

MEMORANDUM TO MEMBERS OF THE LABOUR PARTY POLICY COUNCIL AND THE PARLIAMENTARY CAUCUS COMMITTEE ON LOCAL GOVERNMENT

1985/6

From: Rolland O'Regan, a senior member of the Labour Party

INTRODUCTION

My objective is to influence if possible Party policy on local body finance. The matters touched upon include Rating Systems, Uniform Annual Charges, Differential Rating, Regional Government and Revenue Sharing.

This might appear to be a presumptuous and irregular procedure but I believe that two special circumstances justify it.

First I am a senior member of the Labour Party of some 55 years standing. I joined the Party in Poplar in the East End of London in 1931 in Ramsay McDonald's day and have been a financial member ever since. I was for some years Chairman of a local Wellington branch of the Party (Roseneath). I was candidate for Wellington Central in 1966 against Dan Riddiford and was defeated on the Vietnam War issue. I was a member of the Dominion Executive of the Labour Party for one year, in 1973 I think, but did not seek re-election.

I carried the flag for Labour in three City Council elections and three Harbour Board elections. I topped the poll in all six. I was for three years Chairman of the Harbour Board and Chairman of the Town Planning Committee also for three years. I was a member of that Committee, the Housing Committee and the Finance Committee for nine years. My local body experience covered a period of 12 years.

In 1972 I published a book on "Rating in New Zealand" with a second edition last year. A former Valuer General described my book on rating as the most authoritative on the subject.

To make this memorandum shorter I refer to the chapters in the book where some of the matters are discussed more fully. This book has already been sent to all members of Parliament and I am sending a copy to each member of the Policy Council with this memorandum. I invite all members to give careful consideration to what is in effect a comprehensive local government policy package.

1. ONE SINGLE RATING SYSTEM

It would be a great advantage if there were one national uniform pattern of local taxation in New Zealand. An enormous amount of social energy has been spent in choosing and changing among the three rating systems which obtain. This has created a situation where very few people understand how they are taxed and why they are taxed. This does not make for strong local government. A single rating system would be

readily understood.

Consider the example of Blenheim (see page 142). This is by no means untypical. The General Rate is on Land Value, a rate is collected for the Catchment Board on the Capital Value and a rate is struck for drainage and sewerage on the Annual Rental Value. There are several categories of properties which are rated differentially and there are Uniform Annual Charges for water and refuse collection. Ratepayers would need an intensive course of study even to understand what the terms employed in this brief statement mean. Very few elected Councillors and professional local body employees are well informed on such matters.

If all rates were struck on one single rating system as they are in Wellington and Sydney a very large amount of ignorance, suspicion and confusion would be removed.

2. REGIONAL GOVERNMENT

The system of rating can alter the incidence of rates quite markedly. If a change is made between Rating on Land Value alone and the Value of Land and Improvements together some rates go up and some go down. If this change is a necessary consequence of an amalgamation proposal an opposition party emerges ready made. Chapter VIII of the book proves conclusively that, like amalgamates with like, with comparative ease. For this reason a single rating system would greatly facilitate the establishment of regional government.

3. MANDATORY RATING ON LAND VALUE

(a) The single rating system would have to be Rating on Land Value because this is the dominant system throughout the country. In 1982 80 percent of all General Rates were raised on this basis and it is used by 81 per cent of all local bodies.

(b) Wherever it is used it has been adopted by the vote of ratepayers whereas other systems of rating have been imposed by Parliament. The system would have become universal in New Zealand in time if the choice of the system had been left in the hands of the ratepayers but National Party legislation has taken the power from the ratepayers and vested it in Councils, most of which are conservative to a man.

(c) Making Rating on Land Value the universal and

Labour's traditional and well-founded suspicion of free hold land tenure. A rate based on Land Value is really a rent charge in favour of the community. Since the 1890's this system has enjoyed support from thousands of Labour Party members. Walter Nash organised a successful poll for its adoption in New Plymouth in 1919. Norman Kirk did the same thing in Kaiapoi in 1953. In fact in 1948 the Labour Party Conference adopted this rating system as a part of its policy - see back page.

