

Rates Structure Review

**Councillor Briefing
5 April 2017**



Ground Rules

We have scheduled a number of briefings and workshops between now and the end of the year to ensure a robust and efficient decision-making process is adhered to by elected members.

To make best use of the scheduled time and to make sure we are all working together with consistent and accurate information we ask that the following ground rules be followed:

- Be on time, and come with an open mind
- Read the agenda item and any supporting documents beforehand
- Be prepared with questions, and where possible ask questions or seek clarification from staff before the meeting
- Be prepared with alternatives
- Don't re-litigate issues the group has reached a decision on
- Arrange for one of the team to catch you up if you miss a meeting
- Check any material you are circulating or publishing as an individual Elected member for factual accuracy with staff before distribution

Agenda

- General Overview
- Rating Legislation
- Current Structure and Policies
- Issues raised with current system, e.g. previous submissions, direct feedback
- Councillor priorities for review

Rates Review – What is it?

Review of the way we **structure** our overall rating system to share the rating burden among all ratepayers

NOT

Reviewing **how much** money we get from Rates (another part of LTP process)

Practically Practicable

Whatever we do:

- It must be practically practicable to administer
 - Do we hold the information?
 - How does it get verified/updated?
 - What is the ‘evidence base’?
 - Objective, not subjective data

Factors to consider in formulating rating policy

- Equity
- Affordability
- Simplicity
- Visibility
- Stability
- Adequacy
- Comparability
- Efficiency

Rates Review



Any change in rating policy that moves a dollar of the rates burden from one ratepayer must see it collected from another

Term of Rates Policy Decision

- It is recommended our Rating Policy be reviewed at three yearly intervals (e.g. next Review LTP 2021-2031)
 - Provides certainty to ratepayers
 - Allows time to embed the changes
 - Sufficient time to review positive or negative effects
 - Can still make ‘adjustments’ each year if needed

Overarching Rating Legislation

Local
Government
(Rating) Act
2002

Rating Valuation
Act 1998

Local
Government Act
2002

Te Ture Whenua
Maori Bill

Regulations
(made under
these Acts)

Council Policies

Legal Status of Rates

Legal Status of Rates:

**Rates are a Tax, not a fee
for service**

Technical Information – Types of Rates

General Rate

Value basis (LV, CV, AV)

Applies to all rateable properties

Uniform Annual General Charge

- Fixed annual amount
- Applies to all rateable properties
- Can be per rating unit or Separately Used or Inhabited Part of a rating unit(SUIP)

Targeted Rate

- Set for one or more specific activities
- May be applied to all properties or to a subset of properties (area of benefit)
- Can take many forms (uniform charge, value or area based or other property or service attributes).

Technical Information – General Rate Differentials

- Differential rating is where different rates in the dollar are set for different categories of land
- Any rate (other than the UAGC) may be set differentially
- Differentials can only be set by 1 or more matters listed in the Act (schedule 2)

Technical Information –What land is rateable?

- All land is rateable, unless the LGRA or some other statute states that it is not rateable (S7 LGRA)
 - Some land is fully non rateable
 - Some land is 50% non rateable
 - Non rateable land are liable for waste water, water and refuse service charges

Local Government Rating Act, Schedule 1, sets out non rateable land

Non-Rateable Properties

- Non-Rateable properties
 - **Legislation 100% Non-Rateable, e.g.**
 - National Parks, reserves under the Reserves Act 1997, conservation area under Conservation Act 1987, wildlife management reserves, or sanctuary under the Wildlife Act 1953
 - local authority land used for gardens, reserves, sports, children's playground, swimming pools, and land used for soil conservation and river control purposes
 - Land use for a public hall, library, museum, art gallery or similar institution
 - Land used for charitable Trusts such as Children's Health camps, Royal foundation for the Blind
 - Schools
 - District Health Board Land
 - Churches,
 - Maori Customary Land
 - Roads and Airports
 - Wharfs, structures in common marine and coast areas
 - Land used for Railway
 - We can charge for sewage and water connections and use

50% Non-Rateable Properties

- Non Rateable properties
 - **Legislation 50% Non-Rateable, e.g.**
 - Land incorporated under the Agricultural and Pastoral Societies Act.
 - Land owned or used by a society or association of persons (whether incorporated or not) for games or sports, except galloping races, harness races or greyhound races.
 - Land owned or used by a society or association of persons (whether incorporated or not) for the purpose of any branch of the arts.

