



Rates great funding revolution

Is council rating the only way to fund local government? Kate Rivett-Taylor finds out why the answer may be an emphatic no.

It's 31 March, 1990. More than 200,000 people gather in London's Trafalgar Square to protest the implementation of the UK's infamous poll tax. Would New Zealand face the same derision if such a change was to be introduced here? Would farmers be the only ones whose wallets would relax or would councils themselves revolt at the thought of losing such a profitable cash-cow that farmers have become, thanks to the country's land valuation-based rating system?

Officially called a community charge but commonly known as the poll tax,

the UK introduced a single, flat rate, per-capita tax on every adult at a rate set by the local authority. History has shown it was greatly unpopular and was replaced by a Council Tax in 1993. The events surrounding those years also spelt the demise of Margaret Thatcher as Prime Minister. That small two-word phrase, poll tax, now has negative connotations that may forever taint New Zealand's view of an individual council tax. But is it a viable option, more workable and fairer across the board than the current system?

Federated Farmers has no doubt that an overhaul of local government

funding is long overdue. One section of the community is subsidising another and there will be no efficiency until there is balance between funding and provision of services, says Don Nicolson, Federated Farmers President and former chair of the Local Government Forum.

New Zealanders are currently rated by their local territorial authorities – regional, district or city councils – using property values. The more land you have and the more valuable that land is considered to be, the higher rates you pay. "From North Cape to Stewart Island people pay tax based on income

Poll Results

Surprisingly, a Colmar Brunton poll done on behalf of Federated Farmers has shown farmers aren't alone in their belief that the country's rating system is seriously flawed.

- Only 32 percent of New Zealanders think their local council provides them with value for money for the services they use.
- Only 33 percent of New Zealanders (including only 40 percent of non-ratepayers) think rating on property is the most appropriate way to fund local council.
- But when given options for funding local government, 56 percent of New Zealanders still think that a property value rate paid by property owners is a 'very acceptable' or 'acceptable'.
- Meanwhile, 52 percent of New Zealanders think that a uniform charge paid by all adult residents is a 'very acceptable' or 'acceptable' and 51 percent think that increased use of user charges is 'very acceptable' or 'acceptable'.
- GST and income tax were less supported options, with only a minority (41 percent and 42 percent respectively) considering these options to be 'very acceptable' or 'acceptable'.

– at an equal rate in the dollar depending on their income. The tax rate is known in advance but with local authority rating, we are annually subjected to the political decisions of any one of 85 councils around the country," says Nicolson. He believes where a community desires services and amenities and where full user charges can be recovered, then that should occur. But if it's not possible and residents have equal access and opportunity to use the council service or amenity, then equal payments from residents must occur. "Using property value as a proxy for non property services must stop."

A Colmar Brunton poll, done for Federated Farmers, shows just a third of New Zealanders agree with property rating as the most appropriate way to fund local councils. But when given a range of alternative funding options, rating on property was still one of the top most accepted options, alongside a uniform charge paid by all residents.

Federated Farmers was among the groups hoping the 2007 Local Government Rates Inquiry would come up with innovative ideas to break the rating deadlock. The Inquiry did look into how the funding of services to communities could be made more flexible and more equitable, but few of its 96 recommendations have been implemented. The panel didn't recommend any major new tax to replace rates, saying there was no need

for a 'magic bullet' to fix the problem (and that "there was no magic bullet available" anyway). It discounted options such as a poll tax, a payroll tax, local income or consumption taxes and industry and commodity taxes, including a bed tax. It did, however, recommend a two-cents-a-litre increase on the existing local authority petroleum tax to be distributed to councils.

Nick Clark, Federated Farmers general policy manager says the Government should help to fund local roads through using more of the existing petrol tax and road user charge revenues that go into the National Land Transport Fund. "We'd like to see councils making greater use of user charges for private goods. User pays, especially for council's commercial activities, would reduce ratepayer subsidies and reveal more clearly whether people value an activity. That said, there should be better oversight of council charging for public good activities in which it has a monopoly, in particular its regulatory functions such as water monitoring," Clark adds.

