SUBMISSION

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FEDERATED FARMERS OF NEW ZEALAND

To: **New Zealand Productivity Commission**

Submission on: **Local Government Funding and Financing: Issues Paper**

From: **Federated Farmers of New Zealand**

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SUBMISSION TO THE NEW ZEALAND PRODUCTIVITY COMMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING: ISSUES PAPER

1. INTRODUCTION

1.1 Federated Farmers of New Zealand values this opportunity to submit our views on the matter of local government funding and financing.

1.2 Our organisation and its members regularly engage with councils on their annual and long-term plans and associated funding and financial policies. We have a thorough knowledge of rating methodology and policy and its implementation in jurisdictions throughout New Zealand.

1.3 We do this work because it is important. local authority rates are a substantial component of the operating cost of any farm[1], and our members demand that we engage with councils.

1.4 We find that the farming community has very little confidence in local government in a financial sense. Rates levels on farmland are simply too high to make a serious case for trust and value. There is no connection between rates and services rendered, in terms of general rates, and no credible relationship with incomes.

1.5 This lack of confidence arises from local government's tax basis of property value rates, and the peculiar impact of this on farmland where urban areas within the same rating jurisdiction are stressed by growth or decline.

1.6 Federated Farmers has also participated in the review of the Rating Powers Act 1988 in the late nineties, the Local Authority Funding Project of 2005 (as part of a reference group), and the Local Government Rates Inquiry of 2007 (the 'Shand Review').

1.7 Our key experience of these reviews was that they did not seriously evaluate the merits and qualities of land and capital value rates, particularly the extent to which they may be an inherent driver of local government costs.

1.8 There seemed to have been a natural assumption that local authorities are utilising their funding mechanisms appropriately within their jurisdictions. There seemed a reluctance to question the fundamental merits of an asset tax on property owners as the basis of funding modern local government.

1.9 We hope that with this inquiry will embrace such a discussion, along with the other crucial determinants of local government financial performance.

1.10 In this submission we have responded to the majority of the questions posed. There are a small number not in our area of knowledge and we set them aside.

2. EXECUTIVE SUMMARY

2.1 Federated Farmers has extensive experience engaging on the annual and long-term plans of district and regional councils, and their rating policies. We represent farmers in all regions and have extensive knowledge of how councils are responding financially to population, demographic and economic change.

[1] The last series of model farm budgets, calculated by MPI, date back to 2012. In terms of farm working expenses they show rates ranked as 12th and 7th highest for dairy and sheep and beef farms respectively.

2.2 As part of developing our submission on this Issues Paper we surveyed our members to get a snapshot of their views on rates. A common theme in their responses was profound concern at multi-thousand general rates bills for largely urban services distant from the farm. The poor state of rural roads and the cost of them in rates also featured strongly.

2.3 There have been no fundamental changes in the framework of local government funding for many years, despite changes to the structure of local government and its purpose in legislation. It is unsurprising therefore that the local government sector is facing difficulties.

2.4 While central and local government may be regarded as "… two spheres of a system of collective decision-making" it is worth noting that central government's taxation mechanisms are vastly superior to those of local government, which has the power to tax only property owners within a community.

2.5 Local government's ability to engage its citizens is constrained by its dependence on property-based rates; only owners of property are directly taxed by a local authority and they tend to take a greater interest in council affairs and have different priorities than those that rent their homes.

2.6 As the rate of home ownership in New Zealand declines we contend that participation in terms of voting and general consultation with local authorities will continue to decline and be tilted toward the older demographic.

2.7 Federated Farmers believes that the wide variations between the circumstances of councils is the key challenge to this inquiry and its ability to ultimately make meaningful recommendations.

2.8 In addition to the differing circumstances outlined in the Issues Paper the population density of jurisdictions is an important feature. Thinly populated districts that occupy a large area present unique challenges to the existing funding and financial framework of local government, particularly on extensive road networks and infrastructure related to the incidence of small townships. Far North and Gisborne District Councils are useful examples.

2.9 Among the funding sources available to councils the Issues Paper pays little attention to the Uniform Annual General Charge (UAGC). This is an important component of general rates and the Commission should review the extent of councils' use of it.

2.10 The increase in local government total operating expenditure of 95% between 2000 and 2017 is in part the result of an expansion of local government's powers, through the 'power of general competence', a more activist purpose statement, and a steady erosion of consultation obligations and process when funding activities with rates.

2.11 Whether in a growth situation or one of decline farmland, because of its high land and capital values relative to other businesses and households, is in a situation of some peril. Councils will use farm values to fund both growth and decline, if the opportunity presents, and as a minority population within jurisdictions the farming community is up against it.

2.12 Farm ratepayers experience a similar vulnerability in jurisdictions with an ageing demographic. Moves away from funding services on targeted rates to general rates, and a decline in the proportion of rate revenue from the UAGC, have featured as a policy response for some councils and serve to increase the share of rate revenue from farmland.

2.13 Council reference affordability when they are reducing the UAGC; we find this perplexing given the existence of central government's rates rebate scheme for low income ratepayers that is provided to address affordability concerns. The Rates Rebate Scheme is related to income, the accepted measure of affordability.

2.14 We agree with the proposition that the cost of accommodating international tourists is outweighed by the revenue that councils can derive from it. Contributions to the tourism industry and the marketing of it by way of general rates can be an additional cost borne by farmers.

2.15 The setting of demanding national standards and the imposition of new and more complex regulatory responsibilities is also an increasing cost pressure on local government. It is too easy for central government to make these demands when they are not directly facing the cost and there is no agreed framework for funding new responsibilities. This represents a shift in costs from taxpayer to ratepayer and needs to be quantified and sorted out.

2.16 The Long-Term Plan (LTP) process is not effective in keeping council services affordable for our members. Council services cost many farmers thousands of dollars every year.

2.17 There is a wide variation in the quality of LTP consultation documents; we see this variation particularly in the reporting of cost impacts and the share of general rates paid by the different property sectors in a community. A key problem lies with the broad discretion that local authorities have in terms of what they consult on and how they go about it. Ratepayers should not be subjected to the uncertain potential of good and bad examples of consultation on the expenditure and collection of rates, and the risks incurred on their behalf.

2.18 As elected bodies with the power to tax the major incentive on councils to improve productivity is political. The generally weak accountability and transparency of property value rates and their workings reduces incentives on councils to improve productivity.

2.19 We do not see a trade-off between ability to pay and beneficiary pays principles in local rating policy, as neither would appear to be consistently applied to farmland.

2.20 In our view a strengthening of the decision-making provisions of the Local Government Act 2002 is needed most. As earlier stated we viewed the repeal of earlier frameworks for decision making on funding of local services as a major setback, as councils were no longer obliged to publish their thinking in a structured way. The current provisions at s.101 of the Local Government read well as a set of principles, but there is little evidence that councils apply them with any rigour.

2.21 Property value rates fail on the basic principles of fair taxation; they do not naturally reflect income, wealth, or use of services and can be easily manipulated to political ends.

2.22 We strongly support the consideration of alternative funding frameworks – they are urgently needed if local government is to restore its credibility with communities.

3. THE INQUIRY: A CHALLENGING CONVERSATION

3.1 This Inquiry into local government funding and financing is a vitally important conversation on the affordability and sustainability of local government.

3.2 It reflects a growing unease that local government is not responding effectively to the challenges of population and demographic change, economic growth and decline, and booming tourism.

3.3 These are not unusual challenges however we are not surprised that local government is struggling to meet them. Given that its fundamental revenue base – property value rating - has not changed in generations difficulties should be expected. Local government is in a very different place compared to post-War New Zealand, however rates as a share of GDP have remained relatively constant since World War Two.

3.4 In our view property value rates constitutes a relatively narrow and arbitrary tax base in a modern economy. We contend that its flaws, particularly in terms of accountability to communities, are a driver of expenditure in local government.

3.5 We contend that previous reviews have not seriously questioned whether an asset value tax, with arbitrary variations on it such as differentials, is sufficient to anchor the funding of modern local government.

3.6 The variations in local government are the biggest challenge of this inquiry. We are presented with vastly differing local authorities, from busy metros to sparse rural jurisdictions, all with the same funding mechanisms availed in the Local Government (Rating) Act 2002. Since the 1989 reforms of local government structure that merged a multitude of counties, boroughs and cities most local authorities have a mix of urban and rural.

3.7 We are encouraged by the Commission's willingness to consider the different circumstances that local authorities are in, and the differing drivers of cost that arise. The discussion at section 6 of the Issues Paper on the allocation of costs and affordability for different groups, and section 7 on the characteristics of property value rates, are valuable.

3.8 It is very important to the farming community that their cost burden is considered and not averaged out across all property types. We are very interested in what total farmland contribution would be general rates nationally, compared to other sectors and their populations.

3.9 We are further encouraged that the Commission is prepared to identify and appraise new funding and financing tools, to the extent that shortcomings may be found in the existing framework. We aim in this submission to present some major shortcomings with the current framework and suggest improvements to it.

Federated Farmers Rates Survey

3.10 As part of our work on this submission Federated Farmers surveyed its membership on rates.

3.11 Our aim was to take a snapshot of where farmers views on their local councils and to identify the rates burdens on farms which are indicative of the underlying distributional problems with property taxes.

3.12 We also aimed to raise the profile of this inquiry and encourage farmers to submit.

3.13 The full results are included as an appendix to this submission, but the key points follow below:

- 1,070 responses received over the period 29 January to 7 February 2019
- Average rates paid (combined district and regional council) was $26,208.
- Median rates paid was $19,746.
- 85.9 percent pay more than $10,000 per annum in rates; 49.7 percent pay more than $20,000; 9.6 percent pay more than $50,000; and 1.8 percent pay more than $100,000.
- 97.1 percent did not believe they get value for money from their rates.
- Roading was the council activity that matters most (87.9 percent), followed by regulation and planning (42.5 percent), governance (24.0 percent), water and wastewater (23.7 percent), land drainage (23.5 percent) and economic development (23.2 percent).
- Most common farmer complaints about rates were that they get little service or value in return; the poor and deteriorating state of local roads; having to cross-subsidise urban residents and businesses or paying for services they can't access; the large amounts of rates to pay; and the large ongoing increases in rates.

4. OUT OF SCOPE

4.1 Federated Farmers is disappointed that matters related to the rating of Crown land and the valuation system itself have been set aside by the Inquiry's terms of reference.

4.2 We note that Crown land forms a substantial part of the rating base of some rural councils and is considered a cost driver by many in local government.

4.3 As to the valuation system, we accept that related matters would overly complicate the inquiry. However, the cost of valuations, given that they are for purely rating purposes, adds to the cost of the present funding framework.

