Submission

By

BusinessNZ

to the

Inquiry Panel

on the

Local Government Rates Inquiry

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THE LOCAL GOVERNMENT RATES INQUIRY

SUBMISSION BY BUSINESS NEW ZEALAND[1]

1.0 Introduction

1.1 Business New Zealand welcomes the opportunity to make a submission on the Local Government Rates Inquiry ("the Inquiry").

1.2 The Inquiry panel has issued a well-balanced and factual "background paper"[2] to assist in making submissions. The Inquiry Panel is to be congratulated for taking a 'first principles' approach to the review of funding and not shying away from contentious issues, such as the proposals raised in respect to the potential for "poll taxes" and the like. While some of the potential funding mechanisms outlined in the background paper may be politically difficult to institute and not immediately appealing to wide sections of the population, the issues need to be examined impartially, untainted by political interference.

1.3 Notwithstanding the above, Business New Zealand, and many other business organisations is disappointed that the the Inquiry's Terms of Reference preclude some of the most important issues surrounding local government. The Terms of Reference clearly state:

> *"The Inquiry is not a review of the system of local government per se, and in particular of:*
> - *the purpose, autonomy or structure of local government; or*
> - *the principles of democracy, transparency, equity and accountability that local government operates under"*

1.4 While individuals, business organisations and ratepayer representatives all have different views on local government, one common thread is the concern over the increasing rates burden (with aggregate rates burdens running at close to twice the rate of inflation), and also, in some cases, over significant inequities in the rates burden. This is generally a nation-wide issue although some regions/councils are of more concern than others.

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[1] Background information on Business New Zealand is attached as Appendix 1.
[2] The Local Government Rates Inquiry – Background information for interested parties (February 2007).

1.5 The business sector pays about half the country's rates bill. The level of rates that businesses pay is often entirely disproportionate to the level of services supplied to them. This is exacerbated by the generally wide use of business/commercial rating differentials despite strong evidence which would support their removal. Where councils have agreed to reduce such differentials, they have been tardy in doing so, tending towards incremental change due to "expenditure pressures".

1.6 Other common concerns expressed by the business community include the role and functions of local government (power of general competence), funding allocation mechanisms and mix (including transparency, rating differentials and caps), size of local councils (including potential for economies of scale), and issues surrounding central government imposing further costs via regulation on local government (cost shifting).

1.7 Local Government has a vital role in advancing the overall well-being of New Zealanders. However, its role is not all-encompassing. It needs to be established on a principled basis and properly circumscribed.

1.8 The core business of local authorities should be the funding and – in justifiable circumstances – the provision of local public goods and services that cannot be better provided by firms, households and non-profit organisations, and the administration of appropriate regulations.

1.9 Effectively removing from the Inquiry's Terms of Reference such important issues as the role and structure of local government, somewhat lessens the potential impact of this inquiry. Nevertheless, Business New Zealand accepts that the inquiry must work within the parameters of the Terms of Reference and hence our response will follow the specific questions outlined in the background paper by the Inquiry Panel (February 2007).

1.10 Business New Zealand would highly recommend that the Inquiry pursue a recent publication by the Local Government Forum[3] *"Democracy and Performance – A Manifesto for Local Government" (February 2007)* which outlines in some detail the major issues facing local government, including suggested solutions to issues surrounding the expansionary role of local government, funding issues, and future directions. While some areas covered in the publication will be outside the Inquiry's Terms of Reference, it is crucial that all issues surrounding local government be investigated if a robust framework is to be developed together with systems of funding in which both business organisations and the wider community of ratepayers have confidence. A copy of the Forum's report is attached as an Appendix to this submission.

1.11 The remainder of this submission generally deals with specific questions in the background paper. For clarity, Business New Zealand's comments follow the order of discussion as set out in the background paper. It should be noted that Business New Zealand has not commented on all the questions, only on those which it believes are of particular significance, or relate particularly to the business community.

[3] The Local Government Forum comprises organisations that have a vital interest in the activities of local government. Its members include Business New Zealand, the Electricity Networks Association, Federated Farmers of New Zealand, New Zealand Business Roundtable, New Zealand Chambers of Commerce, and the New Zealand Forest Owners Association. The Forum was established in 1994 to promote greater efficiency in local government and to contribute to debate on policy issues affecting it.

