Up until 1976 local authorities could switch from capital value to annual value rating systems without reference to ratepayers, but any change in adopting or abandoning land value required a majority poll of ratepayers. At present local authorities can change the rating system without recourse to a taxpayer poll; however, public consultations would normally take place.

Figure 2: **Local Authority: Rating Systems**

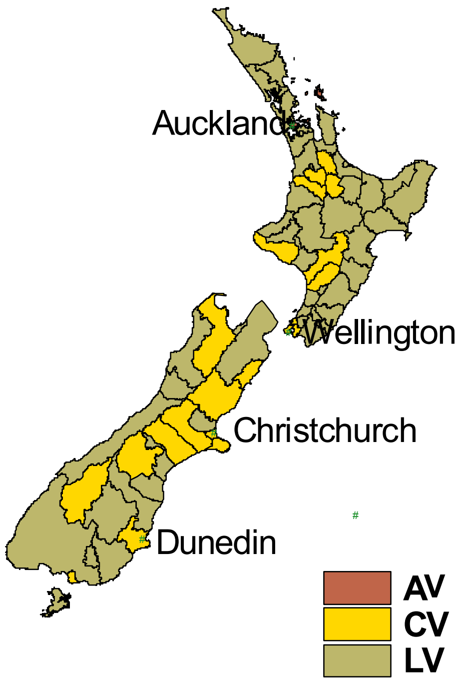

Figure 2 illustrates the geographic distribution of local authority rating bases. Land value systems tend to be more widely used in the (more densely populated) North Island. The traditional "main-four" cities of Auckland, Wellington, Christchurch and Dunedin all have adopted capital or annual value rating systems. Later in this paper, we investigate the choice between capital/annual value and land value rating systems in more detail.

The Modern Funding of Local Government

In July 1996, the government introduced legislation supporting new financial management provisions for local authorities which came into force in July 1998. The government was also conscious that there was a need to redesign local government's funding tools in line with the new provisions. It was felt that the previous legislation, The Rating Powers Act 1988 (RPA) was overly prescriptive and lacked clarity and consistency. To address these concerns a Review of Local Government Funding Powers was initiated to develop a comprehensive, coherent, and flexible legislative framework of funding powers for councils.

The resulting Local Government (Rating) Act 2002 replaces the Rating Powers Act 1988, and relates to powers to set, assess and collect rates to fund local government activities. The primary intention of this legislation was to update and simplify existing rating powers to meet the needs of modern local authorities. The Act provides greater flexibility for local authorities as they determine how to raise revenue through rates. It does not directly affect the amount of money that will be collected through rates, as this is established through funding policy processes under the Local Government Act 1974. In essence, the Act provides local authorities with significantly wider and more flexible options as to how they spread liability for rates across ratepayers in their jurisdiction. Mechanisms and powers are set out in the Act to allow local authorities to raise revenue from the community generally, from specified groups or categories of ratepayers, and from those who use or generate the need for particular services or amenities.

Essentially the Act has three main purposes:

(i) to provide local authorities with flexible powers to set, assess, and collect rates;

(ii) to ensure rates reflect decisions made in a transparent and consultative manner; and

(iii) to provide for processes and information to ensure ratepayers can identify and understand their liability for rates.

The financial management provisions in the current Local Government Act essentially provide for:

- a long term financial strategy which covers a 10 year period and includes information on the services the council proposes to deliver, the cost of those services, how they will be funded and information on the overall financial position of the council;
- a funding decision process that sets out the decision making process and criteria that councils must use when deciding how to fund services;
- borrowing and investment policies;
- an annual plan that sets out the services that a council proposes to deliver for a particular year including costs and funding arrangements; and
- an annual report that sets out the performance of the council and its overall financial position.

The funding policy of a local authority seeks to achieve a systematic review of the funding mechanisms for all activities or functions of the council so that the funding is derived as closely as possible from the beneficiaries of those activities or functions. Essentially, there are three main types of benefits/expenditure:

- that which is independent of the number of persons who benefit from the expenditure, or generates benefits which do not accrue to identifiable persons or groups of persons, or which generally benefits the whole community (general benefits);
- that which provides direct benefits to persons or categories of persons (direct benefits); and
- that which is needed to control negative effects caused by the action or inaction of persons or categories of persons (negative effects).

Figure 3 provides an overview of the key components of a local government financial management strategy as required under the current Local Government Act 1974.

Figure 3: Financial Management Provisions of Local Government