Councils Current Rating Structure and Policies

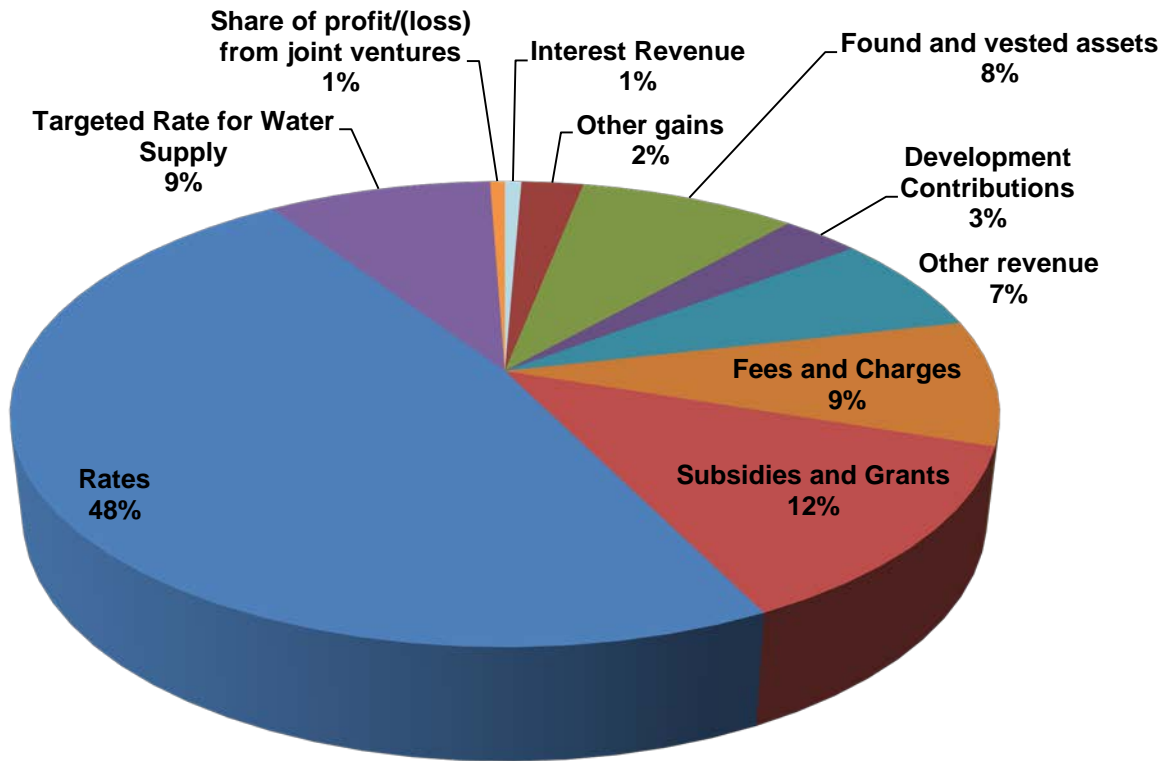
- Sources of Council Revenue
- Revenue and Financing Policy
- Current Rating System
- General Rates
- Sector Splits
- Elements that could be reviewed
- Remission and Postponement Policies

Sources of Council Revenue

Revenue	Millions (\$)	Percent	Explanation
Rates	\$ 71	48%	
Targeted Rate for Water Supply	13	9%	Transport, except for \$116K for Community Facilities
Subsidies and Grants	\$ 19	13%	Building consents, sale of goods, other fees and charges, parking fees, landfill charges
Fees and Charges	\$ 13	9%	Rent, traffic infringements, other.
Other revenue	\$ 10	7%	Source of capital funding
Development Contributions	\$ 5	3%	Non-cash items.
Found and vested assets	\$ 13	9%	mostly non-cash revaluations.
Other gains	\$ 4	2%	
Interest Revenue	\$ 1	1%	
	\$ 148	100%	