Recommendations

Business New Zealand **recommends** that:

- **The core business of local authorities should be the funding and – in justifiable circumstances – the provision of local public goods and services that cannot be better provided by firms, households and non-profit organisations, and the administration of appropriate regulations.**

- **The Inquiry pursue a recent publication by the Local Government Forum[4] *"Democracy and Performance – A Manifesto for Local Government" (February 2007)* which outlines in some detail the major issues facing local government, including suggested solutions to issues surrounding the expansionary role of local government, funding issues, and future directions.**

- **There be greater clarity in distinguishing among the following:**

    1. **A user charge that constitutes an appropriate price for services supplied by a local authority;**
    2. **A justified tax on a subset of a local authority's ratepayers to fund local public goods that clearly benefit them;**
    3. **An appropriate tax to fund local public goods that benefit all residents; and**
    4. **Justified charges to internalise external costs imposed on people or firms.**

- **On grounds of efficiency and equity, broad-based taxes be at low rates with most exemptions from rates abolished.**

- **The 30% cap on the Uniform Annual General Charge (UAGC) be increased, if not completely removed (although this organisation supports much greater use of user charges, where practicable).**

- **Consideration be given to whether there is justification for continued local authority ownership of many assets.**

- **Councils receive greater guidance on the use of their various funding tools to ensure greater consistency across the country, underpinned by an economically principled approach to funding various council activities.**

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- **Section 45 of the Local Government (Rating) Act 2002 be amended to require the rates assessment to break the general rate into amounts allocated to activity classes.**

- **Local councils (in many cases) could make much more use of debt. Clear funding principles based on intergenerational equity is required in order to ensure that funding reflects the real costs and benefits derived from assets which have a long-life and high sunk costs.**

- **The roles and responsibilities of both central and local government be clarified with a view to ensuring that local authorities focus on the provision of local public goods.**

- **Rates mechanisms and funding not be used as a redistribution device. Issues surrounding ability to pay etc are proper roles for central not local government.**

- **Road users pay for local roads through petrol taxes and road user charges, just as they do for state highways. Business New Zealand believes that reform of road funding should accompany a more commercial approach to the management of roads.**

- **Councils not be in the business of income redistribution. Unlike central government (with the information it has through income tax), local authorities have no information on the incomes of their residents so any decisions they make to assist people in this regard have the potential to be flawed. If the Government wishes to provide relief through a Rates Rebate Scheme, then it should be administered centrally through Work and Income New Zealand rather than by Councils.**

- **The funding and use of rates postponement options be undertaken by the private sector through the use of reverse mortgages and the like, although Business New Zealand is not opposed, in principle, to rates postponement options.**

- **A review of the list of non-rateable categories of land contained in Part 1 of Schedule 1 of the Local Government (Rating) Act 2002 be undertaken with a view to making the rating system 'broad-base, low-rate'.**

- **Industry or specific-commodity taxes (such as 'bed taxes') not generally be considered viable options as they are inherently distortionary, given that there is often little or no relationship between the 'payer' and the alleged benefits being received.**

- **Payroll taxes, being inherently distortionary by targeting one particular of production - labour - should not be considered further. In addition, a payroll tax would be a highly targeted tax based on salary and wages rather than bearing any relationship at all to the consumption of local government goods and services.**

- **Narrowly based taxes on particular sectors without clear identification of use (benefit) be recognised as highly undesirable since they defy good tax principles for economic efficiency, administrative simplicity, flexibility and fairness (equity).**

- **The rating valuation method used by councils be either Capital Value (CV) or Annual Value (AV). CV and AV methods give the most equitable outcomes. Land Value Rating (LV) is no longer a fair or equitable method of rating for NZ in the 21st century.**

2.0 The Local Government Rate Inquiry – background Information for interested parties (February 2007)

Part One: Introduction (p.3)

2.1 Business New Zealand would like to express its concern that the Inquiry's Terms of Reference effectively restrict it to examining areas of current local government rating and other potential revenue raising mechanisms, rather than addressing such fundamentally important issues such as the proper role for local government in New Zealand.

