

## June 2018 Monitoring Report

### Introduction

This month's monitoring report considers two recently released pieces of work both of which have some very interesting implications for how to think about local government funding and governance. The first, *Monetising Goodwill*<sup>1</sup>, is from the London based centre-right think tank Localis. It considers the willingness of people to pay more in tax towards the cost of local services when they know what that money will be spent on.

The second, *Enabling City Growth: Lessons from the USA*<sup>2</sup>, is the report of the <sup>3</sup>recent Infrastructure New Zealand study tour looking at how four different US cities manage growth including the funding and provision of infrastructure.

### Monetising Goodwill

This report is a reflection on the impact of UK's austerity policy of recent years on the availability and quality of local services. It is concerned both about growing distrust in the efficacy of the central state and the impact on the fabric of civil society itself.

It starts with the proposition that "however global markets for labour, capital and culture may be, the desire to belong and contribute towards a place and wider community still holds strong." In support of this it cites Edmund Burke "to be attached to the subdivision, to love the little platoon we belong to in society, is the first principle (the germ is at work) of public affections. It is the first link in the series by which we proceed towards a love to our country and to mankind."

In order to test this proposition and in particular the willingness of people to contribute to services if they understand how their contribution will be applied, Localis worked with the polling company YouGov exploring peoples' willingness to pay more tax per month by local service, both regionally and nationally. People were asked two separate questions. The first was "approximately how much more tax per month, if any, would you be willing to pay in order to fund the following public services?". This was asked in respect of 15 different services.

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<sup>1</sup> accessed at: <http://www.localis.org.uk/research/monetising-goodwill-empowering-places/>

<sup>2</sup> accessed at: <https://infrastructure.org.nz/>

<sup>3</sup> local government in the UK is responsible for a much wider range of services that local government in New Zealand but seven of the 15 services covered in the questionnaire are also services which New Zealand local government provides.

The second question was “please imagine that a voluntary one-off levy was proposed in your local area to resolve a specific problem in the community. Approximately how much, if anything, would you be willing to contribute to the levy if the issue being resolved was each of the following?” 23 different problems were posited.

In both instances Localis report that “our analysis shows people are willing to contribute more to their ‘little platoon’ when they know what it is spent on.

Localis spells this out as:

If citizens are asked to contribute more to their place, an important principle is that they are provided more of a say in how funding is spent. It can set a platform for greater trust, involvement and buy-in for a place’s policy programme, furthering local patriotism. Bolstering the structures upon which local authorities can raise greater revenue for their budgets is an important part of our proposals, but equally so is getting communities engaged in responding to the issues that matter most to them.

This willingness to contribute more is the goodwill in the report’s title and the emphasis on monetising is on looking for ways in which goodwill can translate into additional resourcing.

Localis then considers the implications of its findings. In essence the basic proposition is that most people, for services which matter to them, will be willing to contribute more than they currently do provided they are satisfied the result will be an improved service. Among the concerns this raises are the level of trust which people have in the performance of both central government and of local government - confidence is clearly variable. This emphasises both the importance of public sector entities building closer relationships with the communities they serve so that those communities understand and have confidence in what they do, and also the merits of looking at other ways of providing local services including third sector and community organisations.

A number of practical suggestions are put forward. They are written in the context of English local government legislation (councils or constraint in terms of funding arrangements in the UK than they are here) but are certainly worth considering in a New Zealand context.

The first is a much greater use of hypothecated local taxes (taxes raised for a specific service/purpose). The New Zealand equivalent would be a targeted rate. The argument is that this approach gives people a much clearer sense that their money is going on services which they support. It’s an approach which would typically be used more at the margin than for core local government expenditure but the general principle is well worth consideration.

A second suggestion is for:

Greater public participation in decision-making, specifically citizen-led budgeting, should form a key a policy agenda for monetising goodwill plank of the monetising goodwill agenda. If citizens are asked to contribute more to their place, an important principle is that they are provided more of a say in how funding is spent. It can set a platform for greater trust, involvement and buy-in for a place’s policy programme, furthering local patriotism. Bolstering the structures upon which local authorities can raise greater revenue for their budgets is an important

part of our proposals, but equally so is getting communities engaged in responding to the issues that matter most to them.

Localis notes that there has been increasing use of participatory budgeting within English local government but typically for relatively small amounts - normally less than £100,000. It suggests there is potential to scale the principles of participatory budgeting into a whole local authority level.

The third suggestion is for greater use of crowdfunding. The report covers the growing use of crowdfunding both generally and within local government and endorses it as a means to "help to promote civic engagement and community development initiatives, and... be... a tool to help foster a greater sense of local patriotism."

Taken as a whole, the Localis report is a fascinating discussion of the benefits which can come from innovative ways of engaging with communities and offering people the opportunity to support those services which particularly appeal to them (over and above core funding). As New Zealand local government looks for new sources of funding including funding for non-core services, the report should be a very useful source of ideas, including some such as participatory budgeting and crowdfunding which have already been discussed within the think tank as possibilities.

### **Enabling City Growth: Lessons from the USA**

This is the latest of a series of reports from Infrastructure New Zealand reporting on overseas practice in the funding and development of infrastructure and the enabling of urban growth. It is also potentially the most significant and controversial - less from the perspective of local government than from the perspective of other stakeholders including both central government and ratepayers.

