SUBMISSION TO THE LOCAL GOVERNMENT FUNDING AND FINANCE INQUIRY FROM PAUL PERRY, A RESIDENTIAL RATEPAYER IN PALMERSTON NORTH

I am making this submission as an ordinary ratepayer who owns and occupies a modest 60 year old detached single family home in Palmerston North. I am also a retired academic social scientist (sociologist), with over 40 years in the discipline; areas of academic interest have included urban sociology, demography and environmental sociology.

There are 4 main issues I wish to raise:

(1) The urgent need to provide local bodies with a substantially broader revenue base, so that rate increases are not endlessly outstripping the rate of inflation/cost of living by substantial margins.

(2) The issue of whether the review/issues paper has adequately considered funding tools that could broaden local body revenue.

(3) The equity and fairness principle with respect to the basis of rating.

(4) The discussion in the issues paper around capital value versus land value based rating.

(1) The statistics in the issues paper clearly indicate how annual increases in rates have more or less continuously outstripped the rate of inflation (however measured) by very substantial margins for many years. This has been my personal experience as a ratepayer of many decades in Palmerston North. The problems with this are obvious. Incomes are commonly tied to the rate of inflation and if a substantial and unavoidable expense (rates) keeps going up faster than inflation, then this is a factor that makes life increasingly difficult for many people. I am a pensioner (NZ Super and Government Super making up a substantial part of my income) whose pension increases are directly tied to the cost of living increase, not to the rate of increase in local rates.

The obvious conclusion is a need to provide local government with a much broader range of revenue sources that would substantially reduce the dependency on rates as the principal source of revenue. I assume this is the fundamental purpose of the review and I am just reiterating that there is a great need to work on this issue.

(2) (See the discussion preceding Q41 in the issues paper) - I am concerned that certain possible revenue sources may have been rather quickly examined and dismissed with minimal consideration. I am particularly interested in what is called “expenditure taxes” discussed just prior to Q41. Being an expatriate American I am well aware of how many local governments in the USA receive substantial parts of their revenue from modest additions to state sales tax that are applied in the local authority’s area. I fail to see why something similar could not be applied here, returning, say, a small fraction of GST to local authorities. I have trouble accepting the argument made in the issues paper (just before Q41) that local authorities would have to replicate IRD resources. We already have a bureaucratic structure in place for GST with the IRD at the national level; why couldn’t this bureaucratic structure be utilised at a national level, simply returning a determined proportion of GST to local bodies without incurring substantial additional administrative costs at the local level? Is not something along these lines already happening with respect to the Auckland area petrol tax?

(3) & (4) (See discussion preceding Q’s 30 –Q33 in issues paper) - I wish to support the principle of rates being levelled primarily on the basis of ability to pay, rather than rates being a flat charge per house. The latter, I believe is sometimes called a “poll tax” in the UK. My focus here is on rates levied on owner occupied

residences – rural land, rental properties, undeveloped land held for speculation may arguably be different matters.

If one accepts the logic of a "poll tax" then one should also be asking why don't we have a flat rate of income tax, instead of a graduated system? If one accepts the logic of graduated income tax then I would submit that the same logic should apply to residential rates, at least where rates constitute a substantial sum of money. Those who can afford to pay more should, in fairness, pay more. The problem of course is how you measure ability to pay.

Clearly, the value of one's property is an imperfect measure of ability to pay. Nevertheless, I would be very surprised if there was not a substantial correlation (in a large population) between any of a number of reasonable measures of individual or household wealth or income and the value of one's residential property.

Given the above, I was very concerned to read the material on page 50 of the issues paper that actually seemed to advocate for rates based on land value rather than capital value as a fairer system. The logic of this assertion I find very difficult to follow, at least as it would apply to developed land that already consists of residential properties.

In Palmerston North residential rates are primarily based on land value rather than capital value (although part of the rates are made up of fixed charges, which the PN Council openly says are there because of the unfairness of land value based rating). I am a witness to (and indeed arguably a victim – among many other ratepayers - of) the unfairness of land based rating.

My modest sized 60 year old house is immediately surrounded by much newer and much larger houses. Because my house is older and smaller than these other houses, and my section is somewhat bigger, I am grossly disadvantaged in the rates I pay because of land based rating. For example, a much newer and much larger house immediately behind my property has a substantially higher capital value, but pays substantially less rates. My capital value is 81.6% of the capital value of the adjacent property, but my rates are 124.5% greater than the rates on that property. This sort of differential is not unusual, but commonplace.

Land based rating among developed residential properties creates immense unfairness and inequalities. As an owner of a much less valuable property compared to the adjacent one, would you argue that I am clearly more able to afford higher rates than the owner of the substantially more valuable property?

I urge you to revisit and reconsider the discussion on page 50 of the issues paper which appears to advocate land based rating rather than capital value rating as a fairer system. This may make some sense for undeveloped land held for speculation. It does not make sense for developed urban residential land.

Respectfully Submitted, February 15, 2019

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