne by Councils. Consideration should be given to whether it could be borne in some other way, for example by the Crown in recognition that exemption of Maori land derives from the Treaty of Waitangi.

Recommendation:

The Porirua Steering Group recommends that there should be no exemptions of land from rating.

8. Increase Government Funding Assistance for Roothing or other Infrastructure

There was very strong support from our community for an increase in Government funding assistance for roading or other infrastructure, recognising the importance to the national economy of such investment.

Under current arrangements, central government funds on average 50% of the cost of maintenance of local roads and 60% of the cost of new construction.

Federated Farmers have argued that there needs to be a fundamental change in the way in which Government supports the maintenance and construction of local roads. Their position is that the cost of maintaining and constructing roads should be met by road users and not property owners. They are lobbying for an increase in the financial assistance rate to 90% across-the-board. The rural/provisional grouping within *Local Government New Zealand* has resolved to seek an increase to 75%. They are worried that loss of autonomy will follow from much higher Government funding.

The case could also be made to Government for assistance for funding for other infrastructure.

The Steering Group recommends that the Inquiry:

- ◆ ***Strongly supports an increase in the average Financial Assistance Rate from 50% to 75%.***
- ◆ ***Supports the principle that all tax derived by Government from road related activity should be applied to roading (rather than any being contributed to the consolidated fund).***
- ◆ ***Recommend that any increase in the FAR come from additional funding (if it does not, the practical effect would be the need to reduce the funding currently committed to major urban road construction – primarily but not exclusively state highways).***

CATEGORY B: MORE FLEXIBLE USE OF CURRENT REVENUE MECHANISMS

The Porirua Steering Group invited comment on the possibilities for more flexible use of current revenue mechanisms.

The possibility of lifting the cap on the uniform annual general charge from the present level of 30% of rating revenue was not supported in the public feedback. However, there was support in the submission for more flexible use of the following current revenue mechanisms:

1. Increased use of Development Contribution

Development contributions are becoming an increasingly important funding tool for territorial authorities. There is also wide evidence that development contributions place upward pressure on both housing prices and the price of commercial property. In each case it applies both to new and existing properties, as the cost of new supply is a strong influence on the market value of existing supply. It would be consistent with the rest of this submission if Crown developments were to be liable to meet development contributions in the same way as private sector and other developments.

2. Choice of rating base

Councils can choose unimproved land value, capital value, or assessed annual rental value as the rating base. Increasingly, the choice is to use capital value. Land value rating does not recognise improvements, such as housing, and the extra demands they

make on services. Capital value rating provides disincentives to improvement. The choice of rating base needs to be assessed by each Council.

3. Balance sheet management

Traditionally ratepayers, and as a result Councils, have been debt-adverse. Overall, New Zealand Local Government is “under borrowed” so that current ratepayers are carrying more than their fair share of the cost of infrastructure. This is a matter for Councils and their communities, and can be addressed through the revenue and financing policy in the LTCCP.

4. Greater use of targeted rates

Councils could make more use of targeted rates to manage particular problems. For example, Councils with a high proportion of absentee owners (holiday homes) could use targeted rates to recover from those owners the cost of additional facilities required by holiday makers.

Conclusion:

The Porirua Steering Group concluded that existing mechanisms are not being used as much as they might for a variety of reasons, but even if they are used more they are not going to have a large enough impact to solve the fundamental problem as set out earlier in this submission. The fundamental problem requires a move from rates as a property tax to general revenue sharing for local public goods.

CATEGORY C: REDUCING IMPACT OF CURRENT REVENUE MECHANISMS

The Steering Group invited comment on opportunities to reduce the impact of current revenue mechanisms. The following mechanisms were seen as potentially helpful, at least to some portions of the community:

1. Differential to smooth impact of high-value residential properties

Councils can use differentials to smooth the impact of valuation increases on high-value residential property. Whangarei District Council has adopted a three-tier structure for rating residential property, which levies a proportionately lower contribution to the general rate at high property values. However, differentials add to the complexity of the rate system.