Source: 15/16 Annual Report

Sources of Council Revenue



Source: 15/16 Annual Report

Revenue and Financing Policy

- Required by S103 of the LGA
- Comprehensively reviewed every three years – part of LTP process (next LTP 2018-2028)
- Overarching Funding and Financial Policy (S102 LGA)
- Establishes and sets the sources and apportionment of funding for each and every Council activity (both Opex and Capex)
- Provides predictability and certainty for the ratepayer

Revenue and Financing Policy

- In determining the sources of funding, the council considered (and is required to consider):
 - **Community Outcomes** – which outcome the activity primarily relates to, and the rationale for doing it.
 - **User/beneficiary pays** principle - distribution of benefits between individuals or groups and the community as a whole
 - **Inter-generational** principle – the period over which the benefits are expected to accrue.
 - **Exacerbator pays** principle – the extent to which actions or inactions of individuals or groups contribute to the need to undertake the activity and the costs that occur as a result
 - **Costs and benefits** of funding the activity distinctly from other activities

Overview of Council Rates



	Actual 2016
General Rates (UAGC \$14,239, Value Rate \$34,176)	\$ 48,415
Targeted Rates	
Water Rates (other than a targeted rate for water supply)	\$ 735
Metered Water Supply	\$ 12,976
Wastewater rates	\$ 16,282
District-wide refuse management	\$ 6,170
Hikurangi Swamp	\$ 891
Roading Scheme	\$ 50
Total Targeted Rates	\$ 24,128
Remissions	\$ (1,746)
Penalties	\$ 556
Total Rates levied	\$ 84,329

Current Rating System – General Rates

General Rates – make up 58% of total Rates Revenue.

General Rates are used to fund the net cost of *most* council activities and is comprised of:

1. Uniform Annual General Charge
 2. General Rates (rate in the dollar of Land value of land, applied differentially)
- *Differential Structure (categories)*
 - *Residential and Lifestyle (Residential step 1 & Residential Step 2)*
 - *Multi Unit*
 - *Rural*
 - *Commercial/industrial*
 - *Miscellaneous*

Current Rating System - General Rates

- Category – General Rate revenue sought from each rating category

	% Revenue
Residential, miscellaneous and multi unit	62%
Commercial and industrial	28.5%
Rural	9.5%

- UAGC makes up around 30% of the General Rate
- Share of revenue to be recovered from each category was introduced following consultation in 2012-2022 LTP
 - Intended to prevent rating swings between sectors caused by revaluations (replaced differential factors)

Current Rating System – General Rates

Category	Differential Factor (16/17 AP)	Effective differential	Rate per \$100,000 of LV
<i>Uniform Annual General Charge</i>	\$422 (fixed rate)		\$422 (fixed rate)
<i>Residential</i>	\$0.0031918	1	\$319.18
<i>Residential step 1 (LV between \$668,001 and \$1,336,000, rate is 50% of residential rate)</i>	\$0.0015959	.5	\$159.59
<i>Residential Step 2 (LV over \$1,336,000, rate is 25% of residential rate)</i>	\$0.0007980	.25	\$79.80
<i>Multi -unit</i>	\$0.0063836	2	\$638.36
<i>Rural</i>	\$0.0029121	.91	\$291.21
<i>Commercial/industrial</i>	\$0.0203299	6.4	\$2,032.99
<i>Miscellaneous</i>	\$0.0031918	1	\$319.18

