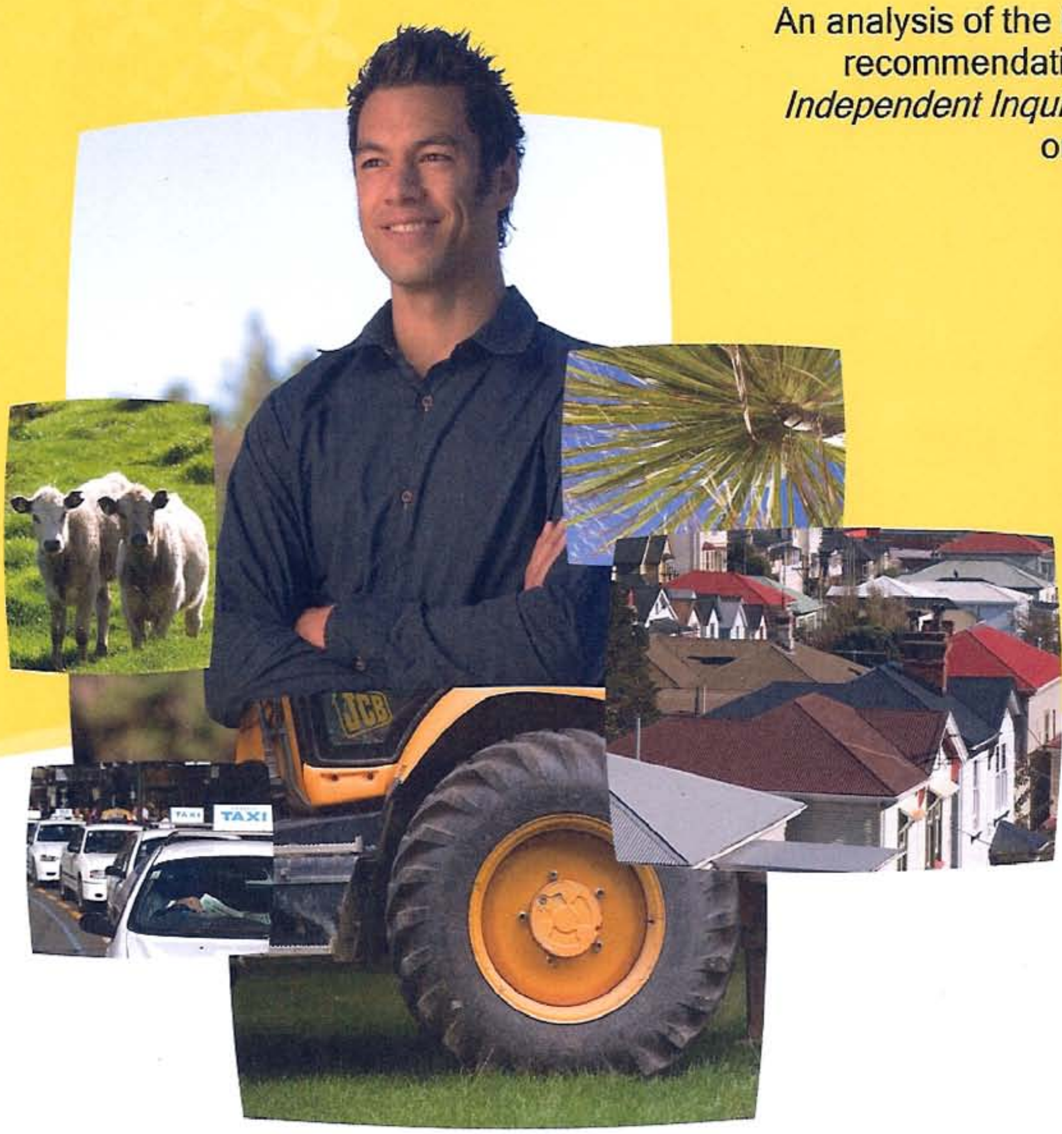
No Magic Answers

An analysis of the impact of the recommendations from the *Independent Inquiry into Rates* on rating tools

March 2008



SOLGM
NZ SOCIETY OF LOCAL GOVERNMENT MANAGERS

Local Government New Zealand
te pūtahi matakōkiri

SUMMARY

Funding Local Government: The Report of the 2007 Independent Inquiry into Local Government Rating ('the Shand report') made seven recommendations relating to local government's actual set of rating tools. Chief among these were:

- the abolition of powers to levy a uniform annual general charge (UAGC)
- the abolition of powers to levy general rates on a differential basis
- strong encouragement for local authorities to switch to the capital value system
- strong encouragement for local authorities to introduce volumetric charging (metering) for water supply and wastewater disposal.

These recommendations all relate to the manner in which local government's rating requirements are distributed amongst different sectors in the community ("how the pie is cut" as opposed to the "size" of the pie). These recommendations represent the views of the Inquiry panel on an allocation of rates that would be more equitable than the present system.

This report shows the results of modelling work that a sample of 20 territorial authorities (city and district councils) undertook for Local Government New Zealand and SOLGM to determine whether and how the distribution of rates across the community could be affected. Each local authority was asked to model four different scenarios:

- scenario A – removal of the UAGC and differentials on the general rate, otherwise present rating policies
- scenario B – assumptions of scenario A plus the introduction of targeted rates for water, wastewater disposal, refuse collection, and stormwater disposal (where the local authority does not already rate in this way)
- scenario C – the assumptions of scenario B plus switching the general rate to the capital value system (where the local authority was not already rating in this way)
- scenario D – the assumptions of scenario C plus mandatory metering of water and wastewater in any community with 5000 or more people. This is the scenario closest to the recommendations in the Shand report, but unfortunately was the one our sample found most difficult to model.

These four scenarios show what could happen if the above recommendations were implemented in their purest form, however, what actually does happen depends critically upon:

- the policy decisions the Government makes on some of the other decisions in the report – especially those involving new or alternative sources of funding
- the extent to which local authorities use their targeted rating powers to lessen the impact of some of the recommendations (for example, using fixed targeted rates rather than a UAGC[1]).

We found that the recommendations were likely to have some impact on the distribution of rates in 19 of the 20 local authorities in the sample. In five local authorities where the rating system is similar to that advocated in the Shand report, shifts in the incidence of rates (distribution of rates by sector) are likely to be minor. In a grouping of around six local authorities the shifts could be extreme (defined as a shift of more than 10 percent in incidence).

The direction of the shift in incidence tends to take one of two forms.

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1 Scenarios B, C and D do this to some extent with their assumptions around the use of targeted rates.

In *metropolitan New Zealand*[2] the recommendations generally create shifts in rates from the commercial/industrial sector to the residential sector and, to a lesser extent the rural sector. Many of these shifts in incidence may be moderate to extreme in nature. In most cases, shifts in incidence in this sector can be traced to the abolition of differential rates (in most metropolitan local authorities commercial properties are currently paying a higher rate in the dollar than residential). There may also be some shift in rates from lower valued properties to higher valued properties as a result of the abolition of the UAGC. The largest shift of this nature is almost 18 percent (i.e. in that local authority the residential sector is presently paying 49 percent of the total rate collection would increase to 67 percent regardless of the scenario).

In *provincial and rural* New Zealand the recommendations generally create shifts from urban ratepayers (both residential and commercial) to the rural sector. Many local authorities have differentials in place that favour rural properties (generally justified on the grounds that rural properties are perceived not to benefit or benefit to a lesser degree from local services). Many provincial and rural local authorities also have moderate to large UAGCs, which moderate the impact of large property values. The removal of both creates shifts in incidence. We also found some smaller scale shifts to the rural sector in all but one of the metropolitan local authorities. The scale of the possible shifts into the rural sector range from the very moderate (0.4 percent) to the extreme (22 percent).

In short, it appears that the commercial sector are clear "winners" from these recommendations, the rural sector clear "losers", and the impact on residential property owners is mixed[3]. *Local Government New Zealand and SOLGM make no comment about the desirability or otherwise of these results, but we believe that New Zealanders need to debate them as part of the process of assessing the Shand report.*

As a general rule, the scale of change in incidence and the consequences of this were greatest in scenario A, and tended to reduce in scenarios B and C. This suggests that the impacts of the Shand report could be blunted to some degree by moving from general rates to targeted rates.

What does this all mean in dollar terms? The results in the report indicate that even quite small shifts in the overall incidence of rates can have significant impacts on levels of rates. We found that the median *residential* rate in 19 of the 20 sample local authorities will change. In line with the direction of shifts in incidence, there would be a very considerable range. Under scenario A the range of changes in the median goes from a 49 percent decrease in one local authority up to a 36 percent increase in another (note, these changes reflect only the impact of redistributing the current rate take and do not reflect the impact of future cost change). The range under scenario C is a 26 percent decrease through to a 36 percent increase. In actual dollars the amounts involved range between a $650 decrease and an increase of about $600.

The seven recommendations discussed in this report do not have any impact on the total amount of rates required. A shift in rates from one sector must be balanced by a shift to others, and the increases and decreases in rates in one sector flow through to others. This is why we say there are no magic answers in these recommendations.

The Shand report made a number of other recommendations regarding new sources of funding from outside rates and increasing levels of existing funding that were aimed at the size of the rate requirement. The results in this report model only one part of the Shand recommendations. The actual impacts can only be known once the Government has determined which of the other recommendations will proceed.

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2 The so-called "four main centres" plus Hamilton and Tauranga.
3 Of course, the majority of residential ratepayers live in metropolitan New Zealand.

Contents

Acknowledgements

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Of course, any errors remain the responsibility of the author.

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Frequently Used Terms

Differentials – the power in the Local Government Rating Act to set rates at different levels for different categories of property. The most common bases for differentials are on use (thus a commercial property might pay a higher rate in the dollar than a residential one) or location.

General rate – rates that can be used to fund any work or service provided by the local authority. Local authorities can set either or both of the following as a general rate:

- a *Uniform Annual General Charge (or UAGC)* – a fixed dollar amount per property or part thereof
- *a value based rate* – a rate set as an amount per dollar of property value. The value can be either the *land value* (i.e. the bare land), *capital value* (the value of land and improvements) or *annual value* (the lesser of the rental value of the property or 5 percent of the capital value).

Incidence – the distribution of rates across different sectors of the community.

Targeted rate – a rate that is set to fund a specific and identified work or service, or are set on particular categories of property. Common examples of services funded in this way are water, wastewater disposal, refuse collection and roads. Local authorities have the choice of some 13 different bases for setting these rates – the most common are the *value based rates*, and *fixed targeted rates* (flat dollar charges).

1.0 Introduction

1.1 What is this Report?

Funding Local Government, the Report of the Independent Inquiry into Rates ("the Shand report") made seven recommendations that dealt with the suite of rating tools currently available to local authorities. The Shand report recommended the:

- promotion of the capital value system as the basis for setting the general rate (in effect, recommending that local authorities adopt capital value as the basis of the general rate, but not making it mandatory)
- phasing out of differentials on the general rate by 2012
- abolition of powers to set a UAGC – fixed targeted rates would remain
- removal of the so-called 30 percent cap on fixed charging (although in at least one place the document calls for an increase in the cap to 50 percent)
- retention of targeted rates in their present form
- promotion of full cost recovery (including environmental costs) for water, and metering for water and wastewater disposal (with government assistance to meet the cost of installing the meters)
- the retention of GST on rates (although recommendations elsewhere in the report would see a substantial part of the revenue that this raises given over to fund so-called "three waters" infrastructure).

These recommendations have the potential to create significant movements in the incidence of rates both at the level of individual local authorities and nationally. It is therefore quite surprising to learn that the Shand report did not actually attempt to model the impact of its recommendations, even at the level of case studies of individual local authorities.

As part of our evaluation of the Shand report, *Local Government New Zealand* and SOLGM asked a sample of local authorities to model the impact of the cluster of recommendations around rating tools. This report therefore fills what was a very obvious gap in the Shand report.

Our initial view on the report was that, taken as a set, these seven recommendations were likely to see some movements in the incidence of rates from the commercial/industrial sector to the residential sector, and to a lesser extent the rural sector. We expected that the scale of the shift would be greatest in metropolitan New Zealand as this sector tends to be one of the larger users of differentials.

1.2 Methodology

Sample Size

A sample of 20 local authorities was selected (roughly one-quarter of the sector covering around 40 percent of the total population of New Zealand and around 35 percent of the property). The sample was stratified to give a reasonable spread of local authorities of different sizes and types, and as much as possible, different rating systems. That is, we chose some local authorities where the impact of the Shand recommendations was unlikely to be significant (councils on capital value and/or limited use of differentials or fixed charges). Appendix A sets out the local authorities that were included in the sample.

Of these local authorities:

- seven are metropolitan local authorities, 10 are provincial[4], and three rural. Metropolitan New Zealand is over-represented slightly, rural New Zealand under-represented slightly
- nine use the capital value system as the basis for their general rate, nine are on the land value system, one (Manukau) is on the annual value system, and one (Masterton) does not set a general rate. The stratification is an exact match with the use of different bases within the sector
- four do not use a UAGC (Dunedin, Hamilton, Kapiti Coast and Wellington)
- three make no use of differentials on the general rate (South Waikato, Stratford and Tasman). A fourth (South Taranaki) has only minor differentials for certain stand-out properties.

Two regional councils (Hawkes Bay and Greater Wellington) were included in the original survey design – both, however, concluded that recommendations were unlikely to have much effect on them. All but one regional council is on the capital value rating system, most have minor or even no differentials on the general rate, and make limited use of the UAGC. We believe that this conclusion would be shared by most, but not all of the regional sector.

What Were We Measuring?

