The Local Government (Rating) Act 2002 (LGRA) sets out the methods by which councils raise revenue through rates. (p.14 of 86)

Roading (maintenance of gravel and tar-sealed roadways, bridges, cycle lanes, verges, and footpaths) is the largest expenditure area, accounting for about 16% of total expenditure (20). Council Support Services (which include overheads for local authority administration, finance, IT, and HR functions as well as preparation of reports such as Long-Term Plans) is the second largest expense (15.5%). (20)

What funding sources are available to local government?
Councils can access a variety of sources of revenue to fund infrastructure and other services. These can pay for both operating costs and the costs of any debt attached to infrastructure assets. Total revenue across all local authorities in 2017 was about $11.6 billion. This does not include $5.6 billion in revenue generated by valuation changes and other non-operating income. (23)

[not clear about the last sentence. It appears to mean increases in the value of council-held real estate.]

The relationship between property values and rates is frequently misunderstood, with many assuming that increasing property values translate to increased rates. However, it is council expenditures that drive rates. By law, councils must decide how much they will spend in the coming year and then set rates to cover those expenses. Property values are used to allocate the burden of rates, and the share of general rates paid by an individual household or business depends on the value of their property relative to the value of other ratepayers' properties in the council area. The total amount of revenue raised does not change as property values change. (23)

[under NZ's rates-based system, changes in actual values flow through to valuations, but do not drive increases in council revenues. Instead, insofar as such changes are variable rather than uniform across all properties, they cause a redistribution of the rates burden accordingly.]

Many councils apply a rating differential to groups of ratepayers, which adjusts the proportion of rates paid by different groups of ratepayers. (23)

[for example, residential, business, rural.]

Key funding and financing trends
Both operating and capital expenditure by local authorities have grown significantly since 2000. Total expenditure increased from $6.9 billion to $14.2 billion between 2000 and 2017. Growth in spending was much faster than population growth, on average, over this period. (29)

[what about inflation data?]

Infrastructure is a large component of council operating costs, and infrastructure costs have risen significantly. However, their relative contribution to expenditure fell slightly between 2003 and 2017, highlighting that other non-infrastructure activities

(eg, council support services and economic development,) collectively play a key role in driving rising costs. (29)

[Add depreciation to the list (see below).]

Local authorities account for depreciation as an expense each year, to provide funds for future renewals of their assets. ...In 2017, depreciation made up about one fifth of total operating expenditure by local authorities. ... However, the Office of the Auditor-General (2018a) identified that over the past five years, asset reinvestment for most local authorities has been less than 100% of depreciation [budgeted]. In 2016/17 there was (sic) *28 local authorities whose renewals expenditure was less than 60% of depreciation* [emphasis mine]. This may suggest that either: councils are opting to defer the replacement of assets; depreciation is too high; or funds accumulated from depreciation are being spent on other items. Over-accounting for depreciation has implications for inter-generational equity because it means current generations pay more for future renewals. (29-30)

[this last sentence's idea that excess depreciation collections will go to infrastructure funding for future generations is a red herring. The funds set aside for depreciation, to the extent that they are not used for that purpose, are spent elsewhere. In what council is there a dedicated account accumulating ratepayer funds for future infrastructure? The next generation isn't going to receive anything.
In some cases depreciation is an actual expense, but for the most part it is interest paid to finance depreciable assets, or scheduled devaluation of same. We are left to assume that it is being "accounted" for in this manner. Figure 4.3 on p.30 shows that, from 2000-2017, depreciation regularly accounted for @20 percent of aggregate council spending, a similar amount to employee costs. Thus, for more than forty percent of depreciation budgeted not to spent for that purpose, means that over eight percent of councils' total budgets are not being accounted for correctly.]

What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? (30)

[in light of the above, funds set aside for depreciation that have been spent elsewhere, have essentially been hidden from the ratepayers' oversight as to their destination. Perhaps to more controversial areas such as support services. The technical reason for the discrepancy is most likely due to council's (uniformly) budgeting for depreciation via scheduled devaluation calculations, then not reconciling this with actual expenditures on purchases or finance payments. As the 'finance' share may, in addition, be being accounted for as interest, which itself currently accounts for another ten percent of council spending (fig.4.3), this may mean that even more of what is being accounted for as depreciation is not depreciation.]