There could also be increased use of uniform annual charges for the funding of items where the benefit for all is equal, such as civil defence, local democracy and cemeteries. Yet there is a 30 percent cap on uniform annual charges. Targeted rates would see groups of ratepayers (usually based on geography/location) pay for things

which specifically benefit them such as water, wastewater, stormwater or flood protection. Paying for these sorts of items riles many farmers, especially those who aren't on town water, have a septic tank and get rid of their own rubbish.

Mike McDonald is a farmer in Central Southland and his business paid \$30,661 to the Southland District Council and \$9,061 to Environment Southland last year. On top of that, he not only paid for his own septic tank, but also the consent fee plus a \$60 filing fee, just for handing in an effluent management plan as part of his resource consent. "We pay and we pay and we pay. They come out and monitor our water and effluent, we pay. It is user pays with everything they do for us but not for the general community, like with libraries and swimming pools, it's just silly," says McDonald.

Clark believes that any funding system that relies so much on property value will almost always result in a disproportionate share of the burden falling on those who have valuable land or land extensive businesses. "The reality is that farmers need a lot of land to make a living. They need far more land than say a retailer, an accountant or a lawyer to make an equivalent income," he adds.

The Ministry of Agriculture and Forestry (MAF) national sheep and beef budget for 2009/10 listed rates as the sixth largest expense, at \$9,720. This was a 5 percent increase on the previous year behind fertiliser, repairs and maintenance, shearing, animal health and fuel. A 2009 Federated Farmers survey found two farms paying more than \$100,000 in rates, six paying more than \$50,000 and farmers on average paying rates of \$12,270, up 12.5 percent on the previous year.

Clark says that by farming families paying these amounts, others in the community have no idea as to what their local council really costs.

While it's often argued people pay rates indirectly through their rent, they are still not seeing or reflecting on how much local services cost to deliver. Think of the 200,000 people in 69,000 houses whose rates are paid directly by Housing New Zealand. People sometimes grumble about rates or the quality of council services but unless there's a contentious issue very few people ever bother to do anything more than grumble.

The recommendations of the 2007 Rates Inquiry, chaired by David Shand, aimed to make the rating system simpler, more transparent, equitable and sustainable.

Shand says a move to capital value would have been good practice for councils, as would changing the focus of the valuation system used to levy rates to current use and not what a property could be sold for. Coastal blocks may be worth a lot but don't yield a high return. "We didn't favour differentials – we thought any inequity between business, farm and residential should be dealt with by targeted rates." Shand is still hopeful an independent review body, to look at rating issues, will be set up. "We preferred to allow councils to make their own decisions by using the flexibility they already had, rather than beat them around the head with a rule book that would be very hard to enforce. But in return for that flexibility, councils need to explain why they have adopted certain policies as opposed to others...I think local government should expose itself to external scrutiny in return for its flexibility."

Federated Farmers believes a review office would give people an avenue to challenge their rates. "Currently the only way a ratepayer can challenge a council's rates decision is on the

grounds of process and if a council has gone through the correct process it can impose whatever rate it pleases. This is unfair and having a body in place to review particularly unreasonable rates decisions and policies would provide a much-needed check on the power of a council," says Nick Clark.

The Minister of Local Government, the Hon Rodney Hide says he has no plans to initiate a change to the current rating system. But he is drafting (for introduction later in the year), a change to the Local Government Act to focus councils on their core activities. He says there are two relevant issues – how councils spend their money and how they raise it. "Clearly that falls disproportionately on farmers and landowners who don't have the option of rolling up their business and moving to another area. They're like a captured goose to be plucked...but we're not working on new and creative ways for councils to raise money, but ways to help councils get spending under control."

