

# Did the Inquiry 'Get Real'?

**An Initial Commentary on the Recommendations of the  
Independent Inquiry into Rates**

**September 2007**

## 1. Introduction

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### What is this Paper ?

This paper has been prepared by the staff of *Local Government New Zealand* (LGNZ) and SOLGM to help local authorities in assessing the recommendations and analysis in the Report of the Rates Inquiry – Funding Local Government.

The release of the paper comes just as triennial elections are about to commence. One of the objectives of this paper is to help those involved in these processes get to grips with the recommendations quickly and in a reasonably informed fashion.

The paper measures the Inquiry's recommendations against the four principles from the joint LGNZ/SOLGM submission *Getting Real: Funding the True Cost of Local Communities*. Those principles were:

1. *Local Accountability* – the accountability of local authorities to their communities should not be undermined.
2. *Flexibility* – the autonomy of local government to respond to community preferences in a flexible manner must be respected.
3. *Local Contribution to Economic Transformation* – local leadership and the role of local government in the future economic transformation of New Zealand must be respected.
4. *Good taxation* – local authority funding should be consistent with the principles of good taxation. These are sufficiency, buoyancy, ease of compliance and administration, efficiency, equity, transparency and visibility, and low mobility<sup>1</sup>.

The paper represents an initial commentary on the 96 recommendations from the report. As you read through this paper it will become clear that the sector will need to give this report a great deal more consideration. This paper is not a statement of LGNZ or SOLGM policy.

### An Appreciation

We would like to place on record our acknowledgment and appreciation to the members and staff of the Rates Inquiry for the work they have done in the last nine months. While the sector as a whole (let alone individual parts of the sector) is unlikely to agree with everything the Inquiry recommends, it has nevertheless done an extremely thorough job of exploring the issues. The Inquiry:

- held 13 meetings and 11 hui in various locations around the country;
- received 926 written submissions (approximately 10,000 pages of advice); and
- commissioned nine separate pieces of advice from independent parties (the reports from these advisors are on [www.ratesinquiry.govt.nz](http://www.ratesinquiry.govt.nz)).

The Inquiry is to be congratulated for the extensiveness and professionalism it has brought to the process.

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<sup>1</sup> Readers are referred to pages 10 and 11 of *Getting Real* for further explanation of these terms.

## An Overview

The Inquiry found that the levels of rates increase currently proposed are unsustainable for certain individuals and groups within the community. This is not to say that the system of rating itself is unsustainable<sup>2</sup>. A number of the report's recommendations, especially around the rates rebate scheme, remission and postponement policies, rating tools, and funding policy principles – appear to have been developed with this in mind.

The large scale replacement of rates is not recommended, but there are recommendations for funding of a supplementary nature:

- an increase in Local Authorities Petroleum Tax (and a change in distribution mechanism); and
- further consideration be given an international visitors environmental levy (a form of departure tax) to fund environmental needs arising from international tourism;
- a moderately sized, tied form of sharing of GST revenues (of around \$100 million per annum) in the Contestable Infrastructure Fund (see below).

The Inquiry follows these recommendations by noting that the provision of infrastructural needs is the major driver for the level of forecast rate increases. However it questions both the need for some of the expenditure, and the rigour of the consultation processes (including a comment that 'in general local government did not present key choices or alternatives in its LTCCPs to facilitate useful input from citizens and enable councillors (sic) to adequately manage and prioritise expenditures').

However the Inquiry considers that there should be more of a partnership approach to the development of network infrastructure (community infrastructure is conspicuous by its absence) and makes two recommendations:

- a review of financial assistance rates for urban arterial roads with a view to increasing the rate of assistance paid (it appears this would come from within the existing level of funding);
- a contestable infrastructure equalisation fund for 'three waters' infrastructure to ensure New Zealanders have access to three waters facilities of the same standard.

The Inquiry goes on to level criticism at funding policies in some local authorities – especially around the application of intergenerational equity in the form of (non) use of debt and a 'strict and unquestioning' interpretation of the balanced budget requirement. The report recommends that there should be more use of debt including what is effectively a power to borrow anywhere. Better development of depreciation policies to better take account of the 'exemptions' of section 100(2) is also recommended.

The report concludes there is some degree of exaggeration around so-called cost-shifting. Most functions that have been imposed on the sector do come with charging powers – and the report recommends that these be reviewed to ensure actual and reasonable cost can be recovered. Others such as the LTCCP are viewed as 'good

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<sup>2</sup> Strangely however, much of the early media comment post the release of the report has tended to suggest otherwise.

business practice'. Having said that the Inquiry does find some degree of cost shifting has occurred and is quite critical of some aspects of the central government policy making process (including the degree to which government agencies talk to each other).

The report makes a number of recommendations for changes to the existing funding tools including:

- the abolition of the uniform annual general charge – although fixed targeted rates would remain;
- abolition of the 30 percent cap (although the executive summary suggests this would be retained and increased to 50 percent);
- the phasing out of differentials on the general rate by 1 July 2012 (although it is far from clear, it appears that the powers to differentiate targeted rates would remain but would be controlled);
- encouragement to move to capital value and adopt water metering (but these would not be made mandatory);
- the conferral of powers on local authorities to charge volumetrically for wastewater without taking the CCO route;
- abolition of most, but not all, exemptions (DOC and Maori customary land would be the two most significant exemptions to remain);
- a review of all existing fee-setting powers to ensure actual and reasonable cost can be recovered (and this would include the costs of policy development).

One of the likely effects of the recommendations is that the shift from general to targeted rating will occur at a faster rate. The Inquiry appears to favour the greater degree of transparency in these types of rates, and is coupling this with a requirement that rates documentation to disclose how much has been assessed against each rating unit for each activity – even those funded via the general rate. The Inquiry appears to view this as a means of demonstrating value for money. Depending on the degree to which local authorities pursue targeted rates there could be significant shifts in the incidence of rates – most likely from the business sector and owners of low valued property towards the rural sector and moderate-high valued property.

The Inquiry views the issues around the rating of land covered by the Te Ture Whenua Maori Act 1993 as being primarily both a constitutional and a valuation issue. The report recommends a review of the consistency of Maori freehold land with the principles of the Treaty of Waitangi. This may be one of the 'headline' recommendations of the review.

Finally, the report makes a number of recommendations that relate to decision-making and accountability. The more significant of these include:

- after the current operational review of the Local Government Act by the Local Government Commission a further independent review be conducted of the consultation and decision-making provisions of the Act with a view to substantially streamlining the legislative provisions and providing for greater accountability;
- the Office of the Auditor-General and the Department of Internal Affairs monitor and review the way consultation is working;
- section 82 of the Local Government Act be amended to limit council discretion in the means of applying the consultation principles;

- the current mass undifferentiated consultation be replaced by more selective and streamlined consultation arrangements;
- the LTCCP process be better aligned to the electoral cycle;
- performance benchmarking
- an independent agency be given power to examine the reasonableness of financial decisions; and
- the resources available to the Department of Internal Affairs be increased to enable it to adequately monitor the operation of councils and of the local government legislation.

Taken as a set these recommendations represent fairly fundamental change to the way the Local Government Act operates, the degree of local accountability and autonomy, and to the relationship between central and local government. In particular, the proposed independent review agency could represent a major departure from New Zealand's tradition of representative democracy by making the decisions of elected members almost subordinate to those of an unelected official (who in all probability will be a political appointee).

Our initial view is that implementing the recommendations in their entirety would represent the largest scale change to local government funding, and quite possibly to local government in general, since at least the 1970s. We recommend that you model the impact of these changes within your own community as part of your consideration of the proposals.