Includes GST

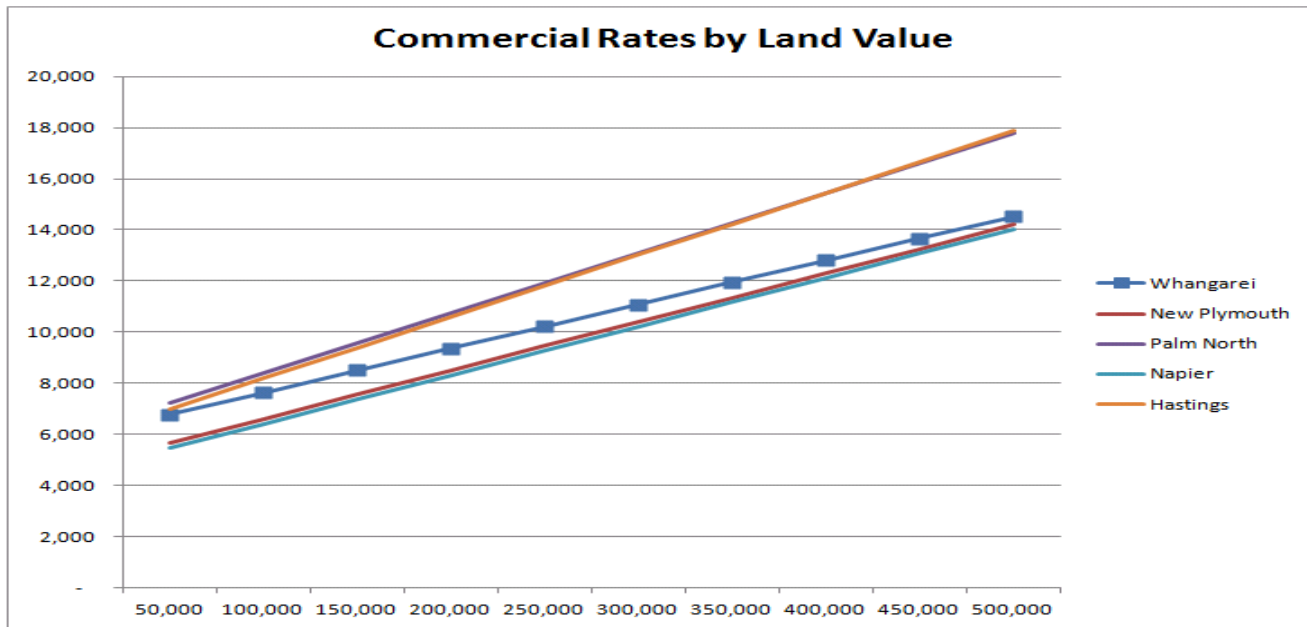
Some Comments on General Rates

- **Multi-unit Category**
 - Separate rating units used principally for residential purposes for temporary or permanent residential accommodation for financial reward, including hotels, boarding houses, motels, tourist accommodation, but excludes properties licensed under the Sale of Liquor Act 1989. Effectively means these accommodation types pay the Multi-unit rate in the dollar and do not pay per SUIP.
- **Miscellaneous Category**
 - Other properties not otherwise categorised such as council owned properties for reservoir, sewer pumping station, water treatment plant

Some Comments on General Rates

- Commercial Rates Differential

- Council’s general rate commercial differential may seem high compared to some councils. It is important to note, many other councils have targeted rates specifically applied to the Commercial sector. When targeted and general rates are considered, Councils Commercial rates are aligned to other similar sized Districts



Current Rating System – Targeted Rates

- **District Wide Refuse Management** (fixed charge per SUIP of \$171)
- **Water Rates** (where connected or available for connection) includes metred and unmetred.
- **Sewage Rates** – (pan charges where connected, \$660 for residential and non-residential up to two pans, \$429 for additional pans)
- **Stormwater – Hikurangi Swamp** (based on area of benefit)
- **Roading Schemes** (Whangaruru North Road Seal Extension and McKinley Road Seal Extension (\$575 per Rating Unit)
- **Wastewater** – Ruakaka South (ceases 30 June 2017)

General Rates – Some factors that could be reviewed

- Land Value vs. Capital Value
- UAGC Component (increase/decrease)
- Use of Rating Units vs. SUIPS (for UAGC and Targeted Rates)
- Review of SUIPS definition
- Consider capping Number of SUIPs per Rating Unit
- Increase/decrease use of targeted rates
- Adjust or remove Sector Splits – are they fair?
- Remission and Postponement Policies

Current Rating System – Application of SUIPS

- Residential Properties (capable of separate use)
- Commercial Properties with multiple tenancies
- Rural Properties with multiple houses