Hide also says the proposed changes will reduce significant council compliance costs through making planning processes clearer and simpler. Council financial reports every three years will offer transparency and accountability to ratepayers who will then be able to place their votes accordingly.

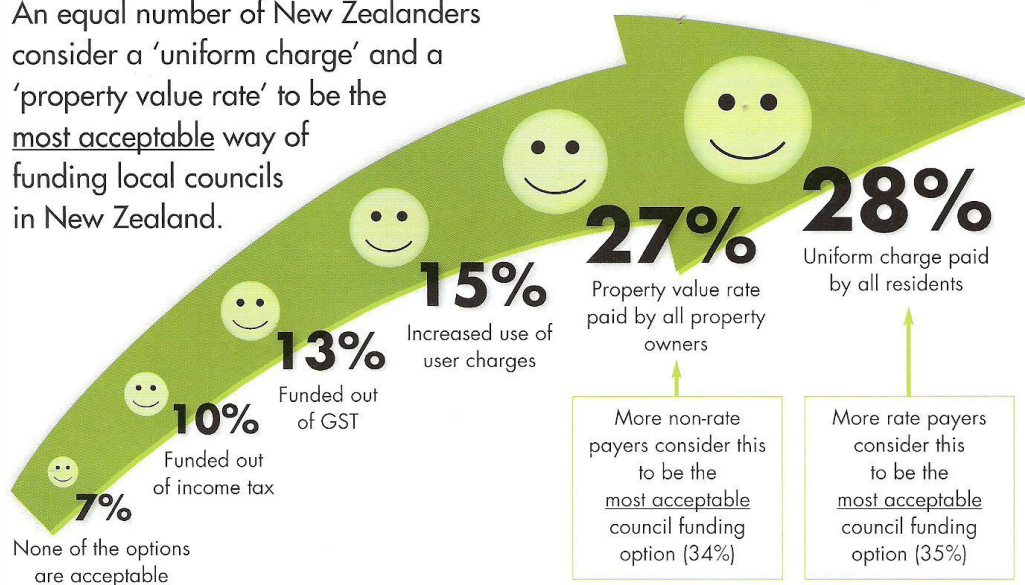
Transparency is one thing Taranaki farmer Steve Kalin would like, having seen his rates rise \$1,000 a year in the five years since he bought his farm near Stratford. His rates are now \$12,000, even though his land value has dropped 20-30 percent in that time. "I accept they'd go up a certain amount but not the increase we've had. Where is the justification for the increase? Can they justify it? I don't think they can," he says.

Federated Farmers would like to see itemised rates assessments introduced across the board to give ratepayers a clear understanding of how much they are paying for council activities.

The rates for Hamilton farmer Colin Dixon increased a massive \$10,000 to \$28,000 last year, or \$213 a hectare. No reason given, other than a revaluation so rates and fertiliser are now equally his largest farm expenses. "It's coming close to a time where it's not justifiable to farm it. It's not fair. We live close to town. We're not using a lot of roads. There is domestic rubbish but there's no water, no sewerage. We don't use the library or go swimming. What do I get? It's absolutely nothing more for an increase of \$10,000 in rates."

Kalin, Dixon and McDonald are all members of 'Federated Farmers 10K Club', set up in 2004 to demonstrate how high rates affect the farming

An equal number of New Zealanders consider a 'uniform charge' and a 'property value rate' to be the most acceptable way of funding local councils in New Zealand.



community. Nigel Billings, Federated Farmers senior policy advisor says the biggest member is a seven-property operation in the central North Island paying more than \$200,000 in district rates alone. But there are also many run-of-the-mill farms with rates bills of more than \$20,000 – the individual stories of club members are enlightening and disturbing, Billings says.

Some councils believe they are doing the best they can to reduce the impact of rates on farm businesses. One of these is the Hastings District Council, which established a rural community board. Its mayor is farmer, Lawrence Yule – current president of Local Government New Zealand. The average residential land value in Hastings in 2009 was \$138,000 (averaging \$1623 in rates). In comparison, the average agricultural land value (including lifestyle blocks) was \$793,000 (averaging \$2412 in rates).