It appears the recommendations in the report would deliver some additional funding to the sector – both through government and non-government sources. However this needs to be balanced against some fairly fundamental changes to the constitutional position of local government, and some loss of flexibility in funding arrangements. Each element needs to be considered in conjunction with the others.

## 2. Rating Powers

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### What LGNZ and SOLGM Sought

In *Getting Real*, LGNZ and SOLGM sought the following in terms of rating tools:

- retention of the current range of rating powers and valuation bases; and
- removal of the so-called 30 percent cap on uniform annual general charges and fixed targeted rates; and
- volumetric charging for wastewater i.e. charging for wastewater based on 80 percent of water consumption.

### What the Inquiry Recommends

The Inquiry's recommendations include the following:

- a single rating system be promoted across the country and that this system be the capital value rating system i.e. the Inquiry is recommending local authorities adopt capital value but is not mandating it
- differentials on the general rate be phased out with removal in 2012
- uniform annual general charging powers be abolished – fixed targeted rates would remain
- the report is somewhat contradictory on the subject of the so-called 30 percent cap. In one place the document argues for removal of the cap altogether, in another place for an increase to 50 percent of total revenue
- targeted rates be retained in their present form
- all local authorities to be encouraged to move to full cost recovery for water and water metering (with government assistance to meet the cost of installing the meters) and
- GST continue to be assessed on rates.

### Comment

#### *Valuation Bases*

The Inquiry's position on the merits of the differing valuation bases is very clear – it considers capital value to be the better of the three systems<sup>3</sup>. The report notes that :

- capital value is more closely correlated with income (hence ability to pay)<sup>4</sup>;
- the information base tends to be richer with capital value (these are based primarily on market transactions) and hence valuation quality is higher;
- capital value tends to require fewer differentials.

It is not clear why the Inquiry stopped short of recommending mandatory capital value. We believe it was out of concern at the short-term swings in incidence a change of this

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<sup>3</sup> The Inquiry observes that in practice values for the annual value system currently tend to be based on the '5 percent of the capital value' option rather than the rentable value. It notes some submitters referred to annual value as 'capital value in drag'.

<sup>4</sup> However, the correlation between land value and ability to pay was also reasonably high, and the difference between the two sets of correlations was not great.

nature would create – which in practice is the reason that many of the councils who remain on land value have not made the change<sup>5</sup>. It is however clear that the Inquiry envisages some form of ‘moral suasion’. While there may be longer-term advantages in transparency to the public, and a tax base that needs less modification there will be short-term adjustment issues.

Other potential issues with this set of recommendations:

- depending on the degree to which a single rating base is pursued, utility prices are likely to increase (power and phone companies pay value-based rates only under capital value thus as more local authorities switch to capital value, more of the network becomes assessable); and
- the likely consequence of that is an increase in objections from this set of operators.

### *Differential Rating*

The Inquiry has slated existing use of differential rating powers – in particular it says ‘... *business differentials have been set in an arbitrary fashion historically and are not related well to benefits received. These are generally fixed by a subjective and essentially political decision.*’

The Inquiry accepts that there may be a case for differentials based on differences in levels of service, ability to pay, willingness to pay, and cost. However, the Inquiry seems to view of each these factors as a case for differential targeted rating rather than on the general rate itself. The recommendation essentially allows local authorities four years (and one full LTCCP cycle) to make any transition necessary – but in some cases even a four year transition will see some significant shifts on a year by year basis

Delaying the implementation of this recommendation to 2012 appears to have been motivated by a desire to allow some ‘transitional period’ so that the impacts of removing a differential are not felt ‘all at once’.

There would be some loss of flexibility in that differential options would be curtailed on the general rate, but would still be available for targeted rates. The effect of this recommendation will be that more local authorities will take the approach that Masterton have, and move away from the general rate to a system based almost entirely on targeted rates. There may be advantages in greater transparency for the ratepayer in that targeted rates are generally function specific; and there is a much clearer demonstration of value. It is not inconceivable that the general rate may become a funding source used to fund only the functions such as democracy/governance, regulatory functions and others that are closer to being ‘pure public goods’.

### *Water Metering*

Most jurisdictions that have implemented water metering have reported benefits from managing demand (slowing down the wear and tear, deferring capital expenditure etc) and water conservation (incentive to fix leaks, dripping taps etc quickly). Metering of

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<sup>5</sup> One senior elected member of a Northland council once observed at a Rating Forum that he would ‘love to be told to go to capital value, for us to do it ourselves is too hard politically’.

water is equitable in the sense that, for the most part, the ratepayer pays only for what they use. The effects of this on affordability will be highly circumstance specific, the elderly ratepayer on a high value property may pay less for their water, but a family of four on a lower value property pay more. The Inquiry has recognised that introducing metering has a cost, and to that extent any recommended government assistance with the cost of installing meters is welcome, but it is not clear what 'conditions' would be put on this.

### *Fixed Rates*

It is not clear exactly what the Inquiry's thinking is with fixed rates – the headline recommendations are for removal of the cap, but on page 8 there is a recommendation for an increase in the cap to 50 percent of total revenue.

LGNZ and SOLGM have long sought removal of the 30 percent cap on fixed rating – although this comes with removal of one of the tools for fixed rating. Again the impact on incidence will depend on how far local authorities go with targeted rating.

### *GST*

We did not seek the removal of GST from rates (although some individual members of LGNZ did). The report notes that there is no really strong argument for the removal of GST from rates (and recommendations around the contestable infrastructure fund described on page 12 would effectively see local government receiving a tied share of GST).

### **Conclusion**

It is difficult to draw any conclusions about the impact of this set of recommendations on affordability (and they must be considered as a set to have any meaning). A shift to capital value, the abolition of UAGCs, and the near total-curtailed of differential rates on the face of it may shift rates from the business sector and low value residential property to the farming sector and higher value residential property. But this could be offset by metering of water, and in those councils that move to volumetric charging for wastewater (see the next section).

The exact shift will vary from local authority to authority, depending on the valuation system, the mix of fixed and value based rates, the use of targeted rates and the like. We strongly advise local authorities to model the impacts on your own community as part of your consideration of the document.

There will be some loss of flexibility for local authorities – indeed it appears the recommendations have been developed in such a manner as to 'nudge' local authorities down the path of targeted rating.

### 3. Other Funding and Fee Setting Powers

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Under this topic we discuss those funding and fee-setting tools that are not captured by the recommendations in section one.

#### What LGNZ and SOLGM Sought

We sought the following:

- the extension of powers to levy development contributions to regional councils;
- the removal of the cap on reserve contributions;
- local authorities be given the power to levy a volumetric charge for wastewater using water consumption as a proxy;
- priority be assigned to identifying and resolving issues around 24/7 road pricing and in the interim that the requirements for Ministerial approval for road tolling be removed (indeed LGNZ has sought to establish proper road pricing since 1993); and
- the amendment of all legislation and regulations that permit local government to set fees with a view to allowing recovery of actual and reasonable costs.

#### What the Inquiry Recommends

The Inquiry has recommended:

- the extension of development contributions to regional councils but not Transit New Zealand;
- local authorities consult closely with one another and with developers in any necessary review of their development contribution policy;
- that legislative barriers to road tolling be removed;
- that the 15 year period for public private partnerships with respect to water and waste be extended;
- that the relevant provisions of the Resource Management Act 1991 be reviewed to allow local authorities the opportunity for timely cost recovery in the management of their coastal activities;
- that local authorities be provided with the power to charge for wastewater disposal by water consumption (without having to establish a CCO). The details of this charge should be determined by a working party including the Department of Internal Affairs, NZWWA, LGNZ and SOLGM; and
- that all fees and charges should be capable of being set by local authorities on an actual and reasonable basis, and any regulations that limit such fees be removed.