General Rate Options - SUIPS

- **Rating Units versus Separately Used Inhabited Parts**
 - **Definition of SUIPS**
 - We can modify our SUIP definition
 - Developing a best practice SUIP definition is a sector wide issue
 - **CV arguably captures value of multi unit or multi resident dwellings**
 - **Quality of Council information of SUIP and use**
 - **Number of SUIPS can change regularly depending on use**
 - **Are they suitable for modern business practices?**

General Rate Options - SUIPS

– Impact of SUIPS on Commercial Sector

- There can be many SUIP's within a single rating unit.
- For example, a multi-storey commercial building could have separate businesses located on each floor, or each office on a building could be let separately
- Each would be identified as a SUIP and would attract a UAGC.
- This would increase the rates payable for that rating unit and alters the incidence of rates within that sector. (But note that it has no effect on the rates paid by each sector in total.)

General Rate Options - SUIPS

- The table (based on 1 June 2015) shows There were 373 'Multi-unit' Commercial properties that had more than 1 SUIP.
- 356 (95%) had less than 6 additional SUIP's each, comprising 76% of the total additional SUIP's.
- **17 properties (5%) have 7 or more SUIPS. It is these ratepayers who are most affected by the application of SUIPS**

SUIP's - 1 plus	Number	Cumulative Number		Total 'extra' SUIP's	Cumulative Number	
1	207	207	55%	207	207	26%
2	86	293	79%	172	379	47%
3	35	328	88%	105	484	60%
4	15	343	92%	60	544	67%
5	6	349	94%	30	574	71%
6	7	356	95%	42	616	76%
7	3	359	96%	21	637	79%
8	2	361	97%	16	653	81%
9	4	365	98%	36	689	85%
10	1	366	98%	10	699	87%
12	2	368	99%	24	723	90%
14	1	369	99%	14	737	91%
15	1	370	99%	15	752	93%
17	1	371	99%	17	769	95%
18	1	372	100%	18	787	98%
19	1	373	100%	19	806	100%
Grand Total	373			806		

General Rate Options - UAGC

- UAGC –
 - Currently fixed rate per SUIP (can be per RU)
 - Part of General Rate and included in % revenue sought from each category (Residential, Commercial, Rural)
 - Can be considered regressive rate (each ratepayer levied same fixed charge)
 - **We don't have to have a UAGC**
 - Certain Rates must not exceed 30% of total rates (UACG and targeted rates set on uniform basis)
 - \$422 UAGC and
 - \$171 Refuse Management Rate
 - **Don't need to have one...**

General Rate Options – Targeted rates

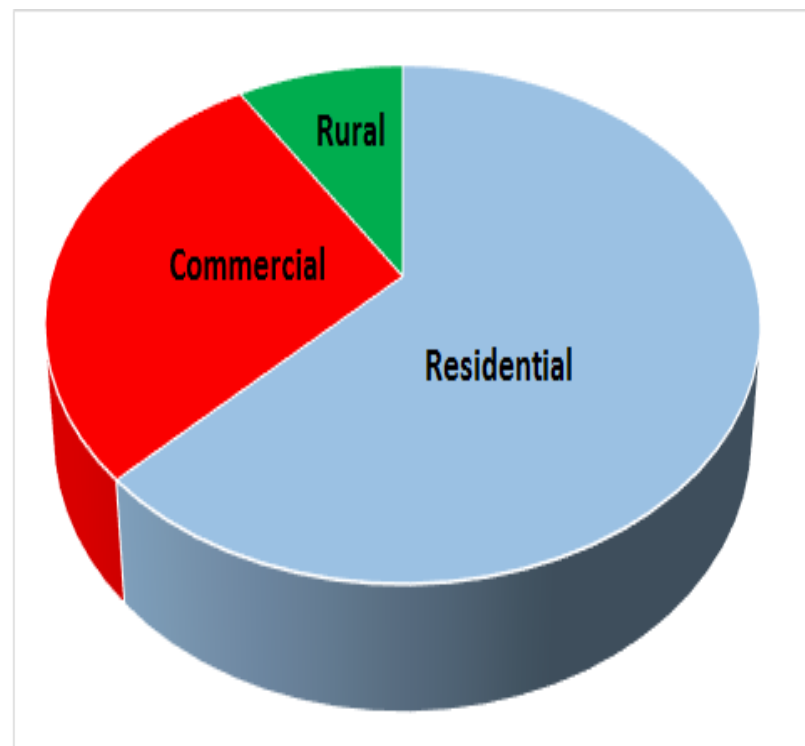
- We could increase the use of targeted rates to fund activities currently funded by general rates
 - Reduce the activities funded from general rates
 - E.g. Targeted Rooding Rate
 - More administration
 - Is it fairer (more equitable) or more transparent to have more targeted rates?
 - Target rates based on connections, use of services
 - Location - Area of benefit
 - Connection to service