4.4 Privatisation of council assets should also have been considered, especially in providing an opportunity for asset recycling (e.g., using the proceeds of the sale of financial or commercial asset to invest in core network infrastructure such as roading or the 'three waters').

5. CONTEXT AND IMPORTANCE

5.1 As stated above Federated Farmers has no doubt as to the importance of this inquiry.

5.2 We would add to the context outlined on pages 2–3 that there have been no fundamental changes to the funding framework for many years, despite successive reviews of local government funding and an array of problems arising out of the local sector.

5.3 In the time since the Shand Review in 2007 the purpose of local government has been altered to remove the "four well beings" from the statute and there is now legislation before Parliament to restore them. It is difficult to understand how such significant changes to local government's brief can occur without consideration of funding. This also forms an important part of the context of this inquiry.

5.4 To continue with the same fundamental framework while expecting different and better outcomes is in our view unwise of central government, and we hope their response to this inquiry is different to those previous.

6. LOCAL GOVERNMENT IN NEW ZEALAND

6.1 The discussion in the Issues Paper is comprehensive and points to the complexities that underlie this Inquiry.

6.2 While available funding and financing mechanisms are largely the same for all local authorities their structure and purpose are different.

6.3 Regional councils face different cost pressures to territorial authorities and within those broad groupings are councils in very different situations.

6.4 The existing structure of local government reflects the substantial reforms in 1989 which carried through a similar funding framework than that applied to the previous structure. There were adjustments to rating powers arising from the consolidation of such authorities as catchment boards into regional councils, but the system of property value rates remained unchanged at its fundamentals.

6.5 In financial terms it is important that regional councils and unitary and territorial authorities are viewed distinctly from one another as their roles and financial pressures are very different.

Powers

6.6 It is also notable that the purpose and powers of local government have transitioned over the years, perhaps not as dramatically as the structure but still relying on the same basic framework of funding and financing.

6.7 In 2002 the powers of local government expanded from more prescriptive arrangements to the ‘power of general competence’ and its purpose was expanded to promote the four well-beings (economic, social, environmental and cultural) yet there has been a loosening of compliance and accountability around councils’ use of this funding framework.

6.8 The more detailed requirements for funding activities in the financial management sections of the Local Government Amendment Act (No.3) were repealed in 2002 and replaced by a broader set of considerations when funding activities at section 101 of the Local Government Act 2002. The submission of the Local Government Business Forum includes detail of this change and we endorse their view on it.

6.9 There is no limit on rates on an individual property owner, no appeal authority for rating matters, and generally optional consultation requirements on the funding of significant activities.

Constitutional relationship with central government

6.10 Local authorities operate with more autonomy, particularly since the Local Government Act 2002, however public engagement with local authorities is in overall decline. Participation rates in local authority elections is sufficiently low to call into question the statement on page 6 that they are held accountable by voters.

6.11 in our view this decline in public interest in part arises from the confinement of local authorities to a system of property taxes for their principal source of revenue. As such only owners of property are directly taxed by a local authority and they tend to take a greater interest in council affairs and have different priorities than those that rent their homes.

6.12 As the rate of home ownership in New Zealand declines[2] we contend that participation in terms of voting and general consultation with local authorities will continue to decline and be tilted toward the older demographic.

6.13 This public disinterest reduces accountability and a case could be made that the result is less effective local government.

6.14 While central and local government may be regarded as "… two spheres of a system of collective decision-making" it is worth noting that central government's taxation mechanisms are vastly superior to those of local government. Central government has the power to tax income, the agreed measure of affordability, and expenditure in the form of GST that is considered laudable for its neutrality. In terms of gaining the public's confidence and interest, local government is at a considerable disadvantage.

Scope

6.15 Given the principal reliance on property taxes it is to be expected that local government would be naturally limited in its scope.

6.16 The ability of local councils to respond to social issues for example is naturally limited by the fact that they are confined to property owners for their local revenue. While they may have the capacity to derive large rates from the subset of ratepayers with higher value properties, they are constrained as to the range of activities that property value could in good reason fund.

6.17 There is little hope of gaining the endorsement of the farming community for a wider scope when many already face rates bills in the tens of thousands and are unlikely to connect with a new vision.

6.18 This is perplexing as there are many roles that local government is uniquely placed to work on, for example homelessness, but struggle to gain the confidence of their communities when it comes time to calculate the rates.

Differing circumstances

6.19 As stated earlier Federated Farmers believes that the wide variations between the circumstances of councils is the key challenge to this inquiry and its ability to ultimately make meaningful recommendations.

6.20 We are encouraged that the Commission has put this question front and centre in the issues paper. Our previous experience with the use of general data, such as correlations between incomes and rates on a national average basis, is that this reduces the credibility of a review's recommendations.

Q1: What other differing circumstances across councils are relevant for understanding local government funding and financing issues?

6.21 In addition to the factors listed (size, population, age, physical resources and industry) we contend that population density is also important. Thinly populated districts that occupy a large area present unique challenges to the existing funding and financial framework of local government, particularly on extensive road networks and

[2] Statistics New Zealand Dwelling and Household Estimates

infrastructure related to the incidence of small townships. Far North and Gisborne District Councils are useful examples.

6.22 This factor also relates to the homogeneity of property use, i.e. a property value rating system will have fewer distortions between ratepayers in city jurisdictions such as Tauranga.

7. HOW FUNDING AND FINANCING CURRENTLY WORKS

7.1 Federated Farmers appreciates that this is a vast topic not easily a subject of summary.

Operating expenditure

7.2 We do not think it is suitable to combine the operating expenditure of district and regional councils, given that they are different enterprises. The list of the five largest sources of expenditure includes transportation, which is a substantial enterprise of regional councils, but not within the brief of a district. As such the list presents a blancmange of numbers that aren't relatable.

7.3 The list includes a substantial percentage of 15.5 percent for council support services. We are interested in getting more detail on this category as it approximates the spend on the roading network.

7.4 It is right to point to the considerable variation in demand for services faced by councils. In our experience smaller rural councils tend to focus more on core infrastructure while provincial and metro councils may have substantial side lines such as tourism promotion or responses to social and cultural issues.

7.5 The example of this variation in demand using Clutha District Council and Wellington City Council points also to the differing density of population, and how that results in rather different enterprises on the part of the respective councils.

Capital expenditure

7.6 It is also valuable that there is a focus on the current framework for capital expenditure. This area generally flies well under the radar in terms of public consultation, understanding and engagement.

7.7 The example given, that of Tauranga City Council and Grey District Council, points to the differences that arise where population density contrasts. With a relatively compact jurisdiction it would seem there are greater opportunities to utilise mechanisms such as development contributions that are designed to pay for infrastructure impacts.

Funding sources

7.8 The Issues Paper offers a good summary of local government's sources of finance.

<u>Rates</u>

7.9 Our members understand that increased property values do not necessarily mean increased income for the council. They are however keenly aware of the role property values play in determining the proportion of rates paid by different sectors of property use such as residential, commercial, farmland etc.

7.10 There is a brief mention of the uniform annual general charge (UAGC) in the discussion. This funding mechanism warrants more attention as it is a crucial part of rating methodology that can serve to balance the general rate contributions of different property groups.

7.11 As a per rating unit flat charge the UAGC has very different characteristics to property value rates, although they can still only be imposed on property owners.

7.12 Federated Farmers submits extensively to councils encouraging them to draw a greater share of general rates from the UAGC. Given the relative autonomy councils have in terms of their rating policy it is perplexing that use of this mechanism is limited to 30 percent of total rate revenue.

7.13 In recent years we have experienced a wind-back of UAGC levels in some districts due to what councils describe as "affordability" issues for urban residents. This is despite the availability of the Rates Rebate Scheme for lower income ratepayers and the fact that many lower income residents rent their properties.

7.14 We in turn urge the Commission to look more closely at the choices councils make as regards their use of the UAGC.

Grants and subsidies

7.15 In terms of grants and subsidies we see an increasing incidence of central government funds shared with local government to assist with revenue shortfalls in various areas.

7.16 We are not opposed to central government assistance if it serves to reduce reliance on general rates.

7.17 The assistance of central government on transportation via the Funding Assistance Rate (FAR) for example makes it possible for local government to manage its share of the roading network. A total reliance on rate revenue for this purpose would not be possible or appropriate (given FAR funding is from sources of revenue (petrol tax, vehicle licence fees, and road user charges) that reflect use of roads and damage done to them).

7.18 While not perfect we view the FAR as a useful working example of a central government revenue share based on an agreed formula rather than haphazard on-application grants.

7.19 The existence of grants and subsidies should not obscure the substantial problems local government faces in responding to modern governance challenges with property taxes.

7.20 The comment of the Officials Co-ordinating Committee on Local Government, which reviewed funding at the time of the structural reforms in 1989, still holds great merit: "*Grants are sometimes the best way to deal with specific problems in the short term. But prevention is better than cure. Each claim should prompt policy makers and administrators to reflect on the deeper causes of these problems, and to search for ways in which they can be either prevented or their recurrence reduced. This may entail a shift on central government's part from simply bailing local authorities out of particular difficulties towards finding ways of helping them to gradually become more self-sufficient.*"[3]

[3] Reform of Local and Regional Government; Officials Co-ordinating Committee on Local Government, Wellington, 1988, p.54

8. KEY FUNDING AND FINANCING TRENDS

8.1 We contend that the increase in total operating expenditure of 95 percent between 2000 and 2017 are at least partly related to changes to the Local Government Act within this period; i.e. the loosening of funding considerations, the weakening of consultation provisions referred to above, and the introduction of the four well-beings and the power of general competence.

Q2. What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?

8.2 Federated Farmers has taken an interest in the funding of depreciation at the local level, particularly rating for depreciation and decisions of rural councils to 'non-fund' assets that are unlikely to be replaced.

8.3 We view it as likely that depreciation has been funded for certain assets but used for other purposes by way of councils' internal financing arrangements. A clue to this may lie in the following statement from Western Bay of Plenty District Council's 2010/11 Annual Plan;

"*As the balanced budget test is conducted at the local authority level, it is perfectly acceptable and within the bounds of prudence, to run an operating deficit on one activity and a surplus on another. This means that Council is not required to retain income on an annual basis, in dedicated depreciation reserves, if it can show through its financial strategy that future rate revenue is adequate to fund renewals of infrastructure when they are needed.*"

8.4 In recent times there has been little if any material on this matter within council consultation documents. Frequently new projects are promoted as being funded 'from reserves', and we assume this means depreciation reserves.

Low-growth and high-growth

8.5 In both low and high growth situations farms generally experience increased rates. They are a stable but vulnerable source of easy revenue for councils in times of change.