#### Comment

##### *Development Contributions*

The extension of development contributions powers to regional councils is something only one or two are likely to access in the short-medium term. Extending the power in

this way does raise some interesting issues with collection – but the Department of Internal Affairs has been working on this as part of the Local Authority Funding Project.

The reserves contribution issue has not been discussed at all in the report. However, the Department of Internal Affairs has been working on this as part of the Local Authority Funding Project.

The Inquiry recommends ‘close consultation’ with other local authorities and developers in the development and review of development contributions policies. The report suggests such consultation will better ensure that policies are equitable, clear and well understood. These are laudable objectives, however the use of this mechanism is fraught with sensitivities and it is not clear how far this consultation could go before it turned into more of a negotiation. In reality the sums involved are sufficient that an agreement is unlikely in the extreme, and an agreement with any principle approaching the level of the impossible. Having said that the *Neil* case has highlighted some practice issues with development contributions and some improvement in the clarity of policy is necessary.

#### *Public Private Partnerships*

The report makes two recommendations that would make public-private partnerships a more attractive option. Road tolling is permitted now but under stringent conditions, including the need for Ministerial approval. The 15 year limit on water and waste partnerships was a reflection of the views of the then Minister of Local Government that water was not an ‘economic good’ as much as a ‘necessity’. The practical effect of both of these was to place severe limits on the returns a private provider could receive and make these extremely rare in practice. The bulge of capital expenditure in LTCCPs and the impact this has on the nation’s wellbeing should be the prime consideration, not political ‘ideology’, and we would therefore support both recommendations.

#### *Volumetric Charging*

While the concept of volumetric charging for wastewater is something we have sought for some years, it is not clear from the report whether the Inquiry viewed this as a charging tool or as a rating tool. (The practical difference between the two lies in the collection and enforcement powers – the latter gives access to those powers in the Rating Act, the former to whatever powers get written into the contract and enforcement as a civil debt). It is also unclear why a working party needs to determine the details of the charge, or exactly what is meant by the phrase ‘the details of the charge’ (if these are of a policy nature such as resolving the charge vs rate issue that is a different discussion to regulating levels of charging). Our suspicion is that this is a reaction to the activities of one particular CCO and that the details are very much the latter discussion, in which case this is a considerable intrusion on local democracy.

#### *Road Pricing*

One interesting aspect of the Inquiry’s discussion of charging powers is that the report makes no substantive recommendation for or against 24/7 road pricing, congestion charging etc. It notes the systems necessary to implement road pricing are under early consideration and may not be technically feasible, as well as having privacy implications. The report also makes the oblique observation that it has recommended the adoption of

user charging for water and wastewater disposal and these will have revenue and demand management effects. It is not clear to us how the Inquiry could support one form of user charging where essentially there are no alternatives but not at least make supportive comment around another where alternatives exist in many areas. While the report does support tolling we see this as an interim measure.

#### *Other Fee-Setting Powers*

The recommendation regarding fees and charges is a welcome one. The report also makes an aside that the cost of overheads (such as policy development) should be attributable for charging. The report specifically mentions the following: liquor licensing; amusement fees; parking fees; and HSNO fees but beyond this there are no recommendations as to priority items for addressing. The sheer number of these powers is so large that 'doing them all at once' may not be practical – the sector should consider which legislation is highest priority. You may wish to consider which of these powers is of most concern and feedback to us.

#### **Conclusion**

Several of these recommendations address long-standing issues raised by the sector and should generally be supported. There are some wrinkles with some, especially around volumetric charging for wastewater, that may mean the support may be qualified.

## 4. Alternative Funding Sources

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### What LGNZ and SOLGM Sought

We made several recommendations to the Inquiry that related to alternative funding sources. These were that:

- the financial assistance rate (FAR) for roading, passenger transport and public transport infrastructure be substantially increased;
- the Inquiry consider what other infrastructure might also qualify for similar subsidies;
- the Inquiry uses the following criterion as a basis for policy development in the area of identifying and funding national good: presence of externality/spillover benefits; equity of outcomes; and size of the local funding base;
- the Inquiry considers the merits of local energy taxation and so-called versement tax as supplementary sources of funding; and
- local authorities with substantial tourist and visitor populations be granted powers to tax visitors (there was no recommendation as to a specific source).

### What the Inquiry Recommends

The Inquiry recommends that:

- the low FAR for urban arterials be examined in future reviews ;
- a contestable infrastructure equalisation fund be established to fund the development and maintenance of essential water, wastewater and stormwater infrastructure. This would be funded by hypothecation of a proportion of GST revenue estimated at \$100 million per annum;
- an increase of Local Authorities Petroleum Tax (LAPT) of two cents per litre (and commensurate amounts on diesel) to be distributed to local authorities for general revenue purposes based on 'equalisation principles';
- consideration be given to international visitors environmental levy on international air travellers as an option for funding local authority environmental costs associated with high levels of visitors

### Comment

These recommendations amount to a rejection of revenue-sharing on a large scale (although the recommendation relating to the infrastructure equalisation fund is effectively small-scale sharing of GST revenues for a tied purpose). The Inquiry notes (correctly) that general revenue sharing 'conflict(s) with the principle of local accountability' (as an aside it may also weaken central government's accountability for the tax it raises).

### *Financial Assistance*

The report explicitly rules out an across-the-board increase in the financial assistance rate for land transport on either maintenance or construction. Its main rationale for doing so is twofold:

- an average rate of 50 percent (maintenance) and 60 percent (construction) reflects a 'partnership approach' to infrastructural development (why this means these rates are correct is not clear); and
- having to find a substantial local share acts as a restriction on excess demand for roading expenditures.

The report recommends that the FAR for urban arterials be reviewed. From the discussion in the report it is clear the Inquiry believes the rate is too low. While it is not clear from the recommendation, the supporting discussion strongly suggests the report was more concerned about construction than maintenance. While the report does not set out criteria for defining an urban arterial the four examples it gives (Penlink, East Taupo, Kapiti Western Link, and the Eastern Corridor<sup>6</sup>) all point toward very high traffic volume road links under construction. The Inquiry's recommendation that this be 'reviewed' seems to suggest that any increase in the FAR in this way would come from within existing funding – in which case some reprioritisation will be required from within the Land Transport Funding.

### *Local Authorities Petroleum Tax*

Territorial authorities have had access to LAPT of 0.66 cents per litre on petrol and 0.33 cents per litre on diesel since 1971. In total this tax currently generates approximately \$30 million in revenue, which is collected from wholesalers and apportioned into tax districts based on sales volumes in each member of the district. The Inquiry's recommendation for an increase in the rate of tax would treble the amount of revenue collected from this source. However, the remainder of the recommendation appears to change both the basis of distribution of tax (from something based on sales volumes to undefined 'equalisation principles') and from being just a mechanism for territorial authorities to covering all local authorities. Both will see some shift of funding between local authorities, which need to be considered by the sector.

### *Contestable Infrastructure Fund*

The contestable infrastructure equalisation fund for 'three waters' infrastructure is an interesting idea. The funding for this is to come from a hypothecated share of GST revenues – which the Inquiry estimates would need around \$100 million per year. The purpose of the fund is described as 'ensuring all councils can maintain a level of water infrastructure adequate and broadly the same for all New Zealanders' which suggests it is more of an equalisation fund than a contestable fund. There are no criteria set out in the report although the notion of equalisation tends to suggest allocation based on ability to pay (in a similar way to the present FAR). It is not clear whether this funding would be in addition to, or replacing the existing funding for sewage disposal and drinking water schemes in small communities (although in either case the indicative amounts under discussion represent an increase).

