LOCAL GOVERNMENT
BUSINESS FORUM

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Media Release

CAMPAIGN TO FIX COUNCIL FUNDING

Despite 10 years of debate and numerous reports, the issue of future local government funding still has to be addressed.

Our campaign wants to put that right, but time is not on our side.

Our biggest council by far, Auckland Council has had a debt constraint virtually since it was formed in 2010, meaning that it can't use debt funding to finance the multi-billion dollar investments it needs to catch-up with its infrastructure shortfall identified some 20 years ago, let alone address the needs of its recent accelerated growth.

Yet successive Mayors have been reluctant to use rates, or to optimise council's $60 billion plus asset base, or introduce alternative funding tools to get Auckland's infrastructure fix underway.

Other councils also have funding pressures, of a scale almost opposite to those of Auckland. Declining population in some areas is making the funding of essential local government services increasingly difficult – the provision of the three waters (clean, waste and storm) stands out.

Whether a big or small council, most revenue they receive is still from property rates – a funding tool imported from England in the 19th century and taken for granted ever since.

Our campaign will put the suitability of property rates for funding councils in the 21st century under a microscope. It's obvious why we should:

- Rates based on property values have no relationship to the cost of the services the rates pay for
- Many ratepayers, e.g. pensioners, are asset rich but income poor
- The wide range of three-yearly revaluation movements accentuates the unfairness of using property as a rates collection tool – rates change but service costs stay the same.

Ten years ago, the Shand Rates Inquiry pointed to these and other flaws in our rating system. The Inquiry recommended alternative funding mechanisms be introduced.

Specifically the Inquiry recommended rates be reduced to 50% of operating income by 2017, down from 56% in 2007. Today they have increased to 58% of operating income.

It also argued that differential rates between business, residential and rural communities could not be justified and should be abolished.

Increased uptake of a 'user pay' rates system has long been proposed as the most fair and equitable – in which a charge is set based on the cost of the service supplied by a local authority.

Our campaign will advocate for an appropriate funding mix that includes greater use of tools already available to councils – in particular user charges, a prudent use of debt, and where that is less of an option, like Auckland, biting the bullet with scaled use of public private partnerships.

Growing the understanding of these choices quickly will require central government to contribute to lifting the quality of the funding debate.

If New Zealand is to get ahead and local councils play the role they should, a wider use of funding tools is no longer a debate about 'shall we' but 'when' and how soon.

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