Between 2000 and 2017, total local authority debt increased from a low base of $2.7 billion to $15.2 billion ... . Despite increases in debt, recent assessments have not identified serious concerns about levels of council debt (NZPC, 2015). Gearing ratios (debt as a share of total assets) of local authorities have been much lower than for central government (Figure 4.5) and large companies in the private sector. (32)

["identified", would be on the part of the councils studied, whereas the opinions of the authors of the assessments are what is being discussed; 'expressed' is the appropriate term.
Companies borrow to fund growth, intending to finance related debt and add profit. Similarly, 'gearing' implies debt used to fund growth as a proportion of assets. The higher a company's gearing, the faster its profit needs to grow to escape insolvency. As a majority of council spending is consumption rather than investment, when compared to a business, a council cannot sustain a level of gearing that a business could. It would become insolvent in the form of beyond-CPI-related increases in rates that will, at some point, exhaust ratepayers' ability to pay, or selling off council assets, itself a dead end.
Are we trying to tell past councils that we know something about council debt that they didn't? It would seem to be the other way around. And the fact that aggregate council debt has increased five-fold over the past seventeen years is cause for concern.]

Average annual growth in rates per capita across territorial authorities, 1996–2017 (Rotorua; 1.7%). (34)

[from '08 to '18, mine have compounded at a rate of over 16% yearly. Nor has the population of Rotorua grown appreciably during that time. The figure provided does not appear credible.]

Comparing the growth in rates revenue with growth in gross domestic product (GDP) is a simple, albeit blunt, method for measuring aggregate changes in the affordability of rates over time (Figure 4.8). Between 1996 and the late 2000s, rates increased in line with GDP. However, income growth stalled between 2008 and 2012, due to the global financial crisis, while rates continued to rise. This suggests that, broadly, rates became less affordable to some extent over this period. It also highlights that rates revenue is less susceptible to economic downturns than central government tax revenue because rates are effectively a cost allocation system. (35).

[it highlights, rather, that rates are less responsive to economic downturns, requiring councils to be pro-active on behalf of their populations, something they are not known for. GDP increases result from population growth or increased productivity. Council spending can increase due to population, to expansion of services, or to wage and price inflation. What relevance does GDP increase have to increased council spending? The one does not, as the writer seems to suggest, cause the other.]

Even so, comparing rates with income (or GDP) increases is just one way of considering rates affordability that focuses on changes for the average household. Rates affordability may still be an issue for many lower-income households and households on fixed incomes (eg, for people reliant on superannuation). Figure 4.8 above shows that rates have been rising much faster than the Consumer Price Index (CPI). (35)

[don't see that comparing rates with GDP increases reflects their affordability at all. Most working people, not just superannuitants, have their wages limited to increases in the CPI, not GDP. As is well known, the lion's share of GDP increases are

sequestered by the ruling classes. Rates rising with GDP, as the writer appears to think is appropriate, are taking an ever-increasing share of household income.]

Also, households contribute to local authority expenditure in ways other than rates. For example, some councils, including Auckland, use volumetric charging for drinking water to help recover costs related to supplying water. Because these charges substitute for rates, rate levels for these councils can be lower (compared to having no volumetric charging), but the actual cost borne by households is not substantially different. (35-6)

[more confounding of the topic. Households don't contribute to expenditure here, except in the negative. They contribute to revenue. "Volumetric charging" is jargon for 'water metering'. And metering doesn't solely affect drinking water. It applies to municipal water supplies. I know in my case it amounts to eight percent of my rates bill. Again, the charges don't "substitute" for rates, they are not recorded as rates, and that makes rate levels 'appear' lower when they are not so. To say "can be lower" is false, leading to the conclusion that, 'if we want lower rates, let's move to volumetric charging.' (although, as is pointed out later (p.57,) in regard to Tauranga, introducing metering brings the cost of water to the attention of residents and drives their usage down.)]