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<sup>6</sup> It's not even clear that these are all local roads !

### *Visitor Tax*

The report specifically rules out any form of taxation of commercial accommodation (other than the present set of targeted rates). The report mentions unspecified efficiency and equity considerations which appear to 'boil down to' it may make some operations less competitive at the margin and that the tax is 'too industry specific'. With due respect to the Inquiry, the targeted rate mechanism is a very blunt instrument for funding tourist related needs – simply because it does not take account of occupation rates (two hotels of the same value pay the same amount even though one may average 80 percent occupation and the other 40 percent). To that extent there may be just as significant an equity issue with targeted rates as with a bed tax. In short, the report provides a far from convincing dismissal of the option.

The report notes that a levy on international visitors of \$25 would raise approximately \$108 million (on current departure numbers). This is one option for recouping costs of tourist facilities from international visitors. The report suggests the tax would be collected from the international airports but distributed among all local authorities with environmental needs arising from tourism – thus providing assistance for destinations such as the Waitomo Caves, the Bay of Islands, Queenstown etc that have tourism demands but no international airport.

### **Conclusion**

Many of these recommendations have distributional effects, and lack sufficient detail to be able to give them unqualified support. Others are simply recommendations for further work, although they may have some merit.

## 5. Rates Exemptions

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### What LGNZ and SOLGM Sought

The removal of all existing rating exemptions, including local authority land (it was noted that in practice local authorities would most probably remit rates on their own land).

### What the Inquiry Recommends

The Inquiry are recommending:

- the retention of exemptions for the Crown conservation estate and conservation estate open to the public; the foreshore, seabed, and beds of navigable lakes and rivers; certain categories of Maori customary land (which would transfer to the Te Ture Whenua Maori Act 1993), Parliament buildings and the vice-regal residence, and roads vested in central government and local authorities;
- the removal of all other exemptions and of the mandatory 50 percent remission category;
- additional costs to the government be funded centrally by the administering agencies (i.e. educational costs be met by the Ministry of Education);
- local authorities be given discretion to apply remission policies to the newly rateable land as each local authority sees fit, with the removal of exemptions being deferred to allow for local authorities to consult their communities;
- that the scope of targeted rates be extended and that regional councils be given powers to set such rates.

The Inquiry estimates that the fiscal impact for the Crown of removing the recommended set of exemptions would be approximately \$90 million per annum (an amount equivalent to around 2 percent of the rate take).

The Inquiry considers the case for the exemption on DOC land to be 'good' and argues that the estate is a nationally important public good with benefits that extend well beyond the local authorities in which the land is situated. It is also noted that in overseas jurisdictions conservation land generally does not pay rates (or even a contribution in lieu in most jurisdictions). It also raise issues with the valuation.

The rationale for continuing the exemption of Parliament is based on 'constitutional principles' – which we assume is the historical exemption of the Crown from tax.

### Comment

These recommendations deliver much that the sector has been seeking for many years. It is particularly helpful to see the Inquiry directly state that there is no strong argument for many of the exemptions.

The justification for retaining exemptions on DOC estate is not strong. While we do not disagree that this land generates national benefits (and welcome the finding to this extent), it appears that the other landowners on the West Coast, the Central North Island etc are being expect to subsidise the benefits of everyone else. If the Inquiry genuinely considers there is such a national benefit, it should also have considered some form of

national recognition of this. It is also unclear why a valuation in use can be established for Maori customary land but not conservation land.

The Inquiry does not specify what regional council targeted rates would be extended to fund – although it discusses flood control. It is unclear to what extent this would be addressed through removal of most exemptions – in effect only roads, parliament and the DOC estate would not be contributing.

The likely practical consequences of these recommendations include:

- increased pressure on local authorities to grant favourable remission policies to these organisations (or other forms of support such as grants, discounted access to recreational facilities). Note that regional councils and territorial authorities would be able to rate each others parks and other community facilities;
- possibly increased ratepayer scrutiny of the decision-making process around remission policies (and some potential for more judicial challenge – although central funding of government properties may reduce this);
- increased frequency of valuation objections - especially in the first few years as valuation principles are established (this has been the experience with utility companies);
- greater scrutiny of expenditure proposals by government agencies and possibly a greater unwillingness on their part to contribute to discretionary programmes ('we pay our rates');
- the regimes for ownership of Crown properties varies from agency to agency (some departments own the land and thus are the ratepayer, others devolve ownership to the local agency). There may be some tension between central government practice and section 11 of the Rating Act (in effect the owners of the property – DHBs etc would not be the ratepayer).

The recommendation that central government departments meet the funding centrally is an important pragmatic step that may overcome these issues.

## **Conclusion**

With the exception of the DOC estate, the recommendations in this section are generally very positive and should be welcomed by the sector.

This is likely to be one of the more politically contentious findings from the Inquiry. Some departments will oppose this – even with increased baseline funding. The sector needs to make a judgement call whether to accept the report 'as is' and encourage the government to move fast on this, or to litigate the DOC and Parliament issues and run the risk of a more protracted debate and litigation of other exemptions.

## 6. Land Covered by the Te Ture Whenua Maori Act

**Important:** This section of the Inquiry's report explicitly limits the scope of the recommendation only to those land covered by the Te Ture Whenua Maori Act 1993. These recommendations cover categories of land, not categories of ratepayer.

### What LGNZ and SOLGM Sought

We recommended that the Inquiry:

- note the prohibitions on the sale of land for non-payment of rates and the requirements to adopt policies for remission and postponement apply to Maori freehold land alone;
- leave the valuation regime for Maori land 'as is' (i.e. the so-called *Mangatu* reduction regime would continue);
- note that there was no formal consultation with the public on the Local Government Act provisions relating to Maori freehold land; and
- recommend that central government pay compensation for rates on Maori freehold land.

### What the Inquiry Recommends

The Inquiry recommends that:

- the relationship between the Treaty of Waitangi and rating law be addressed by the Government and form part of the work programme on rating and Maori land proposed by the Rates Inquiry;
- a new basis for valuing Maori land for rating purposes be established that explicitly recognises the cultural context of Maori land, the objectives of the Te Ture Whenua Maori Act, and the inappropriateness of valuations for rating purposes being premised on the market value of Maori land;
- the Government establish an explicit programme of work aimed at addressing the entrenched problems of rating on Maori land and this should be undertaken in partnership with local government and Maori;
- that as part of the above work programme, the Government collaborate in a joint exercise with local government and Maori in developing a coordinated and consistent approach to rates remissions policies for Maori land;
- Maori freehold land that was made general land in the 1967 amendment to the Maori Affairs Act and is still in Maori ownership be treated as Maori freehold land for rating purposes and within local authority rates remission policies;
- the Society of Local Government Managers, in consultation with LGNZ, central government and Maori, develop a programme of training and development that can build capacity and knowledge within local government to effectively address rating and other related issues on Maori land.

## **Comment**

The first of these recommendations may very well turn out to be the 'headline' recommendation from the report in terms of media and political interest (at least at central government level). While it appears that the Commission has agreed that the existing provisions appear to stem at least in part from the Crown's perception of its Treaty obligations, it appears the Inquiry misses the main thrust of our submission, which is that this land receives benefit from local services and should be contributing to the cost. That issue will be lost in a Treaty review.