The Rating Act notes that one of its purposes is to provide local authorities with flexible powers to set and assess rates. While the above recommendations would remove some of this flexibility (especially around the general rate), a substantial amount will remain in the setting of targeted rates.

The changes to the incidence of rates that come from the removal of differentials and the UAGC can, to some extent, be ameliorated by moving some previously general rate funded activities to a targeted rate. While it would be useful to determine just how close those local authorities could come to replicating removal of differentials and UAGCs on the general rate, the number of variables involved make a consistent analysis difficult. For example, some local authorities may have wanted to make these shifts, but were concerned at the scale of change. They may, therefore, be happy to do so under direction from central government. Others may wish to move some activities, but not all, to targeted rates.

Rather than asking the responding local authorities to take an informed guess at where they might go with the recommendations, we decided to put some parameters around the discussion. We have therefore developed a set of four scenarios. This means that the report is effectively modelling impact rather than behaviour. Readers should keep this in mind when they work through the report.

The Four Scenarios

The local authorities concerned were asked to model the following four scenarios. In increasing order of complexity (and with an increasing number of recommendations in the mix) these were:

- *scenario A* – no differentials on the general rate, no UAGCs, present valuation base, present rating policies
- *scenario B* – no differentials on the general rate, no UAGCs, present valuation base, increased use of fixed targeted rates. For the sake of consistency, councils were asked to assume that fixed targeted rates would apply to water, sewage disposal, refuse collection, and stormwater disposal and that these are calculated on a "one per separately used or inhabited part of a property". Many of the sample local authorities are already assessing targeted rates for one or more of these services. Few were

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[4] This includes one unitary authority (Tasman District Council).

assessing targeted rates for all of them. The impact of these assumptions is to effectively replace some of the UAGC with a fixed targeted rate

- *scenario C* – no differentials on the general rate, no UAGCs, shift to capital value, increased use of fixed targeted rates. Local authorities were asked to make the same assumptions around targeted rates as in scenario B. A local authority already on the capital value system should report results in this scenario that are no different from scenario B (and all did)
- *scenario D* – no differentials on the general rate, no UAGCs, shift to capital value, use of uniform targeted rates for stormwater and refuse collection. Further, local authorities were asked to assume metering would be introduced for every urban water supply serving more than 5000 people and volumetric charging for wastewater on the same supplies. This charge would be treated as a rate (except where the charge is currently collected by a council controlled organisation such as Metrowater). This is the scenario that is the closest approximation of the set of recommendations that the Shand report made.

Local authorities were asked to provide details of their current rating system (through their most current rates resolutions and/or funding impact statement). A summary of each local authority's current rating policy can be found in Appendix B, along with the data.

We asked for:

- the average and median residential rate based on the current assessment of rates (we chose to ask only for the residential rates, because it was concern at the affordability of residential rates that led to the establishment of the Inquiry in the first place). About 20 percent of the local authorities sampled also supplied averages or medians for one or more of the other sectors
- the distribution of rates between the following categories of property – residential, commercial, rural and other (where the local authority had this information on their rating database[5]). We used the local authority's definition of these categories – which may mean there is variation in the results, due solely to the way local authorities have designed their differential categories
- the number of properties in each category that experience change in their rates over the present level. The majority of local authorities presented the information in a format similar to that in the table following.

[5] Some local authorities do not assess differential rates of any kind and thus have no need for this information.

Scale of change	Residential	Commercial	Rural	Other
10 percent decrease or more				
5.0-9.99 percent decrease				
0.01-4.99 percent decrease				
No change				
.01 to 4.99 percent increase				
5.00 to 9.99 percent increase				
10 to 19.99 percent increase				
20 percent increase or more				

Not all local authorities were able to supply the requested information. Four were unable to supply information regarding scenario D. We have dealt with this by concentrating on scenarios A and C in the remainder of the report – the former, because these represent the most fundamental shift in terms of design of the rating, the latter adds in most of the other recommendations and suggestions of the Shand report.

Affordability

The median residential rate obtained from each local authority's modelling was matched to the median household income within the local authority. Household income data was taken from the 2006 Census of population and dwellings. The result is a rates to income ratio or index of affordability (such as 2.2 percent, 4 percent etc) – the higher the percentage the less affordable rates would be.

1.3 Limitations and Caveats

Many local authorities have established complex systems for rates modelling that literally enable the modeller to look at the impacts of a particular policy option on a property by property level. For these local authorities, calculating averages and medians and determining shifts in incidence was a relatively simple task and those authorities were able to respond this request.

Others had more difficulty and were able to generate only a subset of the data that was requested or could only provide very broad estimates of the likely impact[6]. In particular, some local authorities struggled with the impact of assumptions around volumetric charging for water and wastewater in scenario D, as they had little data on water consumption on a property by property level.

To some degree the results presented in this paper are hypothetical.

[6] The degree of sophistication in the modelling was not necessarily related to the size of the council.

There is the potential to ameliorate the impact of the removal of differentials on the general rate by moving towards targeted rates. Some of the local authorities in the sample made some observations along these lines, and where they have these have been reported.

The Shand report did not recommend making capital value mandatory (as is assumed in scenarios C and D). Its recommendations are best described as "strong promotion" of the merits of the capital value systems, which are likely to give some local authorities a prompt to shift[7].

In addition, the recommendations that the Shand report made around rating tools were part of a wider suite of recommendations on local government generally, which could lessen some of the impacts described later in the document. In particular, the Shand Report made recommendations regarding:

- additional central government funding for infrastructural development[8]
- a new small-scale form of tax[9]
- an increase in and change to the distribution of the Local Authorities Petroleum Tax
- the extension of powers to assess development contributions to regional councils
- the removal of legislative blockages on coastal occupation charging
- the removal of legislative blockages to road tolling and limit on the ability to enter into public/private partnerships for water and wastewater infrastructure.

If any of these recommendations were implemented the impact would be an injection of funding into local government from outside the rating system, which would then reduce the overall rating requirements and blunt the impact of any shifts in the incidence of rates. The Government is still assessing these recommendations. The Shand report was silent on much of the detail of the operation of these schemes (amounts, eligibility criteria etc). Trying to factor these recommendations into the system would then have involved a further level of speculation and reduced the reliability of the results.

Since the introduction of differential rating powers and the UAGC in 1976, local authorities have had considerable flexibility in the way they design their rating systems and other aspects of their revenue base. As a result, the design of rating systems is something which is highly local authority specific. In effect, there are 85 systems designed to meet local needs and preferences as these have changed through time. The results for each individual council in Appendix B are therefore comparable only in terms of general trends and shifts in the incidence of rates. This research was not designed to be, and is not, a tool for performance comparison (i.e. 'benchmarking' within local authorities).

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7 We understand four territorial authorities may be considering switching to capital value in the near future.

8 This includes state funding for the installation of water meters, a review of the rate of financial assistance on urban arterial roads, and the proposed Contestable Infrastructural Equalisation Fund for the so-called "three waters" infrastructure.

9 The so-called International Visitors Environmental Levy – effectively a tax on international arrivals and departures.

2.0 Results

Each of these scenarios lead to some shift in the incidence of rates in almost every local authority in the sample. The issue is not so much *will the incidence of rates shift?* but *by how much and in what direction?*. Using shifts to and from the residential sector as the benchmark, local authorities have been categorised as:

- *moderate* - a shift in incidence to or from the residential sector of between zero and 4.99 percent
- *major* - a shift in incidence to or from the residential sector of between 5 and 9.99 percent
- *extreme* - a shift in incidence to or from the residential sector of 10 percent or more.

Readers should note that even small shifts in the overall incidence of rates can have a major impact on the actual level of rates in a particular sector. This is especially true of the smaller sectors - the rural sector and "other" ratepayers'.

Even small shifts in incidence can have large impacts on individuals.

2.1 Scale of Shifts in Incidence

The top portion of table one shows where each of the local authorities fits within the above categories regarding the impact of scenario A (removal of differentials and introduction of the UAGC).

In 13 of the 20 local authorities, it appears that the residential share of the rating burden will decrease. Of these:

- 12 of the 13 local authorities are provincial and rural local authorities
- there are six councils on the land value system and seven on the capital value system.
- the three councils with no differentials on the general rate are all represented. It also demonstrates that differentials have (and were designed to have) a significant redistributive effect on the incidence of rates - in this case shifting rates from the urban area to the rural area.
- only one of the four councils that does not use a uniform charge is represented here (Kapiti). This tends to give further support to the comments around the use of the UAGC. This is not surprising as the UAGC is a device for shifting the incidence of rates from high to low value properties.

In scenario A the residential share goes down in 13 councils ...

On the other hand, of the six local authorities where the residential share of the rate take is likely to increase under scenario A:

- all are metropolitan local authorities (the shift tends to be from commercial ratepayers to the residential ratepayers)
- three are on capital value, two land value and one annual value
- most have moderate to high differentials (and thus the scale of any changes are likely to be greater because the Shand recommendations undo policy judgements already made by the local authority that certain sectors should pay more)
- two of the four local authorities that do not use the UAGC are represented here.

... and up in six metropolitan authorities

Table 1.1: Shifts in the Incidence of Residential Rates - Scenario A

Moderate (Residential share moves 0 - +/- 4.99 percent[10])	Major (Residential share moves +/- 5 – 9.99 percent)	Extreme (Residential share moves +/- 10 percent or more)
Christchurch (+3.2 percent)	Dunedin (+ 9 percent)	Grey (-13.9 percent)
Far North (-1.6 percent)	Hastings[12] (-7.1 percent)	Hamilton (+12.3 percent)
Kapiti Coast[11] (-3.4 percent)	South Taranaki (-6.0 percent}	Horowhenua (-22.1 percent)
Manukau (+4 percent)	Stratford (-5.7 percent)	North Shore (+13.2 percent)
Masterton (No change)	Taupo (-5 percent)	South Waikato (-12 percent)
Opotiki (-3.3 percent)	Timaru (-9.7 percent)	Wellington[13] (+18 percent)
Tasman (-1.5 percent)		
Tauranga (-3 percent)		

Table 1.2: Shifts in the Incidence of Residential Rates - Scenario C

Moderate (Residential share moves 0 - +/- 4.99 percent)	Major (Residential share moves +/- 5 – 9.99 percent)	Extreme (Residential share moves +/- 10 percent or more)
Christchurch (- 0.3 percent)	Dunedin (+9.0 percent)	Hamilton (+16.3 percent)
Far North (+4.9 percent)	South Taranaki (-5.0 percent)	Horowhenua (-14.9 percent)
Grey (-4.9 percent)	Timaru (-5.4 percent)	Manukau (+12 percent)
Hastings (-0.3 percent)		North Shore (+11.4 percent)
Kapiti Coast (-1.9 percent)		South Waikato (-12 percent)
Masterton (no change)		Wellington (+18 percent)
Opotiki (-1.2 percent)		
Stratford (-3.5 percent)		
Tasman (-1.5 percent)		
Taupo (-2 percent)		
Tauranga (-2 percent)		

Note: The residential share in those local authorities that are underlined would increase.

The main differences between scenarios A and C are that scenario C:

- separates out all utility services (water supply, wastewater disposal, stormwater and

[10] This is a shift in the percentage of the total rate take that the residential sector accounts for. If the residential sector pays 60 percent of the total rates, and if the share moves to 64 percent, this is a four percent shift in incidence and would categorised as a moderate shift.

[11] Urban area was used as the comparator in this table and table 1.2.

[12] We used Area One as our basis of comparison as this category covers 80 percent of Hastings ratepayers

[13] Base differential category used as the comparator in this table and table 1.2.

those in scenario A..

refuse collection) and makes them fixed targeted rates (except in those local authorities where these are already targeted rates set on some other basis)

- mandates a shift to capital value as the basis for setting the general rate in the 10 local authorities that do not already use this system.

Interestingly, the scale of the shifts in incidence under the suite of recommendations in scenario C tend to be more moderate than those in scenario A. The shifts in incidence under scenario C are less than scenario A in eleven of the sample, about the same in a further six local authorities (mostly those already on the capital value system). The scale of shift is greater under scenario C in four of the sample – none of which are on capital value at the present time. Under scenario A, eight of the sample experience moderate shifts in incidence, six major shifts and six extreme shifts. Scenario C would see 11 local authorities experiencing moderate shifts, three major shifts and six extreme shifts.

Shifts in scenario C tend to be more moderate than those in scenario A..

The numbers of local authorities where the shares paid by the residential sector increase remains the same (13 decreases, six increases and one no change). However, Far North replaces Christchurch among those local authorities where the share paid by the residential sector increases. Of the six local authorities where the share paid by the residential sector increases:

... but the numbers of increases and decrease are the same.

- five are metropolitan local authorities (Far North is a provincial local authority)
- three are on land value, two capital value, and one on annual value
- three have relatively high differentials on the commercial sector
- two of the four local authorities that do not use the UAGC are represented (Hamilton City and Wellington City).

If the incidence of rates is shifting into or out of the residential sector, then it must be coming from (or going to) some other sector. Table Two shows the sector by sector movements in each local authority. The table confirms that:

- in most metropolitan local authorities the commercial sector would be paying a substantially lower share of rates, and this is shifted mostly to the residential sector, but also to the rural outskirts of many of our cities
- in provincial and rural New Zealand the shift appears to be more of an urban to rural shift i.e. both the residential and commercial sectors would appear to be paying a lower share of rates at the expense of the rural sector. Some of the shifts into the rural sector are among the largest in the sample (in particular those in Grey District, Hastings District and Horowhenua District).
- the scale of the shifts in incidence appear to be lower in scenario C.

Commercial ratepayers in our cities tend to gain ...

... at the expense of residential and rural raatepayers.

