



**National Council of
Women of New Zealand**

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Wahine O Aotearoa

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**Submission to the Local Government New Zealand on the Independent Inquiry into
Local Government Rates**

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 42 Nationally Organised Societies (NOS). It has 31 branches throughout the country attended by representatives of those societies and some 150 other societies. The Council's function is to serve women, the family and the community at local, national and international levels through research, study, discussion and action. NCWNZ welcomes the opportunity to make this submission which has been prepared by the Economics Standing Committee following consultation with NCWNZ members.

NCWNZ has taken a keen interest in local government matters over many decades. The Municipal Corporations Act (1876) and the Counties Act (1876) confirmed the right of women rate-payers to vote, this right having not always been acknowledged under the Provincial Government system. Women became eligible to stand as councillors at this time. Twenty years later NCWNZ was founded, many of its members having worked successfully to extend the franchise to women in 1893. In 1899 the NCWNZ Conference called attention to the need 'for municipalising public utilities' (Resolution 2.4.2) a principle of public ownership it has upheld ever since.

As has been emphasised in other submissions and correspondence, conference resolutions are based on the criterion of what is best for women and families, both in our country and overseas. Consequently how rates and taxes affect women's welfare is of special concern. Although NCWNZ has responded to earlier discussion documents on local government matters, it is particularly pleasing that this enquiry has adopted wider terms of reference along with the determination to 'have a fresh independent look at the issues'. This means that our members and affiliated organisations have been able to comment freely and bring a considerable pool of expertise into the discussions.

The document necessarily is a wide range one. NCWNZ does not have the resources to canvass the membership on every issue so has limited this response to the following questions.

Q11. Does the rating system need to be changed to address any continuing anomalies or inequities?

Ans: Members raised the following points:

- a) That one of the worst inequities in the current rating system is the one officially called 'equitable'. Based on the assumptions that future generations will benefit from a capital project and that the initial funding must be borrowed at compound interest from the private sector, 'intergenerational equity' has been adopted as a principle of fairness around the country. In spite of the government's current messages about sustainability, local and central politicians still hold to an unsustainable funding system.
- b) There is a tremendous difference between a project costing say ten million dollars being paid off over time at nil or minimal interest, and payments at seven or eight per cent. A rule





- of thumb in a bulletin from the Minister of Finance's office noted that a loan taken out at 7% interest doubles in a decade.
- c) NCWNZ is mindful of the founding document, Te Tiriti o Waitangi. It is felt that now may be a good time to re-visit the way pre-European Maori conducted their economic affairs. Early explorers often expressed amazement at their impressive community infrastructures and amenities, noting that their 'factors of production' were the time and resources at their disposal – not whether interest-bearing loans could be raised from foreign banks. It is acknowledged that money is one of mankind's most important inventions in that it enables the exchange of one another's specialities. Any system which denies humans that ability while harming the social and environmental environment in the name of efficiency is seen as being not sustainable. The pre-European Maori economic paradigm could easily be adapted to modern times therefore deserves careful study.
 - d) Imposing GST on rates is another inequity which NCWNZ has discussed at length with the Minister of Finance. Research reveals that GST was originally put on rates as a tax-on-a-tax, with the object of revenue sharing by Government. On this understanding councils agreed to the scheme only to find it cancelled after a very short time. The GST however remained, the rationale being that it is a consumption tax, therefore applies to ratepayers purchasing goods and services provided by their respective local authorities. The fact that ratepayers do not 'purchase' but actually provide (fund) their capital goods and operating costs has carries no weight with the Ministry's Treasury advisors, the same officials who argued that financial services should be exempt from the GST.

Since NCWNZ has taken a strong stance against the GST on rates, it is pleasing to note that Local Government New Zealand (LGNZ) is to renew its own campaign to see this tax abolished.

Note: Members accept that the 20% of local government revenues called charges and fees (p11) i.e. swimming pool tickets, dog licences, hall hire: these are purchases liable for the GST under present legislation.

Q12. Should greater use be made of currently available funding mechanisms, other than rates?

Ans: As sovereign debt is guaranteed by the public revenues of New Zealand, the Government is able to borrow at a cheaper rate than most companies, local bodies and individuals. Therefore subsidies from central government can be a lesser burden on tax, and ratepayers, than levying higher rates (plus GST) or the issue of local government bonds or debentures. Where local government capital works are required by law (e.g. under the Health and Disabilities Act), there is no economic or ethical reason why private investors in public debt should profit. With public finance legislation permitting the Minister of Finance or his agents to borrow from any source there is no barrier to restoring a system which successfully funded roads, bridges and state houses during the first Labour Government, i.e. the drawing down from credit-lines negotiated with the Reserve Bank of New Zealand at nil – or very minimal- interest.