The Inquiry is recommending a value in use approach for Maori freehold land. It is likely this would see values of much of this land fall, and hence liability for rates, but given difficulties in enforcing rates currently it is unclear what the practical effect of this would be.

The third recommendation is the first instance of the Inquiry attempting to force a 'one size fits all' approach into local government funding. While some commonality in approach may be desirable for something that is this complex and constitutionally significant, the Inquiry has overlooked the fact that the real issues affect only a small number of local authorities. Also much of the multiply owned land, is landlocked land etc where the real valuation and service issues arise is in these same local authorities. A policy for Far North will have little relevance for North Shore.

In 1967 the Maori Affairs Amendment Act transferred all Maori freehold land with four or fewer owners into general land status. In effect the Inquiry is recommending that, for rating purposes at least, any such land still in Maori ownership should be transferred back to Maori freehold land. If there is any other test or criterion it is not obvious to us. This raises some anomalies where land has since been developed or is in economic use (as is more likely with fewer owners). This may be the 'sleeper' recommendation of the report in terms of its implications. While the value in use approach would mean the same rates could be assessed, it would be subject to the enforcement provisions that apply to Maori freehold land. The report itself contains no estimate of the amount of such land.

## **Conclusion**

The majority of recommendations in this area are for more policy work. Even if this work is able to reach an agreed position, it is likely that this will take some time to progress. In the meantime issues with collection and enforcement, even of rates where a clear and demonstrable benefit exists (such as water rates), will remain significant issues.

## 7. Debt

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### What LGNZ and SOLGM Sought

Our submission to the Inquiry recommended that the Inquiry:

- note that neither the local government sector as a whole, nor most local authorities individually, are heavily indebted;
- local authorities be permitted to borrow in foreign currencies provided the transaction is appropriately hedged; and
- local authorities be exempt from the signature and disclosure requirements of the Securities Act.

### What the Commission Recommends

The Commission recommends that:

- local government look more favourably (sic) on making more use of debt to finance long-term assets – including the issuance of bonds on the capital market and not just banks; and
- borrowing in foreign currencies be permitted, subject to appropriate foreign currency hedging arrangements being adopted.

### Comment

As the Inquiry finalised this report the Government announced it had decided to introduce legislation to restore the exemption local government previously enjoyed from the signature and disclosure requirements of the Securities Act. We welcome this as an important practical step that will help local authorities better give effect to the intergenerational equity principles of section 101(3) LGA. The practical effect of this recommendation is to reopen the capital markets to local authorities.

While we welcome the recommendation regarding borrowing in foreign currency, we understand the Treasury has recently commissioned independent research in this area. This research suggested that for the foreseeable future at least, local government is likely to obtain terms locally that are at least as favourable as those that could be obtained overseas – especially when the costs of hedging are taken into account. While not questioning this research we do note that the Inquiry provides an opportunity that may not come again for some time. It seems that the Government may need some convincing before this recommendation is adopted.

### Conclusion

These recommendations are welcome. It appears unlikely that the Government will support borrowing in foreign currency.

## **8. Remission and Postponement Powers**

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### **What LGNZ and SOLGM Sought**

We made no specific recommendations on these powers in *Getting Real*. However in the joint 1998 submission *Review of the Rating Powers Act* we sought the removal of the specific powers and their replacement with a generic power to remit and postpone rates as consulted on with the community.

### **What the Commission Recommends**

The Commission recommends that:

- local authorities be required to have a rates postponement policy based on a standard template developed by the Department of Internal Affairs in conjunction with key stakeholders. The policy should include provisions for extreme financial hardship and be updated regularly to reflect good practice;
- the Auditor-General be requested to carry out regular reviews of local authorities optional rates postponement schemes;
- the Department of Internal Affairs, with advice and input from local government stakeholders, the Ministry of Consumer Affairs, and the Office for Senior Citizens, develop material about optional rates postponement schemes for the purpose of public education and consumer advice;
- local authorities have a rates remission policy based on a standard template developed by the Department of Internal Affairs in conjunction with key stakeholders. The policy should be updated regularly to reflect good practice;
- the Ministry of Social Development be asked to undertake work to clarify the relationship between reverse mortgages and central government benefits and the relationship between reverse mortgages and tax;
- further analysis, including international comparisons, be carried out by the Treasury, the Ministry of Social Development, and Department of Internal Affairs to explore the potential for home equity release to meet the housing cost need (including rates) of ratepayers aged 60 and over.

### **Comment**

The two recommendations regarding template remission and postponement policies represent a considerable restriction on local flexibility and choice. In effect, these recommendations represent a de facto return to the mandatory remissions and postponements of the Rating Powers Act. It appears that the Inquiry may have been influenced in this recommendation by its decision to remove most rating exemptions, again it appears to be regulation in another form. To this extent it appears the intent of the two recommendations will largely 'cancel each out' by allowing owners of previously non-rateable properties to relit gate the decision through the process of preparing the 'templates'.

The Auditor-General has recently completed a performance audit of local authority rates postponement schemes. It is not clear what frequent performance audits limited to the

so-called optional rates postponement scheme (that offered by the Consortium) are intended to achieve. It is not clear how 'regular' a review the Inquiry had in mind.

At the present time the take-up rates for both the statutory and optional rates postponement schemes are very low. Recommendations around greater education, and greater clarification of the status of released equity for tax purposes and eligibility for a benefit may help convince more of the elderly to take up rates postponement as an option.

### **Conclusion**

It is unclear what force the 'template' remission and postponement policies would actually have. It appears that these would be binding and would probably have the same effect as a full or partial rates exemption. To that extent it appears the Inquiry's recommendations are giving with one hand and taking with another.

Other recommendations will increase the stock of knowledge both central and local government policy-makers have of affordability issues in general, and the impact of remissions and postponement in particular.

## 9. Valuation

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### What LGNZ and SOLGM Sought

In *Getting Real* we noted the concerns that valuation swings could undermine public confidence in the rating system and as a result suggested that the Inquiry consider the merits of valuation averaging (in a similar form to that which is employed in Queensland).

### What the Inquiry Recommends

The Inquiry recommends that:

- a central government valuation authority be established to ‘increase the level of professional resources applied to rating valuations’;
- in the alternative, the resources of the Office of the Valuer-General be increased to facilitate better control of the valuations and encouragement for local authorities to better maintain the valuation roll and databases;
- territorial authorities be encouraged to make more use of their powers for flexibility in rating so that the rating burden better reflects value in use; and
- rates assessment notices make it clear that the rating valuation currently represents a means of distributing the rating burden rather than a likely realisable sale price.

### Comment

The first recommendation essentially sees a restoration of the old Valuation New Zealand regime (although presumably with some separation of the service delivery and regulatory functions). The second recommendation is an alternative to the first.

The report raises concerns about the quality of data, and in particular the Inquiry draws heavily on the results of an analysis done of selling prices and rateable values in one metropolitan authority. It finds 44 percent of properties sold at prices 20 percent or more above their rateable value, while 29 percent sold below rateable value. It also found the degree of accuracy in valuation increased as the property value increased (this is counterintuitive).

With all due respect to the Inquiry, the above while concerning, is not necessarily a good basis on which to make policy. New Zealand in general, and metropolitan New Zealand in particular has been experiencing house price inflation in recent years, and while the rate of growth is slowing slightly, this is expected to continue. With valuations in most local authorities being conducted once every three years, it is not surprising that the reported degree of under-valuation is occurring. It should also be noted that property prices reflect a number of factors, even some as mundane as school zoning. We also query whether a sample of one local authority is a fair reflection of the true picture.

