

# Funding local government

*New Zealand's 85 councils spend almost \$6 billion a year to deliver the services needed by local communities. The majority of this funding comes from the public via rates, fees and charges.*

*Rates enable councils to develop the community's social, cultural, economic and environmental well-being. Everyone, whether they own a house or rent, receives a large number of services from councils every day. There are also services which they can choose to use, such as parks, libraries, or beaches.*



- Capital expenditure (spending on infrastructure) has had to increase and will continue to increase over the next decade
- The major cost driver for most councils is the cost of construction rather than the consumer price index. Rural councils may spend as much as 80 percent of their budget on construction type activities.

## Current issues

Public discussion about rating levels, their link to a property-based rating system, and the ability to afford rates led to the establishment of the Independent Rating Inquiry in 2006. The recommendations of this Inquiry are being considered by Government.

There is no universal explanation as to why many councils have had to increase rates in recent years.

Each council is responding to the different needs of their local community and their spending priorities are shaped by extensive consultation with the public. However, some patterns have emerged:

- Councils experiencing large population growth tend to forecast higher levels of expenditure than those with static or declining populations. These areas with increasing populations need to develop or upgrade infrastructure to prepare for the new residents
- Some councils are catching up for under-investment in infrastructure and increasing their funding of depreciation as a result of a legislation change in 1996
- Parliament has required councils to increase the level of service provided in a number of areas, such as drinking water. The cost of these upgrades is reflected in Long Term Council Community Plans and is felt most noticeably in smaller councils

## Determining who pays how much

Parliament has limited the ways councils can raise revenue to types of property-related taxes and charges, fees and user charges and development levies.

Rates are reset every year to reflect the estimated financial costs for a council in the next twelve months. Councils are required to balance their budgets, unless it is financially prudent not to do so.

Councils must consult with communities before setting their rates and, as a result of this, agree on the quantity and quality of services to be provided and maintained. If the cost is too high, a council may reduce the level of service or delay starting new projects.

A number of factors may result in councils needing to increase revenue:

- The community has asked the council to develop a new service, such as a major recreation facility
- Construction-related costs have increased, e.g. road sealing, maintenance, construction. These cost increases have a greater effect than the consumer price index. Even if councils decide not to start any new services, they still have to pay for the increases in maintenance and renewal costs, unless they find some efficiencies or reduce their services

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- The production and audit processes of the LTCCPs, were completed for the first time in 2006. This process has forced many councils to increase the level of depreciation funding to ensure any spending required in their asset plan is fully accounted for. These plans also had to include future projections for expenditure with the associated adjustments for price increases.

Rates and the level of services provided vary across the country for a number of reasons, for example:

- Some communities would prefer low rates and low levels of services rather than higher levels of services which result in higher rates
- Some councils are in the fortunate position of receiving revenue from other sources apart from rates. For example, councils with large trading enterprises, such as ports, airports and other investments, can use the revenue to reduce their rate demands
- Some councils, because of their geographic location, face much higher costs when developing services, particularly in providing and maintaining roads
- Some councils are spending money now to make up for an historical under-investment in infrastructure. The cost of catch-up can be enormous but is essential if New Zealand is to maintain its infrastructure to a good standard
- Many people have higher expectations about the level of service that councils should provide, for example, having libraries open at the weekend.

## Information to ratepayers

As long as councils work within the law when developing the LTCCPs, the main checks and balances are community views as expressed through consultation and, ultimately, the local elections held every three years. Councillors that fail to gain the confidence of their communities run the risk of being voted out.

The consultation undertaken every three years on the development of the LTCCP is the primary opportunity for influencing council expenditure.

Each year councils consult over their annual plans and budget. It is an opportunity to re-examine earlier assumptions about services and costs. Councils also undertake surveys and focus groups to check that they are delivering the services communities want.

Parliament, reflecting international practice, has aimed to give communities a greater opportunity to influence decisions about the cost of local services, believing this will increase accountability and the public's interest in how councils go about their business.

A number of agencies ensure that councils use lawful processes when determining levels of service and setting rates. The Office of the Auditor-General makes an annual report to parliament which reflects its scrutiny of the processes used by councils and noted a "marked improvement" in the 2006 LTCCPs.

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## International context

Approximately 12 percent of local government revenue comes from central government. Most of this is the local government share of the petrol tax and is spent on local road maintenance and construction. Recently the Government has created a number of targeted funds to assist poorer communities with specific infrastructure needs.

New Zealand's local government revenue system is unique for the degree of funding that councils raise themselves. In some countries councils receive a share of the goods and service tax, can set differential petrol taxes and may have their own income taxes. Many countries have grants which recognise the problems faced by ratepayers in low socio-economic communities, and grants in lieu of rates on government-owned land.

## Available rating options

Generally speaking rates are a tax on the value of property. Councils can set general rates and targeted rates.

### General rates

Councils can set two types of general rates: general rates and uniform general charges. General rates are a charge per dollar of property value (usually a fraction of a cent per dollar). These charges are based on the value of: the land, improvements to the land (the capital value) and renting the property (the annual value). Uniform annual general charges are a fixed charge per rating unit or part of a rating unit.

### Targeted rates

Councils can set targeted rates for a service or services within a specific land area or on particular categories of rating units. For example, a council might set a targeted rate on properties within a city's business district to cover the extra cost of security, street cleaning or tourism promotion, or on coastal properties to pay for programmes to prevent the shoreline eroding.

### Differential charges versus flat fees

All ratepayers do not have the same access to council services. Councils consider this when setting charges, so a rural property further away from council services may pay less to reflect the travel cost if they want to use council services and that they may use these services less.

This ability to set the general rate at different rates in the dollar for different categories of rating units is known as differential charging. Councils who choose this option, as opposed to setting a flat fee general rate for all, must differentiate by specific factors detailed in legislation which can include property value, location, land area, use (residential, commercial, farming etc) and services provided by, or on behalf of, a council.

People who can't afford to pay their rates have a number of options available, including the rates rebate scheme, rates postponement schemes and other similar policies.

There are some specific categories of land which councils cannot receive rates from. In these cases, councils can set targeted rates for the cost of sewage disposal, water supply and waste management.



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