



Business NZ recommendations to incoming Government: Local Government

Local government has a vital role in advancing the overall well-being of New Zealanders. However, its role is not all-encompassing; it should be established on a principled basis and properly circumscribed.

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

Business pays about half the country's rates bill, a huge burden given the size of the business sector and extremely disproportionate to the level of services supplied to them.

This is exacerbated by the 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, due to 'expenditure pressures'.

Differential and targeted rating should only be permitted where a clearly identified community is provided with a different level of public goods from other ratepayers, with an objective test of benefits received to ensure consistency in approach.

A number of Councils obtain significant income from revenue-generating assets. The justification is that this reduces the general rates burden, however it can put ratepayers at risk should returns on assets be less than planned for. It also raises a tension between councils' desire for financial returns and the need for reinvestment in assets. In private sector companies shareholders are able to influence choices made in this area, whereas ratepayers do not have this ability. Given that private sector companies generally outperform state-owned companies and given that the private sector would be prepared to pay above valuation for many local authority assets, their sale would afford ratepayers a windfall gain while reducing future rates demands, bringing win-win outcomes.

Business NZ recommendations:

1. Encourage local authorities to restrain rates rises by restricting activity to core services

2. Review of the list of non-rateable categories of land in Part 1 of Schedule 1 of the Local Government (Rating) Act 2002 with a view to making the rating system broad-base and low-rate
3. Encourage local authorities to phase out the use of business differentials except on the basis of specific services provided
4. Encourage local authorities to review ownership of non-core assets
5. Encourage local authorities to make more use of debt funding in the interests of intergenerational equity and to ensure that funding reflects the real costs and benefits of long-lived assets with high sunk costs
6. Encourage local authorities to replace land value rating with capital value or annual value rating
7. Amend Section 45 of the Local Government (Rating) Act 2002 to require rates demands to show amounts allocated to activity classes

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