Part Two: Local Government – Purpose, Planning and Funding (p.8-9)

2.2 Business New Zealand considers that this section provides a useful review of the different funding tools which are currently at the disposal of local government. However, the context for particular funding tools is not necessarily well explained, including nothing on why the principle of 'user-pays" does not receive greater consideration given that by and large, the majority of goods and services provided by local councils are generally in the nature of private goods, not public goods.

2.3 Greater clarity is required in distinguishing among the following:

- A user charge that constitutes an appropriate price for services supplied by a local authority;
- A justified tax on a subset of a local authority's ratepayers to fund local public goods that clearly benefit them;
- An appropriate tax to fund local public goods that benefit all residents; and
- Justified charges to internalise external costs imposed on people or firms.

User charges

2.4 Charging for the use of private goods and services would bring greater efficiencies. For example, charging for waste disposal out of general rates and supplying every ratepayer with a rubbish disposal bin takes no account of the amount of rubbish generated by ratepayers and to a certain extent may actively encourage waste generation because the full costs associated with waste disposal are not sheeted home to each household because of the effective cross-subsidisation of households. Water is another good example, where clear user-pays pricing principles would encourage greater efficiencies.

2.5 While some councils clearly charge for water and waste on a user-pays basis, many still fund such activities out of general rates, clearly sending strictly limited signals to consumers as to the real costs associated with their behaviour.[5]

Differential and targeted rating

2.6 Differential and targeted rating should only be permitted where a clearly identified community (such as a remote rural area) is provided with a distinctly different level of public goods from that of other ratepayers and where the differential or targeted tax reflects the difference in the level of such services. There should also be an objective test in respect to "benefits received" to ensure consistency in approach. However, in general, rates differentials, if used at all, should be used sparingly and not, as some councils have done, as a general revenue raising device, on unprincipled and unsubstantiated grounds.

2.7 Sometimes differential rating to the business sector is applied on the unsubstantiated grounds that the business sector benefits more than proportionally from its services. A number of reports have found such thinking to be groundless, yet councils continue to apply significant differentials simply because they can, rather than on any principled economic basis. Where Councils have agreed to reduce such differentials, it is generally at a snails pace, with Councils being mindful of not upsetting the majority of residential ratepayers who enjoy the advantages of a lower rates burden courtesy of the business sector.

2.8 In the past, and indeed to a certain extent still today, a number of people argue that businesses are advantaged relative to residential ratepayers because they can deduct rates for income tax purposes and claim a credit for GST paid on rates. These claims have been discredited by reputable economists for the following reasons. First a firm can only claim a tax deduction for rates because its income is subject to tax. Nobody could seriously argue it is an advantage to be subject to income tax. Second, a GST registered person or firm can claim a credit for GST paid on inputs because supplies (outputs) are subject to GST. The net GST collected is paid to Inland Revenue so there is no advantage for businesses.

[5] Refer to the Local Government Forum's publication *"Democracy and Performance – A Manifesto for Local Government" (February 2007)* which has a very useful section on Funding of Local Government (p.15-24) explaining the appropriateness of different funding tools. Clearly, given that most local government supplied goods and services are of a private good nature, user-pays, where possible, is the most appropriate tool to use.

2.9 Business NZ remains concerned about the use of targeted rates (taxes) mainly because there is a danger that they can be used as another simple way of raising needed revenue without taking the full implications into consideration. For example, Business New Zealand notes that as recently as last year, the Government floated the idea of "bed" and/or "airport" (so-called targeted) taxes as potential mechanisms for raising some of the required revenue to fund the World Cup Stadium. In the view of Business NZ, these very narrow and highly targeted taxes would be totally inappropriate.

2.10 There may be isolated cases where levying additional rates (taxes) on a particular class of ratepayers is appropriate. For example, where local specific public goods benefit a clearly defined subset of ratepayers such as schemes to control floods. However, for such taxes to be justified on both economic efficiency and equity grounds, the target group must be clearly identified, and share equally in the benefits. Ideally the consent of the affected group should be sought before any targeted taxes are considered. More importantly, targeted taxes should not be used for tapping previously untapped pockets of revenue-raising potential – a distinct danger without clear controls on when and how such tools are to be used.

