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, with increases proposed by some councils of three to four times the rate of inflation.

There is a general unease with the degree to which local authorities are increasing their levels of rating, and the size of some increases in 2003 prompted the Reserve Bank Governor to issue a warning that increases in local government rates could prompt interest rate rises in the future.

We have recently witnessed a further hike in interest rates in early 2005, and New Zealand has for some time had the highest interest rates in the developed world. Too much of the inflationary pressure is coming from the government and local government sectors.

The Government was warned that the "power of general competence" bestowed on local authorities would lead to rates rises. The last two years have seen average rates rises of more than twice the rate of inflation. This bill recognizes that it is not sustainable for rates increases to outstrip inflation for any period of time.

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 can not expect wage rises of three times the rate of inflation, and those on retirement incomes have their increases pegged to the rate of inflation. Likewise, businesses face cost pressures and an increasingly competitive global environment. Unjustified or unnecessary additional imposts result in higher costs of doing business and a loss in overall competitiveness.

This bill recognises the decision to bestow wider powers on local government should have been accompanied by requirements for rating responsibility. 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 at 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

This Act is the Local Government (Rating Cap) Amendment Act **2006**.

2 Commencement

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

3 Principal Act amended

This Act amends the Local Government (Rating) Act 2002.

4 Purpose

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

5 New section 21A inserted

The following section is inserted after section 21:

"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 3-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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