2.2 Property by Property Impact

The individual case studies in Appendix B demonstrate that even quite small shifts in the overall incidence of rates can have significant impacts when the overall rating burden is apportioned to property.

Table Two: Shifts in Incidence by Local Authority and Sector

Local Authority	Category	Present Share (%)	Change from present share under	
			Scenario A	Scenario C
Christchurch	Residential	73.8	3.2	-0.3
	Commercial	23.2	-4.2	-0.1
	Rural	2.2	1.1	1.0
	Other	0.8	0.0	-0.6
Dunedin	Residential	66	9.0	9.0
	Non-Residential	30	-10.0	-10.0
	Farmland	4	1.0	1.0
Far North	Residential	63	-1.6	4.9
	Commercial	10.2	-3.8	-1.3
	Rural	18.6	4.9	-1.4
	Other	8.2	0.5	-2.2
Grey	Residential	65.2	-13.9	-4.9
	Commercial	17.2	-8.6	-6.7
	Rural	17.6	22.6	9.9
	Other	0	0.0	1.7
Hamilton	Residential	65.3	12.3	16.3
	Commercial	33.6	-15.5	-17.3
	Rural	1	3.3	1.0
Hastings	Residential	51.5	-5.6	0.6
	Horticulture	12.8	3.6	1.1
	Commercial	20.3	-13.9	-8.5
	Clubs	0.1	0.0	0.0
	Farming	15.4	15.8	6.8
Horowhenua	Urban	76.3	-22.1	-14.9
	Rural	23.7	22.1	13.1
	Other	0.1	0.0	1.8
Kapiti Coast	Urban	93.7	-3.4	-1.9
	Rural	6.3	3.4	1.9
Manukau	Residential	63	4.0	12.0
	Commercial	34	-6.0	-15.0
	Rural	3	3.0	3.0

North Shore	Residential	68.9	13.2	11.4
	Commercial	26.5	-13.2	-11.3
	Rural	1.1	0.9	0.3
	Other	3.5	-0.7	-0.4
Opotiki	Residential	66.5	-3.3	-1.2
	Commercial	4.6	-0.1	-1.3
	Rural	24.6	3.6	2.9
	Other	4.3	-0.1	-0.5
South Taranaki	Urban	45	-6.0	-5.0
	Rural	54	5.0	4.0
	Other	1	2.0	2.0
South Waikato	Residential	49	-12.0	-12.0
	Commercial	12	-1.0	-1.0
	Rural	36	10.0	10.0
	Other	2	3.0	3.0
Stratford	Residential	38.9	-5.7	-3.5
	Commercial	3.3	-0.4	-0.2
	Rural	51.2	5.1	2.9
	Other	6.6	1.0	0.8
Tasman	Residential	48.8	-1.5	-1.5
	Commercial	3.8	0.1	0.1
	Rural	41.1	1.1	1.1
	Other	6.3	0.2	0.2
Taupo	Residential	67	-5.0	-2.0
	Commercial	13	-2.0	0.0
	Rural	17	6.0	2.0
	Other	3	0.0	0.0
Tauranga	Residential	83	-3.0	-2.0
	Commercial	17	3.0	2.0
Timaru	Residential	71.4	-9.7	-5.4
	Commercial	17.1	-8.7	-3.4
	Rural	11.6	18.3	8.7
Wellington	Residential	49	18.0	18.0
	Commercial	50	-18.0	-18.0
	Rural	0.4	0.6	0.6
	Other	0.6	-0.4	-0.4

Note: Numbers may not add to 100 percent due to rounding. With no change in Masterton this council has been omitted from this table. Hastings District Council, all residential and commercial properties in Zones 1 and 2 have been combined.

Tables 3.1 and 3.2 below show the scale of rates increases on a property by property basis for each of scenarios A and C. While this table is dominated by the seven metropolitan local authorities, this is an accurate reflection of where New Zealanders live. This table serves to highlight both the sectors that "win" or "lose" from the recommendations, and the degree of impact.

In scenario A 57 percent of all ratepayers could expect an increase ...

In scenario A:

- overall, 57 percent of properties can expect an increase in their rates, while 40 percent of properties can expect a decrease. Around one third of properties can expect an increase of 10 percent or more, and around one quarter can expect a decrease of similar proportions
- commercial ratepayers are clear "winners" – 92 percent of this sector would receive a decrease in their rates (and 90 percent would receive a decrease of 10 percent or more). In contrast, around six percent of commercial properties would be paying more in rates
- sixty percent of residential ratepayers would be paying a higher level of rates, including 36 percent that would be paying 10 percent or more. Thirty-seven percent of residential ratepayers would be paying less – including around one in five that would be paying at least 10 percent less
- rural properties tend to be "losers" – 72 percent of rural ratepayers can expect an increase in their rates (and in almost 60 percent of cases the increase is expected to be at least 10 percent).

... including 60 percent of residential ratepayers ...

... and 72 percent of rural ratepayers.

Table 3.1: Scale of Change by Property Type - Scenario A

Scale of Change	Residential[1]	Commercial	Rural	Other	Total
10 percent decrease or more	19.0%	90.0%	15.4%	32.4%	23.4%
5.0 - 9.99 percent decrease	7.5%	1.4%	5.3%	3.3%	7.0%
0.01 - 4.99 percent decrease	10.4%	0.8%	5.7%	3.4%	9.5%
No change	3.1%	1.6%	1.2%	28.2%	3.2%
.01 - 4.99 percent increase	12.5%	0.8%	7.3%	4.2%	11.4%
5.00 - 9.99 percent increase	11.8%	0.8%	6.0%	3.6%	10.7%
10 – 19.99 percent increase	18.2%	1.2%	10.3%	6.3%	16.6%
20 percent increase or more	17.4%	3.5%	48.8%	18.6%	18.2%
Total	100%	100%	100%	100%	**100%**

[1] Includes all properties in the Timaru District Council, all urban property in Horowhenua and Kapiti.

Scale of Change	Residential[1]	Commercial	Rural	Other	Total
10 percent decrease or more	14.4%	61.7%	21.9%	75.0%	18.3%
5.0 - 9.99 percent decrease	7.8%	2.1%	5.0%	2.3%	7.2%
.01 - 4.99 percent decrease	6.4%	1.8%	5.4%	2.1%	6.1%
No change	2.3%	0.9%	1.2%	5.5%	2.2%
.01 - 4.99 percent increase	9.5%	3.5%	8.3%	2.1%	9.0%
5.00 - 9.99 percent increase	9.1%	1.7%	6.5%	1.9%	8.4%
10 - 19.99 percent increase	18.4%	5.2%	9.5%	3.6%	16.9%
20 percent increase or more	32.3%	23.1%	42.2%	7.6%	32.0%
Total	100%	100%	100%	100%	**100%**

These results are the result of the interplay of two factors:

- the removal of the UAGC redistributes rates from lower valued to higher valued properties. In particular, the 37 percent of residential ratepayers that receive a decrease under this scenario will probably be owners of low valued properties
- the removal of differentials on the general rate essentially overturns judgements that local authorities and their communities have made regarding which sectors should be paying what (having had regard to the funding principles set out in section 101 of the Local Government Act 2002). Present differential rating policies (where they exist) tend to favour the residential and rural sectors, thus their removal is of clear benefit to the commercial sector. Removal of the UAGC should, however, reduce the impact of changes in differentials.

In scenario C:

- overall two-thirds percent of properties can expect an increase in their rates, 31 percent of properties can expect a decrease. Around 49 percent of all properties can expect an increase of 10 percent or more, and around 18 percent can expect a decrease of similar proportions
- the degree of the shifts is more moderate under scenario C than scenario A. This is in part because capital value tends to bear a closer relationship to benefit and ability to pay than is the case with the land value system. Differentials tend to be fewer and lower (in other words value-based rating under scenario C can be closer to present practice than scenario A)
- commercial ratepayers are clear "winners" – 66 percent of this sector would receive a decrease in their rates (and 62 percent would receive a decrease of 10 percent or more). In contrast, around 23 percent of commercial properties would be paying more in rates, mostly those with quite high ratios of capital to unimproved value
- 69 percent of residential ratepayers would be paying a higher level of rates, including 51 percent that would be paying 10 percent or more. Twenty-nine percent of residential ratepayers would be paying less, including around one in seven that would be paying at least 10 percent less

Under scenario C two-thirds of all properties may receive an increase in their rates ...

... including almost 70 percent of residential ratepayers ...

Includes all properties in the Timaru District Council, all urban property in Horowhenua and Kapiti.
The other implication of this is that the articulate middle class residential ratepayer, whose concerns gave rise to the inquiry, are unlikely to be any better off as a result of these recommendations. The mythical "Granny on her beachfront or CBD property" is likely to be substantially worse off from a general rate based solely on property value.

- 66 percent of rural ratepayers can expect an increase in their rates (and in 52 percent of cases this is expected to be at least ten percent).

... and two-thirds of rural ratepayers.

2.3 Affordability of Residential Rates

So what do these shifts in incidence actually mean in dollar terms? Tables 4.1 and 4.2 show the impact on the residential rates in each local authority, both in dollar terms and in percentage terms.

Table 4.1: Residential Rates[17] by Scenario and Local Authority

Local Authority	Scenario			
	Present	A	B	C
Christchurch City	$1,339	$1,397	$1,356	$1,325
Dunedin City	$1,244	$1,394	$1,394	$1,394
Far North District	$1,501	$1,144	$1,395	$1,554
Grey District	$1,485	$1,125	$1,184	$1,356
Hamilton City	$1,332	$1,596	$1,700	$1,667
Hastings District	$1,576	$1,457	$1,457	$1,592
Horowhenua District	$1,334	$681	$855	$982
Kapiti Coast District[18]	$1,555	$1,504	$1,518	$1,538
Manukau City	$1,162	$1,176	$1,307	$1,402
Masterton District	$1,354	$1,354	$1,354	$1,354
North Shore City	$1,562	$1,655	$1,751	$1,773
Opotiki District	$1,487	$1,358	$1,481	$1,481
South Taranaki District	$1,557	$1,304	$1,339	$1,339
South Waikato District	$1,271	$854	$823	$1,266
Stratford District	$1,451	$1,227	$1,373	$1,373
Tasman District	$1,714	$1,634	$1,634	$1,634
Taupo District	$1,469	$1,252	$1,286	$1,440
Tauranga City	$1,202	$1,086	$1,127	$1,127
Timaru District	$1,337	$1,131	$1,131	$1,233
Wellington City[19]	$1,708	$2,320	$2,320	$2,320

The two tables show that depending on the exact scenario, residential rates in 11 - 13 of our sample can be expected to decrease. The scenario with the largest number of decreases is scenario A, where the impact of removing differentials and the uniform charge shifts rates into the rural parts of most rural and provincial local authorities. The scenario with the fewest

17 The rates presented for Christchurch, Hastings, Masterton and Timaru are average rates. The remainder are median rates.
18 Based on the median for the Kapiti urban area.
19 This is the median rate for the base category. The figure of $2320 is an approximation supplied by the council.

decreases in residential rates is scenario B and is the impact of introducing more fixed targeted rates into the mix. With the exception of Far North (under scenario C), the local authorities where rates are expected to increase are all metropolitan local authorities.

The actual dollar impact ranges from a potential $650 decrease to a $600 increase ...

It is no surprise to learn then the largest dollar and percentage increase in residential rates would be in Wellington City (approximately $600 or 36 percent). This applies regardless of the scenario.

The largest dollar and percentage decreases would be in the Horowhenua District. The scale of these decreases varies according to the scenario and in dollar terms range from a decrease of around $350 (C) to around $650 (A).

... or between -49 percent and 36 percent.

It is important to recognise that the shifts in rates described here are the current year's rating requirement re-allocated in line with the Shand recommendations. Any changes to the overall rating requirement due to cost change, or planned change to levels of service have not been factored in.

It should also be noted that the earlier tables showed that one sector's gain is another sector's loss (and vice versa). For example, while the median residential rate in the Grey District Council might decrease by between 9 and 24 percent, the median for the rural sector would increase by between 30 and 57 percent.

Table 4.2: Changes in Residential Rates by Scenario and Local Authority

Local Authority	Scenario		
	A	B	C
Christchurch City	4.3%	1.3%	-1.0%
Dunedin City Council	12.1%	12.1%	12.1%
Far North District	-23.8%	-7.1%	3.5%
Grey District	-24.2%	-20.3%	-8.7%
Hamilton City	19.8%	27.6%	25.2%
Hastings District	-7.6%	-7.6%	1.0%
Horowhenua District	-49.0%	-35.9%	-26.4%
Kapiti Coast District	-3.3%	-2.4%	-1.1%
Masterton District	0%	0%	0%
Manukau City Council	1.2%	12.5%	20.7%
North Shore City	6.0%	12.1%	13.5%
Opotiki District	-8.7%	-0.4%	-0.4%
South Taranaki District	-16.2%	-14.0%	-14.0%
South Waikato District	-32.8%	-35.2%	-0.4%
Stratford District	-15.4%	-5.4%	-5.4%
Tasman District	-4.7%	-4.7%	-4.7%
Taupo District	-14.8%	-12.5%	-2.0%
Tauranga City	-9.7%	-6.2%	-6.2%
Timaru District	-15.4%	-15.4%	-7.8%
Wellington City	35.8%	35.8%	35.8%

It is difficult to generalise about the impact of the recommendations in the Shand report on the affordability of residential rates. While the report highlights what appear to be significant shifts in the incidence of rates, these do not necessarily represent huge shifts when measured against incomes. For example, under scenario A the median residential rate in the North Shore City Council was predicted to increase by six percent (or $93), yet table five shows that when compared with the median household income for the city the increase is about one-tenth of one percent of household income. This is not to make light of the increases[20], but places the increases in context.