2.11 In the case of a stadium for example, the main beneficiaries will likely be users who gain satisfaction from attending major events; therefore ideally, a user-pays regime could be most appropriate to pay for what is essentially a private benefit. Most people who stay in paid accommodation in a major city do so as part of wider business or leisure activities of which most will have nothing whatsoever to do with any stadium.

2.12 Narrowly based taxes on particular sectors without clear identification of use (benefit) are highly undesirable and defy good tax principles for economic efficiency, administrative simplicity, flexibility and fairness (equity).

Development contributions

2.13 Development contributions appear to be an increasingly used tool where property developers are required to contribute either money or land to be used as a reserve, or for network or community infrastructure. While local authorities wishing to levy development contributions must adopt a policy on same and incorporate this into their long term community council plans (LTCCPs), the potential again exists for such contributions to be seen as another form of revenue-raising (although without strong justification). The potential for such development contributions to be used for all sorts of activity unrelated to the costs associated with a development is a concern. Requiring significant contributions from inner city residential developers is a case in point. There needs to be clear transparency between income derived from development contributions and the actual costs associated with the development. In the absence of information, the danger is that development contributions may rise in line with demands of residents who are not required to pay for such contributions (i.e. free-riders).

Uniform annual general charges

2.14 While Business New Zealand supports much greater use of user-charges where practicable, there is scope for increasing, if not completely removing, the 30% cap on the Uniform Annual General Charge (UAGC). It is noted that use of the UCGC varies widely across the country with some Councils utilising it to the full 30% as provided for while others, for example, Wellington, don’t use a UAGC at all.

2.15 If much greater use were made of user charges for the provision of most services, then the current concerns expressed in respect to the UAGC might be lessened. It is noted that some councils do not make full use of the existing cap, thus sending distorted signals to ratepayers as to the costs associated with the provision of services to and the benefits received by individual households.

Investment income

2.16 While a number of Councils obtain significant investment income from revenue-generating assets, the justification for continued local authority ownership is weak. While some Councils try and justify their exposure as a mechanism to reduce the general rates burden, this potentially puts ratepayers at risk should returns on assets be less than expectations. It also raises potential problems of funding expansion for such local authority owned assets, with a potential tension between the desire of councils for investment returns in the form of dividends and the need for reinvestment and growth of a company's asset base. Moreover, given that, in general, private sector companies out perform state-owned companies, it would be logical that the private sector would be prepared to offer a "premium" on the current valuation of many local authority assets; hence ratepayers would receive a windfall gain from such asset sales.

Part Three: Major Issues

1. The current level of rates and rates increases over the next 10 years (p.10-11)

Questions (p.11)

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

Response:

2.17 Democracy at the local level is relatively weak (e.g. low voter turnouts and poor participation in consultative processes) and it can be questioned whether the consultative processes are in fact meaningful.

2.18 Many business organisations have simply given up making submissions to council in frustration at the lack of meaningful engagement over key issues raised consistently by businesses e.g. the lack of any economic rationale for Councils continuing to apply differential rating.

2.19 Clearly councils require greater guidance on the use of their various funding tools to ensure greater consistency across the country, underpinned by an economically principled approach to funding various council activities.

2.20 For almost all ratepayers, the only interaction with their local authority is when they receive their rates assessment. Rates assessments should therefore enable ratepayers to see quickly and clearly how much they are paying for council activities – only then will they be in a position to decide whether they are receiving value for money. However, only a handful of local authorities provide itemised rates assessments that go beyond the requirement in section 45 of the Local Government (Rating) Act 2002 to set out the different types of rate. Many still load up much of their activity on the catch-all 'general rate' without any breakdown on the rates assessment.

2.21 Some local authorities claim that moving to itemised rates assessments would be too costly and complicated. This would appear to be a weak excuse given that a number of quite small councils are able to do this relatively simply without incurring significant costs.

2.22 Clearly section 45 of the Local Government (Rating) Act 2002 needs to be amended to require rates assessments to break the general rate into amounts allocated to activity classes.

