

# LOCAL GOVERNMENT FORUM

## **RATES RISES REQUIRE URGENT RESPONSE**

“News that councils are planning on increases in rates revenue averaging 7-8% over each of the next three years highlights the need for urgent changes to the policy environment under which local government operates”, Roger Kerr, executive director of the New Zealand Business Roundtable, speaking on behalf of the Local Government Forum, said today.

Mr Kerr was commenting on the Federated Farmers’ analysis of 83 city, district, and regional council draft long-term council community plans, which revealed that on a nationwide basis rates revenue is projected to increase by 7.7% in 2006/07, 8.3% in 2007/08 and 7.4% in 2008/09.

“These increases are well in excess of both inflation and population growth and are coming at a time when the economy is going to be much weaker than it has been over recent years”, Mr Kerr said.

“They are also ahead of likely growth in nominal GDP, which implies that local government will be taking a bigger bite out of the economy at the expense of the productive sector. This will reduce growth in national income and living standards.

“Councils are blaming the rates increases on inflation in the construction sector pushing up infrastructure costs and central government imposing new responsibilities and additional compliance costs. Unfortunately, we haven’t seen any quantification of these factors and we also know that too many councils are choosing to get involved in activities well beyond the efficient provision of public goods like core infrastructure and local regulation.

“Councils in some areas, such as Auckland, are also blaming rates increases on the level of spending on public passenger transport projects. However, they have yet to provide competent economic evaluations to demonstrate that such projects would be worthwhile from an overall community perspective. We doubt that this test can be met for many rail projects.

“Moreover, rates increases are only part of the problem. Some councils have massively increased so-called financial contributions on new developments which, together with excessive restrictions on the supply of land for development, are pushing up the costs of new sections, homes and commercial property.

“The ultimate problem is excessive council spending which has been encouraged by the Local Government Act 2002, contrary to the assurances of Chris Carter, the previous Minister of Local Government at the time the legislation was being drawn up.

“The local government sector is a creature of statute and the Local Government Forum believes that only with central government leadership and direction will local authorities take steps to rein in their spending and therefore their rates demands.

“As a first and modest step in this direction, the Local Government Forum has developed a set of proposals to amend key local government legislation (a copy of these proposals is attached). We have already discussed our ideas at a meeting with the Minister of Local Government Mark Burton and we look forward to further discussion and consideration as part of the upcoming review of the Local Government Act.

“We believe that our specific proposals would help focus councils on their core business and ease rates demands, but ultimately we think there needs to be a much more substantive shift in thinking around local government policy, including roles and responsibilities, funding, representation, and structure. Legislation limiting rates increases to population growth plus inflation, unless higher increases are approved in a poll of ratepayers, could be part of such reforms.

“The local government sector is very important for New Zealand’s economic prospects: it owns \$60 billion worth of assets and it has a major role in the regulation of economic activity.

“The Local Government Forum hopes that a constructive dialogue can be held with both central and local government on the future direction of the sector so that it makes a better contribution to the improvements to productivity and competitiveness needed to move New Zealand back up the OECD rankings”, said Mr Kerr.

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