8.6 As stated earlier we view the relatively stability of average composition of rates to total revenue as a hindrance to modern local government.

9. WHERE ARE THE PRESSURE POINTS?

Q3. In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?

9.1 In our experience both population growth and decline affect local government's capacity and sustainability, and this of course translates into rating impacts for rural properties.

9.2 As suggested in the consultation document, councils in higher growth situations tend to have a lower reliance on rates but the cost of rates on farmland in those jurisdictions can be profound.

9.3 In the case of growing population the demand for housing increases and this tends to increase the value of rural property that has potential for residential use regardless of its zoning.

9.4 This affects the profitability of an operating farm as the value is converted into rates, and there are no provisions in rating legislation for 'value in use' to be recognised, rather 'best potential use' is the norm and practice of district valuers.

9.5 Thus we find that via the property value rates system farmers may pay more to a council for services by dint of their location and this stimulates changes in property use.

9.6 The Western Bay of Plenty for example is one of the country's fastest growing rural areas, but it imposes substantial rates on farmland as the land comes into focus for development opportunities or more intensive land uses such as kiwifruit orcharding. A key element related to growth, the roading network, is funded by a land value rate and a uniform part charge and farmland bears considerable cost.

9.7 There is a feeling in the farming community that councils have taken an opportunistic approach to the rise in rural land values and has used property value rates to fund some of the growth impacts in the district. Obtaining tabulations from councils as to the share of total rates paid by farmers and their number has not been possible.

9.8 Population decline can result in similar impacts on the cost of local government to farms. Our experience for example in Ruapehu has been of an increasing rate burden as the Ruapehu District Council has endeavoured to stimulate economic growth by way of tourism promotion, and counter decline with town centre renewal and other projects.

9.9 Whether in a growth situation or one of decline farmland, because of its high land and capital values relative to other businesses and households, is in a situation of some peril. Councils will use farm values to fund both growth and decline, if the opportunity presents, and as a minority population within jurisdictions there is little the farming community can do about it.

Q4. What are the implications of demographic changes such as population ageing for the costs faced by local government?

9.10 The implications very much depend on each council's circumstances and geography, and the age and quality of their infrastructure assets.

9.11 In our experience council rating systems are challenged by an ageing urban population. A report produced by the NZIER in 2014 had this to say;
"In the provinces of New Zealand, where population ageing is already a fact of life, some pressures are emerging. Retirees are often asset rich but income poor. Their real incomes are fixed and often they are running down savings. They feel cost increases more acutely. Some local authorities may find themselves in a bind if their residents are unable to pay more in rates, but they still have to maintain roads, drinking water, sewerage and other services to high performance standards.

"*Ageing may mean that household incomes and rates affordability will be under increasing pressure due simply to demographics. The fastest emerging type of household is 'living alone'; typically older people and those with relatively low incomes. This means that there will be more households relative to population growth, but income per household will not be growing as strongly as before.*"[4]

9.12 We are familiar with the responses of councils in terms of rating policy in jurisdictions where there is an ageing demographic trend and townships amongst large rural/farming land areas.

9.13 We notice that one tactic to address this 'affordability' issue arising from an ageing demographic is to reduce the proportion of general rates recovered by way of the uniform annual general charge. This has the effect of pushing up the property value rates on farmland based on the mere perception that farmers are in a position to afford them by virtue of their theoretical property values. We experienced this in for example the Waikato and Hauraki districts in 2018.

9.14 Where a council is struggling to recover costs from connected users of water and wastewater the use of district wide rates can also occur, resulting in farms paying the full cost of their own water and wastewater services in addition to part of the cost of the service in urban areas.

9.15 We find this perplexing in that the existence of the Rates Rebate Scheme for low income households (which precludes agricultural land) is not factored into the local debate on affordability.

9.16 Another approach councils take is the removal of targeted rates for community facilities and move to, in the parlance, 'district-wide' rating. This can substantially defray the cost of council for an ageing urban demographic, with the costs spread more widely onto farmland – even if the farms are not able to access the service (e.g., the any of the 'three waters').

9.17 If the council decides to attempt to counter demographic change through such measures as economic growth strategies these are likely to be funded from general rates. Again, the effect is to load more cost onto property owners with very uncertain returns in store for them. For farmers the effect is to take revenue based on the theoretical value of an existing business and transfer it to the promotion of other enterprises; in our view an exceptionally poor and inequitable approach to stimulating economic growth.

Tourism

9.18 Federated Farmers agrees with the proposition that the cost of accommodating

[4] Shamubeel Eaqub, Local government finances – A historical perspective, NZIER, 2014 (Chapter 3 of OAG publication 'Water and roads: Funding and management challenges').

international tourists is outweighed by the revenue that councils can derive from it.

9.19 Tourism has no discernible relationship with property values but can cause substantial costs to ratepayers. We are aware that managing demands on utilities such as water and wastewater can involve considerable cost for communities such as those in Thames Coromandel where population increases considerably over summer.

9.20 Farmers as ratepayers on rural roads are familiar with the impacts of tourism, while knowing that tourism businesses may have a small if any rateable footprint.

9.21 Some years ago Federated Farmers advocated on this issue to Queenstown Lakes District Council, citing the traffic generated by a bungee jumping enterprise compared to its rates cost which was small, as the greater part of the enterprise was carried out on a bridge.

9.22 It is also important to recognise that property owners pay rates toward the marketing and promotion of their district as a tourism destination, and this should also be included in the cost of tourism to councils.

Q5. To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?

9.23 As stated above our experience is with the pressure placed on some rural road networks. While there has been some emphasis in the Government Policy Statement on Land Transport on regional tourist routes this pertains more to State Highway than local roads.

9.24 Tourism growth can also impact infrastructure such as footpaths and streetlighting that are included in the rates for roads in many jurisdictions, and thus partly funded by farmers.

9.25 The impacts of freedom camping in remoter areas has also been of considerable concern to the farming community as it often impacts private land. The development of cycleways have also directly impacted farms in high visitor regions.

9.26 The promotion of tourism through ratepayer funded economic development strategies also creates pressure on the costs of local government both in districts already popular for tourists and in districts hoping to become popular destinations as a way out of decline.

9.27 In Rotorua Lakes farmland has contributed considerably to the cost of tourism promotion and events through capital value general rates. While Rotorua Lakes Council has a targeted rate for economic development it only funds a portion of that enterprise.

9.28 We have had a different experience in Queenstown Lakes and some other jurisdictions, where we have been able to convince the council that targeted rates on businesses that directly benefit are necessary.

9.29 Perhaps most challenging of all for our members are the situations where smaller councils are attempting to arrest decline through the development of tourism, such as Ruapehu District Council.

Expansion of local government responsibilities

9.30 Federated Farmers agrees with Local Government New Zealand (LGNZ) on the three broad forms of shifting costs and responsibilities from central government to local government.

Cost shifting

9.31 As stated earlier we view the expansion of local government's responsibilities through the power of general competence and (while it was in place) the four well-beings as a driver of increased rates. It is not good public policy to expand the brief of a government without considering whether their taxation mechanisms are appropriate to the expanded role.

9.32 Our members are very concerned at the ability of central government to shift costs away from taxpayers to ratepayers, as the impact on them through rates is likely to be disproportionate.

9.33 We agree with LGNZ's concerns on the reduction of funding from the New Zealand Transport Agency for local road maintenance and renewals and pointed to that in our own submissions on successive Government Policy Statements on Land Transport.

9.34 When added to their fuel and road user charges the rates for local roads make up a costly burden for farmers, many of whom are situated on roads that have deteriorated badly in recent years, urgently require bridge renewals, or can even be unusable for parts of the year.

Rising standards

9.35 We agree with LGNZ's concerns as to cost impacts associated with higher mandatory standards imposed by central government.

9.36 The extensive responsibilities councils now have for national environmental outcomes through the Resource Management Act (RMA) is a substantial cost to councils and therefore ratepayers. it is of major concern that the taxpayer-funded Department of Conservation is an active participant in expensive local RMA processes.

9.37 In a similar vein the activities of the State Owned Enterprise Transpower in seeking to use RMA district plan provisions to protect their assets that are on private land transfer some of the costs of managing the national grid to local ratepayers.

9.38 Many farmers are experiencing the cost of new drinking water standards imposed by central government which can dramatically affect the cost of rural water supply schemes. The likely tightening of these standards in response to the Havelock North contamination will add further cost.

Regulatory creep

9.39 The volume of legislation in modern times inevitably results in further obligations on local authorities.

Q6. Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

9.40 This question cannot be answered empirically, although our experience as ratepayers suggests that shifting costs from taxpayer to ratepayer, and placing responsibility for national standards on local ratepayers, can easily happen.

9.41 There is no framework or heads of agreement for collaboration or for funding of councils to accompany new standards and regulation. This increases the likelihood that central government may impose unreasonable demands on local authorities as there is no recourse on funding.

9.42 With regard to environmental responsibilities it is not just that local government's responsibilities are expanding, it is also that subject matter is increasingly technical and resource intensive. Smaller councils don't have the internal resources to undertake the work, so they have to hire consultants and experts.

9.43 As stated above we are in broad agreement with LGNZ on the matters of cost shifting, rising standards and regulatory creep.

Q7. How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?

9.44 We agree with the discussion points in the issues paper on this matter.

9.45 We have some direct experience with costs imposed on councils through RMA policy development that can arise from co-management agreements with Iwi.

Q8. How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

9.46 We understand that local government is giving climate change more attention and this is coming through in their financial strategies.

9.47 An area of significant concern for farmers is the growing cost of flood protection and river management as weather events become more extreme. The Bay of Plenty regional council is an example, where successive flood events are giving rise to real concerns at the sustainability of flood protection schemes under its control. This council has been very clear about the cost to scheme ratepayers, and we have been able to have input on that.

9.48 Major flood protection schemes such as those in the Bay of Plenty provide much more than local or regional benefits. They were significantly funded by central government before 1989 when regional councils were established and since regional councils have had to bear the full cost.

9.49 We are not optimistic as to the capacity of local ratepayers to deal with global phenomena such as climate change, and we see this placing further pressure on already strained rating bases. Central government needs to be thinking and acting on the longer-term picture in this regard.

9.50 We think that there is an opportunity for central government intervention in this space. For example, by using its policy-making and legislative influence, central government could offer to introduce new legislation relating to land which is at risk of destruction or damage from coastal erosion from sea-level rise, or inundation from increased precipitation. This could work as leverage to negotiate some form of side-agreement or arrangement with insurance underwriters to guarantee limited cover for such land, with a sunset clause setting a deadline within which such insurance could be claimed.