Every three years, local authorities (including regional councils) prepare a Long-Term Plan that forecasts its revenue and expenditure over the coming decade. These forecasts can be a useful indicator of likely future financial trends. (36)

[These forecasts, created by council employees, can be used tool to reify future increases ('see, it told you so'). But they are also more than forecasts. Note the reference to discussion documents to inform citizens of the spending programmes contained in long-term plans, which, following consultation and passage, are supposed to be lawful expenditures. I don't know that most citizens realise this, or that they can wade their way through a typical long-term plan, or even the average consultation document to find such details, as they are typically not all in one place or clearly identified.]

Depreciation and interest are projected to be the fastest growing sources of costs for councils – both are forecast to rise by just over 40% between 2016 and 2025. Rising interest costs is (sic) unsurprising given the recent growth in debt. (36)

[more reification. It has already been shown that depreciation is a misleading catch-all for council spending. Past increases in debt are no basis for prediction of future increases unless expenses are rising and income is not keeping pace. The writer should be creating occasion for councils to take control of their spending and debt, not doing the opposite.]

On the other hand, capital expenditure is projected to decrease slightly from current levels. (36)

[increased infrastructure investment due to ambitious housing plans would indicate otherwise.]

Actual and planned revenue and expenditure by councils, 2000–2025 (36)

[the projections show a continuation of existing trends, which have been pointed out to be excessive.]

Targeted rates – for example, in June 2017 Auckland Council adopted a targeted rate on commercial accommodation providers with proceeds funding Auckland Tourism, Events and Economic Development's budgeted expenditure on visitor attraction and major events (O'Reilly, 2017). (39)

[tourism disproportionately benefits commercial interests (see below), so the wider hospitality community might have shared the burden.]

[Deloitte Access Economics (2018)] results for Southland and Nelson indicate that international tourism expenditure only marginally exceeds revenue, while in Auckland expenditure exceeded revenue by a more significant margin. (40)

[this indicates tourism spending by councils is at best, revenue neutral for residents. Commercial entities are another story.]

Rising prices for inputs can contribute to growth in local authority spending. The Local Government Cost Index (LGCI) is a price index, developed by BERL, that seeks to monitor changes in the cost of goods and services most relevant for local authorities. (44)

[a useful tool for assessing council spending against CPI data]

While local government has raised concerns about central government shifting costs and responsibilities to lower levels of government, other commentators have expressed concerns that increasing council expenditure on 'non-core' functions is a driver of local cost pressure. ...The Local Government Business Forum (2018) [however,] notes that although a broadening scope is not the main driver of increasing costs, it is significant and ongoing. ...There has been a broadening of scope and a shift away from traditional core business in recent years with spending on economic development, sport and recreation and community development increasing as well as new, previously uncategorised, items of expenditure. This is despite 2012 legislative changes intended to narrow the scope [of council spending]. (45)

[certainly a primary means for councils to achieve cost containment, and even reductions for residential ratepayers, is for them to 'stick to your knitting', and focus on quality infrastructure and community services, while letting peripheral activities like economic development be borne primarily by the business community.]

Managing cost pressures through efficiency gains
...improvements in local government productivity offer an avenue for councils to maintain or increase the quality or volume of services that they provide without increasing costs for ratepayers. (47)

[It is not fair to ratepayers for government to take an ever-larger share of their incomes. Councils must draw a line under such increases and learn to live within their means. Central government needs to be responsive to this problem, and assist by designing legislation for administrative efficiency.]