"In our case even though the land value was five and a half to six times the urban residential value, they were only paying on average another 33 percent not six times more." Yule says his Council comprehensively reviews each of its rate policies and can apply a number of different formula to ensure its rural population (and its smaller townships) are treated equitably. It's an approach being followed by other councils around New Zealand. "It's still not perfect but it's a lot better than saying someone with a \$3 million farm should pay something like ten times more than someone with a \$300,000 section." Yule says land is used as a way of assessing people's wealth and is a tax – it is law, whether we like it or not. "Perhaps something like a poll tax would be fairer on individual households – a couple with four kids living in a street uses a lot more resources than a pensioner living on their own next door but in most cases, now, they pay the same. That's because the law only allows us to charge on the property."

Local Government Forum chairman, Charles Finny from the Wellington Chamber of Commerce, says some of its members have strong views on rating reform, but the forum doesn't have a stance other than to encourage debate. Personally though, he's a fan of user charges over general charges which cover services being provided – water metering for example. "Business

Lawrence Yule speaks his mind

Central Government needs to stop putting extra pressure on local government, says farmer, Mayor and President of Local Government New Zealand, Lawrence Yule. He says his biggest single concern is the lack of "cross consideration" between central and local government. Local and central Government combined are similar in value. Public good is funded four ways – rates, income tax, GST and user charges (such as road user charges).

Central Government controls three of those revenue streams with councils controlling rates. Mayor Yule says that philosophy is flawed. "I'm sick of stuff being pushed onto local government that is unfunded or ratepayers have to pay for it when essentially it should be done by central Government." Take water for example. The previous Government changed the legislation for drinking water standards then gave local government \$150 million over 10 years to help pay for improvements. Yule says the cost was more like \$700 million and rural communities had to struggle to find the difference, with little justification. "We get told it is our area and we need to fund it. We have no choice in the matter. This is why we are being very cautious about the proposal to allow heavier vehicles on our roads without extra funding to pay for the maintenance."

communities, including farmers, are used as cash cows to subsidise other sectors of the community." Finny believes there could be more unitary authorities (combining district and regional councils), such as Gisborne or the Auckland Supercity.

One voice that has been vocal on the rates funding issue for at least 15 years is former Wool Board director and Southland farmer, Doug Fraser. Together with Don Nicolson, he analysed annual plans to work out what individual ratepayers were paying for individual services. As a result many councils, including Southland District Council, are preparing itemised rates assessments. Fraser favours removing the percentage cap on uniform annual charges with drastic local government reorganisation. Any disquiet about amalgamation would be sorted if funding was sorted. "Why don't we get professional directors running core infrastructure (water, sewerage, rubbish and roading) at a regional level and community boards running political decisions at a local level?"

Does that mean it's time for a referendum for change, like the electoral system? "The people who will influence the vote don't want change. Farming is a minority. There needs to be leadership and recognition at central Government level of the unfairness of the current rating system. You can have as many audit-type processes as you like, but until there is political pressure

from across the community for politicians to do the right thing, there won't be much headway," he concludes.

Nicolson agrees the governance and management ideals of the country's 85 councils are not supposed to be politically motivated but, disappointingly, many of them are. "Decisions are often made based on the sentiment of the majority over-ruling a minority – farmers are a minority and get their cheque books touched a lot more than the rest of country. The bottom line is that local authorities need to have their roles, responsibilities and their funding prescribed so they can't stray from them and make political decisions that benefit some, to the detriment of others."

Nicolson says that the Minister, Rodney Hide, needs to sort out the funding of local government before any other reform. "Once funding is sorted, the rest falls into place. Funding policy then leads to a better, more responsible council. Since 1997, local authority spending has increased at 2.5 times the rate of inflation. Local authorities have been enjoying a sweet ride unabated. It has to stop."



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