While it is likely many local authorities would probably express concerns about returning to a model of an agency that was a monopoly, it may be that other measures to improve quality would improve public confidence in the system. This could take the form of the second recommendation or possibly changes in the rules (or both). This is one area where further work might be valuable.

The third recommendation appears to advocate the return of the old section 25 special rateable values (SRV). This is meant to resolve situations where, for example farmland values are affected by the sale of a single 'iconic' property. Some local authorities are experimenting with remission policies of this nature. Provided this is raised as an option and provided the basis for SRV is transparent this appears to be a reasonable approach to take.

### **Conclusion**

The Inquiry correctly concludes a robust valuation system is critical to public confidence in the rating system. Of the two institutional options, the second (increasing the level of resources devoted to regulation and audit of valuation rolls) appears more workable than a return to a monopoly valuer.

## 10. Council Controlled Organisations

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### What LGNZ and SOLGM Sought

We made no specific recommendations on these matters in *Getting Real*.

### What the Inquiry Recommends

The inquiry recommends:

- a business enterprise owned or controlled by a local authority be required to operate as a business in the same way as State-owned enterprises;
- local authorities set clear financial targets for such enterprises;
- local authorities report transparently in their annual reports on the achievement of these financial targets, including an annual rate of return on investment;
- local authorities should clearly articulate their objectives in holding investments in business enterprises, and include an assessment of the performance against these objectives in their annual report;
- local authorities set target rates of return and report the actual rate in their annual report;
- clear operating targets be set for subsidiary service CCOs and reported against in annual reports, and cross-subsidisation between these services and other activities not be permitted.

### Comment

There is some degree of duplication in many of these recommendations. Essentially the Inquiry is recommending that local authorities clearly state what their objectives for owning these types of investments are; specify clear objectives in annual plans (including a rate of return) and report against these in the annual report.

These recommendations appear to make the existing requirements to disclose objectives and targets mandatory (for example, at the moment disclosure of objectives is to disclose 'any significant objectives' and there is no requirement to specify a desired rate of return).

The requirement to set out the objectives for holding investments in CCOs is not actually anything new, local authorities are required to state these objectives in their investment policy and as part of the required disclosures for the LTCCP. Investments of this nature, particularly investments in trading CCOs can have financial implications for their local authority parent, for this reason any improvements in clarity in these disclosures should be viewed as part of the local authorities accountability to the community. As an aside the report also echoes the call in the Funding Project Reports for more rigorous review of the rationale for holding these types of investment – examples have come to light of some investments (particularly forestry) which are operating at a loss ( in some cases over the entire life of the LTCCP).

The Inquiry is recommending a narrowing of focus in the objectives of CCOs to essentially operating as 'a successful business'. This may have implications for local authorities who have a mix of commercial and non-commercial objectives for their CCOs (although it is unclear in practice just how many of these there are).

It is unclear what 'cross-subsidisation' the Inquiry refers to, it appears to be saying cross-subsidisation between one CCO and another should not be permitted (rather than prescribing use of investment revenues). It is unclear how much this happens in practice.

## **11. Funding Policy Considerations**

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This topic deals with the actual making of funding policy, in particular the so-called ‘balanced budget’ requirement of section 100, the funding principles of section 101(3) of the Local Government Act, and the revenue and financing policy requirements of section 103.

### **What LGNZ and SOLGM Sought**

We made no recommendations on these matters in *Getting Real*.

### **What the Inquiry Recommends**

The Inquiry recommended that:

- section 101(3) be amended to require explicit consideration of affordability for low income ratepayers
- councils move away from fully funding depreciation, with the development of longer-term funding policies that take better account of intergenerational equity and the availability of longer-term debt financing
- local authorities more fully explain the rationale for, and impact of, the policies required to be set out in the statement of revenue and financing policy.

### **Comment**

#### *Affordability*

The inquiry is correct to say that there is currently no *direct* requirement to consider affordability for any group in section 101(3). Probably the closest statutory reference to affordability comes in section 101(3)(b) and the requirement to consider economic well-being (and to the extent that most statements of community outcomes have at least one that is economic in nature then 101(3)(a)(i) probably also feature). It is fair to say that elected members perceptions of affordability do play a role in expenditure and funding decisions – every ‘rates envelope’, every last minute deletion from the annual plan is a reflection of affordability for the community as a whole.

Explicitly considering affordability may seem like mere ‘window-dressing’ however it does carry some risks. Local government’s main funding tools target either property or target the user (to varying degrees) rather than incomes (the only exception are remission and postponement powers). If serious consideration were to be given to affordability then taxes on property may not be the right tax base to give effect to these judgements. The greater degree of reliance on remission powers, in particular, have distributional effects –especially for the middle income earners. We are concerned this recommendation may be creating expectations which local government is not well placed to meet.

Second, there is more than one type of low-income ratepayer. The mythical ‘granny in her central city (or beach front) property’ is a quite different case from the family of six in

a duplex, and both are different from beneficiaries. As their personal circumstances differ, the appropriate policy solution may differ.

### *Depreciation*

The second recommendation is one of the keys to the report. It effectively argues that fully funding depreciation can have the effect of distorting intergenerational equity so that today's ratepayers pay for current repairs and maintenance, and for upgrades and replacement. Section 100 is one of the most quoted but least understood provisions of the Local Government Act, and the level of understanding of the so-called 'exemptions of section 100(2) are not well applied. This is a good practice issue rather than a legislative one. The upcoming *Good Practice Guide to Financial Management under the Local Government Act* (due for release on 6 November) will provide a better indication of what represents good practice.

### *Revenue and Financing Policy*

The third recommendation aligns with comments that the Auditor-General made in his report on the 2006-16 LTCCP regarding the lack of clarity in revenue and financing policies. We would extend this to include funding impact statements which also have various requirements to disclose the impact of particular decisions, especially the impact of differential rating policies. The upcoming Guide to Financial Management should also provide assistance in this area as well.

### **Conclusion**

It is not clear that adding explicit consideration of affordability to section 101(3) offers any significant improvement over the existing requirement to consider the economic wellbeing of the community.

## **12. Decision-Making, Planning and Accountability**

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There are some 15 recommendations in the report that relate to the decision-making, planning and accountability framework for local authorities. This topic also includes various recommendations relating to performance management and comparison of local authorities, education/training, and public relations.

### **What LGNZ and SOLGM Sought**

In *Getting Real* we drew the Inquiry's attention to concerns about the LTCCP process and in particular concerns that the level of detail that goes into an LTCCP is far too much for even well-informed readers, and that this made important information difficult to access for the average ratepayer. Each of us provided the Inquiry with a copy of our submissions to the Local Government Commission review of the Local Government Act.