Decision making about capital investments and levels of ongoing service
Decisions to invest in large new capital assets (for example transport infrastructure or sports stadiums) have potential to add significant costs that ultimately must be recovered. ... As set out in Chapter 3, every three years, councils are required to prepare a Long-Term Plan that sets out planned activities and service provision over a 10-year timeframe... . The Local Government Act (2002) requires that, before adopting a Long-Term Plan, councils must prepare a consultation document [that:]
(i) explains the overall objectives of the proposals, and how rates, debt, and levels of service might be affected; and
(ii) can be readily understood by interested or affected people. ...The Office of the Auditor-General (2018b, p. 10) reviewed council consultation documents in 2018 and concluded that "many councils … missed the opportunity to engage effectively with their communities" and that "there is still room for improvement overall in how consultation documents are presented". ...In addition to concerns about the consultation documents, concerns have also been raised about the effectiveness of council consultation processes in capturing feedback from a reasonably representative cross-section of the community. (48)

How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses? (49)

How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently? (50)

What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened. (50)

The Commission's inquiry into state sector productivity (NZPC, 2018) identified barriers to achieving higher productivity. These include:

a) closed, risk-averse cultures in government agencies;
b) poor policy and commissioning practice;
c) restrictive rules and funding models; and
d) patchy monitoring, evaluation and data use. (51)

The Productivity Commission's inquiry into measuring and improving state sector productivity (2018) identified that there appears to be little demand for, and little inclination to supply, productivity-related performance information on core public services. (51)

Measures to improve affordability for specific groups
While this inquiry is primarily about local government cost drivers and the funding and financing framework, an overarching consideration is affordability, particularly the affordability of rates. Concerns about the affordability of rates and other local government services are not new. In 2007, "concerns about the impacts of rates increases for low-income groups and other sectors of society and the economy" were

important factors leading to the establishment of the Shand Inquiry (Shand Report, 2007, p. 22). The previous section discussed the important role that increases in efficiency can play in managing local government cost pressures. In addition, the Commission is interested in the use and effectiveness of any dedicated measures to reduce the costs faced by specific groups of ratepayers – such as the Rates Rebate Scheme and the Accommodation Supplement. (51-2)

The Commission ... is interested in feedback from inquiry participants on what measures councils use to address financial affordability problems and how effective any measures are. (52)

The main approach that councils use to adjust charges in response to ability to pay is to levy rates based on the value of property, meaning that those with higher-value properties pay more. ...Council choices about how rates are calculated have an important influence on how progressive they are. For example, use of uniform annual general charges is regressive, as it applies a fixed charge on all ratepayers, irrespective of the value of their property. To limit the regressive impacts of fixed charges on low-income households, the LGRA specifies that revenue from uniform annual general charges must not exceed 30% of the total revenue from all rates sought by a local authority in a given year. (53)

The LGRA provides for some types of Māori land to be exempt from rates and, in addition, some councils may decide to remit or postpone collection of rates for Māori land. (53)

[to quote from; http://www.lgnz.co.nz/assets/Uploads/Our-work/Local-Government-Funding-Review.pdf

"A larger concern for councils with substantial amounts of Maori land in their districts is the non-payment of rates on Maori land that is, in theory, rateable. The current level of rates arrears on Māori land is more than $65 million, and has almost doubled in the past six years. Maori land cannot be sold (without approval from the Maori Land Court) or taken in compensation for unpaid rates. Unpaid rates are written off every six years."

This is a neat legislative conundrum for Pakeha. It clarifies that after six years of remission, unpaid rates for otherwise un-exempt Maori-owned land (meaning single-party title,) are written off. Accordingly, as this ruse has been ongoing for years, the total in unpaid rates is understated by probably a factor of four or five, and with time it will become even more popular. It is a loophole that deserves to be closed, and which will be a boon to the councils thus affected.]

Rating differentials

Rating differentials are another tool used to adjust the allocation of costs across the community. ...In a 2007 analysis of the use of rating differentials, Covec found that 40 territorial authorities set business differentials on general rates. All business differentials were greater than one, indicating that they are used to increase the incidence of rates on business (the average business differential was 3.2). Covec suggests that this may reflect greater ability to pay, given that in most cases businesses receive the same level of service as other ratepayers, and at a similar cost:

“Indeed, even in the presence of differentials, business rates are a relatively small fraction of operating revenue compared to residential rates as a fraction of disposable incomes)” (Covec, 2007, p. 40). (54)

[disagree with the notion that higher business rates reflect a desire on the part of councils to 'take advantage' of businesses, as they "receive the same level of service". It has been pointed out (40) that the financial benefits of economic development expenditure disproportionately go to commercial ratepayers over residential ones. Growth and council events funding make tangible contributions to commercial bottom lines, while residents face congestion and disruption to go with the jobs and excitement. Businesses also consume their share of council services otherwise. Lets have rates be equitable and transparent, as is legislated, and not have a 'take advantage of' mindset towards any individual or group.]