9.51 This could facilitate (or incentivise) an 'exit strategy' from such land and make it easier for local government to identify areas where there is no-longer appropriate to invest in hazard-prone infrastructure renewal. It is important for long-term well-being and resilience of communities for local government to not be inappropriately locked-in to requirement to renew infrastructure in such areas. This translates into future rates savings.

9.52 Central government needs to step-up and realise that they must take an active role in managing this most important issue, due to the large number of New Zealand's population affected by this risk.

'Non-core' expenditure

9.53 We see growth in 'non-core' expenditure as a natural corollary of the loosening of consultation requirements in recent years and the introduction of the 'power of general competence' in 2002.

Q11. Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

9.54 We agree with the findings of the Local Government Business Forum as to the shift toward 'non-core' activities.

9.55 This is concerning to our members because only ratepayers bear the principal cost, and already councils in many jurisdictions are falling behind on the maintenance of their core responsibilities.

9.56 Economic development agencies are now common in local government and often overlap central government work. Expenditure on the promotion of events is also significant in some regions.

9.57 The efforts of rural and provincial councils to promote economic development in the face of decline are controversial for farmers; they will fund these programmes on the basis of the value of their own businesses which are already levied by industry bodies to promote and develop them.

Q12. Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?

9.58 The scope of activities carried out by local government will naturally result in cost pressures if they are expanding.

Q13. What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?

9.59 The poor state of many rural road networks and particularly bridges is a cost pressure that is building over time for some local authorities, with some almost in crisis. There will come a point where safety itself will demand that sufficient attention be given to this area.

9.60 We expect local authorities to want to do more to address societal problems such as homelessness that are developing alongside population growth in some areas. Local councils are best positioned to deal with such issues, but do not have appropriate funding mechanisms.

9.61 In the absence of significant funding reform or a systemic commitment from central government to accompany new responsibilities with funding, we anticipate cost shifting will continue to be major pressure into the future.

Q14. How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures.

9.62 Local authorities will find it increasingly challenging to develop rating policies that account for new forms of business within existing households and rating units, such as the Airbnb phenomenon.

10. MANAGING COST PRESSURES

10.1 While this chapter addresses consultation in the Long-Term Plans (LTPs) it is important to remember that significant changes in terms of the cost pressure on ratepayers can occur in intervening (i.e., annual plan) years.

10.2 Councils have a broad discretion as to whether to consult on certain changes. We have found for example that rating incidence may shift considerably in years when new district valuations are applied, yet there is no formal consultation process with which to engage council on their rating policy.

Q15. How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?

10.3 The effectiveness of the LTP process depends to a large extent on councils' willingness to engage with the community in a meaningful way.

10.4 As experienced submitters we are finding that the coverage of rating impacts, rating policy and sources of funding has declined in quality in recent years. We attribute this in part to the changes in the Local Government Act in 2014 that were designed to 'simplify' consultative processes.

10.5 In our view the attempt to simplify consultation has left too much discretion in the hands of councils as to what information and detail to present to the community.

10.6 Councils have the option of doing little to explain changes in rating methodology such as the UAGC or relate them in a meaningful way to ratepayers. Rather, the bulk of the information in consultation documents reads more like a promotional brochure with little in the way of information on pricing.

10.7 The provision of indicative rates on example properties is an example of the wide variation in council approaches to consultation. Some have a thorough tabulation with comparisons to previous years, others do not. Some have a variety of farming types (e.g., dairy, sheep and beef, horticulture, forestry, etc.), others do not.

10.8 A notable trend in recent years is for councils to publish rate revenue against previously forecast rate revenue as the rate increase in an LTP year. The actual level of increase would be a more truthful measure of cost pressures.

10.9 Significance and Engagement policies are an insufficient framework for governing what is important to a community and its ratepayers, and there are no realistic or effective compliance provisions in the Local Government Act 2002 to govern their application.

Q16. How effective are councils' Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses, and other local organisations?

10.10 As above, this depends very much on the individual council. Some councils can produce quite effective consultation material with options for participants on the level of investment they think council should make. We can refer to the 2018 consultation documents of Rotorua Lakes, Gisborne and Thames Coromandel District Councils in this regard.

10.11 Gisborne did a very good job outlining challenges to the roading network and investment options and what they would mean for ratepayers. This does not speak to the effectiveness of the consultation provisions in the Local Government Act 2002, rather it is a “good example” of what a well-intentioned and capable council can achieve.

10.12 Overall though our members feel that consultation processes reflect the priorities of urban majorities and focus on township services. Declining rural representation, arising from the population rules in the Local Electoral Act 2001, has we think affected councils’ prioritisation of issues.

10.13 We agree with the observation of the Auditor-General that in 2018 “many councils …missed the opportunity to engage effectively with their communities”.

10.14 The key problem really lies with the broad discretion that local authorities have in terms of what they consult on and how they go about it. Ratepayers should not be subjected to the uncertain potential of good and bad examples of consultation on the expenditure and collection of rates, and the risks incurred on their behalf.

10.15 In terms of the graph representing the age of submitters on Auckland Council’s LTP, we suggest that part of the reason for the growing participation rates among older people is that they are more likely to be homeowners (and therefore ratepayers), and in the 65+ age bracket on relatively fixed incomes (i.e., NZ Superannuation). This is completely understandable and should come as no surprise.

Q17. Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?

10.16 This question specifies capital expenditure, but we suggest that a re-vamp of consultation provisions in the Local Government Act overall is needed to strengthen accountability and set requirements on transparency as to the allocation of rates to various property owner groups.

10.17 There are some positive elements in the existing framework, such as the requirement to develop a financial strategy and benchmarks related to this. The real problems from our perspective lie with the broad discretion councils have as to the content of their consultation document and the wide variation in transparency in terms of actual revenue increases, rating policy changes, valuation impacts and suchlike.

10.18 The share of general rates recovered from the residential, farming, commercial etc. sectors for example is a statistic that is very difficult to obtain from councils yet should, in our view, be required in an annual or long-term plan consultation document.

10.19 The percentage of general rates recovered by way of the UAGC is also valuable information the availability of which is haphazard, not to mention the methodology for calculating the percentage). Both should be required by legislation and not left to councils’ discretion.

10.20 These enhancements could be achieved by amendment of the provisions for LTP consultation documents in section 93 of the Local Government Act.

10.21 The development of template model for consultation documents could perhaps be a useful way of strengthening accountability.

Q18. How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

10.22 We agree with the emphasis in the Issues Paper on asset management planning and the use of new technologies to achieve greater efficiency.

10.23 In any agency of government there is always scope for greater efficiency and note in recent years some councils have engaged in projects such as "lean thinking" to identify areas where costs could be reduced while service levels are maintained.

10.24 Asset management plans serve to identify future risks and costs and are of significant value for network infrastructure such as the three waters and rural roads. The developing problem with the condition and maintenance of rural bridges for example has largely been signalled through these processes.

10.25 There is more scope in our view for local authorities to achieve efficiencies through shared purchasing and service provision. In most regions clusters of councils have a framework for sharing the purchase of goods and services, and such things as IT and mapping capacities.

10.26 This in our view is positive as it offers the potential to break down artificial barriers between local authorities and create the potential to maximise economies of scale in purchasing and service provisions.

10.27 The shared services programmes do not generally get a big profile in council consultation documents; we feel they should and the savings they are making should be tabulated and converted to positive rate impacts.

10.28 It has been noticeable that information about shared services will come to the fore in the event of an amalgamation proposal. Wairarapa councils for example went to some lengths to explain their cooperation on the roading network in the course of the Local Government Commission's 2015 proposal for the reorganisation of councils in the Wellington region.

10.29 LGNZ produced an extensive study of shared services and their potential in 2011; this is the most comprehensive material on the topic[5].

Q21. What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

10.30 As elected bodies with the power to tax the major incentive on councils to improve productivity is political.

10.31 The generally weak accountability and transparency of property value rates and their workings reduces incentives on councils to improve productivity.

10.32 Ratepayers have no means of assessing how council might be improving productivity other than council's own published statements. Rating levels are impacted by such things as revaluations and can move significantly with relatively minor adjustments to a council's rating policy such as the level of the UAGC. There is little hope of relating individual rates levels to improved productivity and therefore a reduced incentive on councils to improve.

[5] Shared Service for Local Government, a report prepared by Colin Drew Development Solutions for LGNZ, June 2011

10.33 Given that their costs are directly experienced only by ratepayers in the community, the political incentive to improve is further reduced.

10.34 Federated Farmers for a number of years called on councils to itemise rate demands so that general rates are broken into separate cost lines the aim of this was to improve accountability and to offer the ratepayer the opportunity to make a 'value for money' assessment. The Shand inquiry also picked up on this in their recommendations[6], suggesting councils improve the information in the rates assessment notice by including detail on allocation of each assessment for particular activities. Unfortunately, this good practice remains very much in the minority.

10.35 The use of targeted rates for particular services can also improve ratepayers' ability to assess costs and value over time, and where they are targeted uniform charges transparency is much improved.

10.36 Overall, we understand that incentives to improve productivity are very limited in New Zealand local government. There are generally no reliable frameworks to compare council productivity other than internal initiatives such as LGNZ's CouncilMark programme and the incidental work done on service delivery by the Office of the Auditor General.

Q.24. To what extent and how do councils use measures of productivity performance in their decision-making processes?

10.37 Our experience is on the consultation side where the main focus is on the headline rates increase compared to forecast and whether a council has been able to maintain or increase service levels.

10.38 There is attention given the financial performance benchmarking regulations due to the requirement in s.23 to include this in consultation documents.

Q25. Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

10.39 Please refer to our response on incentives at 10.29 – 10.35

Q26. What measures do councils use to keep services affordable for specific groups, and how effective are they?

10.40 The Rates Rebate Scheme and rates remission and postponement policy options are correctly identified in the Issues Paper as the key measures outside of the rating framework to assist specific groups on affordability.

10.41 We view the Rates Rebate Scheme as an effective system for managing rates affordability for low income households and reflects the true measure affordability.

10.42 It is a mystery to us that councils rarely mention the availability of the Rates Rebate Scheme when setting their actual rating policy. We frequently experience councils proposing to improve affordability for urban residents by measures such as reducing the UAGC, which can have a big impact on farmers' rates.

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[6] Report of the Local Government Rates Inquiry, Recommendation no.82, August 2007

10.43 The rates remission and postponement policy framework offers further specific relief where rates levels are at odds with a ratepayer's situation. If a council is proactive about this these policies can do a great deal to improve the lot of certain ratepayers.