Passing legislation in accordance with this recommendation would therefore powerfully support the claim which the Labour Party has often made of standing in the splendid tradition of the great Liberal Party founded by Sir George Grey.

(d) Finally, Rating on Land Value should be made mandatory because of its inherent advantages which have been demonstrated in practice of the last 90 years. It introduces a constant built-in stimulus to growth and development. It punishes inferior land use and rewards optimal land use. It makes all constructive work on land a tax-free investment and so promotes the highest and best use of land. This has very great significance because it promotes employment in all the associated and downstream industries. This has a bearing on the tourist industry because it encourages the construction of tourist hotels, etc.

Central city decay is a growing world-wide problem. World population is steadily increasing and the increase is pouring into towns and shanty towns. In this context the experience of Wellington and Sydney is relevant. Both strike all their rates on land value and since World War II both have been undergoing a process of urban self-renewal so vigorous as to be difficult to control without the strictest enforcement of building codes and town planning ordinances.

These matters are fully discussed on pages 181 - 191 of Postscript II.

4. A SUBSTITUTE FOR RATES

Uniform Annual Charges for local government services are an alternative to rates. Rates are taxes on property in proportion to their value. Valuable properties pay more rates than cheap properties. One of the functions of national taxes is to redistribute the national income through social services, superannuation and various monetary benefits. Taxes based on income make those at the richer end of the spectrum pay for many benefits which those at the poorer end enjoy. Rates reflect this same general effect but they have a stronger ethical base especially when they are struck on the Land Value. Land values are entirely socially created and in a free market they quantify the advantages which society confers on each property. They are further justified as a support for local government because the works and services supplied by local government are a major factor in building up land values.

The use of Uniform Annual Charges has been extended very greatly during the last government's long reign until now it is legally possible to replace rates

strict liability by cash charges.

When every ratepayer pays the same charge for a service it means that the amount of the charge for a particular service paid by the owner of a building site in Queen Street is the same as a cottage owner in Glenfield. Moreover the Queen Street charge is tax-deductible but the Glenfield cottage charge is not.

Essentially Uniform Annual Charges are a crude device to transfer the costs of local government from the rich end of the income spectrum to the poorer end. In my view one of the first objectives of a Labour Government should be to erase all reference to such charges from the Statute Book.

5. DIFFERENTIAL RATING (see pages 145 - 147)

I do not believe that Differential Rating is just or necessary. The valuations for rating purposes are made by one independent Valuation Authority headed by the Valuer General. The distribution of rates will be equitable without having a different mil rate (USA) or poundage (UK). The value of the land reflects the relative advantages which society confers on its owner and the rate in the dollar should be the same for all. The pattern of Differential Rating varies from the simple to the chaotic but nearly all put a penal charge on multi-unit housing and commercial properties. The only justification for this is that the rates on such properties are usually income-tax deductible. In New Zealand all rates are tax-deductible except those of the urban homeowner. I understand that in Australia there is no such exception. If all rates were income-tax deductible the justification for Differential Rating would largely disappear.

I believe it would be sound policy and sound politics to make all rates income-tax deductible.

I do not think the power to levy Differential Rates should be completely abolished but should be restricted to two areas:

- (a) The local authority should be empowered to levy a penal rate on properties which are non conforming uses under a Town Plan. Existing use rights should have a time limit.
- (b) The Local Authority should have the power to levy Differential Rates to replace Special Rateable Valuations discussed in the next section.