Where councils elect to set a rate differentially, the different rating categories along with the objectives for the differentiation must be clearly explained in their funding impact statement (part of a council’s annual plan) (SOLGM, 2013). However, LGNZ (2015a, p. 56) found that the “rationale behind rating differentials is not always transparent”. The Shand Report (2007, p.131), also raised concerns about the use of rating differentials: "The Panel considers that business differentials have been set in an arbitrary fashion historically and are not related well to the benefits received. These are generally fixed by a subjective and essentially political decision.” (55)

Desirable characteristics for a funding and financing framework
The key task of this inquiry is to examine the adequacy and efficiency of the local government funding and financing framework. (56)

The Commission is interested in receiving feedback on the most suitable principles for assessing the current and potential new or improved approaches to the local government funding and financing framework. (57)

Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches? (58)

Limitations on the use of existing tools
The Commission has previously recommended that the scope of some existing funding tools should be broadened. For example, under the LGRA, councils are unable to impose targeted rates based on changes in property value. This prevents councils from introducing funding tools that capture some of the uplift in property values generated by infrastructure investment. (58)

Directly taxing the uplift in land values would better capture the windfall gains afforded to landowners, but current legislation does not allow this approach. (59)

[This is what Brian Rudman picked up on and it is a mistaken and dangerous idea. It encourages runaway spending of their 'found money' by councils, as well as taxing residents for unrealised capital gains that can disappear as readily as they appeared. Councils exist to provide services, and according to the 2007 legislation, with a

disciplined focus on core services. Ratepayers are then responsible to fund these services, not surrender to predation.]]

...councils must pay upfront for the early infrastructure that service new subdivisions. (59)

How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors? p.59

Infrastructure New Zealand (2018, p. 5) also notes that councils require greater incentives to increase housing supply... . Krupp (2016) suggests that central government should pay local councils for every new house constructed in a specified period. (62)

[what is the rationale for that?]

Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives? (62)

[if economic growth is spontaneous, government has no choice but to accommodate it. If councils are obliged to spend to stimulate economic growth, including housing, that is another matter. Councils mustn't be obliged to foster growth. The costs of infrastructure for new subdivisions should be bourne by developers, perhaps through government bonds. It needs to be built to government specifications and, when built, can be transferred to council ownership and maintained via normal rates like other properties.]

Local property taxes

As discussed in chapter 3, council rates are set to cover a council's annual budget, and property values are used to allocate the burden of rates across the community. Local property taxes are an alternative approach, where property is taxed according to its value ... . Infrastructure New Zealand notes: "…property owners pay more if property values increase. Higher tax bills reduce the benefits of increasing property values to property owners." (64)

[the last part sounds like the writers feedback mechanism to restrain appreciation of values. Unfortunately it has the opposite effect on councils.]

[Requiring] developers to finance ... infrastructure, and ...recoup costs from new residents ... would put the additional debt on the balance sheets of households purchasing new properties ... .the higher upfront costs of infrastructure for homeowners could be offset with lower land prices through making markets for urban land more competitive. (68)

[I don't know about competitive, but it doesn't make sense to obligate ratepayers to pay for infrastructure to be extended to new subdivisions. And having it paid for by developers will keep rural land prices down accordingly.]

Another proposal is for central government to take on the debt for local government infrastructure ... funding this by issuing 50-year infrastructure bonds to private investors. The bonds would be backed by an income stream from targeted rates and, in effect, guaranteed by central government (Twyford, 2017). (68)

[As such costs will vary according to the circumstances of each development, the only appropriate target is the individual development, with the developer, and in turn each property owner having a resultant levy that will fund the bond payments.]