“Reserve Bank Credit.

To finance its comprehensive proposals, the Government adopted that somewhat unusual course of using Reserve Bank Credit, thus recognising that the most important factor in housing costs is the price of money – interest is the heaviest portion in the composition of ordinary rent. The newly created department was able, therefore, to obtain funds at the lowest possible rate of interest, the rate being 1% for the first 5,000,000 pounds advanced and 1½% on further advances. The sums advanced by the Reserve Bank were not subscribed or underwritten by other financial institutions. This action showed the Government's intention to demonstrate that it is possible for the State to use the country's credit in creating new assets for the country...”

State Housing in New Zealand, Ministry of Works 1949



Such would save ratepayers considerable debt-servicing costs which represent leakages from local economies. This 'currently available funding mechanism' could be employed immediately both as a counter-inflationary measure and as impetus to regional development.

Q14: Is there a case for an increased use of borrowing by local authorities to address intergenerational equity or other issues, such as an accelerating infrastructure investment?

Ans: this question is seen as being based on the assumption that borrowing, presumably at compound interest, is the way to address problems of inter-generational equity. NCWNZ has suggested that there needs to be a new attitude whereby one generation gifts to the next one, the endeavours of today – which the next generation will need to maintain. New Zealand still has an infrastructure deficit which could be largely solved by better ways of funding.

American economist, Alan Blinder, claims that private enterprise prospers when there is sound infrastructure, New Zealand has proved this can be achieved with the kind of equitable funding our own sovereign bank, the Reserve Bank of New Zealand, is equipped to provide.

Q18: To what extent can affordability problems be addressed through greater use of rates rebates and rates remission ... or by reverse mortgages and similar mechanisms from private sector sources?

Ans: Rebates are very welcome to low income ratepayers and do help promote income equity. But rebates (a) require extra bureaucracy to process and (b) are subsidised by the taxpayer. Lower debt-servicing charges and abolishing GST on rates could lower rates for everyone.

What concerns members of NCWNZ is the possibility that Councils may be forced to depend on reverse mortgage (Home Equity Conversion) schemes to cope with the increasing rates demands. NCWNZ has already expressed its concerns vis-a-vis payments for medical (submission to the Office of Senior Citizens). Affordability of rates can also depend on whether or not councils embark on ambitious 'glamour' projects, e.g. rugby stadium, not always from need but from parochial motives.

Q32: What principles should guide the use of revenue sources to fund local government expenditure (including rates)?

Ans:

- a) Local councils are required to get the best value from the rate dollar, based on the 'triple bottom line' principles regarding social, environmental and economic values. Unfortunately the tendering process for contract can lead to councils choosing outside firms for council work when a local firm could perform the work as well, if not better, but has submitted a higher tender not knowing that the 'successful' firm could be practising cross-subsidisation. A cost-benefit analysis could reveal that socially and environmentally (and ultimately economically) a local firm could give more to the local economy through employing local people and purchasing local resources.
- b) B) Posing as a principle is the 'user-pays' argument. Its proponents resent the free-rider aspect of collective provision for an amenity. But it would be almost impossible to find anyone who does not enjoy, and benefit from, amenities for which no direct fee is charged. Even with computer monitoring, it could be very cumbersome to make individual charges for amenities and services which ratepayers have already funded, whether in one's own town/district or elsewhere.
- c) In answer to question 11 NCWNZ has already criticised the so-called principle of intergenerational equity, suggesting the idea of gifting today's projects to future generations. The discussion document dismisses debt-servicing (pp 8 & 9) as a minor



problem, claiming that generally only 7% of revenues are for this purpose. Whatever the size of the debt-servicing components of council budgets, such leakages can hardly be described as getting the best value for rate dollars. The fact that most council accounts record very little repayment of principle each year, but large amounts, comparatively, of interest should always be a cause of concern.

Whatever principles are adopted by local government, they should follow the basic economic question itself i.e. what is produced, how it is produced and for whom?

Q33: What practical new revenue sources could, in full or part, be alternatives to rates?

Ans: Although there are practical as well as philosophical objections to 'user pays' for basic amenities where collective provision is a better use of resources, there are favourable arguments for individual payments for charges and fees –from parking meters to hall hire to swimming pools. Then there is payment for energy supply where a council owns its energy company, e.g. Wanganui's Energy Direct, usually a local natural monopoly. Rates and government subsidies usually fund libraries and museums but some residents surveyed would rather pay a few dollars extra for charges than have rates increases.

Another way to fund local government could be to offer bonds and debentures which local people could invest in so that interest would be returned to the community. Such funding would be for projects not mandated by government, but for which ratepayers have input on decision-making.

Q34: What criteria should be used in increasing the desirability of any alternative revenues to the property tax (rates) system?