6. AMENDMENTS TO THE VALUATION OF LAND ACT (refer pages 114-125)

- (a) Section 25 and 25 A, B, C, D. All these deal with violent changes in land value caused by zoning changes under the Town and Country Planning Act. They require the Valuer General to make special valuations for rating purposes of properties which do not conform to the Town

believe that rating is a matter between the local authority and the ratepayer and that the Valuer General should not be involved in any degree. His business is merely to record valuations made by the market. If there are anomalies and hardships the local authorities should have extensive powers of rates postponement, abatement or remission. This should be dealt with in the Rating Act not in the Valuation of Land Act.

(b) Definition of Improvements. The Valuation of Land Act defines improvements in such a way as to cause some injustice. It says that the excavation of a building platform, construction of retaining walls and internal farm roads, dams, dykes and drains are not improvements within the meaning of the Act, thus the value they create becomes a part of the land value so increasing the rates payable. This is a gross violation of the principle that improvements on property should not be taxed but should be a tax-free investment.

The weight of this defect in the Act is felt particularly in hilly cities like Wellington and Dunedin. It is difficult to see any justification for this penalty tax on essential improvements.

I believe that all improvements which are visible, irreversible or require maintenance should be tax exempt and the definition of improvements in the Act should be amended to this end.

(c) Annual Valuations. On any property the value of the land is a very labile element. If rates are struck on the Capital Value, i.e. land and improvements together, the rateable base is much more stable because with the passage of time the value of the building diminishes as the value of the land increases and so the total value tends to remain at a more constant level. If the rates are on the land value alone the fluctuations due to changes in zoning, population growth, overseas prices, even fashion may cause quite marked changes and so produce what are usually called "anomalies".

The present law requires the Valuer General to value all properties at no interval greater than five years but he may do it at lesser intervals if he so decides. I believe the law should require him to value all rateable properties annually and the Department should be provided with the staff and equipment to do this. With modern equipment the costs of such a valuation may not be very much greater than the present five yearly valuation. I am convinced that practically all of the so-called anomalies of Land Value Rating would be removed and a more stable base established if this reform were adopted. The fluctuations in rateable land value which may be gross with five yearly valuations would be largely ironed out if the valuation was reviewed annually.

7. REVENUE SHARING

(a) In discussing rates it is well to remember who are the ratepayers. In brief they are the owners of New Zealand. Collectively they own land valued in 1983 at \$30.5 billion. In addition they owned improvements attached to land of \$38 billion and some of them also owned about 60 million sheep, 8 million cattle and a growing army of pigs, deer and goats. In popular thinking the

is nonsense alongside the widow and the orphan. This is nonsense.

It is frequently said that to base a rating system on the value of property is too narrow a base and that the base should be widened. The figures above show that such a claim is absurd. The basis of rates on property is as long and as broad as New Zealand itself.

Despairing of finding a better base for local taxation there has emerged a demand for central government to give handouts from national taxes to lessen the "rating burden". This is termed revenue sharing and it is dangerous because it could lead in time to the disintegration or even the destruction of local government. Local government is government of the people by the people, close to the people. It is one of the cornerstones of democracy.

The power to levy taxes conferred on it by the Parliament which created it is its real strength and it should not be lightly diminished. Governing units such as Education Boards and Hospital Boards which have no taxing powers have no strength, dignity or mana. Dependence on central government for financial support is the kiss of death for local government. The reason is simple. If Parliament votes subsidies or grants to local bodies the Crown has a duty to see that they are properly used. Restrictions on local government freedom are inevitable and loss of independence must also result. The most glaring example of this process is in England where roughly two-thirds of local body finance comes from Whitehall. There they have an absurd rating system which savagely penalises putting land to its best use. These two factors have together brought local government in England to its knees.

From these remarks it is clear that in my view revenue sharing is neither necessary nor desirable.

(b) PROPOSAL, IF THE GOVERNMENT IS POLITICALLY COMMITTED TO REVENUE SHARING, THERE IS A WAY IT COULD BE DONE WITH SOME POSITIVE ADVANTAGES.

Ideally the taxes levied by local government and central government should be completely independent of each other for several reasons (refer pages 166-170).