A number of commentators have proposed tax increment financing for growth-related infrastructure investments (NZPC, 2015; Infrastructure New Zealand, 2018). The idea behind TIF is that a local authority forecasts the increase in tax revenue that will result from an infrastructure investment, and borrows against that future income. This is commonly done in the United States
by issuing bonds, with future tax revenue hypothecated for a timeframe to repay the debt. Yet tax increment financing will only work if councils' revenue is derived from a property tax rather than rates (Infrastructure New Zealand, 2018). (68)

[there was a second reference to this subject later in the text, but I have not been able to locate it. It uses "U.S.", so is harder to scan for. I want to point out a possible error in the passages. In the U.S, the phrase "property taxes" is used even though the system is rates-based. The compilation of valuations is called the 'grand list'. The 'listers' are elected officials who are in charge of the valuation office of a municipality. They also oversee mandated regular revaluations, often contracting a private data-collection company to visit each property in the town and measure and record age quality and condition reports for all buildings. Meanwhile, the 'selectmen' or 'city councillors' do the job of overseeing the compilation of annual budgets, then 'strike the rate' by dividing the portion of the budget for which funds are not otherwise available by the grand list.
http://www.ci.guilford.ct.us/wp-content/uploads/assessor-how-mill-rate-calculated.pdf
https://www.thebalance.com/how-are-property-taxes-calculated-3193261
The point here would be that having a rates-based system does not preclude the use of municipal bonds as an infrastructure funding mechanism. The annual payments are another line item in the budget. An attendant observation is that tax-based property levies are not used in the U.S., perhaps not elsewhere, as valuation increases have nothing to do with the costs of operating municipal governments, and it is a dangerous practice to make valuation "windfalls" translate to council revenue windfalls, particularly where, as stated in this document, they are accompanied by mechanisms to maintain council income if values collapse]

Terms of reference
...local authority rates and payments increases have significantly outpaced increases in the consumer price index and the independently prepared local government costs index. ...Expenditure on fixed assets has grown significantly in recent years ... due to the development, maintenance and replacement of the infrastructure required to support New Zealand's rapidly growing population ... .Some high growth councils are experiencing constraints in their ability to finance further infrastructure investment because they are coming close to covenanted debt limits. This mix of

factors ...creates the need for an independent inquiry into cost pressures, decision making and affordability. Following an objective inquiry into these issues, the Commission is requested to provide an assessment and recommendations of current and alternative funding and financing options for local authorities to maintain and deliver services to their communities into the future. (80)

The Inquiry should: ... Consult with key interest groups and affected parties including (but not limited to) ratepayer organisations, local business and community groups. (82)

...the following matters are out of scope of the inquiry:
The valuation system and practices.
Substantial privatisation. (2-3)

Recommendations:

Council spending is dominated by roading. Councils currently use competitive bidding to try to get efficient pricing, but small markets undermine this effort. Given the steady and significant volume of work, councils would do well to create their own roading CCO's, and find ways to create synergies between the seasonality of such operations with other council activities. The suggestion is that they will save significant sums.

Second only to roading are the huge bureaucratic costs of council staffing, notably, the continuous production of plans, many of which do not serve their intended purposes.

"For example, in 2009, PricewaterhouseCoopers undertook a study for LGNZ which showed that implementing the administrative requirements of the Local Government Act 2007, the Public Transport Management 2008, the Health (Drinking Water) Amendment Act 200712 and the Land Transport Management Amendment Act 2008 took 720,000 hours of council staff time, and cost $25 million in external consulting fees. (13) The bulk of this cost was in preparing Long Term Plans (LTPs)."