10.44 For farming we advocate for such policies where farmland is under QEII covenant, where adverse events have prevented normal use of a property, and where farmland is valued for residential purposes, but the land continues to be farmed.

Q27. How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

10.45 This is a challenging area of rating policy and the responses of councils vary considerably. Overall the rates levels on farms suggest there is little in the way of genuine ability to pay or beneficiary principles applied, so we cannot realistically point to any trade-offs.

10.46 This is in part due to the inherent inequity of a property value basis of taxation in jurisdictions where rural properties and businesses are combined with urban areas for rating purposes.

10.47 Valuable rural land can be used as a means to defray the costs of urban ratepayers and businesses through a simple rating system without differentials and a low UAGC.

10.48 With respect to ability to pay it is important to consider the nature of farm businesses as enterprises that are land intensive. The value of land will feature far more highly in the capital structure of a farm business than for example a retail or financial business, yet land and/or its improvements are the only asset taxed.

10.49 The rateable value of a farm says very little about its income, costs or debt yet this is fundamental basis of a farmer's contribution to rates. It can be a difficult experience for a farmer in a low income or loss-making year to read in a LTP consultation document that council is concerned about ability to pay among its residents, when their rates bill for general rates is over $10,000.

10.50 Councils in our view need to pay more genuine attention to beneficiary issues, and this is most often reflected in rating policy that includes differentials for residential, commercial and farmland properties, and targeted rates. These are quite blunt and underutilised mechanisms but are generally in use to reflect distribution of benefit. The concern for many farmers is that much of their rates contribution is for services located many kilometres from the farm, such as parks, stormwater, streetlights and other amenities. This sentiment came through very strongly in our Rates Survey.

10.51 The Local Government (Rating) Act 2002 does offer a range of mechanisms to reflect benefits in rates based on the longstanding view of local government as a service provider rather that a re-distributor of wealth.

10.52 The ability of local authorities to refine targeted rates, develop differentials and target uniform charges to separately used or inhabited parts of rating units is extensive, yet we have found little comfort in these statutes in terms of rates levels on farms. As a minority population in most jurisdictions farmers can find it very difficult to convince councils to use these mechanisms. It can take years of advocacy to gain a targeted rate for a community facility or even for tourism promotion, yet this can be lost in a single revaluation if a council decides there are ability to pay issues in urban areas.

10.53 As such, we don't see a trade-off between ability to pay and beneficiary principle, rather they are a convenience for councils to manage the political impacts of their expenditure decisions.

10.54 We agree with the statement in the Issues Paper that "… property taxes are by definition based on property wealth, rather than on income or total wealth, and so are not always a good indication of ability to pay". Where rural and urban properties combine to fund services they are also a very poor indicator of benefit.

Q28. Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?

10.55 On the basis of the rates allocated to our members it would be difficult to make a case that it is a fair allocation. While differentials are reasonably widely used for rural areas the factors involved are generally insufficient to produce a balanced contribution between farm households and other residences and businesses to general rates.

10.56 Differentials are not the only determining factor in rates levels on farms. Whether the basis of rating is land or capital value is a crucial factor, along with the extent to which the UAGC is utilised and the incidence of targeted rates.

10.57 We agree with the view of LGNZ quoted in the Issues Paper that the "rationale behind rating differentials is not always transparent", although in some cases such as New Plymouth District Council a percentage share of rates is allocated to different property types and it is from this that the differential factor is identified.

10.58 We refer to New Plymouth's approach as a "box differential" in that it manages the overall contribution of each rating group according to a formula that may include population density, proximity to services, kilometres of road network etc. This type of differential rating has become rare in recent years.

10.59 As at 10.51 and 10.52 the problem lies with the discretion of councils to adjust differentials when convenient politically, and we agree with the observation of the Shand Report in this regard.

10.60 In our view a strengthening of the decision-making provisions of the Local Government Act 2002 is needed most. As earlier stated we viewed the repeal of earlier frameworks for decision making on funding of local services as a major setback, as councils were no longer obliged to publish their thinking in a structured way. The current provisions at s.101 of the Local Government read well as a set of principles, but there is little evidence that councils apply them with any rigour.

Q29. Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?

10.61 The requirement on councils to develop infrastructure strategies has improved the inter-generational aspect of long-term infrastructure funding.

10.62 While it depends very much on the individual council there is generally in our experience a greater willingness to use mechanisms such as debt to improve intergenerational equity.

11. FUTURE FUNDING AND FINANCING

11.1 We hope in this submission that we have conveyed the extent of our despair at the property tax basis of funding for local government.

11.2 Our concerns are contextual. We do not contest the argument that property rates may be inherently efficient for the tax collector or may contain properties thought equitable in their pure form.

11.3 Our concern is that property value rates are used to fund modern local government, that is a government with a power of general competence, an activist purpose (soon to become more activist with the proposed reintroduction of the four well-beings) and a high level of discretion as to the allocation of costs between communities or property groups.

11.4 Successive reforms of local government have not included funding. This is a hindrance to local government effectiveness overall and over time, despite the convenience of this autonomy and discretion.

Q30. What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?

11.5 The principles outlined in the Issues Paper are adequate provided there is a genuine assessment of the context in which the tax is applied. Can the value of a person’s property adequately reflect their wealth, income or impact on council services? We think not, especially in situations where very different types of property use form part of the same revenue base and councils have total discretion as to the use of any modifying mechanism such as differentials.

11.6 In our view property value rates fail on efficiency as they offer little scope for incentivising decisions about the use of services or the development of property.

11.7 They fail on equity and fairness in that property value offers a narrow view of wealth and few clues as to income. This is reflected in individual farm rates levels and we refer to our survey report at section 2 of this submission.

11.8 Property value rates only offer revenue integrity in that land cannot be hidden from tax collector. The distribution of values within the rating base does however change with each district revaluation and this has the effect of moving liability around within a rating base, and in that sense the integrity of the system can come into question.

11.9 We contend that compliance and administration costs for property value rates are relatively high in that the value must be measured and renewed at considerable expense to the local authority.

11.10 There is little coherence between property value rates and the national forms of taxation. This is evidenced by the plethora of special purpose funds for local government.

Existing funding tools

11.11 Commentary on this is made difficult by the very wide range of approaches councils take to the use of funding mechanism. This reflects their discretion and as previously stated a certain amount of political convenience.

11.12 In our submissions on annual and long-term plans of local authorities Federated Farmers always makes a strong case for the use of targeted rates and charges, the UAGC and differentials to councils – that is we want them making the most and best use of the mechanisms availed them in the Local Government (Rating) Act 2002.

11.13 These arguments are often based on an individual's inherent right not to be taxed out of business for no good reason.

11.14 We have also supported the shift to capital value rates in many jurisdictions, although this often comes at the price of a rural differential and a reduced UAGC. As noted in the Issues Paper land value rating systems disadvantage farmers as the value of improvements relative to the land is much less.

11.15 We entirely reject any notions that land value rating in its pure form has advantages over capital value. It is generally accepted in tax theory that the broader the base the fewer the distortions. Capital value also reflects growth and development and would seem more efficient for councils dealing with growth. The value of buildings should be rated – it is not the land that uses most council services, it is people.

Q31. How effectively is the existing range of local government funding tools being used?

11.16 As previously mentioned we find that the existing range of funding tools is generally under-utilised. There is a growing incidence of simple rating systems that rely heavily on capital value general rates, with a UAGC and targeted rates for network utilities based on connections and sometime volume.

11.17 The UAGC is generally under-utilised. While some rural councils and regional councils utilise the charge for the maximum of 30 percent of total rate revenue, many are nowhere near this limit and some councils do not use the UAGC at all, rather relying on targeted rates and differentials to achieve their rating outcomes.

11.18 The UAGC is essential to containing the rates levels of farmland and to reflect the element of benefit that is derived by people, not property. We do not see the UAGC as regressive, as rates are not related to income or total wealth, the better measures of ability to pay. The arbitrary limit is unusual in the context of the overall discretion councils have as to funding tools and their use. If anything, the 30 percent should a minimum not a maximum.

11.19 As a very broad comparison Gisborne and Thames Coromandel district councils make more extensive use of funding tools available than say Waikato or Hauraki district councils. In our view Gisborne and Thames achieve greater equity in their rates allocation between communities and a more logical fit with benefit distribution and access to services.

11.20 We find that regional councils overall tend to make a greater use of targeted rates than the districts when utilities are set aside. Commonly there will be targeted rates for pest management, passenger transport, flood protection and soil conservation, and good debates can be had about what level of service people are prepared to pay for, an opportunity that is not afforded within general rates.

Q32. 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?

11.21 There is a strong case for greater use of targeted rates within council rating systems.

11.22 Councils have many options on which to allocate targeted rates to property as set out in Schedule of the Local Government (Rating) Act 2002. Councils have the option of basing targeted rates on land or capital value, the value of improvements along, the land areas of rating unit, and on connections or access to a service.

11.23 We believe that targeted rates are widely under-utilised, with many councils opting for a simplified approach that relies on general rates. Arguments that this makes the system less complex and more easily understood by ratepayers certainly do not hold water with farmers.

11.24 We value the qualities of transparency that targeted rates bring, particularly as they occupy a separate line item on the rates demand and this makes the cost more visible to ratepayers.

11.25 We view ability to use targeted rates on the basis of the value of improvements alone as an effective potential way of funding 'people' services such as parks and reserves, and town amenities. In the course of all of representations to councils on annual plans and LTPs we have not seen this basis utilised.

11.26 The use of fees and charges is more challenging with the concern that facilities will be under-utilised if they are applied too extensively. It is unlikely for example that a council could ever recover the full costs of operating a public pool or a library from user fees alone.

11.27 Fees and charges are vital though to ensuring everyone in the community experiences the cost of local government at some direct level, not just ratepayers. We note that this issue is generally given a good profile in annual plan and LTP consultation processes, with councils often indicating up front that they are struggling to meet the fees and charges target in their plan or considering reducing fees to increase the use of certain facilities.

11.28 User charges are the most efficient form of rationalising demand for services where property value or uniform charges would fail; refuse collection and volumetric water charging are good examples of this. That said, farmers do complain about what they consider to be exorbitant resource consent and monitoring fees imposed on top of very high rates.

Q33. What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?

11.29 The rationale underlying councils' approach to levying rates is generally one of pragmatism and what the council believes the majority of ratepayers can tolerate.

11.30 The stated rationale in council revenue and financing policies is generally in our experience at variance with the actual rating outcomes.

11.31 For example, Whakatane District Council sets out a laudable rating philosophy in their revenue and financing policy. It emphasis benefits and allocating costs to beneficiaries where they can be clearly identified. This philosophy has endured for a number of years, however we found in 2012 that council was able to remove targeted rates for libraries and swimming pools that reflected distribution of benefits, restoring them to the general rate, without (apparently) altering their philosophy.