### **What the Inquiry Recommends**

The Inquiry recommends that :

- after the current operational review of the Local Government Act by the Local Government Commission a further independent review be conducted of the consultation and decision-making provisions of the Act with a view to substantially streamlining the legislative provisions and providing for greater accountability;
- the Office of the Auditor-General and the Department of Internal Affairs monitor and review the way consultation is working;
- section 82 of the Local Government Act be amended to limit council discretion in the means of applying the consultation principles;
- that local authorities place more emphasis on building capacity among elected members and staff to engage with Maori in their decision-making
- the current mass undifferentiated consultation be replaced by more selective and streamlined consultation arrangements;
- local authorities improve the quality of the summaries of LTCCPs as a basis for decision-making and consultation;
- the auditing of LTCCPs be continued in the medium term;
- CCO financial information be required to be consolidated into the LTCCP;
- within the LTCCP framework, a system of three year indicative budgets be developed with explicit financial targets, from which the annual plan would be derived
- the targets in the three year budgets be based on a template to be developed by local government, in consultation with other stakeholders;
- the audit of financial statements report on the achievement (or otherwise) of those financial targets;
- the template for financial reporting set out in Auditor-Generals report on the 2006-16 LTCCPs be implemented;
- the LTCCP process be better aligned to the electoral cycle;
- an independent agency be given power to review financial decisions

- that the independent agency be given powers to investigate the reasonableness of particular targeted rates, user charges, and of development contributions and rate remission policies
- the Department of Internal Affairs be resourced and given responsibility for ensuring that local government policy development has input from all stakeholders (including residents and ratepayer groups);
- the resources available to the Department of Internal Affairs be increased to enable it to adequately monitor the operation of councils and of the local government legislation.

### **Comment**

Taken as a set these recommendations represent fairly fundamental change to the way the Local Government Act operates, the degree of local accountability and autonomy, and to the relationship between central and local government. Taken as a set these recommendations represent a ‘debasing’ of the first two of our four principles.

#### *Independent Review Agency*

The independent ‘complaints’ agency is an unnecessary intrusion into the decision-making processes. Ratepayers already have a variety of avenues for addressing complaints including the Ombudsman and the Auditor-General, and ultimately to the Courts. Such a body would quickly become yet another avenue for the disaffected to challenge lawfully made decisions – most local authorities can no doubt think of particular individuals or groups who would practically ‘live next door’ to the agency.

While the report seems to limit the grounds to the basis or reasonableness of financial decisions – it is unclear what ‘basis’ means in practice. Financial decisions cannot be neatly uncoupled from other decisions – most notably levels of service, and to attempt to do so effectively works against the kind of integrated thinking the Act intended to promote. Powers to consider the reasonableness of a decision requires the complaints agency to place itself in the shoes of the local authority undermining representative democracy. And last such an agency would impose a compliance burden on both local and central government.

#### *LTCCP*

By alignment of the LTCCP to the electoral cycle, the Inquiry sees the LTCCP as something that an incoming council would develop in its first year as part of the process of setting three year targets. The choice of the middle year of the triennium as ‘LTCCP year’ was a conscious decision during the development of the Local Government Act. The policy-makers saw the first year as a ‘year of learning’ especially for the new elected members, and the last year as being too close to the triennial elections.

The purpose of the three year financial targets is not well-developed in the document. It is not even clear what the targets are e.g. would they be common targets across local government. The choice of three years was deliberate and timed to coincide with the electoral cycle – but the risk of this approach is that it encourages the very sort of short/medium term thinking the LTCCPs were designed to avoid.

### *Monitoring*

The Inquiry considers the Department of Internal Affairs lacks the resources to be able to adequately monitor the overall performance of councils and the operation of legislation. While any steps to improve the capacity of the Department to undertake evidence based policy in a more efficient and timely way are, it is not clear what the Inquiry meant by 'the overall performance of councils'. It could mean anything from monitoring that local authorities are meeting legislative obligations right through to some form of performance benchmarking.

Given that local authorities set their objectives in consultation with their communities, who also fund the achievement of these objectives, it is surely desirable that citizens hold local authorities to account. The discussion in the report carries tones of 'big brother' which are not at all in keeping with the empowering nature of the Local Government Act, and our constitutional arrangements in general.

Better education of the public may be an investment that is more in keeping with the philosophy of the Local Government Act.

### *Consultation*

The three recommendations around consultation somewhat miss the point of the decision-making and consultation requirements. The recommendations also seem to view consultation as a process of negotiation towards an agreement. They are deliberately structured in such a way as to allow local authorities to tailor their process to the circumstances of the decision/action. An Act that removes discretion in the application of consultation principles potentially removes to very sort of targeted consultation that the Act is trying to promote, and would probably see some local authorities adopt a compliance mentality e.g. reliance on the special consultative procedure (especially if there is an agency reviewing the unspecified 'basis of decisions'). There also seems to be an assumption that more consultation means better consultation.

### **Conclusion**

While some recommendations are simply good practice, many represent an unravelling of the Local Government Act in key areas, others have the 'smack' of central government direction. Some of these recommendations represent a considerable challenge to the constitutional position of local government – and for this reason represent a potentially more significant change than the Local Government Act 2002.

## 13. Education

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### What LGNZ and SOLGM Sought

In *Getting Real* we noted that public understanding of local government was generally poor. This ranged from the absolute basics such as what local authorities actually do, through to what consultation is – and includes public understanding of the rating system. We noted concerns about the standard of financial governance and management in some local authorities and asked the Inquiry to note both LGNZ and SOLGM are engaged in processes to improve this. We also asked the Inquiry to consider the lack of quality information for the public on local government on local government finances in general and rates in particular.

### What the Inquiry Recommends

The Inquiry recommends that:

- the Department of Internal Affairs work together with LGNZ to develop a comprehensive programme of training for elected or aspiring members of local authorities, delivered in conjunction with appropriately qualified providers;
- the Department of Internal Affairs collect information on training undertaken by elected members in order to assess training needs;
- the Department of Internal Affairs work in conjunction with the Ministry of Education and Electoral Commission to ensure the national curriculum includes adequate information on the structure, functions and funding of local government and the way in which citizens may contribute to decision-making; and
- properly qualified providers be resourced to develop public education materials about local authority decision-making processes (including financial decision-making) utilising different formats and addressing the needs of a range of audiences, using publications, a website and audiovisual materials.

### Comment

In general we would support recommendations that improve public understanding of local government matters in general, and rates in particular. This is consistent with the intent of the Local Government Act – better informed public participation in local government.

The report correctly notes that local government decision-making and the governance task is becoming more complex. To that extent increasing both the quantity and quality of training opportunities is to be welcomed. Local Government New Zealand is currently working on developing a package of training around financial governance. SOLGM (and others) are about to deliver a set of four guides aimed at improving the quality and accessibility of the 2009-19 LTCCPs. However increasing the level of training opportunities available to elected members will only be as effective as the actual take-up of these opportunities.

We also note that there are managerial aspects to decision-making and some of the issues raised in the report, such as possible misapplication of the balanced budget

requirement raise issues around the financial advice elected members receive. The Inquiry appears to have overlooked this aspect of training needs for local government.

LGNZ has previously advocated the value of better public information (including general 'civics' education) and to this extent better education materials are to be welcomed. However, we have one observation about the third of these recommendations, the Electoral Commission actually has no oversight role in local government. It is therefore not clear what role the Electoral Commission would have in developing a national curriculum on local government.

### **Conclusion**

While the intent of the recommendations is welcomed, it appears that there are some gaps in the coverage relating to training needs for management. It also appears that the Inquiry does not appear to be familiar with the wide range of initiatives currently underway.

## 14. Transparency

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This topic covers demonstration of value for money to the ratepayer and the provision of consistent information about rates movements to ratepayers.

### What LGNZ and SOLGM Sought

We made no specific recommendations on these matters in *Getting Real* though we did note that both public understanding of rates and public perceptions of value for money are generally poor.

### What the Inquiry Recommends

The Inquiry recommends that:

- local government, in consultation with other stakeholders, produce a template as a good practice guide so that the amount of rates and annual increases can be better reported and even compared between councils. The template would set out; total rates and individual components (including CCO charges) and the real change in rates (i.e. adjusted for inflation); the average rate in total and by ward; and relative amounts borne by residential, business and rural ratepayers and how this has changed;
- local authorities improve the information in the rates assessment notice, in particular by including detail on the allocation of each assessment for particular activities; and
- that local government, in conjunction with other stakeholders, institute a system of performance benchmarking.