Table Five: Rates to Income Ratios – Sample Local Authorities

Local Authority	Scenario				
	Present	A	B	C	D
Christchurch City	2.8%	2.9%	2.8%	2.7%	2.7%
Dunedin City	2.9%	3.2%	3.2%	3.2%	2.6%
Far North District	4.7%	3.1%	3.8%	4.2%	3.9%
Grey District	3.7%	2.8%	2.9%	3.4%	3.4%
Hamilton City	2.5%	3.0%	3.2%	3.2%	3.0%
Hastings District[21]	3.4%	3.2%	3.2%	3.5%	3.5%
Horowhenua District	4.0%	2.1%	2.6%	3.0%	3.0%
Kapiti Coast District[22]	3.7%	3.5%	3.6%	3.6%	2.2%
Masterton District	3.4%	3.4%	3.4%	3.4%	3.4%
Manukau City	1.9%	1.9%	2.1%	2.3%	2.2%
North Shore City	2.3%	2.4%	2.5%	2.6%	2.4%
Opotiki District	4.6%	4.2%	4.6%	4.6%	2.5%
South Waikato District	3.0%	2.0%	2.0%	2.0%	3.0%
South Taranaki District	3.4%	2.9%	2.9%	2.9%	N/A
Stratford District	3.4%	2.9%	3.2%	3.2%	3.1%
Tasman District	4.0%	3.8%	3.8%	3.8%	N/A
Taupo District	3.1%	2.6%	2.7%	3.0%	2.7%
Tauranga City	2.6%	2.4%	2.5%	2.5%	2.4%
Timaru District[23]	3.3%	2.8%	2.8%	3.0%	N/A
Wellington City[24]	2.3%	3.1%	3.1%	3.1%	N/A

For the purposes of this report a change of +/- 0.2 in the affordability of rates was regarded as not significant.

[20] After all, the media tend not to print the absolute dollar increases. Percentages make a far better story, especially when compared to the CPI.
[21] We used differential Area One as our basis of comparison - this area contains 80 percent of the Hastings ratepayers.
[22] Urban area only.
[23] Timaru urban area only.
[24] Base differential category only.

However based on this benchmark it can be seen that the scale of shifts in the affordability of rates created by scenario A are significant in 13 of the 20 sample local authorities (in three local authorities affordability would deteriorate[25], in ten local authorities it would improve). Under scenario C there would also be 13 local authorities where the affordability of residential rates would alter significantly, seven where affordability would improve but there would be six local authorities where there would be a significant deterioration in the affordability of rates.

These changes have significant impacts on affordability in 13 of the 20 local authorities in the sample.

In summary:

- residential ratepayers in metropolitan New Zealand would generally find their rates less affordable. The gains from removing the uniform charge tend to be outweighed by the effects of removing differentials on the general rate (in essence transferring rates from the commercial sector into the residential sector), and/or switching valuation systems. If it is accepted that the Shand Inquiry was established to address the concerns of the metropolitan residential ratepayer, then these recommendations may well have missed the mark (or at least depend on the impact of recommendations elsewhere in the Shand report)
- residential ratepayers in provincial and rural New Zealand would generally find their rates more affordable. The removal of differential rating and the generally favourable treatment this affords the rural sector is the reason for this shift.

25 Dunedin City, Hamilton City and Wellington City.

3.0 Conclusions

There are two key trends evident from this data:

- in metropolitan New Zealand the recommendations of the Shand report would generally give rise to major shifts in the incidence of rates from the commercial/industrial sector to the residential sector. Without additional funding from sources other than rates, a majority of residential ratepayers could expect an increase in their rates purely stemming out of these recommendations
- in provincial and rural New Zealand the shifts are more likely to be from the "urban" parts of the district (i.e. both residential and commercial ratepayers) to the rural parts of the district.

Local Government New Zealand and SOLGM make no comment on the desirability (or otherwise) of the shifts in incidence highlighted above. *Getting Real: Funding the True Cost of Local Communities* pointed out that no matter what the Inquiry recommended, there were likely to be "winners" and "losers" and that fairness is often defined in the eye of the beholder.

We believe that the Government and the general public need to consider and debate these results very carefully as they consider the implications of the Shand inquiry. For this reason copies of the report have been supplied to all major sectoral groups known to our respective organisations, as well as to the general public (via our website and the media).

Our analysis tends to suggest that:

- differential rating powers are a tool for redistributing the burden of rates. Depending on your perspective differentials either protect certain sectors, or are a means of recognising differences in benefit, willingness to pay etc. Their removal undoes the policy judgements of local authorities and their communities
- removal of powers to set a UAGC tend to distribute rates from the lower valued properties to higher valued properties. As commercial and rural properties are more likely to be represented among the higher value there is some degree of shifting incidence to these sectors
- moving to a pure "rates as a tax on wealth approach" i.e. assessing rates purely on property values, no differentials and limited fixed components tend to create the largest shifts in incidence. Moving to capital value tends to lessen, though not completely remove, some of the effects of this
- it appears most regional councils will emerge from these scenarios relatively unscathed, but the findings with respect to the different types of local authority are more mixed. Design of the rating system plays more of a role than size or type of local authority.

The results for the individual local authorities in the sample (shown Appendix B) also demonstrate that quite small shifts in the overall incidence of rates can have significant effects on the rates at the level of an individual ratepayer. This is particularly true when contemplating introducing or removing the UAGC or changing a valuation base. In other words, the Shand report recommendations create not only shifts between different sectors of the community, but also create shifts within different parts of the same sector.

Truly there are no 'magic answers' when it comes to designing reform of the rating system that does not create significant distributional and adjustment issues. The adjustment issues are likely to be reduced if, *and only if*, funding from sources outside of rates (user charges, government funding etc) is injected into the mix. But of course, these have their own set of distributional and adjustment issues.

Local authorities were given flexible rating powers for a reason – to develop local solutions to funding issues. The message to the policy-makers is simple – the recommendations in the Shand report remove this flexibility with little evidence that there is any clear improvement over the present situation. Without additional funding from other sources, all the seven recommendations discussed in this report are likely to achieve is to turn what are essentially local issues into "central government's problem".

Appendix A: Local Authorities Included in the Sample

Metropolitan

Christchurch City
Dunedin City
Hamilton City
Manukau City
North Shore City
Tauranga City
Wellington City

Provincial

Far North District
Hastings District
Horowhenua District
Kapiti Coast District
Masterton District
South Taranaki District
South Waikato District
Taupo District
Timaru District

Unitary

Tasman District

Rural

Grey District
Opotiki District
Stratford District

Regional

(Not included in the report)

Greater Wellington
Hawkes Bay Region

Appendix B: Individual Council Situations and Results

B1. Christchurch City Council

Christchurch City Council is a large (population 348,435) predominantly metropolitan local authority. In 2006 it amalgamated with the Banks Peninsula District Council and thus absorbed a substantial rural hinterland.

The key features of the Christchurch rating system are:

- a value-based general rate set on the capital value system. Christchurch uses three moderate use-based differentials. Using the residential rate as a base, the differential factors are 1.5 for commercial and 0.75 for rural. This accounts for 66 percent of the total rate take
- a moderate UAGC on each separately occupied or inhabited portion of a rating unit. This accounts for about eight percent of the total rate take
- targeted rates for water supply, sewerage and land drainage – with each being based on undifferentiated capital value. These three rates account for eight percent, 13 percent and three percent of the total rate take respectively
- an excess water supply rate – which accounts for one percent of the rate take
- a water supply fire connection rate – a rate of $100 per fire service connection, which accounts for less than 0.5 percent of the total rate take
- targeted loan servicing rates for two small communities in the former Banks Peninsula District Council, which account for less than 0.5 percent of the total rate take.

While this local authority is on the capital value system and has only a moderate commercial differential, the assumptions under each of the scenarios do represent some change as:

- the council uses a moderate UAGC
- the council sets targeted rates for water, sewage and land drainage (stormwater) but these are currently set on capital value rather than as fixed targeted rates.

However, in modelling these assumptions this council made an assumption that in scenario B-D it would introduce a business roading rate set on capital value using the current differential policy[26]. This assumption effectively compensates for some of the impact that the removal of differentials on the general rate would have.

Under present rating policies the <u>average</u> residential rate is $1339. Under each of the scenarios this changes to:

- scenario A $1397
- scenario B $1356
- scenario C $1325
- scenario D $1325.

In other words, the average residential rate could change by anywhere from a decrease of one percent to an increase of four percent. These are very moderate in comparison with the

[26] The council's rationale for this is that present commercial differential is largely based on an analysis, which found that the majority of carriageway costs should be loaded on the business sector. The council therefore considers a targeted rate for business roads would be justified under the Shand scenarios.

scale of change that some of the other local authorities have indicated. To some extent this may be a reflection of the assumptions this local authority made around the roading function and commercial differential.

Under present rating policies the distribution of rates by sector is:

- residential 73.8 percent
- commercial 23.2 percent
- rural 2.2 percent
- other 0.8 percent.

Table Six shows that regardless of the scenario, the assumptions this council has applied mean that the impact on the overall incidence of rates within this local authority is minor (although the treatment of the roading differential may be a significant factor in this).

As is the case with many of the other local authorities in the sample, scenario A tends to create the largest shift in the incidence of rates (especially as in this scenario the council did not model a targeted rate for roads on the commercial sector). This scenario shifts approximately $10 million in rates from the commercial sector to the residential and rural sectors. As a consequence, 72 percent of residential ratepayers would receive an increase in their rates over current levels (including about six percent who would receive an increase of 10 percent or more). On the other hand, every commercial ratepayer would receive at least a 10 percent decrease in their rates.

Table Six: Rates Incidence (in Percentages) By Scenario: Christchurch City Council

Scenario	A	B	C	D
Rural	3.3	3.2	3.2	3.2
Residential	77.0	74.7	73.5	73.5
Commercial	19.0	21.8	23.1	23.1
Other	0.8	0.2	0.2	0.2

Percentages may not add to 100 due to rounding

Scenario B reintroduces fixed targeted rates (for water, drainage, and sewerage), and the council introduces the targeted rate for roads on the commercial sector. This moderates some of the shift in incidence that no UAGC and no differentials on the general rate would create. Approximately 30 percent of residential properties would receive a decrease in their rates, and 65 percent would receive an increase (including 28 percent that would receive an increase of 10 percent or more). This set of assumptions also creates "winners" and "losers" amongst the commercial ratepayers – with an approximate 50/50 split between the two.

Although the distribution of rates by sector under scenarios C and D are little different from the present scenario, there are shifts on a property by property basis (some quite substantial).

Christchurch is a city council with reasonably low levels of rates, especially in comparison with its metropolitan counterparts, and incomes that are close to the national median. As a result there is little evidence of significant city-wide affordability issues, and as Table Seven shows the Shand recommendations make little difference to this overall picture.

Table Seven: Affordability of Residential Rates – Christchurch City Council

Census Unit	Median Income	Scenario				
		Present	A	B	C	D
Christchurch City	$48,200	2.8%	2.9%	2.8%	2.7%	2.7%

Conclusions: Christchurch City Council

The impact of the Shand recommendations on the overall distribution of rates in this local authority are moderate. The introduction of a business roading rate would make it even more so. The scale of change is probably manageable for this council, especially with the kind of lead-time Shand envisaged. Overall, this council provides a good illustration that the use of differentials on targeted rates may moderate the impact of the Shand recommendations in some cases.

B2. Dunedin City Council

Dunedin City Council is a metropolitan local authority (population at the 2006 Census was 118,363) situated in the south of the South Island. Dunedin is rare among the metropolitan local authorities in that it contains a large rural hinterland (taking in the communities of Hyde, Middlemarch, Taieri and Mosgiel). Dunedin is also unusual among the metropolitan local authorities for the large level of non-rateable land within the district[27].

The key features of the Dunedin rating system are:

- no UAGC
- a value-based general rate set on capital value, and set differentially with a positive differential (0.9 for farmland) and a negative differential (3.06) for non-residential properties. This rate accounts for around 46 percent of Dunedin's total rate revenue
- targeted rates for the following:
  - community services (a fixed targeted rate) – which accounts for 11 percent of the rate take
  - kerbside recycling (a fixed targeted rate) – accounting for one percent of the total rate take
  - drainage - a fixed targeted rate differentiated by land use. Non-residential property also pays an additional rate based on capital value. This accounts for 23 percent of the total rate take
  - water (a fixed targeted rate with some metering for extraordinary supply), including fire protection (a capital value rate differentiated on land use). Both of these rates account for 19.5 percent of the total rate take.

In brief, the two main areas where this council's rating system differs from the recommendations of the Shand report are in the use of differentials on the general rate, and non-use of metering for water. As many of the targeted rates set by this council are effectively the same as described in scenarios B and C, the results for scenarios A, B and C are the same.

With present rating policies, the median residential rate is $1244 on a median capital value of $175K. Under each of scenario A-C, the median increases to $1394 (an increase of 12.1 percent), and under scenario D the median falls to $1140[28](a decrease of 8.4 percent).

The distribution of rates between sectors is currently:

- farmland four percent
- residential 66 percent
- non-residential 30 percent.

As can be seen in Table Eight, the main impact of the suite of changes in scenarios A and B revolve around removal of the differentials on the general rate. The impact of this is a movement of rates from the non-residential sector to the residential sector, and to a lesser extent, the rural sector. These shifts become slightly more pronounced when the impact of the suite of assumptions that underpin scenario D are factored in.

