Local Government (Rating Cap) Amendment Bill

Member's Bill

Explanatory note

This bill seeks to limit some of the excesses in local government recently witnessed, most notably in the rates increases for 2003/04 struck by the Auckland Regional Council.

The net result has seen increases of up to 400% on individual property owners, with overall increases in the rates take of 30% by the Auckland Regional Council. While the Auckland experience stands out at the top end, there is a general unease with the degree to which local authorities are increasing their levels of rating.

The magnitude of a number of increases has even prompted the Reserve Bank Governor to issue a warning that increases in local government rates could prompt interest rate rises in the future.

The Government was warned that the recent "power of general competence" bestowed on local authorities would lead to rates rises. However, no-one could guess as to the speed with which local authorities would be clamouring to crank up their rates take.

To put it in context, while average householders face rates increases of 4.5% this year, inflation is running at 1.5% for the year to June 2003. Rates increases of three times the rate of inflation are not sustainable.

Like taxes, rates represent money taken out of the community which households can neither save nor spend on providing for themselves and their families. The average household cannot expect wage rises of three times the rate of inflation, and those on retirement incomes have their increases pegged to the rate of inflation.

This bill recognizes that the decision to bestow wider powers on local government should have been accompanied by requirements for rating responsibility. After all, central government has the Fiscal Responsibility Act 1994, but there is no local government equivalent.

This bill therefore imposes a cap on the level of rates increase that local authorities may impose on residents in any one year or in any proposed three year period. It uses the cpi+x formula recently adopted for the electricity industry.

Clause 4 inserts a new section 21A which provides for a maximum rates increase in any year of the rate of consumer price inflation for the preceding year plus 2%. The maximum in any three-year period is set the rate of consumer price inflation for the preceding three years plus 4%. It provides for the Minister of Local Government to grant dispensations in special circumstances, with any such dispensations to be notified in the *Gazette* along with accompanying reasons.

Rodney Hide

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The Parliament of New Zealand enacts as follows:

1 Title

(1) This Act is the Local Government (Rating Cap) Amendment Act **2003**.

(2) In this Act, the Local Government (Rating) Act 2002[1] is called "the principal Act".

[1] 2002 No 6

2 Commencement

This Act comes into force on the day after the date on which it receives the Royal assent.

3 Purpose

The purpose of this Act is to make amendments to the principal Act to prevent local authorities from setting excessive rate increases.

4 New section inserted

The principal Act is amended by inserting, after section 21, the following section:

"21A **Rates increase not to exceed maximum**

"(1) The percentage increase in total rates revenue sought by a local authority in any year from all sources, including general rates, targeted rates, and uniform annual charges must not be greater than a percentage calculated in accordance with the following formula:

$$r = cpi + x$$

where—

r = maximum rates increase; and
cpi = percentage movement in the consumer price index for the preceding 12-month period; and
x = 2%

"(2) The percentage increase in total rates revenue sought by a local authority in any three-year period from all sources, including general rates, targeted rates, and uniform annual charges must not be greater than a percentage calculated in accordance with the following formula:

$$r = cpi + x$$

where—

r = maximum rates increase; and
cpi = percentage movement in the consumer price index for the preceding three-year period; and
x = 4%

"(3) The Minister of Local Government may, on receipt of an application from a local authority, grant dispensation from **subsection (1) or subsection (2)** if satisfied that the increase is necessary, that the authority concerned has taken all reasonable steps to mitigate the proposed increase, and that the authority enjoys community support for the proposed increase.

"(4) Any dispensation granted under **subsection (3)** must be accompanied by a notice in the *Gazette* setting out the decision and the reasons."

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