### Comment

In principle, we agree with the Inquiry that greater standardisation of reporting would improve public knowledge of funding and financial matters. However the Inquiry may have underestimated the complexity involved and a standard template may not be able to capture the diversity of circumstances.

The report also appears to have fallen into the common trap of attempting to benchmark rates against inflation as measured by the Consumer's Price Index. This is all the more strange as the Inquiry notes on page 82 that 'the local government sector has faced, and is continuing to face price increases for some of its activities that are significantly higher than the CPI. This has resulted in significant cost increases to deliver services.'

The report claims SOLGM are leading a performance benchmarking exercise. This is not the case – the Inquiry appears to have confused benchmarking with the development of performance management frameworks (as in the upcoming publication *Performance Management Frameworks: Your Side of the Deal*). This is not to say that these frameworks are not an important part of demonstrating value to the ratepayer, just that the Inquiry appears to have misunderstood its purpose.

At the present time neither LGNZ nor SOLGM has any position on performance benchmarking in the sense that the Inquiry meant it. However we do believe that the

sector may wish to consider whether this is something the sector should lead with honesty of purpose, or wait for others to 'do it to us'.

It is not clear whether the Inquiry was referring to financial or non-financial performance (or both). To be meaningful our view is that it would have to be both and thus deal with both cost and value aspects of performance.

## **15. Central Government Assistance for the Low-Income**

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This topic discusses the report's 14 recommendations regarding the assistance central government provides for low-income people including:

- the rates rebate scheme; and
- the interface with the other central government assistance (such as the accommodation supplement).

### **What LGNZ and SOLGM Sought**

Since the mid 1990s the sector consistently sought a restoration of the rates rebates scheme. Announcements made in the 2005 Budget went a considerable way towards meeting this request (the value of the scheme increased from a value of around \$700 thousand to more than \$40 million).

The only submission that LGNZ and SOLGM made to the Inquiry was to recommend that the qualifying thresholds for assistance and levels of assistance be indexed to movements in the average wage.

### **What the Inquiry Recommended**

The Inquiry has recommended that:

- data be collected on the ethnicity of applicants for rates rebates so that impact and take-up issues can be monitored;
- central government statistics and monitoring include an assessment of rates impacts on both residential and non-residential sectors;
- the Department of Internal Affairs and the Ministry of Social Development develop an ongoing programme of monitoring the impact of the rates rebate scheme and other financial assistance for low-income families (including households whose sole income is a benefit);
- much clearer information be available on the internet and in print with regard to the treatment of war pensions in assessment for eligibility for rates rebates;
- an audit be undertaken to determine whether there is consistency in assessment of applications for rates rebates from recipients of war pensions;
- the rates rebate scheme be more widely promoted by appropriate central government agencies in close association with community organisations;
- a robust evaluation be conducted to ascertain the level of understanding among target populations about the rates rebate scheme and the benefits of applying;
- that the Ministry of Social Development be encouraged to provide better information to Community Services Card holders as part of its advertising about the accommodation supplement. In addition, central government (either the Ministry of Social Development or the Department of Internal Affairs) should fund promotional activities by community and voluntary sector organisations to improve take-up by non-beneficiary groups;

- there be annual indexation of the rates rebate scheme and income thresholds to the average rates increase;
- that occupants of retirement homes be made eligible for the rates rebate scheme;
- occupiers of papakainga be made eligible for the rates rebate scheme;
- that the eligibility for homes owned by family trusts be clarified;
- public water supply charges (where separately invoiced by a territorial authority or a council controlled organisations be considered as eligible expenditure for rates rebates; and
- consideration be given to administration of rates rebates through the Inland Revenue Department in a similar way to rebates for charitable donations.

### **Comment**

There are essentially four categories of recommendation:

- better monitoring of the take-up of the scheme;
- better publicity for the scheme;
- various recommendations to improve the coverage of the scheme; and
- a recommendation for a new agency to administer the scheme.

The recommendations for better publicity for the scheme should hopefully increase the level of take-up of the scheme, and should be welcomed.

In a similar vein, the recommendations regarding better monitoring of the scheme should provide information to better target the scheme. However it is not immediately clear what relevance ethnicity has to the scheme – which has always been targeted on income.

The significant enhancements to the scheme in 2005 were welcome, but had the effect of highlighting a number of anomalies in the scheme which up until that time did not mean much as the levels of assistance were so minimal. With the exception of the war pensions issue (which was raised by only one submitter<sup>7</sup>) none of these recommendations is any surprise. All of these recommendations would remove these anomalies and widen the pool of people eligible for assistance. One word of caution however, if the water charging anomaly is resolved, this may have the impact of highlighting other smaller scale anomalies (such as rubbish bags).

Some local authorities have expressed concern about the cost of administering the scheme and transferring the administration of the scheme would relieve local authorities of that cost.

The Inquiry has not provided a rationale for their recommendation that the administration of the scheme be transferred to Inland Revenue other than the comment that 'this would present the scheme as a rebate designed to adjust the incidence of tax than a form of social welfare payment'. Transferring the scheme to WINZ may create some stigma, the elderly may perceive rates rebates as a 'benefit', whereas treating this in a similar

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<sup>7</sup> The Tauranga City Council.

manner to charitable donations may not create the same stigma. On the other hand, many low-income ratepayers will not normally need to fill in tax documentation and may be reluctant to go to Inland Revenue. There could potentially be issues created by the lack of synchronicity in the rating year (30 June) and the tax year (the preceding 30 March) – would ratepayers need to access two years worth of rating data etc.

### **Conclusion**

The widening of the coverage of the scheme, and indexing are useful recommendations that provide recognition that funding practice and affordability are moving targets. It is not clear whether transferring the main administration of the scheme to IRD will significantly relieve local government of the administrative burden (ratepayers will still need rating information).

## Concluding Thoughts

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The Minister's reported comments caution any stakeholder against what he referred to as 'cherry-picking'. Yet making a quick overall assessment of the report is difficult as there are only a few of the recommendations that the sector as a whole would unreservedly support.

The report offers some additional funding, and several small-moderate sized revenue raising tools. The additional funding is targeted, and therefore has distributional effects. Much will depend on the criteria that apply to things such as the Contestable Infrastructure Fund and the proposed changes to FAR – truly the devil is in the detail. It is not even clear whether some recommendations represent an injection of new funding into the sector, or a reprioritisation of existing funds.

The proposed changes to rating system appear to promote a 'cleaner', more transparent rating system. But this comes with some loss of flexibility to design local funding solutions and with adjustment/transitional issues even with the phase in of some recommendations. Initially it appears that the main 'winner' from these recommendations will be the business sector and low valued properties, at the expense of the rural sector and owners of moderate-high value properties. Again we strongly recommend that your local authority model the impacts of these changes as part of your evaluation of the report.

But the real issue for the sector comes in the recommendations around accountability and decision-making. Some of these represent a fundamental shift in our constitutional arrangements that dwarfs the changes made in 2002. The independent review agency will be able to place itself in the shoes of elected members and consider the reasonableness of financial decisions. While local authorities will be able to deal with recommendations from an independent review body as they see fit, those recommendations will carry enormous 'moral value' to the public. The report seeks to introduce more consultation, yet claims the LTCCP process is constipated.

And that is the real issue for the sector, are the additional funding and funding tools sufficient to compensate for the loss of accountability to your local community and flexibility to resolve local needs.