2. Valuation averaging

Rather than applying the full impact of triennial valuations immediately, consideration could be given to amending the Local Government Act 2002 to permit Councils to use a rolling average of 2 - , 3 - , or 5 – year valuations as a basis for the rating. At least one Australian state follows this practice.

3. Enhance take up of rates rebate

The Government has significantly extended the rates rebate scheme, which provides relief for ratepayers whose incomes are low enough to qualify. The rebates can be up to \$500. The take up so far, nationally and in Porirua City, is only about 30% of those entitled to it, despite vigorous efforts to promote the entitlement. There was strong support in Porirua submissions for measures to enhance the take up of the rates rebate.

One possible way to enhance the uptake of the rates rebate would be to transfer administration of the rates rebate scheme from the Department of Internal Affairs to Work and Income New Zealand. The reason is that Work and Income New Zealand has a complete database of all older people in receipt of National Superannuation (by far the largest single group entitled to the rates rebate). As well, people are used to disclosing their income to WINZ for a variety of income tested benefits.

4. Rates Postponement

Thirteen Councils (including Porirua City Council) offer rates postponement to older ratepayers, giving them the option of delaying payments until death or sale of the property. The per annum cost of interest and charges is approximately 2 to 2.5% less than the interest rate on a home equity release mortgage and the set up charges are considerably less. Some concern was expressed by representatives of older persons about rate postponement, and in particular that older persons should not have to relinquish equity in their homes. However, growth of the home equity release market indicates that this is increasingly acceptable.

Conclusion:

Porirua Steering Group concluded that there are a variety of measures to reduce the impact of current revenue mechanisms that could be helpful to portions of our community. However, they are not going to solve the fundamental problem, which is set out earlier in this submission as the need to move away from rates as a property tax towards general revenue sharing for local public goods.

CATEGORY D: COST CONTAINMENT

The Steering Group invited public submissions on support for measures for containment of costs of local government.

1. Performance Improvement/M Measurement

There was strong support in the public submissions on the Steering Group's discussion document for performance improvement measurement in the Local Government sector. There are already initiatives amongst local authorities in New Zealand on a voluntary basis (including Porirua City Council) for the development of a comprehensive performance management and benchmarking system. The warning from the UK experience is that this should not be a function of central government.

2. Amalgamation

The Steering Group sees the issue of amalgamation as a separate issue to the Terms of Reference of the Rating Inquiry. Nevertheless, in practical terms it is a major issue for local government to address around New Zealand. If other reforms are to be meaningful, amalgamation needs to be addressed. Also, Councils should be exploring opportunities for reducing their costs, by spreading overhead costs over larger units of local government through sharing of services. This would allow Councils to share services and expertise, and potentially reduce costs under their current local representation.

3. Review of requirement to fund depreciation

Under the 1996 reforms of the Local Government Act 1974, Councils have been required to allow for depreciation on assets. There is a case to review this requirement, on the basis that Councils need only fund the upkeep of their infrastructure on a “pay as you go” basis, rather than set aside funding that may not be required for many years (when asset replacement is due). This particularly affects Porirua as a “young” city with relatively new infrastructure. Our water and waste water reticulation pipes do not need replacement for 20-25 years, and we do not have a high demand for investment in other infrastructure assets at this time. Funding put aside would simply have to be kept in other “jam jars” for these reasons Council determined that it was prudent not to achieve a fully balanced budget in the 2006-2016 LTCCP, and this received an unqualified audit opinion.

Recommendation:

The Porirua Steering Group recommends that there be a review to ensure that the legislation is applied so that depreciation costs each year relate to the need for replacement of infrastructure, not the funding of new capital works.

CONCLUSION

The Porirua Steering Group recommends that there be a radical change to current local government funding, in particular a move away from rates as a property tax to general revenue sharing as a percentage of income tax or GST from central government to local government. This submission sets out that proposal.

We would be pleased to meet with the Rating Inquiry team and present our submission.

Mayor Jenny Brash (Chair)

John Watson, Trevor Roberts, Residents' Associations

John Seddon, Business Porirua

Dr Margaret Guthrie, Grey Power/Age Concern

Dr Alan Gray, Rural Ratepayers

PORIRUA STEERING GROUP ON THE RATING INQUIRY