11.32 Indicative rating examples in Whakatane district council's 2018 Long Term Plan show a general rate contribution, which does not include roading, of $206.67 for a lower value urban property compared to $4,253.32 for a higher value farm. This suggests that the beneficiary philosophy is not being applied, rather political pragmatism is significantly in play.

11.33 A rationale that is increasingly mention in council consultation documents on long-term plans is 'affordability' or 'ability to pay'. This is often the rationale given for reducing the UAGC, removing differentials or targeted rates, and relying more heavily on general rates.

11.34 Again, we view this as largely a pragmatic exercise, given the existence of the Rates Rebate Scheme and the potential do develop remission policies for the purposes of hardship and low income.

11.35 As stated at 11.14 and 11.15 above Federated Farmers has been supportive of council moves away from land value to the capital value basis.

11.36 Federated Farmers views the capital value basis as somewhat less distortionary for farms. Land value systems produce huge distortions between urban residences and farmland and would not be credible or sustainable as a means of funding community services. That said, an effective differential system such as that in use by Thames–Coromandel District Council can make land value plausible in a certain context.

11.37 Capital value is the more logical funding basis as it represents the broader tax base and does not punish farmers for the lesser-developed nature of their properties.

11.38 Our experience with councils moving from land to capital value usually involves the removal of any rural differentials extant, and a lowering of the UAGC. Councils see the effect as simplifying the rating system, and as a means to reducing administrative costs.

11.39 We are not aware of a local authority that has ever transitioned from capital value to land value, it has all and always been the other way.

Q34. In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?

11.40 The limitation on the UAGC at 30 percent of total rate revenue is a significant limitation on its uptake and usefulness.

Q36. What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?

11.41 We have provided extensive commentary on this issue in the sections above, particularly in our answers to Q.27 and Q.28.

11.42 In our view local government relies far too heavily of property value rates for a growing range of services beyond those that rates were originally designed for, such as road building land drainage.

11.43 This reliance on property value reduces the credibility of local government as rates can swing and soar for reasons unrelated to a ratepayer's income or total wealth, or the benefit and access to services.

11.44 As we have emphasised the relatively narrow basis of property value rates limits their efficacy.

Q37. Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?

11.45 There is generally a strong case for central government involvement where ratepayers and communities are experiencing significant impacts from national economic trends such as tourism growth.

11.46 It is not reasonable to expect property owners in a particular jurisdiction to provide substantial additional infrastructure and services to cater to tourism when the greater part of the taxation revenue from it goes to central government by way of GST

11.47 As noted in the Issues Paper a good case can also be made for central government assistance where new or strengthened regulatory standards are imposed on a national basis. Drinking water standards is just one example.

11.48 There should be some incentive on central government to make their demands of local government reasonable, and we think a cost share with local government would also help in this regard.

11.49 Overall the limitations of property value rates and local government's reliance on them make a strong case for continued and increasing central government support to local government to achieve their broad range of objectives. As we state at 6.14 central government has vastly superior taxation mechanisms.

11.50 The trade-off in the local government might be that councils have less autonomy than central government; we would suggest the interests of communities are more important than notions of autonomy.

Q38. 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?

11.51 There would seem to be insufficient financial incentive on local authorities to accommodate economic and population growth as property value rates do not capture the value of growth in the shorter term.

11.52 Councils can also be reluctant to invest for growth when forecasts can be uncertain. Councils that planned for significant growth prior to the Global Financial Crisis in 2008 found themselves with substantial debt servicing costs without an increased income.

11.53 Development contributions serve as perhaps the most useful mechanism local authorities have for growth, but these are limited to actual impacts of development and are often used to pay off debt already incurred in high growth areas. There have also been problems in their application which resulted in legislative changes in 2014.

Q39. What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?

11.54 We concur the Commission's recommendations in the Better Urban Planning inquiry that central government should assist councils suffering population decline on an incentivised basis. .

11.55 Councils are generally reluctant to accept decline and their response is to try to fight it through economic development policies and/or promotion of tourism. They must rely on a declining rating base as a platform for these initiatives and they can be a hard sell to ratepayers.

11.56 Without the capacity to impact natural economic decline ratepayers in these situations are at risk of sub-standard services if their council is not willing to develop a sustainable plan for retreat from some services.

Q40. Are other options available, such as new delivery models, that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?

11.57 Within the present funding and financing framework for local government we can only see central government assistance as viable.

Q41. What are the pros and cons of local income and expenditure taxes?

11.58 Income and expenditure taxes have qualities far superior to property value rates for the efficient, fair and equitable funding of the cost of public services.

11.59 A local income tax would certainly benefit a local authority in terms of credibility with the community and true application of ability to pay principles. A local authority would also have more incentive to contribute resources to accommodate population and economic growth.

11.60 A local expenditure tax would have the advantage of ensuring that tax revenue can be derived from tourists and visitors and would have some approximation to economic activity which is not reflected in property values.

11.61 We accept that there are considerable administrative challenges and problems with scale in applying a local tax model to New Zealand jurisdictions outside of Auckland; as such we support the Commission investigating the development of a system of revenue sharing between central government and local government that could perhaps be based on a formula like that used for central government's share of local roads.

Q42. What are the advantages and disadvantages of a local property tax as an alternative to rates?

11.62 We do not support the notion that property alone should fund the services and aspirations of modern local government

11.63 We would need more information on this approach to determine whether it might be of value to our members.

Q43. Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?

11.64 As at 11.61, we view the concept of a revenue share from central government as having some merit.

11.65 Presently the local road share of land transport is supported by the FAR to local authorities, calculated on an agreed formula that includes a number factors relayed to the road network in a district. This is not perfect system, but it is indicative of the potential to revenue share on a systemic basis, that does not involve the cost and effort of applications such as those required for a council to get a grant from the Tourism Infrastructure Fund.

11.66 Central government's preparedness to grant local authorities with a more activist four wellbeings purpose statement, should be matched by a willingness to share national tax revenue and not leave it all to local ratepayers.

Q44. How can the transition to any new funding models be best managed?

11.67 In the case of any additional revenue streams for local authorities it would important to reduce or cap revenue from property value rates so there is genuine and noticeable relief for ratepayers.

11.68 This reflects a concern with the present system of grants and subsidies, that local authorities do not necessarily replace local revenue when a grant is achieved. It is simply added to the revenue mix.

Q45. To what extent does the need for particular funding tools vary across local authorities?

11.69 We agree that the sufficiency of existing funding tools varies across different jurisdictions, but this does not set aside the flaws of property value rates.

11.70 The existing system of rates, charges, debt, and development contributions arguably works best for compact local authorities with a relatively homogenous rating base.

11.71 There is greater need for modifiers such as differentials and uniform charges where farmland exists alongside townships within the same rating area.

Q46. To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?

11.72 We have no problem with existing financing barriers, given the general lack of constraint on local rates and requirements on local consultation processes.

11.73 If anything the debt benchmarking regulations serve as something of a red line across which it can be taken that a local authority, and therefore ratepayers, face sustainability problems and are at risk.

11.74 The Local Government Finance Agency (LGFA) limits associated with borrowing are also useful and are generally referred to in councils' financial strategies. Opotiki District Council has indicated that it plans to exceed the LGFA net debt to revenue cap in 2025: this is valuable signal for the Crown and ratepayers.

Q47. What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?

11.75 We refer to the Local Government Business Forum submission points on this and concur with them.

Q48. If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?

11.76 We refer to our comment at 11.62.

Q49. How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?

11.77 As previously stated farmers are very concerned at the lack of accountability local authorities have to their communities in terms of their decision-making on rates and their allocation of costs between ratepayer groups.

11.78 The requirements to develop infrastructure strategies and financial strategies are useful and have delivered more robustness to the consultation process. The overall consultation framework, relying as it does on a council's own significance and engagement policy and its willingness to genuinely report impacts, puts ratepayers at some risk.

11.79 The current oversight arrangements of central government are, for ratepayers such as farmers, is therefore something a 'last chance saloon'. We are glad to have them and see regulations such as the financial benchmarking regulations as the de facto check on council profligacy.

11.80 In our long experience of supporting farmers on rates issues - everything from charges on titles to sudden massive increases in rates - it is very noticeable that there is no appeal authority on local government funding decisions, only the potential for expensive judicial review. We contend that if such an authority were established to deal with individual ratepayer concerns councils would be more rigorous in their development of rating policy and have more regard for the funding principles in local government legislation.

12. ABOUT FEDERATED FARMERS OF NEW ZEALAND

12.1 Federated Farmers is a member-based organisation that represents farmers and other rural businesses throughout New Zealand. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farmers.

12.2 The Federation aims to add value to its members' business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.

THANK YOU

APPENDIX – FEDERATED FARMERS RATES SURVEY

The Productivity Commission is undertaking an Inquiry into Local Government Funding and Financing. To help inform Federated Farmers' advocacy on the Inquiry, including its submission on the Inquiry's Issues Paper, a member survey was undertaken. It was held from 29 January to 7 February 2019 and in that time 1,070 individual responses were received.

All Federated Farmers members were invited to participate through an emailed member advisory with a link to a Survey Monkey on-line survey. The survey was not scientific in that it was 'self-selecting' but it provides what we consider to be a useful indication of farm rates and the issues of concern to farmers.

This report provides the results for each question.

1. What is your farm type (n=1,070)

Farm Type	Number	Percent
Sheep and beef	532	49.63%
Dairy	546	51.03%
Arable/cropping	115	10.75%
Mixed livestock	64	5.98%
Other*	83	7.76%

Percentages add up to more than 100.00% as respondents could choose multiple farm types.
* 'Other' included a wide range of farm types from very extensive forestry and deer to very intensive horticulture, viticulture, pigs and chickens.

2. What is your effective farm area (in ha)? (n=1,070)

Farm Type	Total	Mean	Median	Maximum	Minimum
Sheep and beef	577,731	1,099.70	555.5	30,000	3
Dairy	204,488	374.52	215	7,500	8
Arable/cropping	64,825	563.70	400	3,700	28
Mixed livestock	39,739	620.92	460	3,700	20
Other	87,771	1,057.48	445	10,164	2.4
All farm types	**742,480**	**694.56**	**345**	**30,000**	**2.4**

Totals for farm types add up to more than the total for all farm types as respondents could choose multiple farm types.