Taxes were originally imposed to pay the nation's bills. Now they are also a means of redistributing the national income and are an important instrument of economic management. This instrument should not be blunted by local government and central government competing for the same dollar. They should be partners not competitors. In any conflict of interest local government will be the loser and no situation should arise where a conflict of interest can occur.

If the principle of keeping the sources of revenue separate is applied it means that the participation by local government in the tax on petroleum products will cease. This could mean a small drop in the price of petrol—the loss of revenue would be a small price for local government to pay.

When the Liberal-Labour Party came to power in 1890 the principal sources of revenue were Customs duties and the property tax. In 1892 the Land and Income Tax Act was passed. This was a revolutionary measure. The property tax was levied on the value of land and improvements together but the new Land Tax was on the value of the land alone. In the earliest years the revenue from Land Tax exceeded the revenue from Income tax but in the past 90 years the land tax has grossly diminished while the Income tax has increased astronomically. Today the land tax is levied only on urban properties greater than \$175,000 in value and produces about \$40 million per annum, about .04% of the budget.

I SUGGEST THAT THE FIELD OF LAND VALUE TAXATION BE COMPLETELY OCCUPIED BY LOCAL GOVERNMENT AND ABANDONED BY CENTRAL GOVERNMENT.

I suggest that the government should still collect the land tax but that it should be paid into a special Local Government Contingency Account for defined purposes such as the cost of establishing regional government, disaster relief in areas affected by flood, fire and earthquake, grants to local government for impossibly costly works such as urban water supplies, sewage treatment plants, airports, etc. It could also be a source of loan money in some circumstances.

Revenue sharing in this measured and controlled way would be free from the dangers and inequities which have been pointed out and would help local government where it really needs it. The level of the land tax need not be as low as it is now and could be altered from year to year in accordance with varying needs. Its allocation might also be used as a lever to impel amalgamation.

FINALLY

It is useful to take a long view of the relationship between local and central government.

Local authorities are created by Parliament which alone possesses the sovereign power of levying taxes. This power it has delegated to local bodies in a limited and measured degree. It is clearly absurd to claim that these creatures of Parliament have a right to levy rates on the Crown. This is discussed more fully in Chapter XIX. It is equally illogical for central government to levy taxes on local bodies. Local bodies receive revenue from three sources - rates, fees and licences and government subsidies and grants. Why taxes should be paid to the Crown on the monies received from these sources is not clear. The principal source of the taxes so paid is from rates. This is referred to on page 174.

In my view local government should be quite free from taxation and should not pay customs duties (e.g. on buses), sales tax, petrol tax or G.S.T. Money spent on such taxation has finally to come from the ratepayers. Local government collects money from the ratepayers and pays it to the Crown. The Crown should collect its own taxes and not make local government a tax collecting agent.

I recommend this package of financial reform in the field of local government for serious consideration by the Policy Council and the appropriate Caucus Committee. In my view the reforms suggested will strengthen local government and substantially diminish its financial problems and bear good political fruit.

I would be willing to appear before any committee to be questioned on and to enlarge upon any of the recommendations made in this memorandum.

Rolland O'Regan
Rolland O'Regan

The STANDARD

THURSDAY, MAY 13, 1948.

Published Weekly

Official Organ of the New Zealand Labour Movement

RATING

Unimproved Value System Endorsed

Staff Reporter

THE conference of the Labour Party, after considerable discussion, decided to reverse a committee decision on rating on the unimproved rating. The committee had no recommendation to make on a remit urging this course.

The conference after hearing remarks by the Minister of Lands, the Hon C. F. Skinner, and several delegates, decided that it should be part of the policy of the Party that rating should be on the unimproved value.

The Minister said that the type of rating was entirely in the hands of the ratepayers in each particular area themselves. It had to be remembered that there were 25,000 more house owners today than when Labour came to power. Rating on the unimproved value should be encouraged, said Mr Skinner, and it should be on an equitable basis.