2. Drivers for increased local authority expenditure

Questions (p.12)

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

Response:

2.23 The drivers of increasing demands on local authorities are comprehensively laid out in the Funding Project Team Report (July 2005) so are not repeated here.

2.24 Clearly delays in infrastructure developments and in some cases a run-down of existing infrastructure (water, waste and roading) which will need to be upgraded are likely to result in significant pressures.

2.25 Notwithstanding the above, it is necessary to put into context the nature of significant infrastructure developments and the fact that many of these could be funded by alternatives to rates (e.g. user-pays). Where user-pays is not feasible, the costs could be spread amongst future users (beneficiaries) as well.

2.26 Local councils could make much more use of debt given that current ratepayers should not be required to fund future users (beneficiaries) who will derive future benefits from current “lumpy” investments such as water and waste systems and roads which often span beyond the current generation of ratepayers. Clear funding principles based on intergenerational equity are required in order to ensure that funding reflects the real costs and benefits derived from assets which have a long-life and high sunk costs.

2.27 The *Local Authority Funding Issues Report*[6] made this point clear in their report:

“We consider that most local authorities could make more use of debt than they do currently. Almost seventy percent of local authorities do not come within 20 percent of their self-imposed debt limits at any time between now and 2012/13. Although we acknowledge debt is a tool for spreading revenue raising needs it appears some local authorities are currently expecting today’s ratepayers to meet more than their share of infrastructure costs, and expecting too little from future ratepayers” (p.7)

2.28 Local authorities have been complaining that one driver behind rates increases has been the compliance costs associated with having to administer legislation, regulations and policies passed on by central government, e.g. new drinking water standards, changes to the Building Act, dog control etc.

2.29 While Business New Zealand has some sympathy with these concerns, there has been little in the way of quantification of costs. Business New Zealand would support Internal Affairs investigating and reporting on such costs.

2.30 Irrespective of the above, the roles and responsibilities of both central and local government need to be clarified with a view to ensuring that local authorities focus on the provision of local public goods.

[6] Local Authority Funding Issues Report of the Joint Central Government/Local Authority Funding Project Team (8 July 2005)

2.31 Moreover, it is important that economies of scale are achieved and that the performance and competency of local government is incentivised to improve.

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

Questions (p.13)

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

Response:

2.32 The issues under this section have been canvassed earlier in this submission so are not repeated here.

2.33 Business New Zealand would commend section 4 of the Local Government Forum paper's *Funding of Local Government,* which comprehensively goes through the various funding options and the rationale or otherwise for each.

2.34 The only four additional points Business New Zealand would like to emphasise in respect to funding are the following:

- Greater use should be made of user charges where clearly the services or goods provided are in the nature of private goods;
- Special or targeted rates, including differentials, should ideally be used very sparingly - if at all - and only in rare cases where specific groups are the clear beneficiaries and ideally agree to be taxed[7];
- Rates mechanisms and funding should not be used as a redistribution device as issues surrounding ability to pay etc are proper roles for central not local government; and

[7] In many cases, current levels of rates differentials cannot be justified based on the beneficiary principle and should be phased out, although many councils pursue such differentials based on spurious grounds of the need to raise revenue in a so-called "fair" way despite differentials being almost universally unfair. It is also important that where targeted or differential rates are used that an objective "beneficiary" test is developed in order to provide a framework for their use.

- The current 30% cap on the UAGC should be increased substantially, and ideally removed.

2.35 The distinct danger of adding to current rating tools is that new funding mechanism are used to source additional revenue without clear understanding of the proper role of local government. There are already arguable cases where targeted rates (including development contributions) are not based on sound economic principles but are seen as additional revenue generating devices.

4. Other sources of revenue currently available to local authorities

Questions (p.15)

Should greater use be made of current available funding mechanisms, other than rates?
Are alternative forms of revenue, such as development contributions and user fees, established through a transparent process? Are they equitable?
Is there a case for an increased use of borrowing by local authorities to address intergenerational equity or other issues, such as accelerating infrastructure investment?