Of those who provided their rates information (n=891)

Farm Type	Total	Mean	Median	Maximum	Minimum
Sheep and beef	464,827	992.18	552	26,000	8
Dairy	168,334	374.91	215	7,500	8
Arable/cropping	51,976	535.84	380	3,600	28
Mixed livestock	29,353	638.10	462	3,700	25
Other	76,114	1,072.03	430	10,164	2.4
All farm types	**596,357**	**670.06**	**341**	**26,000**	**2.4**

Totals for farm types add up to more than the total for all farm types as respondents could choose multiple farm types.

3. Is the farm on more than one title (yes/no)? (n=1,065)

Farm Type	Total	Yes	Percent	No	Percent
Sheep and beef	528	428	81.06%	100	18.94%
Dairy	545	470	86.24%	75	13.76%
Arable/cropping	115	106	92.17%	9	7.83%
Mixed livestock	64	53	82.81%	11	17.19%
Other	83	67	80.72%	16	19.28%
All farm types	**1,065**	**882**	**82.82%**	**183**	**17.18%**

4. Is the farm part of a flood protection or drainage scheme? (n=1,070)

Farm Type	Total	Yes	Percent	No	Percent
Sheep and beef	532	94	17.67%	438	82.33%
Dairy	546	151	27.66%	395	72.34%
Arable/cropping	115	41	35.65%	74	64.35%
Mixed livestock	64	14	21.88%	50	78.12%
Other	83	16	19.28%	67	80.72%
All farm types	**1,070**	**246**	**22.99%**	**824**	**77.01%**

5. Is the farm part of a council-owned water supply scheme? (n=1,070)

Farm Type	Total	Yes	Percent	No	Percent
Sheep and beef	532	96	18.05%	436	81.95%
Dairy	546	99	18.13%	447	81.87%
Arable/cropping	115	41	35.65%	74	64.35%
Mixed livestock	64	20	31.25%	44	68.75%
Other	83	17	20.48%	66	79.52%
All farm types	**1,070**	**210**	**19.63%**	**860**	**80.37%**

6. Which district/city council do you pay your rates to? (n=926)

Council	Number	Council	Number
Southland	59	South Waikato	15
Ashburton	56	Gore	14
Waikato	40	South Wairarapa	14
New Plymouth	38	Waimakariri	14
Clutha	31	Far North	13
South Taranaki	31	Hastings	13
Selwyn	30	Whangarei	13
Tararua	26	Masterton	11
Central Hawkes Bay	25	Whanganui	10
Rangitikei	25	Horowhenua	9
Auckland*	24	Taupo	9
Matamata-Piako	23	Wairoa	9
Manawatu	22	Mackenzie	8
Rotorua Lakes	22	Stratford	8
Waitaki	22	Christchurch	7
Central Otago	21	Waimate	6
Hurunui	21	Grey	5
Timaru	21	Opotiki	5
Gisborne*	20	Westland	5
Waitomo	20	Carterton	4
Western Bay of Plenty	19	Thames Coromandel	4
Hauraki	18	Kapiti Coast	3
Tasman*	18	Queenstown-Lakes	3
Whakatane	18	Buller	2
Dunedin	17	Invercargill	2
Ruapehu	16	Nelson*	2
Waipa	16	Palmerston North	2
Kaipara	15	Hamilton	1
Marlborough*	15	Hutt	1
Otorohanga	15	Kaikoura	1

No respondents from: Chatham Islands, Kawerau, Napier, Porirua, Tauranga, Upper Hutt, Wellington
* Unitary councils (i.e., councils having the functions of a regional and a district council)

7. How much will you pay in rates to this district council in 2018/2019? (n=890)

Farm Type	Total	Mean	Median	Maximum	Minimum
Sheep and beef	$9,439,916	$20,656	$15,896	$167,961	$1,587
Dairy	$10,092,691	$22,478	$17,130	$270,000	$1,000
Arable/cropping	$2,665,857	$27,483	$18,599	$167,961	$4,000
Mixed livestock	$1,282,038	$27,870	$14,614	$270,000	$1,713
Other	$1,797,766	$25,321	$19,724	$165,000	$3,200
All farm types	**$18,332,219**	**$20,598**	**$16,000**	**$270,000**	**$1,000**

Totals for farm types add up to more than the total for all farm types as respondents could choose multiple farm types.

Percent of respondents paying district council rates

Farm Type	Under 10K	10-20K	20-50K	50-100K	Over $100K
Sheep and beef	24.11%	38.30%	31.68%	4.96%	0.95%
Dairy	17.06%	41.36%	35.75%	4.44%	1.40%
Arable/cropping	11.24%	40.45%	37.08%	7.87%	3.37%
Mixed livestock	30.43%	32.61%	30.43%	2.17%	4.35%
Other	27.82%	33.08%	33.08%	5.26%	0.75%
All farm types	**22.36%**	**40.56%**	**31.91%**	**4.27%**	**0.90%**

Average district council rates per hectare

Farm Type	Mean
Sheep and beef	$20.31
Dairy	$59.96
Arable/cropping	$51.29
Mixed livestock	$43.68
Other	$23.62
All farm types	**$30.74**

8. Which regional council do you pay your rates to? (n=816)

Council	Number
Waikato	168
Canterbury	152
Horizons	106
Otago	84
Taranaki	71
Southland	66
Bay of Plenty	49
Hawkes Bay	45
Northland	38
Greater Wellington	31
West Coast	12

Unitary councils included in table of district/city councils

9. How much will you pay in rates to this regional council in 2018/2019? (n=709)

Farm Type	Total	Mean	Median	Maximum	Minimum
Sheep and beef	$2,139,913	$5,928	$3,670	$105,000	$250
Dairy	$3,193,658	$8,896	$4,999	$105,000	$10
Arable/cropping	$770,299	$10,004	$5,888	$105,000	$338
Mixed livestock	$321,825	$8,252	$5,382	$50,000	$227
Other	$363,467	$7,572	$3,751	$105,000	$430
All farm types	**$5,040,912**	**$7,120**	**$4,000**	**$105,000**	**$10**

Totals for farm types add up to more than the total for all farm types as respondents could choose multiple farm types.

Percent of respondents paying regional council rates

Farm Type	Under 10K	10-20K	20-50K	50-100K	Over $100K
Sheep & beef	86.09%	9.76%	3.25%	0.59%	0.30%
Dairy	73.10%	16.08%	8.77%	1.75%	0.29%
Arable/cropping	72.86%	15.71%	10.00%	0.00%	1.43%
Mixed livestock	82.05%	7.69%	7.69%	2.56%	0.00%
Other	84.21%	10.53%	3.16%	1.05%	1.05%
All farm types	**81.10%**	**11.71%**	**6.06%**	**0.99%**	**0.14%**

Average regional council rates per hectare

Farm Type	Mean
Sheep and beef	$4.60
Dairy	$18.97
Arable/cropping	$14.82
Mixed livestock	$10.96
Other	$4.78
All farm types	**$8.45**

Total rates paid to district and regional councils (question 7 plus question 9) (n=891)

Farm Type	Total	Mean	Median	Maximum	Minimum
Sheep and beef	$11,582,293	$25,289	$18,998	$270,000	$1,875
Dairy	$13,288,814	$29,596	$21,928	$320,000	$1,800
Arable/cropping	$3,436,156	$35,424	$24,911	$270,000	$5,714
Mixed livestock	$1,603,863	$34,867	$19,000	$320,000	$1,941
Other	$2,161,234	$30,440	$22,800	$270,000	$3,200
All farm types	**$23,375,594**	**$26,208**	**$19,746**	**$320,000**	**$1,800**

Totals for farm types add up to more than the total for all farm types as respondents could choose multiple farm types.

Percent of respondents paying district council and regional council rates…

Farm Type	Under 10K	10-20K	20-50K	50-100K	Over $100K
Sheep and beef	16.51%	37.26%	36.32%	8.49%	1.42%
Dairy	8.41%	34.81%	44.86%	9.11%	2.80%
Arable/cropping	6.74%	26.97%	47.19%	14.61%	4.49%
Mixed livestock	13.04%	36.96%	30.43%	15.22%	4.35%
Other	19.55%	30.83%	39.10%	8.27%	2.26%
All farm types	**14.13%**	**36.21%**	**40.02%**	**7.85%**	**1.79%**

Average regional and district council rates per hectare

Farm Type	Mean
Sheep and beef	$24.92
Dairy	$78.94
Arable/cropping	$66.11
Mixed livestock	$54.64
Other	$28.39
All farm types	**$39.20**

10. Do you feel you get value for money from your rates?

Farm Type	Total	Yes	Percent	No	Percent
Sheep and beef	417	17	4.08%	400	95.92%
Dairy	436	9	2.06%	427	97.94%
Arable/cropping	86	0	0.00%	86	100.00%
Mixed livestock	45	0	0.00%	45	100.00%
Other	132	4	3.03%	128	96.97%
All farm types	**887**	**26**	**2.93%**	**861**	**97.07%**

11. What drives you most crazy about your rates? (n=811)

This question invited free responses. The answers were categorised as follows…

Category	Number	Percent
Little service or value in return for rates paid	243	29.96%
Poor and deteriorating state of local roads	194	23.92%
Cross-subsidise urban, paying for services can't access	134	16.52%
Large amounts of rates to pay	106	13.07%
Large ongoing increases in rates	88	10.85%
Unfair rates system	62	7.64%
Council waste and inefficiency, poor decisions	56	6.91%
Council non-core spending, not sticking to basics	43	5.30%
Large fees and charges on top of large rates paid	30	3.70%
Council's poor and unresponsive service	27	3.33%
Rates used by council to act against farmers	26	3.21%
Rates used to expand bureaucracy and unproductive staff	23	2.84%
Poor water supply	23	2.84%
Poor draining and flood protection	21	2.59%
Council lack of rural knowledge or understanding	16	1.97%
Council not accountable to ratepayers	14	1.73%
Poor solid waste service	12	1.48%
Council extravagance	11	1.36%
Satisfied, nothing makes me crazy	5	0.62%
Poor weed and pest service	3	0.37%

Percentages add up to more than 100.00% as some farmers had multiple complaints

12. What council activities matter the most to your farm? (n=882)

Farm Type	Roading	Recreation & Sport	Planning & Regulation	Water & Waste Water	Land Drainage	Culture	Solid Waste	Economic Development	Governance
Sheep & beef	90.45%	5.97%	42.72%	20.76%	15.27%	0.95%	6.68%	23.87%	22.91%
Dairy	85.15%	9.74%	41.30%	26.22%	30.63%	3.48%	9.28%	23.43%	25.99%
Arable/ cropping	89.16%	13.25%	45.78%	33.73%	31.33%	2.41%	8.43%	26.51%	26.51%
Mixed livestock	88.64%	13.64%	38.64%	34.09%	29.55%	2.27%	6.82%	22.73%	18.18%
Other	86.92%	8.46%	49.23%	24.62%	20.00%	3.85%	4.62%	26.15%	28.46%
All farm types	**87.87%**	**8.28%**	**42.52%**	**23.70%**	**23.47%**	**2.27%**	**8.16%**	**23.24%**	**24.04%**

Percentages add up to more than 100.00% as farmers picked multiple activities as shown in table below

Average number of activities selected as mattering most

Farm Type	Average Activities
Sheep and beef	2.29
Dairy	2.55
Arable/cropping	2.77
Mixed livestock	2.55
Other	2.52
All farm types	**2.44**

QUOTES FROM RATES SURVEY

Selection of quotes from answers to question 11 “What drives you most crazy about your rates?”