Ans: The principles discussed in earlier answers should stand as criteria with the addition of such things as transparency and accountability.

An area where transparency may appear to be evident until total costings become available is where extra rates are levied as a result of a democratic referendum. Ratepayers can be told the cost of a project and how much each household is to pay but rarely is the extra GST discussed, nor the amount of compounding interest required when the capital loan is raised.

NCWNZ members throughout New Zealand were also asked the following:

1 (a) What should our rates be expected to fund?

There was unanimous agreement that rates should fund basics: roads (except for those which are the responsibility of Transit NZ), footpaths, street lighting, cycle ways, sewerage and storm water systems and water reticulation. Traditionally libraries, museums and swimming pools have become local government responsibilities even though partly funded by fees, fines, etc. There is a viewpoint that, because children are required to learn swimming as part of their education, there should be more funding from Government and from trusts like the Hillary Commission. Whatever is decided, say some respondents, the community should have their say – as long as the consultation is not used as delaying tactics.

1(b) How much should be 'user pays'?

Again there was unanimous agreement that water should not be privatised. Some members referred to Papakura and the subsequent rise in charges. One viewpoint is that the usual practice of levying a uniform annual charge is the fairest way to allocate water but that there is an argument for additional charges for households which use extra water for instance for swimming pools.



There was a mixed reaction to the idea of water meters because of the way line charges are perceived to be manipulated when a water company – whether publicly or privately owned, is expected to yield a profit. Members generally agreed that the hire of halls, sports-grounds and charges for the use of council-owned infrastructures are legitimate. There is also some support for locally levied tolls for road use where people choose to live in congested areas, rather than in New Zealanders being expected to subsidise them through petrol taxes and the like.

2. Should there be rates levied for ‘glamour’ projects like sports stadia?

The overall opinion from NCWNZ members is that such projects need to be valued on their respective merits with final decisions being decided, if possible, by referenda. Some members described a local facility as being a drain on ratepayers whereas another, developed as the result of a tri-partisan scheme, has largely proved to be an asset.

As for swimming pools there is an opinion that the Government should give generous subsidies – as mentioned earlier. Then there is the opinion that sponsors and trusts should be more involved. A major complaint is that too often ‘glamour’ project negotiations are well underway before the rate-payer is consulted, the result being a *fait accompli*. The argument that rate-payers can unseat ‘guilty’ councillors at the next local body election is seen as fatuous, as cancelling any loans could result in heavy penalties. An interesting comment from an individual member is that facilities built for a one-off event like a World Cup can often end up being under-utilised, with rate-payers having to maintain them unprofitably.

3. Should we expect more government funding for those capital works required by law, e.g. for safe sewage treatment?

Although, as one branch pointed out, rate-payers are also income tax payers, some things should be funded by the institution initiating the legislation. Several members condemned the way road taxes subsidise areas of government expenditure other than roads so that regional and district councils have to use more and more rates revenue for local roads. Sports and cultural amenities are generally regarded as necessary for our social health, so members felt that costs should be shared between central and local funders. Members wrote about the resentment many people feel when they are expected to fund the outcomes of central government decisions. The observation that central government has the sovereign power to borrow at nil or low interest is repeated here for consideration.

4. Should ‘public good’ assets be privatised, eg: water supplies?

The ‘received wisdom’ argument of the last couple of decades that ‘only the private sector can allocate resources efficiently’ is being rapidly eroded as evidence mounts to the contrary. One branch is adamant that public assets should not be profit-making utilities, especially where a natural local or national monopoly is involved.

NCWNZ Resolution 4.1.5 states: NCWNZ supports the continuation of public ownership of water supply systems, including the collection, storage, reticulation and supply to consumers.

Members who have travelled in Europe express dismay at the way water has been misallocated in countries where private water companies have been allowed to take control. Not only is there little transparency about accounts, even in official annual reports, but too little is spent on capital works and maintenance. The effect on public health can sometimes be deleterious.



5. What rating issues concern you most?

- Too many expensive glossy brochures.
- Too many highly paid policy analysts.
- Too any outside consultants.
- GST on rates not legitimate.
- Rising rates can drive people out of their homes.
- Outdated rating system (but rating seen as the best way to fund our communities).
- Ned for regional rates to be levied separately (more transparent)
- Environmental concerns sometimes seen to be cosmetic.
- Rate-payer apathy or at least resignation to the belief that it is no use confronting central government.
- Shifting council responsibilities into L.A.T.E.S.or their equivalent, with the public then shut out of meetings for 'commercial sensitive' reasons.
- Rate capping, no matter what formula is used, is not seen as a solution while underlying costs keep rising.

NCWNZ congratulates the Government for initiating this enquiry and trusts that this contribution will receive due and fair consideration.

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