Response:

2.36 The clear issue in respect to available funding mechanisms is that those who benefit from the services provided should pay in proportion to the benefits received from utilising those services. While there will always be an element of cross-subsidisation, as for some services it would be well nigh impossible to introduce effective user charges, the majority of services (many of which are funded out of general rates – e.g. waste disposal) could be funded in this way (i.e. in proportion to benefits received).

2.37 Issues surrounding inter-generational equity have already been covered earlier in this submission. Clearly there is much greater scope for councils to take on more debt to fund significant long-life assets where beneficiaries often span more than one generation of ratepayers.

2.38 Rates are a poor proxy for road use and Business New Zealand believes that road users should pay for local roads through petrol taxes and road user charges, just as they do for state highways. Business New Zealand believes that reform of road funding should accompany a more commercial approach to the management of roads.

5. Sustainability of rates

Questions (p.15)

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

Response:

2.39 Councils should not be in the business of income redistribution. Unlike central government (with the information it has through income tax), local authorities have no information on the incomes of their residents so any decisions they make to assist people in this regard have the potential to be flawed. If the Government wishes to provide relief through a Rates Rebate Scheme, then this should be administered centrally through Work and Income New Zealand rather than by Councils.

2.40 While the motivation behind increasing and expanding the rates rebate scheme is clearly understood, there is general concern within the wider business community that this scheme can only be a short-term stop-gap measure and that it does not address the real issue it is trying to address – protecting people from an ever-growing rates burden.

2.41 Clearly the focus needs to shift to ensuring that local authorities contain their rate rises by focusing on core business, that activities are funded by those who benefit from them, and ratepayers are provided with transparent information.

2.42 In respect to rates remission and postponement notices, it is understood that while most local authorities offer some kind of rates postponement options the number of ratepayers currently postponing their rates is low.

2.43 While conceptually Business New Zealand is not opposed to the use of rates postponement options, we would question the need for rates postponement to be undertaken by local authorities rather than the private sector through reverse mortgages and the like. The private sector is increasingly active in providing such arrangements for those who are affectively asset rich but income poor, as a means of ensuring that they can continue to live in their family home but with the knowledge that such payments are in fact a debt against the property or asset of the individual involved.

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

Questions (p.17)

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

Response:

2.44 It is understood that the Funding Project Phase I report found that most local authorities remit or postpone between 0.3% and 0.7% of their total rates take.

2.45 As stated above, Business New Zealand sees some merit in the greater use of relatively new financial instruments such as reverse mortgages or home equity conversions as ways for people on lower incomes, but with an asset base, to deal with a whole host of cost pressures which affect them at various times in their lives.

2.46 Given the general reluctance of a number of people to adopt reverse mortgages (for a number of reasons), it might be desirable to market these to the general public as mechanisms to shift expenditure and revenue streams through time. However, apart from general advice to ratepayers, Business New Zealand does not see it as a core role for Councils to become involved in the process of setting up reverse mortgages and the like. Private sector institutions, mainly banks, are in much better position to market and manage such instruments.

2.47 Whether increasing numbers of people "buy-in" to rates postponement will depend on a number of factors, including: Current and future income and assets held by ratepayers, the cost of delaying payment as opposed to up-front pay-as-you-go, households responsiveness to risk, financial literacy, threshold criteria for postponements and so on. It is quite likely, given the competitive nature of financial markets, that new and innovative products will come onto the market over time which meet the needs of consumers. Therefore it is possible that in future many more people will look towards different payment options depending on their unique circumstances.

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

Questions

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

Response:

2.48 Business New Zealand notes that the issues of multiple ownership, the fact that a significant amount of Maori land is not earning income etc are outlined in the background paper.

2.49 While Business New Zealand does not claim to have any particular expertise in respect to the rating of Maori land, where exemptions currently exist they should be examined on their merits to determine whether or not current exemptions should continue. Hopefully, the Inquiry Panel will obtain, either through the submission process or through contracting appropriate expertise, principled answers to these questions.

8. Exemptions from liability for rates, including Crown exemptions

Questions (p.19)

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

Response:

2.50 There is a long list of land that is exempt from rates set out in Part 1 of Schedule 1 of the Local Government (Rating) Act 2002. For some local authorities, especially those with large areas of DOC estate, this can be a large proportion of the total land. These exemptions result in a narrower rates base and place a greater burden on those that must pay rates. It is particularly unfair that the Crown makes no rates contribution especially as local authority infrastructure and services can be put under severe pressure by the visitors who are attracted to national parks and other reserves.