Type of Farm	Region	Amount Paid	Quote
Dairy	Waikato		They (rates) are so high and we get so little in return. It is extortion. It feels like a gravy train for councillors and staff. Their buildings and expansion are extravagant.
Sheep & Beef	Gisborne	$36,907	That it appears the majority of rating spend is for urban benefit, cycle ways, board walks, street lighting, library, council buildings, the nice to have projects and not enough on the need to have areas, flood protection, water storage, roading. Farmers are starved of decent roads.
Sheep & Beef/Dairy	Northland	$16,300	We are paying a huge amount of rates for next to no real return on it. We live 45km out of town on a stretch of 8km gravel road that gets maintained to a low standard. we barely use any of the town amenities and do not have any use of town infrastructures like water or sewage or flood protection schemes. At a rate bill of nearly 17000 per year this is ridiculous. It needs to be reviewed to a more fair user pays status
Sheep & Beef	Manawatu-Wanganui	$36,000	It's daylight robbery... They're getting money for nothing, we have nothing to show for it, and the rates keep going up. We source and pipe our own water, dispose of our own refuse and sewerage etc.
Sheep & Beef	Manawatu-Wanganui	$20,899	District council rates We have been asking for 30 years for a roadside drain to be cleaned, still waiting and treated terribly when making a complaint. Pay for what we use relative to income not land value, I pay more in rates then my family lives off
Sheep & Beef	Hawkes Bay	$32,000	Extremely excessive. I could employ another worker for that one we desperately could do with
Arable	Canterbury	$12,398	The annual increase far exceeds inflation. Being in one of the fastest growing population regions, I thought the increasing number of ratepayers would mean we should see a decrease. Having an Ecan drain go through our property and neighboring properties over several weeks watching Ecan workers standing around for much of the day while they supposedly clean drain at our expense. No other business would tolerate this wastage.
Sheep & Beef/Dairy	Otago	$73,000	Reduced grading of our gravel road to 3 times a year. Was told by CEO that remote roads were a problem. We live 35 minutes from Oamaru

Dairy	Waikato	$12,368	The waste of ratepayers' money when the district plan came into law and sheer 'stupidity' of the plan which resulted in costly court cases funded by ratepayers
Dairy	Waikato	$10,268	The spending behaviour of the district council on big fancy items and they are struggling to do the core important things like roading, culverts, weed control, enough water supply, the increase in water rates is incredible. sewerage upgrade etc
Pigs	Canterbury	$8,107	That they keep going up and we get nothing more for them. We live on a state highway so NZTA maintains the road. We have a rubbish collection (no green waste) but we pay extra on our rates for this. I feel the district council does not spend wisely and has a huge amount of staff.
Sheep & Beef/Dairy	Wellington	$119,000	Water races that we us no water from & pay around $15,000 a year for other people's benefit
Dairy	Manawatu-Wanganui	$44,092	Lack of value. Councils universally seem to be afflicted with the "other people's money" syndrome. They fleece us just because they can!
Dairy	Waikato and Otago	$320,000	We use very few district council services. No rubbish collection, no town water, no sewerage. We have multiple titles which has increased rates burden
Dairy	Canterbury	$27,000	We live too far away to enjoy any of the services our rates supposedly provide. We have to pay for our own rubbish collection, and we have to hound the council every time it rains in order to get our road graded -which is then a substandard job. Last time we had to threaten them we would grade it ourselves, before they would come out. Rates shouldn't be based on farm values / area - this is totally unfair. Should be based on where the majority of the services / money is being spent. I wouldn't care so much if we were able to enjoy the facilities our rates provide.
Sheep & Beef	Manawatu-Wanganui	$19,194	The sheer size of the amount, the quarterly drain on my farm account, just when I think things are going OK. When I started farming in the early 70's, my fertiliser bill was $4000 and total rates $700, now it's a complete reverse.
Beef	Hawkes Bay	$9,222	We are being rated on the price paid by our next door neighbour for his land - it is coastal.
Dairy	Waikato	$69,502	We've been paying for "stop banks" supposedly forever. They were paid for a very long time ago and our rates have never gone down. They do not cost that much to upkeep! Also, why do we have to contribute to things like Hamilton buses when we live in Paeroa. The rates are crippling us here.
Sheep & Beef	Otago	$17,000	No return on the money we pay. Our road is beyond terrible. It requires 4WD if it rains. We are one of 5-6 families living on it. The council refuses to put gravel or grade it. But they just spent huge $$ and replaced a perfectly fine bridge on our road with another one!!
Dairy	Bay of Plenty	$7,299	We are on a State Highway, we don't get any roading, water, or flood protection, no public transport, any facilities we actually use are across the "border" in Tauranga City! Feel like we pay 90% too much.
Arable	Canterbury	$14,757	We pay for Council-owned swimming pools and a museum in Christchurch which we would use maybe once in 10 years and we have no rubbish collection. Rates are charged on Capital Value of land which makes it very unfair for most farming families. People living in rental houses don't pay rates, the landlord does.
Dairy	Waikato	$34,446	Each year, council increase my rates by $1100-00. This adds up over time and the council services to the rural

			community decreases. Have to ring several times for cleaning/spraying of council drains and their contractor seems to break water lines around drains cleaned and leave you to find.
Mixed livestock	Gisborne	$23,074	The amount we pay for the poor services we get. Our roads are appalling. When we complain we get told there is not money to fix them. Well where do our rates go?
Sheep & Beef	Otago	$15,005	We get no rubbish collection or have no footpaths but still have to pay for these services. If we are lucky we get gravel on our road every 2 years and they usually only manage to grade our road twice a year. Also, we pay for waste water removal but don't receive this service either
Dairy	Canterbury	$71,250	The attitude that "you're rich therefore you can afford it"
Dairy	Northland	$22,480	I have to earn $432 per week just to pay rates
Sheep & Beef	Northland	$14,202	The fact that the council has a set income from me even if I make a loss. That is not fair.
Dairy	Canterbury	$26,601	High roading rate we are charged and a sub-standard road that we receive, and are unable to get this road maintained to a reasonable standard
Arable	Waikato	$118,580	A lot of money for very few services. It is an archaic system developed when the landowners were the wealthy but now city people can have high earning ability and pay vey little in rates.
Dairy	Otago	$84,432	Paying for flood protection and the townies getting it for nothing
Sheep & Beef	Canterbury	$16,840	No services received, live on a State Highway; do own water, sewage and rubbish; 20 km away from any council owned facilities. Council very anti farm development
Dairy	Southland	$35,543	Paying for rubbish collection that we don't get! And a hall that hasn't been used in 7 years. Funding "cultural" events BUT mostly paying a Dairy roading rate on top of normal roading rates
Sheep & Beef	Otago	$16,800	Our roading network is a disaster. We have a huge amount of gravel road in our district (the most in NZ or 2nd most) and one grader
Dairy	Waikato	$55,548	Our council (Hauraki) changed its long-term plan to load a greater percentage of rates from urban to rural zones in an attempt to make rates more affordable for low income earners. My (and other) submissions that loading costs to the productive sector to assist lower income households is not in the best interests of the district were not well received. Landowners contribute financially, and with other resource and time to the function of many community activities. Loading rates onto that sector is a disincentive to participation and is one factor in land use change from production to lifestyle and other less productive land use.
Sheep & Beef and Arable	Gisborne	$23,914	Value for Money!!! Stop banks need lifting - but council get new council building instead!! Country roading is not maintained - but cycle tracks are installed!! Council too worried about social issues rather than infrastructure.
Sheep & Beef	Hawkes Bay	$20,768	That forestry in the area does not pay the same level we are rated at. They are stuffing the main road State Highway 2. Have lived here for 35+ years it is the worst I have ever know it. Dangerous! So many unpaid rates for Maori owned blocks the Council never get paid for and never sell the land to compensate.
Dairy	Taranaki	$22,416	We pay these exorbitant rates and get no rubbish collection, recycling, sewerage disposal, water supply is additional cost and our roads are substandard !!

Sheep & Beef	Canterbury	$12,199	The Council appears to have too much focus on providing social activities and services rather than sticking to the core business of roading, drainage and water.
Sheep & Beef	Hawkes Bay	$22,078	The cost obviously. But we live on a narrow sealed road which is fine but rarely do they even mow the side of it. I've never used the library we dispose of our own rubbish supply our own water. Then they go and support things like tourism - why can't they support themselves?
Dairy	Waikato	$26,287	Overspending on grandiose stuff in town that we get absolutely no benefits from
Sheep & Beef	Greater Wellington	$86,034	Regional and district pass responsibility back and forth to each other = nothing gets done (especially in regards to river/flood management) - huge money is wasted through sub-contractors - one example- truckloads of rocks for river groins all dropped off then they worked out was 'the wrong rocks' so they had to pick them all back up.... huge equipment, manpower and incompetency. We certainly don't feel we get any value form our rates
Sheep & Beef and Arable	Waikato	$176,534	Based on urban rather than rural through zoning
Sheep & Beef and Dairy	Waikato	$67,800	Get charged for everything on top of rates. Water connection in urban $890, ours $5,100. Pay $380 a month for rubbish collection Pay to have septic emptied into town systems. Business with same turnover in town pays a lot less in rates
Dairy	Southland	$22,484	The extra monitoring costs that are set to recover the true cost, why not do that for the whole rates bill. I get at least three different inspections which I am charged for. As a riverside property very happy to pay for flood banks. The resource consent system and subjective interpretation is the worst. Never knowing what the conditions will be as they change month to month for dairy effluent discharge and water permits. All this money is spent on consultation and re writing rules when it should go into the services necessary to run the region.
Sheep & Beef	Tasman	$20,000	It is the big item which we have no control over....everything else we pay we can make cost/benefit decisions.....and of course that would not stack as the benefit we get is way lower than the cost we are forced to pay
Arable	Canterbury	$38,500	High proportion of district council rates go to roading but the state of maintenance is hopeless