Options to adjust revenue sought by each category

- Category – revenue sought from each category

Category	No of Assessments	% Revenue
Residential, miscellaneous and multi unit	37,038	62%
Commercial and industrial	1,939	28.5%
Rural	1,890	9.5%

Note, each category type exists in every Ward



Current Council Remission Policies

“Discounts”

- Remissions
- Postponements

• Remission Policies

- Policy 12/101 Remission of Some Uniform Annual General Charges and/or Targeted Rates on Separately Used or Inhabited Parts of Rating Units
- Policy 12/102 Remission of Some General Rates, Uniform Annual General Charges and Targeted Rates on Rating Units which are in Common Ownership but do not Meet the Criteria of a Contiguous Property (developers remission, capped at 5 years)
- Policy 09/103 Remission of Some Uniform Annual General Charges and Targeted Rates on Separately Used or Inhabited Parts of a Rating Unit (does not meet section S20 requirements for contiguous properties)
- Policy 09/204 Discount for Early Payment of Rates in Current Financial Year
- Policy 12/205 Remission of Penalties
- Policy 12/306 Remission of Excess Water Rates
- Policy 09/308 Remission of School Sewerage Charges
- Policy 09/309 Remission of Rates for Community, Sports and Other Organisations
- Policy 09/410 Postponement of Rates – Extreme Financial Hardship
- Policy 12/412 Postponement and Remission on Specific Farmland Properties
- Policy 09/413 Postponement and/or Remission of Rates and Charges on Properties Affected by Natural Calamity
- Policy 09/611 Remission of Rates on Unoccupied Maori Freehold Land
- Policy 12/614 Postponement of Rates on Maori Freehold Land
- Policy 16/414 Remission of Rates on Voluntarily Protected Land

What does an average rate bill look like?

- **Residential**

Residential property in urban area with a new land value of \$90,000	LV	90,000
General rate - LV 90,000 @ \$0.0031918		287.26
Uniform Annual General Charge		422.00
Sewerage pan charge (where connected)		660.00
District-wide refuse management		171.00
Total		1,540.26
Residential property in urban area with a new land value of \$195,000	LV	195,000
General rate - LV 195,000 @ \$0.0031918		622.40
Uniform Annual General Charge		422.00
Sewerage pan charge (where connected)		660.00
District-wide refuse management		171.00
Total		1,875.40

What does an average rates bill look like?

- **Lifestyle**

Lifestyle property with a new land value of \$320,000	LV	320,000
General rate - LV \$320,000 @ \$0.0031918		1,021.38
Uniform Annual General Charge		422.00
District-wide refuse management		171.00
Total		1,614.38
Lifestyle property with a new land value of \$1,750,000	LV	1,750,000
General rate - LV up to \$668,000 @ \$0.0031918		2132.12
LV from \$668,001 to \$1,336,000 @ \$0.0015959		1066.06
LV over \$1,336,000 @ \$0.0007980		330.37
Uniform Annual General Charge		422.00
District-wide refuse management		171.00
Total		4,121.56

What does an average rates bill look like?

- Rural**

Rural property with a new land value of \$750,000	LV	750,000
General rate - LV \$750,000 @ \$0.0029121		2184.08
Uniform Annual General Charge		422.00
District-wide refuse management		171.00
	Total	2,777.08
Rural property with a new land value of \$2,200,000	LV	2,200,000
General rate - LV \$2,200,000 @ \$0.0029121		6406.62
Uniform Annual General Charge		422.00
District-wide refuse management		171.00
	Total	6,999.62

What does an average bill rate look like?