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27 The 2004 Report of the Central/Local Government Funding Project team reported that Dunedin City Council had the fifth highest proportion of non-rateable land in the country (only the three territorial authorities on the West Coast, and Southland had higher proportions of non-rateables).

28 This council elected to separate the waste and wastewater charge from rates, thus the true cost to the ratepayer would be higher than is indicated here.

Table Eight: Rates Incidence (in Percentages) By Scenario: Dunedin City Council

Scenario	A	B	C	D
Farmland	5	5	5	6
Residential	75	75	75	78
Non-residential	20	20	20	16

The shift in incidence in rates under scenario A sees the overwhelming majority of properties in the non-residential category receive a decrease in rates of 10 percent or more (84 percent), while around the same percentage of farmland properties would pay 20 percent or more additional rates. Around 12 percent of residential properties would receive at least a 20 percent increase in rates, with a further 67 percent receiving an increase of between 10 and 20 percent. Scenarios B and C produce shifts of a similar size.

The council's treatment of water and wastewater charges in scenario D (basically removing them from the rating system) means that the overwhelming majority of residential and non-residential ratepayers receive substantial decreases in rates, though it is not clear whether these individuals would actually be any better off financially.

There are several pockets within the Dunedin urban area where affordability of rates is a potential issue. The majority of these are around Dunedin University (a large student community) and in some parts of South Dunedin[29] (substantial numbers of the elderly). Table Nine shows that the shifts in incidence appear to have a moderate negative impact on the affordability of residential rates in Dunedin (the rate/household income ratio rises from 2.9 to 3.2 percent across the city). The changes in incidence raise affordability to "issue" levels in one or two additional areas in and around St Kilda and the rural fringe of the city.

Table Nine: Affordability of Residential Rates – Dunedin City Council

Census Unit	Median	Scenario				
	Income	Present	A	B	C	D
Dunedin City Council	$43,400	2.9%	3.2%	3.2%	3.2%	2.6%

Conclusions: Dunedin City Council

This council shows a similar pattern to many of the other metropolitan local authorities – moderate to extreme shifts in incidence of rates that have some negative impact on the affordability of residential rates. What makes Dunedin slightly different from the other metropolitan local authorities is that it has a substantial rural hinterland, and the ratepayers in the farmland differential category can also expect substantial increases in rates.

The shift largely comes about as a result of the phase-out of differentials on the general rate. Even the kind of lead times envisaged by the Shand report still require an average three percent increase per annum in the median rate, before other factors such as cost change, level of service change etc are taken into account.

29 Data gathered during the 2005 funding project suggested that this particular area had one of the 20 lowest incomes in the country.

B3 Far North District Council

Far North District Council is the largest "rural based" local authority in the country. Unlike most provincial councils Far North has no single large service centre – and instead has several smaller centres (Kaikohe, Kaitaia, and Kerikeri). This district has a relatively high proportion of Maori freehold land.

Parts of the Far North district have some of the lowest incomes and highest levels of deprivation in the country (as measured by the deprivation index). The Shand report included this local authority in its sample of seven local authority case studies on affordability, and found this council had the highest level of 'unaffordability' of the seven[30].

There is a significant difference between the average and median property values in this district. The average land value for a residential property is $116K, almost 50 percent higher than the median of $75k (and the differences are even more marked in the rural and commercial categories). There are a number of very high valued properties that 'drag up' the average values.

The key features of the Far North rating system are:

- the value based general rate is assessed on the land value system and accounts for approximately 39 percent of total rate revenue
- differentials on the general rate are constructed on the basis of land use with two categories – general and commercial (with the latter paying a rate in the dollar that is approximately three times higher than the general category)
- a moderate-high UAGC - approximately 20 percent of the rates revenue is collected in this way
- a ward services rate set as a fixed dollar charge, but differentiated based on location (approximately 10 percent of the rates revenue in the district is collected in this way)
- targeted rates for sewerage disposal (mostly set as fixed dollar charges with some pan charging for properties with large numbers of connections)
- a mix of metering and fixed charges for water supply – metering accounts for around nine percent of the rates revenue
- a number of small area based rates for land drainage
- a fixed dollar charge for stormwater disposal – this is differentiated on the same basis as the general rate (with the commercial category paying twice the rate of the general category).

Under the council's current set of rating policies, the median residential rate is $1501[31]. The median residential rate under each scenario is:

- scenario A $1144
- scenario B $1395
- scenario C $1554
- scenario D $1447.

The distribution of rates between sectors is currently:

- rural 18.6 percent
- residential 63.0 percent

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30 These findings are described in more detail on page 192 of Funding Local Government.

31 This is based on the median for all properties throughout the district. The council notes that there is a significant difference in properties that receive all of the utility services provided by council.

- commercial 10.2 percent
- other 8.2 percent.

Table Ten provides an analysis of how the incidence of rates changes under each of the scenarios. The overall impacts of these changes are particularly complex in this local authority and vary by property location. There are significant differences in the impact of the changes on the west coast of the district as opposed to the east.

Table Ten: Rates Incidence (in Percentages) By Scenario: Far North District Council

Scenario	A	B	C	D
Rural	23.5	20.6	17.2	17.2
Residential	61.4	64.1	67.9	66.1
Commercial	6.4	7.0	8.9	10.4
Other	8.7	8.3	6.0	6.3

Percentages may not add to 100 due to rounding.

Far North notes a significant difference between average and median rates in this district, as a small number of high valued properties distort the averages. Under three of the scenarios, including that closest to the Shand Report, the residential sector would appear to pay a higher share of rates in aggregate, and the average rate increases over current levels, yet in each case the median residential rate decreases. Far North attributes this to the impact of removal of the UAGC, and notes that under each scenario there would be a number of residential properties paying a very low general rate. The "downside" of this is that the removal of the UAGC will shift rates into the rural sector and on to owners of high valued residential properties.

The removal of the UAGC in scenario A results in a shift in rates from the residential and commercial sectors to the rural sector. Around two-thirds of residential properties would receive a decrease in rates. The remaining one-third are higher valued residential properties. At the same time around two thirds of rural properties receive an increase in rates (including forty percent where the rates increase would be 20 percent or more).

Scenario B introduces a variety of fixed targeted rates which go some way to replacing the UAGC. As a result the shift in the incidence of rates to the rural sector is reduced, however, the council notes that a number of the lower valued residential properties would experience a significant increase in rates.

The council describes scenario C as "a profound change" in the rating of the district. This is the scenario with the biggest shift in incidence into the residential sector. More than half the residential properties would receive a rates increase of 10 percent or more (and more than a quarter would receive a rates increase of more than 20 percent). On the other hand, more than half the rural properties would receive a decrease of 20 percent or more.

Table 11 shows that Far North has one of the highest rates to income ratios of the sample. An analysis of rates to income ratios by area within Far North indicates areas in the north and west of the district may be experiencing more generalised issues with the affordability of rates. The impact of the Shand recommendations is mixed across the district. In areas such as Awanui, Hokianga and Kaikohe the median residential rate goes down, while in Kerikeri and Paihia the median either stays at its current level or increases.

Table 11: Affordability of Residential Rates – Far North District Council

Census Unit	Median Income	Scenario				
		Present	A	B	C	D
Far North District	$37,000	4.1%	3.1%	3.8%	4.2%	3.9%

Conclusions: Far North District

As a suite it appears that the recommendations in the Shand report will assist with affordability issues in this council. The median residential rate decreases over current levels under any of the scenarios, although owners in higher valued residential properties (perhaps the top quartile by value) are likely to be significantly worse off. Rural ratepayers would experience significant increases in rates under scenarios A and B (the impact of removal of the UAGCs), but will be somewhat better off under scenarios C and D. For the most part, commercial ratepayers appear to be at least as well off under any of these scenarios, and in most cases substantially better off.

B4. Grey District Council

Grey District Council is a small district council (2006 population was 13,224) on the West Coast of the South Island. The district is centred on the community of Greymouth and the Grey river valley. Non-rateable land is a significant issue for this council, with more than 80 percent of the district (by area) owned by the Department of Conservation.

The key features of the Grey rating system are:

- a moderate UAGC in terms of the percentage of rates revenue it brings in
- a value-based general rate set on the land value system that accounts for around 46 percent of rates revenue
- the general rate is set differential based on land use and location
- targeted rates for:
  - sewage disposal (fixed targeted rates varying by scheme)
  - water supply (fixed targeted rates varying by scheme with some metering of consumption above 300 cubic metres per annum)
  - refuse collection (a fixed targeted rate with two categories for residential and commercial)
  - district promotion (levied on commercial/industrial property only and based on the capital value system).

Under the current rating policies of this council the average residential rate is $1415 (on an average value of $186[32]) and the median $1485 (on a median property value of $160K). Under each of the four scenarios the median residential rate decreases to:

- scenario A $1125
- scenario B $1184
- scenario C $1356
- scenario D $1356.

This council has also supplied median rates for the other sectoral groups. These are shown in Table 12. The shifts in incidence to the rural sector move the medians significantly (under the best scenario the median rural rate increases 30 percent, and in the worst case it increases 57 percent). On the other hand, the commercial sector median declines by anywhere between 39 and 47 percent depending on the scenario.

Table 12: Median Non-Residential Rates by Sector and Scenario.

Sector	Present	A	B	C	D
Rural	842	1321	1300	1094	1094
Commercial	2667	1402	1433	1636	1636
Other	286	0	0	31680	31860

The distribution of rates between sectors is currently:

- rural 17.6 percent
- residential 65.2 percent
- commercial 17.2 percent
- other 0.0 percent.

[32] Capital value.

Table 13 shows how incidence would change under each of the scenarios. As appears to be the case in many of the other provincial and rural local authorities in the sample, the removal of differentials on the general rate and the UAGC (scenarios A and B) create the larger shifts in incidence. The main shift is from the residential sector to the rural sector (of a magnitude that was earlier defined as "extreme"). There is also a major shift in incidence away from the commercial sector.

Table 13: Rates Incidence (in Percentages) By Scenario: Grey District Council

Scenario	A	B	C	D
Rural	40.2	38.4	27.5	27.5
Residential	51.3	53.1	60.3	60.3
Commercial	8.6	8.5	10.5	10.5
Other	0.0	0.0	1.7	1.7

Percentages may not add to 100 due to rounding.

With shifts in incidence this large, it is not surprising that the "winners" and "losers" from each scenario tend to be relatively clear cut. Under scenarios A and B almost 90 percent of the residential ratepayers receive a rates decrease of 10 percent or more[33], and almost all commercial ratepayers receive similar decreases. On the other hand, around three-quarters of rural ratepayers receive a rates increase of 20 percent or more. The extremes of these two scenarios are ameliorated somewhat through the introduction of capital value – around 70 percent of residential ratepayers would receive a decrease in rates of 10 percent or more, and 54 percent of rural ratepayers would receive an increase of 20 percent or more.

Based on the Shand benchmark for affordability of rates it appears that residential ratepayers in some parts of Greymouth, Blackball and Runanga may be facing affordability issues. The changes in incidence described earlier appear to have some positive impact on the affordability of residential rates across most of Grey (with the exception of the central parts of Greymouth).

Table 14: Affordability of Residential Rates – Grey District Council

Census Unit	Median	Scenario				
	Income	Present	A	B	C	D
Grey District	$40,300	3.7%	2.8%	2.9%	3.4%	3.4%

Conclusions: Grey District Council

The impact of any of these scenarios will be significant shifts in incidence from the residential and commercial sectors to the rural sector. The median rural rate increases by anything from 29 to 57 percent (depending on the scenario. However, there would be a significant boost in the affordability of residential rates under these recommendations.

33 A few high-valued residential properties would lose the protection of the UAGC and would experience increases in rates of 20 percent or more regardless of the scenario.

B5. Hamilton City Council

Hamilton City Council is a metropolitan local authority (2006 Census, usually resident population 129,249). The city is the regional hub for the Waikato though it has a small rural hinterland (approximately 500 rating units or one percent of the total).

The key features of the Hamilton rating system are:

- the value-based general rate is assessed on the land value system and accounts for around 93 percent of the total rate revenue. Hamilton is one of the most reliant on the general rate as a funding source
- a moderate differential against the commercial sector (2.26), and differentials in favour of inner-city residential (0.95), and rural (0.49 to 0.17 depending on exact land use)
- no UAGC at all
- targeted rates for:
  - non-domestic water supply (a fixed dollar charge and volumetric charges past 240 kilolitres consumption)
  - Access Hamilton (levied on capital value)
  - non-rateable and 50 percent non-rateable properties.

Under the current rating policies of this council the average residential rate is $1442 and the median $1332 (on a median property value of $295K[34]). Under each of the four scenarios the median residential rate increases to:

- scenario A $1596
- scenario B $1700
- scenario C $1667
- scenario D $1605.

The design of the rating system in this local authority is possibly the furthest from the Shand recommendations, and this is reflected in the scale of the changes in the median rates. Even on the most moderate of these scenarios the median residential rate increases 19.8 percent (scenario A), and scenario B generates an increase of 27.6 percent. Even assuming (as the Shand Report does) a four year transitional period, the impacts are significant (approximately five percent per year on the best case scenario).

The distribution of rates between sectors is currently:

- rural[35] 1.0 percent
- residential[36] 65.3 percent
- commercial 33.6 percent.

As can be seen in Table 15, under any of the four scenarios there is likely to be an extreme shift in the incidence of rates from the commercial sector to the residential and rural sectors. The scenario closest to the Shand recommendations (scenario D) would see a doubling in the share paid by the rural sector, and a 13 percent increase in the share paid by the residential sector. The major "winner" from these shifts will be the commercial sector, which would see its share of the total rate take halved.