(http://www.lgnz.co.nz/assets/Uploads/Our-work/Local-Government-Funding-Review.pdf (p.37/84))

Much of this work is duplicative and superfluous. There are local jurisdictions around the world that get along very well with a minimum of Plans. As things stand, every three years a successive ten year plan is produced by councils. This production treadmill occupies large phalanx's of employees that are a significant drain on funds. The typical document produced is so long and impenetrable that, of the relative few who try to use or review them, most will not find what they are looking for or be able to form clear concepts of the scheme and import. At successive statutory review points, it is not currently acceptable to make incremental additions or deletions to existing planning documents. Such updating on an as needed basis should become the norm, and funding decisions should be made in a dedicated budgeting process rather than via long term plans.

Central government itself needs to be aware of and responsive to the financial pressures on councils and their ratepayers, and create legislation and regulations that minimise this burden, not just in planning, but throughout council operations.

If the projected effects of global warming transpire, councils and central government are going to face huge and expensive challenges for which streamlined and efficient bureaucracies are a prerequisite of success.

Mass transit: buses are, for the most part, chronically underutilised. This amounts to a waste of ratepayer funds. Uber is now available in all areas and it makes sense to switch to this more efficient service for routes and times where there is not sufficient ridership to justify buses. This may involve council administration of the dispatch role in order to maintain standards.

A Brian Fallow article in the 16/11/'18 NZ Herald discussed the issues which are the subject of the inquiry. In the article he states:

"One suggestion on which the commission seeks feedback, which is favoured by Infrastructure NZ, would be to switch to local property taxes. Under that system, if the value of a property increases, the amount of tax the owner pays rises accordingly. ...In principle, this would address a perverse effect of the status quo, where restricting the supply of new housing pushes up property prices and creates a windfall gain for current owners, without necessarily generating any additional income for councils."

If we look at the NZ real estate market, there have been two large jumps in values. The first was in the early to mid 2000's, and the second is just finishing up in the provinces, having begun in the mid-teens. Through these two jumps, values have doubled and doubled again, so that a property that had a value of 250k in 2001 now has a value of one million dollars.

Meanwhile, incomes have not kept pace. The result is that the size of the average mortgage relative to the income of the homeowners has increased almost threefold. Is this the fat pie that the councils are missing out on? Councils treating the situation that way (ie, that they deserve a share of the windfall,) will only further imperil citizens' financial security, whether they be homeowners or renters.

Councils are not for-profit entities. They are there to provide services to serve the needs of their communities. As stated in the article, when values change, some change more than others and that causes a redistribution of the cost of funding the local council. That is the redress on any 'windfall gain'.

What is truly perverse is for councils to regard the disproportionate gains in property values against incomes as a bonanza to property owners that councils ought by rights to have a share in. Council spending, like housing, is already taking an ever-increasing share of ratepayers' incomes. These are both destabilising factors in the ongoing saga of life that will contribute to poverty and crime as families are put under increasing stress. We are in an extraordinary period of low interest rates. When the situation reverts to the historical mean, those high values and large mortgages will be

seen for what they are; a blight, particularly if councils have tied rates to increased valuations, rather than to their budgets.

"7.1.1 Setting a tax rate or the amount of tax

Local authority taxes are currently set to raise a quantum of money which is determined annually. Total rates revenue is determined by the council in advance and this amount is allocated among ratepayers according to the values of their properties. Hence, the share of general rates paid by an individual ratepayer depends upon the value of that ratepayer's property relative to the value of the properties of other ratepayers which are subject to the same rate. However, the total amount of revenue raised does not change as property values change.

All other taxes levied in New Zealand are set at a specified rate, which is then levied against a defined tax base. (35) As the value of the tax base changes over time, the amount of revenue raised for a given tax rate also changes. For example, the revenue central government receives from GST increases as economic activity, and in particular household consumption, increases.

This aspect of the current rating regime is not a consequence of the tax base. A tax based on property values can be set as a percentage of the property value - the land tax previously levied in New Zealand was applied as a set percentage of land value with the amount of tax collected rising in line with land values.

The requirement to set rates to recover a defined quantum of money is an aspect of the requirement that councils balance their books and may only borrow for infrastructure spending."

http://www.lgnz.co.nz/assets/Uploads/Our-work/Local-Government-Funding-Review.pdf (p.65/84))