In April Infrastructure New Zealand led a study tour to four American cities, Portland and Denver selected because they do have strong urban limits, and Dallas-Fort Worth and Houston because they do not. What Infrastructure New Zealand was seeking to learn by comparing these two different approaches was the strengths and weaknesses of the highly regulated approach (akin to New Zealand's current planning system) as compared with a much more open and enabling approach.

Underlying the report, as would be expected, are the beliefs that New Zealand local authorities should generally not be involved in the provision of water services (a view reinforced by last year's study tour to Scotland) and that a major contributor to supply problems in New Zealand's housing sector (and indeed property sector generally) is a combination of the highly regulated planning system and in particular strongly enforced urban limits with a funding regime for local government which disincentives growth.

The cities which Infrastructure New Zealand considered differ not only in terms of land use planning but also in the degree of freedom councils have in funding. US cities normally have a range of different funding options available to them but these can be significantly constrained in different states partly because of the opportunity which citizens have to impose provisions through the use of referenda. Most American states enable councils to impose sales taxes but this is not the case in Oregon. Furthermore increases in property taxes in Portland have

been tied to inflation since the 1990s resulting in an ongoing decline in real terms of the city's revenue relative to the cost of maintaining services.

Local authorities in Texas have much greater freedom. They are able to impose sales taxes and both Dallas-Fort Worth and Houston have imposed a 1% sales tax to deliver improved public transport (although utilisation of public transport in both cities is extraordinarily low by New Zealand standards let alone the standards of cities which are heavily reliant on public transport). Importantly they have greater freedom in levying property tax. In both cities property tax is a fixed percentage of the capital value of property so that, as property values increase, so does the city's revenue.

One contrast which Infrastructure New Zealand draws between the New Zealand experience and the American experience especially in Texas is the nature of incentives to encourage growth. In New Zealand because of the way local government is funded, including both the development contributions regime, and the generally strong resistance to rates, growth is extremely problematic. Typically the cost to a council of servicing growth significantly exceeds the additional revenue which might result (as Infrastructure New Zealand points out the main additional taxes which result from growth are GST and income tax both of which go exclusively to central government).

Infrastructure New Zealand argues strongly that central government needs to change both its relationship with local government and the powers it provides it so that local government is incentivised to support growth.

Among its proposals for policy priorities are enabling councils to share in the taxes that result from growth through city or regional deals (basically drawing on what is increasingly UK practice).

Perhaps most significantly it also argues "A shift away from income taxes towards "ad valorem" property tax would better align the costs and benefits of growth decisions. Property tax provides a means to capture value, would realign investment away from housing and into productive activities and balance taxes on labour and capital."

Essentially it is arguing that New Zealand councils should have the same power as councils in states such as Texas to impose a property tax as a percentage of value which would remain in place year-on-year rather than go through the annual 'dance of death' around re-setting rates.

The full significance of this recommendation only becomes apparent when reading the report's analysis of the impact of such a property tax on property values in cities such as Dallas-Fort Worth and Houston especially when combined with an absence of restrictive planning controls. The absence of planning controls both enables development at scale and generally appears to ensure that supply matches demand. The use of property tax fixed as a percentage of the value of property appears to act as a significant disincentive to purchasing expensive property. In Dallas-Fort Worth property taxes average between 2 and 3% of the property's capital value. Translate that into the Auckland market and property taxes would be in the tens of thousands of dollars for the average property (there would clearly need to be some offsetting arrangements as between central and local government in terms of who raised what taxes and how they were applied).

Another aspect of the report which makes for fascinating reading is Infrastructure New Zealand's assessment of the strengths and weaknesses of the four cities. Although Infrastructure New Zealand remains a strong advocate for the relaxation or removal of hard regulatory instruments such as metropolitan boundaries, its description of the weaknesses of both Dallas-Fort Worth and Houston would in a report from a different source be seen as a very powerful critique of the lack of stronger planning controls designed to influence urban form and shift incentives away from a continued reliance on the private motor vehicle as the principal means of transport - both cities despite having available to them a strong revenue stream for promoting public transport (sales tax) report only in the order of 2%-3% of commuting as being by public transport. In New Zealand such an outcome would almost certainly now be totally unacceptable given the way public views on climate change are evolving.

There is much else in the Infrastructure New Zealand report well worth reading including views on the use of municipal utility districts, toll roads and road pricing and the ownership and management of water services.

The main impact of the report though looks to come both from the strength of its argument that central government needs to change the funding tools available to local government so that it is incentivised to encourage growth, and the case that it makes (perhaps unintentionally) against the kind of unregulated development which has characterised Dallas-Fort Worth and Houston.

What the report has not been able to consider is the extent to which the well performing housing markets of Dallas-Fort Worth and Houston require both a very permissive approach to land use planning and a strong reliance on property tax, or whether property tax by itself would have been sufficient because of its ability to generate the revenue councils require to facilitate growth, and because the ad valorem nature of the property tax clearly acts as a significant dampener on housing prices.

Intentionally or not, Infrastructure New Zealand may well have triggered a new direction for what is an extremely important debate.