34 This is capital value.
35 Includes large and small rural holdings, but not properties classified as rural residential.
36 Includes residential, multi-unit , inner city residential and rural residential.

Table 15: Rates Incidence (in Percentages) By Scenario: Hamilton City Council

Scenario	A	B	C	D
Rural	4.3	3.2	2.1	2.1
Residential	77.6	82.3	81.6	78.6
Commercial	18.1	14.5	16.3	19.3

Percentages may not add to 100 due to rounding

The two factors that appear to most affect this council are firstly, the removal of differentials on the general rate (moderate though they are), and secondly, the suite of assumptions around targeted rating (basically the fixed nature of the charges further shifts the incidence onto the residential sector).

In many of the other local authorities that are going through the modelling exercise, each of the scenarios creates "winners" and "losers" even within particular categories of ratepayer. In Hamilton's case the results are very clear cut:

- under scenario A, all residential and rural property would receive at least a 10 percent increase in rates (except a small number of multi-unit residential properties) and all commercial property would receive a minimum 10 percent decrease in rates. This is the impact of removing the differential on a rate that accounts for 95 percent of the total rate revenue
- under scenario B, approximately 95 percent of the residential property would receive an increase of 10 percent (and about 78 percent would receive an increase of 20 percent), while 90 percent of commercial ratepayers receive a rates decrease of 10 percent
- scenario C removes some of the extremes of scenario B (although around two-thirds of residential ratepayers would still receive an increase of 20 percent or more)
- scenario D further reduces the extremes.

Taking the Shand Inquiry's benchmark of affordability (i.e. rates no more than five percent of the household income) it appears that there is only one census area unit that has an affordability issue (Te Rapa in the northern part of the city). The shifts in incidence do bring some of the eastern parts of the city close to five percent (these parts of the city have a larger proportion of tertiary students who do not pay rates directly). Table 16 shows that across the city there is some negative shift in the affordability of residential rates – the ratio of median rates to median income moves from 2.5 percent under present policies to between 3.0 and 3.2 percent under each of the four scenarios.

Table 16: Affordability of Residential Rates - Hamilton City Council

Census Unit	Median	Scenario				
	Income	Present	A	B	C	D
Hamilton City	$52,800	2.5%	3.0%	3.2%	3.2%	3.0%

Conclusions: Hamilton City

Hamilton is one of the local authorities where the recommendations in the Shand Report are likely to have most impact. Even the lower impact of the four scenarios would create an extreme shift in the incidence of rates from the commercial sector to the residential and rural sectors. The scale of the shift in incidence also creates clear cut winners and losers, with even the most moderate of the scenarios leaving the overwhelming majority of ratepayers with large (i.e. more than 10 percent) increases or decreases. The impacts on affordability of rates are therefore mixed at best.

B6. Hastings District Council

Hastings District Council is a large provincial centre (both in terms of land area and its population of 70,839) in the Hawkes Bay Region. The district has a mix of urban area (Hastings), several smaller townships, and a large rural hinterland. Hastings has a moderate level of non-rateables (especially in the west of the District) and a moderate level of Maori freehold land (mostly in the north-east of the district).

The key features of the Hastings rating system are:

- a value-based general rate set on the land value system, and set differentially. Hastings has a two-tiered differential structure that is first based on location (essentially one area for Hastings and immediate environs[37], and another for the rural part of the district) and a second tier based on use. In the former area, the commercial differential is about 3.5 over residential, in the latter the differential is about 2.5.
- a moderate UAGC ($171) per separately used/inhabited portion of a property
- targeted rates for:
    - community services and resource management – fixed targeted rates with the dollar amounts varying by location and use
    - security patrol rates for properties in the Hastings and Havelock North CBDs
    - marketing/promotion rates for certain properties in Hastings and Havelock North
    - seal extension – a rate set on land value in the rural part of the district
    - sewage disposal – a charge per connection to the system
    - wastewater treatment – a charge per connection to system
    - water supply – a targeted fixed rate, with the level of charge varying by scheme
    - recycling – a targeted fixed rate on all properties where the service is available
    - swimming pool safety – a fixed targeted rate on all properties that have a swimming pool
    - various small targeted rates to meet the capital cost of supply extensions.

In modelling the package of assumptions this local authority chose to remove water and wastewater from scenario D and then effectively treat these as a charge outside the rating system. This effectively meant scenarios C and D were the same. In scenario B the council also chose to move stormwater from the general rate but levy this as a targeted rate set on the same basis as the general rate (land value, the same differentials etc) making this effectively the same as scenario A.

The more complex nature of the differential rating systems used in this local authority makes an analysis of the impact of the Shand recommendations a much more complex task.

The *average* residential rate for this local authority is currently $1576. Under each of the scenarios this would be:

- scenario A $1457
- scenario B $1457
- scenario C $1592
- scenario D $1592

37 Hastings refers to the two location based structures as differential areas 1 and 2.

The current distribution of rates between the sectors is as follows:

Differential area one	82.0 percent	Differential area two	18.0 percent
residential	49.1 percent	residential	2.4 percent
horticulture	12.8 percent	farming	15.4 percent
commercial	20.0 percent	commercial	0.3 percent
clubs[38]	0.1 percent		

Table 17 shows the incidence of rates under each scenario. Regardless of the scenario, the recommendations of the Shand report would shift the incidence of rates from area one to area two (in effect, from the urban area to the rural area).

Under scenarios A/B the share that area two pays will effectively double – the bulk of which will fall on the farming category. The main winners under scenario A are the commercial property owners in area one (which will go from paying 20 percent of the district rates to around six percent[39]) - although residential property owners in area one also benefit. The only area one category of property to "lose" under this scenario are horticultural properties, which would be contributing about 3.6 percent more of the total rate take. Although the differentials that Hastings applies are moderate by sector standards, the impact of their removal when combined with removal of the UAGC are significant.

As is the case with many of the other provincial and rural local authorities, it appears that scenarios C and D are more moderate in terms of the degree of swings in incidence that result. Indeed, in this local authority scenarios C and D appear to represent almost an exact "halfway house" between the status quo and scenarios A and B. The impact of scenarios C and D is to shift rates from the area one commercial properties into area two (and especially the farming property).

38 There are only 11 properties in this category.

39 The average rate paid by commercial property owners in this area decreases by 69 percent (i.e. from $7328 to $2276).

Table 17: Rates Incidence (in Percentages) By Scenario: Hastings District Council

Scenario	A/B	C/D
Differential Area One	64.7	*73.5*
Clubs	0.1	0.1
Commercial	6.2	10.8
Horticulture	16.4	13.9
Residential	42.0	48.8
Differential Area Two	35.3	26.5
Commercial	0.2	*1.0*
Farming	31.2	22.2
Residential	3.9	3.3

Percentages may not add to 100 due to rounding.

Table 18 shows rates to income ratios for Hastings District Council under each scenario. Although these ratios are well below the benchmark used as a definition of 'unaffordable' in the Shand report, disaggregated analysis suggests that there may be affordability issues within some of the lower-income parts of the Hastings urban area. Scenarios A and B would alleviate these concerns slightly, scenarios C and D would leave things roughly 'as they are'.

Table 18: Affordability of Residential Rates: Hastings District Council

Census Unit	Median	Scenario		
	Income	Present	A/B	C
Hastings District	$45,800	3.4%	3.2%	3.5%

Conclusions: Hastings District Council

This council has much in common with its provincial and rural counterparts in terms of the direction of the shift in the incidence of rates (from the urban sector to the rural sector). Roughly 80 percent of Hastings' residential ratepayers are likely to find their rates will be more affordable as a result of the changes recommended in the Shand report, although the remaining 20 percent are likely to receive increases of 25 percent or more.

B7. Horowhenua District Council

Horowhenua District Council is a moderately sized provincial council (2006 census usually resident population 29,868). This district is centred on the township of Levin and has a number of smaller centres such as Foxton and Shannon. The district has a large rural hinterland.

The key features of the Horowhenua rating system are:

- the general rate is set as a UAGC of $336 per rating unit (accounting for 25 percent of total rate revenue) and a rate set on the land value system (accounting for 37.5 percent of the total rate revenue)
- the value-based general rate is set differentially, based on location. It has three categories – urban (property in the townships of Levin, Foxton and Shannon), townships (various small rural centres), and rural (everything else). The differentials are set in such a way as to maintain a pre-determined level of contribution from each of the groups[40].
- targeted rates for:
    - solid waste disposal (a fixed targeted rate differentiated on location) – about seven percent of the total rate take
    - water supply (mostly fixed targeted rates differentiated by the scheme and availability of the service with a few small scale loan rates on land value and metering on a small scale). These rates account for about 14 percent of the total rate take
    - water races (based on land value differentiated by scheme)
    - wastewater disposal (mostly fixed targeted rates differentiated on availability of the service and by scheme, with some loan rates based on land value) This accounts for about 16 percent of the total rate take.

The median residential rate in this local authority is $1334. Under each of the scenarios this decreases to:

- scenario A $681
- scenario B $855
- scenario C $982
- scenario D $982.

The current distribution of rates between the sectors is:

- residential and commercial 76.3 percent
- rural 23.7 percent
- other[41] 0.1 percent.

The impact of each of the four scenarios is shown in Table 19. Regardless of scenario there will be significant shifts in incidence from commercial and residential ratepayers to the rural ratepayer. The issue is one of degree rather than direction.

40 In 2007/8 these were urban 59 percent, townships 9 percent, and rural 32 percent.
41 There are only 12 properties in this category.

Table 19: Rates Incidence (in Percentages) By Scenario: Horowhenua District Council

Scenario	A	B	C	D
Other	0.1	0.1	1.7	1.7
Rural	45.8	47.4	36.8	36.8
Residential and Commercial	54.2	52.6	61.4	61.4

Percentages may not add to 100 due to rounding.

The removal of differentials on the general rate, and the UAGC, both combine to create a substantial increase in rural rates under scenarios A and B. The rural sector goes from paying just under a quarter of the rates to almost half under each scenario. As a result, approximately 62 percent of rural ratepayers would receive a rates increase of 20 percent or more under either of these scenarios. On the other hand, 10,200 of the 12,100 residential property owners would receive a rates decrease of 10 percent or more, and it appears only very high valued residential property owners would receive an increase.

Scenario C introduces capital value rating into the mix, and appears to reduce the sharpness of the swings in incidence. The rural sector ends up paying 36 percent of the total rate take. But interestingly, the number of rural ratepayers receiving substantial rates increases actually goes up! The introduction of capital value into the mix also increases rates substantially on the small number of ratepayers in the "other" category – these must have extremely high improvement values.

This council was unable to estimate the effects of full volumetric charging for water and wastewater, thus results for scenario D are the same as in scenario C.

Using the Shand report's benchmark for affordability it appears that there may be an issue in Foxton, Shannon and some parts of Levin. Shifts in incidence of the above size and scale have a substantial positive impact on the affordability of residential rates. Table 20 shows that under scenario A the median residential rate falls from around four percent of the median household income to around two percent. Even under the more moderate scenarios the impact on the affordability of residential rates is still quite marked.

Table 20: Affordability of Residential Rates – Horowhenua District Council

Scenario	A	B	C	D
Other	0.1	0.1	1.7	1.7
Rural	45.8	47.4	36.8	36.8
Residential and Commercial	54.2	52.6	61.4	61.4

Conclusions: Horowhenua District Council

Under any of the scenarios modelled it appears there will be very substantial shifts in the incidence of rates from urban Horowhenua to rural Horowhenua.   Under even the best case scenarios rural Horowhenua would move from paying a quarter of the rates to 37 percent. On the other hand, it appears that the affordability of rates in urban Horowhenua will improve substantially, although it is not possible to distinguish between commercial and residential sectors.

B8. Kapiti Coast District Council

Kapiti Coast District Council is a moderate sized provincial centre (population 46,200). The district is centred on the township of Paraparaumu, and contains several other smaller centres (Otaki, Waikanae, Paekakariki and Raumati). During the 1990s this district experienced rapid growth in population, and while growth has slowed from that time it is still one of the fastest growing provincial centres. Kapiti Coast has a significant population of elderly people.

The key features of the council's rating system are:

- a value based general rate set on the land value system. The council has a differential system that is based on location (urban/rural) with a second layer within the rural sector based on size (less than 50 hectares, more than 50 hectares). There is no commercial or industrial differential. The rural differential is constructed so that properties pay either 33 percent or 19 percent of the urban rate (depending on size). The value based general rate accounts for about 16 percent of the total rate take – this is very low reliance on the general rate by sector standards
- there is no uniform annual general charge
- Kapiti Coast collects the following targeted rates:
  - a targeted rate for regulatory services which is set on differentiated land value and uses the same differential structure as the general rate. This rate accounts for around six percent of the total rate take
  - a targeted rate for community facilities, which is set as a fixed charge per rating unit. The charge is applied differentially on commercial accommodation, and multiply occupied rating units. This charge accounts for approximately 21 percent of the total rate revenue
  - two district wide roading rates – one set on undifferentiated land value, and another fixed charge (set on the same basis as the community facilities rate). These two rates together account for 11 percent of the total rate take
  - four targeted rates for stormwater disposal in each of four separate communities. The basis of the rate varies by community. Taken together the four rates account for about six percent of total rates revenue
  - various targeted rates for water supply (including extraordinary water supply), water maintenance and water upgrades/improvements. The basis of the rate varies by community. Taken together these rates account for 17 percent of the total rate take
  - various wastewater rates that account for 19 percent of the total rate take
  - various community rates that account for around 3.5 percent of the total rate take.

The median rates[42] are:

- urban $1555
- rural $889.