2.51 The solution to this issue is to review the list of non-rateable categories of land contained in Part 1 of Schedule 1 of the Local Government (Rating) Act 2002 with a view to making the rating system ‘broad-base, low-rate’.

9. Other revenue-raising mechanisms

Questions (p.20)

What principles should guide the use of revenue sources to fund local government expenditure (including rates)?
What practical new revenue sources could, in full or part, be alternatives to rates? What are the comparative advantages and disadvantages of these alternatives?
What criteria should be used in assessing the desirability of any alternative revenues to the property tax (rates) system?
Are there funding sources that major tourist destinations should have in order to meet the cost of council services used by these tourists?

Response:

2.52 Business New Zealand notes that the third report of the Local Authority Funding Project team *Alternative Tax Bases for Local Government*[8]*,* looked a number of alternatives to the current rates (property based) taxes.

2.53 These included:

- A local income tax
- Local consumption tax
- Industry and commodity-specific taxation
- Citizen's tax (poll tax)
- Payroll tax

2.54 The funding Project team concluded:

…none of the alternatives provide a clear and compelling alternative to property taxation as a means of funding a local government that has traditionally had a high level of autonomy and a high level of accountability to its communities." (p.32)

[8] *Alternative Tax Bases for Local Government,* third report of the Local Authority Funding Project Team, December 2006, p 32.

2.55 All the above alternative mechanisms have inherent weaknesses. A local income or consumption tax would be heavily discounted given that it would be necessary to identify the area in which individuals and businesses earned their income. This would be well nigh impossible given many complex business arrangements carried out by both businesses and individual ratepayers. Moreover, low income or consumption taxes may have little relationship to the amount of goods or services consumed via local government.

2.56 Industry or specific-commodity taxes (such as “bed taxes”) are inherently distortionary given that there is often little or no relationship between the “payer” and the alleged benefits being received. The proposed “bed” or “airport” tax floated to partially fund then proposed national world cup stadium in Auckland is a good example.

2.57 The history of poll taxes suggests that they are highly unpalatable. There would be practical difficulties in relation to enforcement and fairness and the experience in the United Kingdom in the late 1980s indicates it would be a most unpopular tax. Poll taxes often provide a very poor indication of the actual use of services provided by central or local government, or of ability or willingness to pay. However, people-based payments may be appropriate where goods and services provided are of benefit to all citizens e.g. democracy and administration of local government.

2.58 Payroll taxes are inherently distortionary by targeting one particular of production – labour. A report prepared for Business NZ[9] found that:

> *“[A payroll tax]…would distort the economy by making one factor relatively more expensive i.e. labour, and with this distortion comes deadweight losses to the economy. The size of this deadweight loss may be considerable since this tax would be across the entire New Zealand labour market. Thus, although the government may aim for it to be revenue neutral, they should consider the indirect deadweight losses within this decision. The deadweight losses come from reduced efficiency of markets, artificially high labour costs, which will lead to capital being substituted for labour, higher administrative costs, and knocking marginal companies out of business.” (p.3)*

[9] Is there a case for a payroll tax? Report to Business New Zealand by Business and Economic Research Ltd (BERL) February 2006

2.59 In addition, a payroll tax would be a highly targeted tax based on salary and wages rather than bearing any relationship at all to the consumption of local government goods and services. It would penalise wage and salary earners while other potentially asset rich ratepayers would be exempt from the tax.

2.60 Narrowly based taxes on particular sectors without clear identification of use (benefit) are highly undesirable and defy good tax principles for economic efficiency, administrative simplicity, flexibility and fairness (equity).

2.61 Business New Zealand considers that the rating valuation method used by councils should be either Capital Value (CV) or Annual Value (AV). CV and AV methods give the most equitable outcomes. Land Value Rating (LV) is no longer a fair or equitable method of rating for NZ in the 21st century.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 65 member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). An increase in GDP of at least 4% per capita per year is required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.