

Submission To
The Local Government Rates Inquiry.
Pakirehua mo gna Reiti Kaunihera a-Rohe

Clive Millanta
Dick Renouf
A Fairer Way To Fund
Local Government
Lobby Group
40 Downes Street
Titahi Bay
PORIRUA 5022
Tel: 236 8195
Cell: 0276942701
falco@paradise.net.nz

This paper does not propose to support any idea of retaining the current rates model for funding local government. The rates model is not efficient, it is open ended and does not recognize ability to pay. This paper will propose alternative funding mechanisms and express ideas about funding allocation, size and form of municipalities and the preservation of autonomy and democracy.

Any thinking about local government funding inevitably leads to considering, what might be called, the core business of local government. What is it? Is it common across all councils and should it be defined in statute? Currently we have more than eighty local authorities providing governance for a national population about the size of the city of Sydney Australia. Clearly there are too many and there is a vast duplication of bureaucratic activity and cost therefore the size and number of local authorities is also an issue.

Notwithstanding requirements in the act to consult with communities, council consultation processes are often treated by them as a mere formality and there seems to be no understanding that community opinion is and must be a vital part of decision making. When, as sometimes happens, council has made up its mind in advance or has had its mind made up for it the consultation process is corrupted. This is in the nature of local politics as they currently stand, especially when party politics is trying to steer local politics. So this is an issue which profoundly effects costs and the behaviour of councils. It raises the question - Should local authorities be immunized against party politicking?

Because local government funding is based on the perceived value of property, a value by the way that the average homeowner has no control over, an unhealthy synergy has developed between local government, valuation NZ and the real estate business. All of these organizations have a vested interest in property value inflation which has become such a problem that the reserve bank has felt it necessary to intervene. Most tax paying citizens must plan their activities to fit within their income, central government raises taxes at its peril but local government is able to effectively raise taxes year by year. Clearly, any central government who behaved like that could not expect to survive long on the treasury benches.

Therefore it is very important that this inquiry helps the government to make the right choices about reforming local government funding *and* organization. You and central government have a duty of care to the people of New Zealand, if for no other reason than they are paying you to. The problems associated with current funding and organizational models will not go away unless there is real change. This will become a political issue. Think carefully, now is the time to start recommending significant change before it all becomes a fist fight.

Less Is More.

No discussion of the issue of Local Government funding takes place without having to confront the issues of the number of LCs and the duplication of processes. Clearly there are too many local authorities all trying to provide services and infrastructure, some with more success and clarity than others. Perhaps the number of Municipalities could be reduced to a number based on the provinces, in effect provincial government. Certainly much larger entities, with a greater income based on an income tax. These larger entities would take responsibility for regional development as well as providing services to the regions. They should also be required to work with all other municipalities in a cooperative manner so that no region advances at the expense of another. The role of councillor may have to become a full time job similar to the role of a member of parliament. Here is an opportunity to fine tune the role of local government.

Funding Through Income Tax.

The P.A.Y.E. System is acceptable to the vast majority of the income earning population. It is easily understood, is a fixed percentage of income, whatever that income is, and recognizes ability to pay instead of being an ever rising continuum as the present model is. A 2 – 2.5% income tax from wage and salary earners and business would raise more funds than currently generated through land taxes (rates) and be ample to fund fewer and larger municipalities.

Inland Revenue would collect this tax and allocate it to the municipalities using appropriate allocation models. The design of these allocation models will emerge from a process of public, and municipal consultation with central government. These models should be so designed as to ensure correct, adequate and appropriate levels of funding to the reshaped municipalities. There would also be sufficient funds to create a pool of funding that could be allocated to areas struck by natural disaster or where an unforeseen infrastructural situation (of a public health or safety nature) occurs requiring timely remedial action. The communities contain all the skills necessary to design the correct models via the public submission process and focus groups. After all, every academic, teacher, business person, banker and every one else lives in a community somewhere. Time to do something shocking and actually consult the public about these questions. Most of us have to get by on not a lot so we're not stupid.

Allocation Models.

There are several scenarios for allocating funds to municipalities.

Since the location of all taxpayers is known, Inland revenue could simply allocate funds to the municipalities based on the number of taxpayers in their areas.

Or

All wage and salary earner taxes could be passed to an entity, call it The Local Authority Funding Corporation, which would be responsible for allocating funds to municipal areas according to an agreed model. This entity would belong to the municipalities, staffed and run by them. This body to be responsible for overseeing the investment of any surplus funds. All Business taxes collected could be pooled to create a fund to cover disaster relief and unforeseen needs of a public health and safety nature in the municipalities. These funds would be distributed according to need using a model agreed to by the communities, the municipalities and central government using the public submission process.

Fund allocation models, whatever their final form, must come out of a process of negotiation. The master/slave mentality, which for so long has shaped the relationship between our governing institutions and the people, must change. Citizens must have trust in their governing bodies, no trust exists at the moment especially in local government.

The Core Business of Local Government.

Generally speaking Local Government, in its present form, is unfocused, competitive, parochial and in real terms unresponsive to the people it is supposed to serve. In order to focus municipalities on what they should be doing an agreed definition of core business should be developed. The coercive element of funding (income tax) should be focused on core business and only after all core requirements are met should this funding be available for other projects. Elective methods of municipal fund raising should, at the same time, be developed to fund the wish list projects. Raising funds this way is a sure barometer of public acceptance of a given proposal. Examples of elective funding could be:

City lotteries

municipal bonds

direct public ownership of such things as – sports arenas, tourism facilities and attractions and marine facilities, by creating municipal companies and offering shares.

These could be available to citizens from any municipal area. Following this model would help to ensure that such projects are designed, not only to provide quality non core facilities, but that they are commercially sound and profitable, and that even citizens of modest means can participate in the wealth and job creation of the enterprises.

Note about Municipal GST and Devolution of Responsibilities to Municipalities from Central Government.

When Municipalities are funded through direct taxation there would be no GST payment to central Government and all responsibilities devolved onto municipalities by central government, must be accompanied by the appropriate funding.

Autonomy and Democracy.

Nothing ensures independence like a secure income so it is important that allocation models for funding are designed to limit central government interference in the funding transfer to the municipalities. The government in Wellington is the government of New Zealand and has the responsibility to make law but, here is an opportunity to develop an holistic model of local governance designed to benefit the people directly. A cooperative model that is capable of helping to shape an economy and society to the benefit of all. Its high time we stopped following political models from other countries and created one that works for New Zealand. In a combative environment such as the present one, only the loud and very well heeled voices are heard and real participatory democracy is inhibited. Maintaining democracy is as much the work of the agencies of the people as it is of the people themselves so access and representation should not be buried in process as it is now. Stricter rules about and oversight of public works tendering and expenditure must be developed to curb the 'feeding at the public trough' tendency of those tendering for public works, both nationally and at the municipal level. This would have positive cost implications especially for local government.

Fewer, better funded municipal entities, with councillors answerable to their constituents and not a party or council machine will help to bring more cost efficiency and answerability to local government.

We would welcome an opportunity to speak to our submission before the inquiry.