Table 21 shows the medians under each of the scenarios. As can be seen, the shifts in rates are similar in their direction and magnitude to many of the other provincial and rural councils i.e. substantial shifts in rates from urban ratepayers to rural ratepayers. The results are small decreases in rates (between one and three percent) for urban ratepayers under scenarios A-C, and a significant decrease in rates (39 percent) under scenario D[43]. On the other hand, the

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[42] Note that the council does not distinguish between residential and other property use, so these are averages that include all types of property.

[43] This council has treated the volumetric charge for water and wastewater (under scenario D) as if it were a charge rather than a rate - this explains the sharp decrease in the urban median. It is therefore questionable whether the urban ratepayers would be significantly better off under this scenario than under any of the others.

median rural rate would increase regardless of the scenario – with the increases ranging from 18 percent[44] to 39 percent.

Table 21: Median Rates by Sector and Scenario: Kapiti Coast District Council

Scenario	Urban Median	Rural Median
A	$1504	$1238
B	$1518	$1222
C	$1538	$1087
D	$946	$1051

Under the present rating policies the incidence of rates across the district is:

- urban 93.7 percent
- rural 6.3 percent

Table 22 shows the changes in the incidence of rates under each of the scenarios. These appear relatively minor in comparison with some of the shifts elsewhere in the sample, but appear to have some major impacts on rating levels in the rural sector. While scenario D appears to create the largest shift in incidence this is in fact largely a product of the removal of some water and wastewater rates from the rating system.

Table 22: Rates Incidence (in Percentages) – Kapiti Coast District Council

Scenario	A	B	C	D
Urban	90.3	90.3	91.8	87.8
Rural	9.7	9.7	8.2	12.2

In scenario A, the abolition of differentials on the general rate means that 88 percent of rural ratepayers would receive a rates increase of 20 percent or more, while 90 percent of the urban ratepayers would receive a decrease of between 0.1 and 5.0 percent.

The introduction of a fixed targeted rate for stormwater in scenario B reduces the number of urban properties that would receive a rates decrease. Indeed about 27 percent of urban ratepayers would experience a small increase (less than five percent), however, over 70 percent would still receive a decrease in their rates. The results for rural ratepayers under scenario B are no different to Scenario A as there is no separate stormwater rates and charges in the rural area.

The introduction of capital value in scenario C creates large numbers of winners and losers within the urban sector, with approximately 48 percent of urban ratepayers receiving a decrease and 52 percent an increase. Of these, 16 percent of urban ratepayers would receive a decrease in their rates of 10 percent or more, while around six percent would receive an increase of 10 percent or more. The introduction of capital value would have a significant impact on the rural sector with over 99 percent of properties receiving a rates increase (72 percent of the rural sector would receive an increase of 10 percent or more and 25 percent of the rural properties would receive an increase of 40 percent or more.)

[44] And under this scenario some rural residents would still be paying for water and wastewater by way of a volumetric charge.

Although the shifts in the incidence of rates and in the dollar amounts appear significant – Table 23 shows that most parts of Kapiti Coast still sit well within the limits of affordability identified in the Shand report. Affordability then remains an issue at the level of the individual ratepayer (especially in a community with a high proportion of the elderly). Also Kapiti has the highest proportion of its population over 65 years old of any local authority in the country.

Table 23: Affordability of Rates – Kapiti Coast District Council

Census Unit	Median	Scenario				
	Income	Present	A	B	C	D
Kapiti Coast District – Urban	$42,500	3.7%	3.5%	3.6%	3.6%	2.2%
Kapiti Coast District – Rural	$42,500	2.1%	2.9%	2.9%	2.6%	2.5%

Conclusions: Kapiti Coast District Council

The impact of the Shand recommendations in this council follows much the same pattern as in other provincial and rural local authorities i.e. a major shift in the incidence of rates from the urban area to the rural. While it appears many urban ratepayers would receive a minor decrease in their rates (or only minor increases) the effects on rural ratepayers are very significant. Over 25 percent of the rural ratepayers would receive rates increases of 40% or more under one scenario. Otaki has rates affordability problems together with the increasing proportion of Kapiti's population over 65 years old who are on fixed incomes.

B9. Manukau City Council

Manukau City Council is a large (population 328,968), rapidly growing local authority[45] centred in the southern parts of the Greater Auckland area. While Manukau as a community overall has one of the highest levels of household income in the country, some communities within the district have extremely low household incomes.

The key features of the Manukau rating system are:

- a value based general rate set on the annual value system (Manukau is one of only two local authorities which is on this system). The rate is set differentially with a moderate commercial differential (around 1.8) and favourable differentials for rural property. The value based general rate accounts for 74 percent of the total rate take
- a UAGC assessed as a charge of $318 per rating unit. This rate accounts for 16.5 percent of the total rate take
- a per dwelling refuse rate of $170 which accounts for nine percent of the total rate take
- a number of business improvement rates, which are levied on commercial properties in specific parts of the city. This rate accounts for less than 0.5 percent of the total rate take
- charges for most water supply and wastewater treatment are levied by a council controlled organisation (Manukau Water) on a volumetric basis, completely outside the rating system. These charges do not appear in any of the data in this appendix, and the affordability table in particular should be interpreted with this in mind.

Under present policy settings the median residential rate is $1162. Under this, each scenario would become:

- scenario A $1176
- scenario B $1307
- scenario C $1402
- scenario D $1379.

The present incidence of rates across the sectors is residential 63 percent, commercial 34 percent and rural three percent. Table 24 shows how the incidence of rates would change across the city.

Table 24: Rates Incidence (in Percentages) – Manukau City Council

Scenario	A	B	C	D
Residential	67	71	75	74
Commercial	28	24	19	20
Rural	6	5	6	6

Note: percentages may not add to 100 percent due to rounding.

Many of the other local authorities in the sample found scenario A tended to create the biggest shifts in the incidence of rates[46]. That is not the case in Manukau. Scenario A does create a moderate shift in the incidence of rates from the commercial sector to the residential sector (whose share of the rate take moves from 63 percent to 67 percent) and the rural

[45] Data from the 2006 Census indicates that this council experienced the largest intercensal growth (in terms of actual numbers) of any local authority in the country (more than 45,000 new residents since 2001).

[46] This is not surprising as most of the other metropolitan local authorities are already on capital value.

sector (where the share doubles from three percent to six percent). Manukau's commercial differential is one of the more moderate of the metropolitan sector and means the scope for large swings in incidence is lessened somewhat. The use of the uniform charge is also quite moderate. However, these two factors in combination do create some shift to the rural sector.

If the impact of the removal of general rate differentials is to redistribute rates between sectors, the impact of the removal of the uniform charge is to create distributional issues within sectors, especially the residential sector. Forty-one percent of residential ratepayers receive a decrease in rates, mostly owners of low rental value properties i.e. where the removal of the $318 uniform charge outweighs any increase in their value based rate. Things are more clear cut in the commercial sector where 90 percent get a decrease in their rates, and in the rural sector where 98 percent get an increase in their rates.

As more fixed charges are introduced in scenario B the residential sector picks up a greater share of the incidence of rates simply by sheer number of properties in this sector. The commercial share would drop from a third under present policies to just under a quarter in scenario B. Scenario B removes stormwater from the general rate to a fixed targeted rate, and thus the impact of this is to replace part of the UAGC. This means the swings on a property by property basis are much more clear cut. All but nine residential properties would receive an increase in rates (87 percent of which will be at least 10 percent). In the rural sector, all but 20 properties would receive an increase of rates of at least 20 percent.

The shift to capital value in scenario C produces the largest swings in incidence. This tends to contradict those people who expressed the view cited in the Shand report that annual value was "capital value in drag". The swings in the incidence of residential rates moves from being major to "extreme" under this set of assumptions. Ninety-five percent of residential ratepayers receive an increase in rates (including 59 percent of properties that receive an increase of 20 percent or more).

Table 25 shows the impact on the affordability of residential rates. There is some deterioration in the affordability of residential rates across the local authority. While the table seems to indicate that there are no parts of the community that are facing affordability issues (i.e. affordability issues are at the level of the individual ratepayers), these figures do not include water and wastewater charges. Our more detailed analysis suggests that it is likely some parts of Mangere would be close to the Shand benchmarks for affordability.

Table 25: Affordability of Residential Rates – Manukau City Council

Census Unit	Median Income	Scenario				
		Present	A	B	C	D
Manukau City Council	$62,300	1.9%	1.9%	2.1%	2.3%	2.2%

Conclusions: Manukau City Council

The conclusions with respect to Manukau are very sensitive to the scenarios. While the direction of shifts in incidence in Manukau are similar to many other metropolitan local authorities, it is scenario C and the introduction of capital value that creates the largest shift in incidence. The affordability of commercial rates is likely to improve significantly, but many residential ratepayers are likely to find their rates a little less affordable.

[46] This is not surprising as most of the other metropolitan local authorities are already on capital value.

B10. Masterton District Council

Masterton District Council is a small provincial centre (population 22,693).

Masterton is one of only two local authorities in New Zealand that does not set a general rate – although it has four district wide rates for specific functions that operate in much the same way as a value-based general rate. The other key features of the Masterton rating system are:

- a district wide roading rate set on land value with differentials based on location (urban/rural) and with a further layer in the urban area based on use. The differentials are calculated such that non-residential urban property pays twice the rate in the dollar of residential, and rural has a differential in its favour. This rate accounts for around 20 percent of the total rate take
- a district wide rate for representation and development set on capital value with location and use based differentials. Again the urban non-residential rate is set at twice the rate for urban residential, with the rural differential in the current year at 0.27 of the urban residential rate. This rate accounts for around 10 percent of the total rate take
- a district wide rate for regulatory services set on capital value with location and use based differentials. The urban non-residential rate is set at twice the rate for urban residential, with the rural differential in the current year at 0.42 of the urban residential rate. This rate accounts for around six percent of the total rate take
- a district wide rate for sundry facilities and services set on capital value with location and use based differentials. The urban non-residential rate is set at twice the rate for urban residential, with the rural differential in the current year at 0.26 of the urban residential rate. This rate accounts for around eight percent of the total rate take
- a targeted uniform charge, that is set differentially based on location (urban/rural). This accounts for about 17.5 percent of the total rate take
- a differential roading charge that is set differentially based on location. This rate accounts for around nine percent of the total rate
- a targeted recycling collection charge for all properties where the service is provided. This rate accounts for two percent of the total rate take
- a civic amenities rate for all urban property set on capital value with a similar differential as above. This accounts for around six percent of the total rate take
- an urban water supply rate which is partly a capital value rate, and partly a fixed charge. Taken together these two rates account for 11.5 percent of the total rate take
- an urban sewerage rate set on the same basis as the water supply rate. This accounts for around 10 percent of the total rate take
- various small scale rates for rural water and sewage disposal schemes that account for around one percent of the total rate take.

As the district-wide rates are hypothecated to funding specific functions (roading, representation and development etc), <u>legally</u> speaking these are actually <u>targeted</u> rates. This means the Shand recommendation regarding the abolition of differentials would not apply, nor would the recommendation regarding capital value and the general rate. The stormwater rate is already targeted. Under scenario D the assumptions around metering will see large water consumers with low capital value properties pay more, and low water consumers with high capital value likely to pay less. As a result the incidence of rates in this local authority is unlikely to be affected.

B11. North Shore City Council

North Shore City is a large metropolitan local authority (population 205,608) situated in the northern suburbs of the Greater Auckland urban area. North Shore City as a whole has the second highest level of household income in the country, and thus the district as a whole does not have an affordability issue. However, this local authority was one where public debate about the scale of rates increases signalled in the last LTCCP generated the publicity that gave impetus to the original inquiry. There are also significant differences in value between the different parts of the city.

The key features of the North Shore rating system are:

- a significant UAGC ($691 in the current year) – North Shore goes close to so-called 30 percent cap on fixed rating. Its current policy is to gather 29.5 percent of rates revenue in this way. We assume that tool is used primarily as a device for ameliorating the impact of the differences in value
- a value based general rate set on the land value system. This rate is set differentially, with the differentials constructed in a way that generates a defined share from the business sector (26.5 percent of total rates revenue[47]). When combined with the UAGC, approximately 66 percent of total rates revenue is collected via the general rate
- a targeted rate for water supply (metered consumption) – this rate raises approximately $21 million and is disclosed in the accounts as a user charge
- a targeted rate for waste management (fixed targeted rate) – around 1.1 percent of rates revenue
- a targeted rate for sewage disposal (fixed targeted rate) – and raises approximately 8.5 percent of rates revenue.

This council already uses volumetric charging for water[48], however, the other recommendations from the Shand report represent considerable change from the present system. In particular, the removal of differentials and the UAGC are the most significant factors. A change to capital value is a more moderating factor.

Under present policy settings the median residential rate is $1562 (on a median value of $430K[49]). Under each of the scenarios the median residential rate increases to:

- scenario A $1655
- scenario B $1751
- scenario C $1773
- scenario D $1663.

In other words, the impact on the residential rates is an increase of between six and 13.5 percent.

The distribution of rates between sectors is currently:

- rural 1.1 percent
- residential 68.9 percent
- commercial 26.5 percent
- other 3.5 percent.

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47 The result is a commercial differential that is 6.5 times the residential rate. The council asks that we note it has commissioned independent economic analysis which substantiated the differential policy on both a benefits/ equity and economic sustainability perspective. Consideration of this analysis is beyond the scope of this report.

48 North Shore has previously expressed an interest in volumetric charging for wastewater disposal.

49 Capital value.

As can be seen in Table 26, under any of the scenarios the shares paid by the business sector halves and the shares paid by the residential sector increases from 69 percent to around four-fifths of the rates paid.