- Commercial and Industrial**

Commercial property with a new land value of \$510,000	LV	510,000
General rate - LV \$510,000 @ \$0.0203299		10,368.25
Uniform Annual General Charge		422.00
District-wide refuse management		171.00
Sewerage charge - 5 pans @ \$429.00		2145.00
	Total	13,106.25
Industrial property with a new land value of \$2,480,000	LV	2,480,000
General rate - LV \$ 2,480,000 @\$0.0203299		50418.15
Uniform Annual General Charge		422.00
District-wide refuse management		171.00
Sewerage charge - 5 pans @ \$429.00		2145.00
	Total	53,156.15

What does an average bill rate look like?

- **Commercial Property with LV \$510,000 and 10 SUIPS**

Commercial property with a new land value of \$510,000 and 10 SUIPS	LV	510,000
General rate - LV \$510,000 @ \$0.0203299		10,368.25
Uniform Annual General Charge		4,220.00
District-wide refuse management		1,710.00
Sewerage charge - 5 pans @ \$429.00		2,145.00
Total		18,443.25

Feedback on Council's Rating System

- Staff
 - **Inequities with SUIP application and definition**
 - Capable of being rented out rated, whereas actually used by dependent family member is not rated
 - Example of motor camp with multiple self contained units, rates less than neighbor who has house and separate additional rentable unit.
 - SUIPS charged to commercial buildings with multiple tenancies
 - **Current system can be hard to administer, with numerous areas of dispute with ratepayers**
 - Land use / categorization
 - Eligibility for remissions & Postponements
 - SUIP's
 - Residential Stepped Rate

Feedback on Council's Rating System

- Public (overview of recent feedback)
 - Inequities with SUIP application and definition
 - Revitalise CBD, reduction in rates for vacant space
 - Hold rates increases
 - Make rates fairer across district
 - Commercial rates differentials are very high
 - SUIP charges are excessive for commercial and industrial
 - Discount rates for senior citizens
 - Rural rates affordability for farmers
 - Funding split now is good balance
 - Lots of revenue from rural but greater split in urban areas
 - Object to system used, land based, so not on ability to pay
 - Rates higher in rural versus urban – disparity
 - Review commercial rates

Feedback on Council's Rating System

- Public (overview of recent feedback)
 - Review sector splits, residential rates low compared to other districts
 - Rural/urban disparity
 - Review definition of SUIPS – is the definition in line with other councils?
 - The way SUIPS are applied to commercial properties with multiple leases results in extremely large rates for what can be very small spaces
 - Rates relief for not for profit organisations

Feedback on Council's Rating System

- Commercial Sector Overview of Feedback (Public)
 - **Inequities with SUIP application and definition**
 - SUIP's impact – review definition as a priority
 - 5 units does not necessarily mean 5X services used
 - Motel units not treated as a SUIP
 - SUIP system should be thrown out the window
 - SUIP's impact: 30m² - 700m². Blunt instrument

Feedback on Council's Rating System

- Commercial Sector Overview of Feedback (Public)
 - **Concern with Level of Commercial Rates and Rate Increases**
 - Rates are impacting on business
 - 10% increase every year since 2002
 - 300% rate increase cannot be passed to tenants (from August 2015 meetings)
 - Regular smaller incremental increases in rates
 - Limit the increase to a maximum percentage (20% suggested)
 - CBD tenants will leave the CBD
 - Tenants cannot sustain rates increases
 - Discount for vacant buildings
 - Council should control its costs
 - Check proportion of commercial rate with other districts

Feedback on Council's Rating System

- Commercial Sector Overview of Feedback (Public)
 - **Capital Value vs. Land Value**
 - Change rating system to capital value
 - Consider equity of rates applied to vacant land v multi store building

Feedback on Council's Rating System

- Commercial Sector Overview of Feedback (Public)
 - **Consider Possible Remissions and Incentives**
 - Discounts for vacant buildings
 - Is business development a Council priority?

Roundup of Council Priorities

- Are there any specific aspects of the current rating structure Councillors would like the review to focus on?

Questions and Comments