Table 26: Rates Incidence (in Percentages) By Scenario: North Shore City Council

Scenario	A	B	C	D
Other	2.8	2.7	3.1	4.0
Rural	2.1	2.0	1.4	1.4
Business	13.3	11.5	15.2	15.9
Residential	82.1	83.8	80.3	78.7

Percentages may not add to 100 due to rounding.

While the overall movements in median rates are not as large as many of the sample, the interesting thing about this council is that even within the residential categories there are large numbers of "winners" and "losers".

Thus, while the median residential rate moves six percent under scenario A, approximately 25 percent of the residential ratepayers receive a decrease in rates of 10 percent or more. Twenty-nine percent of the residential sector would receive an increase of 20 percent or more. It appears that the high UAGC provides owners of high valued residential properties with a degree of protection that will be removed under scenario A. All commercial ratepayers receive at least a 10 percent decrease in rates, but all rural ratepayers receive an increase of at least 20 percent (this is the impact of the removal of differentials and in the case of rural property - the removal of the UAGC).

The introduction of a fixed charge for stormwater in scenario B further shifts rates in favour of the commercial sector. As a result, the shifts in residential rates are more acute, far fewer properties receive a decrease, and more than a third receive an increase of 20 percent or more.

The introduction of wastewater charging into the city moderates some of the impact of other changes. The number of residential properties receiving large rates increases is the smallest under this scenario. Some commercial properties also receive 20 percent or more rates increases (we assume these are particularly high users of water).

Table 27 shows the overall impact of these changes is some reduction in the affordability of residential rates across the district. The dual effect of some of the earlier scenarios, however, makes this kind of generalisation tenuous and at best an "on balance' exercise".

Table 27: Affordability of Residential Rates – North Shore City Council

Census Unit	Median	Scenario				
	Income	Present	A	B	C	D
North Shore City	$69,100	2.3%	2.4%	2.5%	2.6%	2.4%

Conclusions: North Shore City

The overall impact of the Shand recommendations is a movement of rates from the commercial sector to the residential to a magnitude that is classified as moderate to extreme. Although the swings in incidence are lower than some of the other metropolitan local authorities in the sample, there are actually significant "winners" and "losers" even within the residential category (especially under scenario A). The impacts on affordability in this council will be particularly property specific.

B12. Opotiki District Council

Opotiki District Council is a small (2006 Census, usually resident population 8973) largely rural district on the east coast of the North Island. The district consists of Opotiki township and the surrounding rural hinterland. The district has relatively high proportions of non-rateable land (mostly Department of Conservation) and Maori freehold land.

The key features of the Opotiki rating system are:

- the value-based general rate is assessed on capital value and accounts for approximately 52 percent of the total rate revenue
- the general rate differentials are unusual in that they are constructed based on property area (not the more usual type or location based differentials). The differential is constructed so that the rate in the dollar increases by a moderate amount as property size increases
- a moderate UAGC – approximately 17 percent of total rates revenue is collected in this way
- targeted rates for:
  - wastewater (a pan charge)
  - water supply (a fixed dollar charge in some areas and metering of most properties in the main areas for water supply)
  - refuse (a fixed dollar charge)
  - public space litter collection (a fixed dollar charge)
  - resource recovery (fixed dollar charge)
  - town centre redevelopment (a fixed dollar charge levied on commercial and industrial properties in the centre of Opotiki township)
  - a town centre redevelopment charge (fixed dollar charge)
  - promotions and development (cents per dollar on commercial and industrial property).

Under the current rating policies of this council the average residential rate is $1632 (on an average value of $199K) and the median $1487 (on a median property value of $160K). Under each of the four scenarios the median residential rate decreases to:

- scenario A $1358
- scenario B $1481
- scenario C $1481
- scenario D $ 820[50].

The impact on residential rates of each of scenarios B and C is minor, and scenario D is unquantifiable.

The distribution of rates between sectors is currently:

- rural 24.6 percent
- residential 66.5 percent
- commercial 4.6 percent
- other 4.3 percent.

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50 This council chose to model the impact of moving to volumetric charging as something that would be done as a user charge (akin to those which currently apply in Auckland, Manukau and Papakura). As a result, the median rate drops markedly under scenario D, but without the water etc it is not clear what the impact on affordability of this scenario would actually be.

Table 28 shows the shares each category of property would pay under each of the four scenarios. In each scenario there appears that there will be a shift from the residential and commercial sectors to the rural sector. Almost 70 percent of residential ratepayers would receive a rates decrease, (and 49 percent would receive a decrease of 10 percent or more). On the other hand, 62 percent of rural ratepayers would receive an increase of 20 percent or more. It appears the removal of the UAGC is a significant factor and appears to dwarf the impact to rural ratepayers of removing differentials on the general rate.

As this council is already using capital value and already has targeted rates for water, stormwater and refuse, the changes in scenarios B and C result in little difference in incidence over scenario A. The swings in results appear to be less extreme for all four categories of ratepayer.

The removal of water and wastewater distorts the results in favour of the residential sector. In all likelihood the results would be nearer those in scenarios B/C.

Table 28: Rates Incidence (in Percentages) By Scenario: Opotiki District Council

Scenario	A	B	C	D
Rural	28.2	27.5	27.5	31.6
Residential	63.2	65.3	65.3	60.1
Commercial	4.5	3.3	3.3	3.9
Other	4.2	3.8	3.8	4.4

Percentages may not add to 100 due to rounding.

Taking the Shand inquiry's benchmark of affordability (rates no more than five percent of the household income) currently three of the five census area units in Opotiki have an "affordability issue". Table 29 shows that the impact of the rating recommendations would be a minor shift in affordability for the residential sector under scenario A, and little under other scenarios. The council removed water and wastewater charges from scenario D altogether, so while the effect is an apparent decrease in rates, it is unclear whether residential ratepayers would be any better off in reality.

Table 29: Affordability of Residential Rates – Opotiki District Council

Census Unit	Median Income	Scenario				
		A	B	C	D	E
Opotiki District	$32,500	4.6%	4.2%	4.6%	4.6%	2.5%

Conclusions: Opotiki District

This local authority already has a number of the key recommendations from the Shand inquiry in place. The shifts in incidence between sectors appear moderate, however, the likelihood is that the shift in incidence to the rural sector will produce a significant movement in rates in this sector, with relatively little change in affordability elsewhere. Given a significant number of properties in the rural category are Maori freehold land there is also some potential for the proportion of uncollected rates to increase placing pressure on other ratepayers.

B13. South Taranaki District Council

South Taranaki District Council is a small (population 26,484) local authority on the west coast of the North Island. The district is centred around the community of Hawera, with a number of smaller communities (Patea, Kaponga, Eltham, Waverley, Kapuni etc). Some parts of rural South Taranaki have some of the lowest household incomes in New Zealand, particularly in and around the communities of Patea and Waverley[51].

The key features of the rating system are:

- value-based general rate set on the capital value system. There is a moderate differential for the Hawera CBD, and two differentials for particular "stand-out" properties[52], but most of the district pays the same rate in the dollar. This accounts for 20 percent of total rates revenue, which is low by sector standards
- a UAGC which accounts for 15 percent of total rates revenue
- a targeted rate for roading which is set on capital value using the same differentials as for the general rate. The roading rate accounts for 22 percent of the total rate revenue
- various water supply and loan servicing rates that in total account for 26 percent of the total rate revenue (just over half this amount is collected using volumetric charging)
- a targeted rate for wastewater based on a fixed rate per property (this rate accounts for 11 percent of the total rate revenue)
- a targeted rate for refuse which collects around 6.5 percent of the total rate revenue.

Under current policy settings the median residential rate is $1557 (on a median property value of $165K). Under each of the scenarios this decreases to:

- scenario A $1304
- scenario B and C[53] $1339

In other words, the median residential rate decreases by between 14 and 16 percent depending on the scenario.

South Taranaki estimates that under present rating policies the rural sector pays 54 percent of the district rates, and the residential property pays 45 percent. The remaining one percent is paid by the two "standout" properties. Table 30 shows that there is a shift in the incidence of rates from the residential ratepayer to the rural ratepayers (and also to the two standout properties).

Table 30: Rates Incidence (in Percentages) By Scenario: South Taranaki District Council

Sector	A	B	C
Rural	59	58	58
Residential	39	40	40
Standouts	3	3	3

Percentages may not add to 100 due to rounding

51 The 2005 Report of the Local Government Funding Project found that Patea was in the 30 census units with the highest rates to income ratios in the country.
52 This consists of dairy factory and a hydroelectric power station.
53 The council did not model option D, owing to a lack of data on water consumption on which to base the scenario.

This is a similar pattern to that which is shown in other provincial and rural local authorities i.e. the removal of differentials and the UAGC shift rates from urban ratepayers to rural ratepayers, meaning the shift in incidence is most pronounced in scenario A. Subsequent scenarios introduce more fixed targeted rates which to some extent replace the UAGC and moderate the shifts in incidence.

A property by property analysis shows that the transfer in the incidence of rates appears to fall on approximately one third of the rural property owners. Under scenario A almost 90 percent of residential properties and 58 percent of the rural properties would receive a decrease in rates of 10 percent or more. On the other hand, 34 percent of rural properties would receive an increase in rates (including 19 percent that would receive an increase of 20 percent or more). In scenarios B and C, 83 percent of residential ratepayers and 57 percent of rural ratepayers would receive a decrease of 10 percent or more, and 16 percent of rural ratepayers would receive an increase of 20 percent or more. The rural properties most affected are high value properties which are disadvantaged by a move to a general rate assessed purely on value.

Table 31 shows that the impact on the affordability of the residential rate is significant across the district. Regardless of the scenario, the median rate decreases from 3.4 percent of household income to around 2.9 percent. However, there are two parts of the district where affordability appears to be an issue (Patea and Waverley) and this is still likely to be the case even with the Shand recommendations.

Table 31: Affordability of Rates by Scenario: South Taranaki District Council

Census Unit	Median	Scenario			
	Income	Present	A	B	C
South Taranaki District	$45,400	3.4%	2.9%	2.9%	2.9%

Conclusions: South Taranaki District Council

The recommendations of the Shand report are likely to see a moderate shift in incidence of rates into the rural sector. But the main impact of the shifts in incidence in this local authority appear to be born by a minority of the rural ratepayers. As a consequence, the recommendations in the Shand report would see some improvements in the affordability of rates for much of the district.

B14. South Waikato District Council

South Waikato District Council is a small predominantly rural local authority (population 22,641). The district consists of a number of townships (Tokoroa, Putaruru, Tirau), substantial dairying and forestry interests, and several very high capital value properties (3 dams and a forestry processing plant).

The key features of South Waikato's rating system are:

- a UAGC set on a one per separately used/inhabited portion of a property. South Waikato collects 21 percent of its rates revenue from this source of funding
- a value-based general rate, set on the capital value system with no differentials (unusual for a rural local authority). This rate collects 50 percent of the total rate revenue
- a targeted fixed rate for sewage disposal set on all connected and serviceable properties which accounts for 12 percent of the rate take
- various targeted fixed rates for water supply set on all connected and serviceable properties which collectively account for seven percent of the rate take
- a targeted rate for stormwater disposal set on capital value which accounts for three percent of the total rate take
- a targeted fixed rate for refuse collection which accounts for 3.5 percent of the total rate take
- various targeted fixed rates for community halls which collectively do not account for more than 0.5 percent of the rate take
- various targeted rates for business promotion which collectively account for one percent of the total rate take.

The main impact of the Shand recommendations in this local authority is, therefore, likely to come in scenario A with the removal of the UAGC. Some communities within the district are also of sufficient size to make volumetric charging for water and wastewater an economic proposition.

Under present policy settings, the median residential rate in this local authority is $1271. Under each of the scenarios this changes to:

- scenario A $ 854
- scenarios B/C $ 823
- scenario D $1266.

i.e a decrease in the median residential rate of between 0.3 percent and 35 percent.

Under present rating policies the distribution of rates between the sectors is rural 36 percent of the rate take, urban/residential 49 percent, commercial 12 percent and other one percent. In short, Table 32 shows that under scenarios A-C there is an extreme shift in the incidence of rates from the residential sector to the rural sector. The incidence under scenario D appears to be quite similar to the present situation.

Table 32: Rates Incidence (in Percentages) By Scenario: South Waikato District Council

Scenario	A	B/C	D
Rural	46	46	36.3
Residential	37	37	47.3
Commercial	13	13	12.2
Other	4	4	4.2

Percentages may not add to 100 due to rounding.

The removal of the UAGC in scenario A would see 97 percent of residential properties receive a rates decrease (95 percent would get a decrease of 10 percent or more). Only a few high valued residential properties would receive an increase in rates (less than 1.5 percent of the residential base). In a similar vein, almost three quarters of commercial property receives a decrease. It appears the burden of rates shifts to parts of the rural sector. While the overall share paid by the rural sector increases substantially, only 59 percent of the sector actually receives an increase in rates under this scenario. Scenarios B and C are similar to scenario A in the numbers that are affected.

Table 33 suggests that the introduction of any of scenarios A-C are likely to result in a marked improvement in the affordability of residential rates in this local authority. The median residential rate decreases from three percent of household income to two percent of household income. On present policies some parts of Tokoroa were at Shand's benchmark for affordability of rates, but scenarios A-C would see some moderate improvement. Scenario D, however, appears to leave things much as they are.

Table 33: Affordability of Residential Rates – South Waikato District Council

Census Unit	Median	Scenario			
	Income	Present	A	B/C	D
South Waikato District	$41,800	3.0%	2.0%	2.0%	3.0%

Conclusions: South Waikato District Council

With two exceptions, South Waikato's rating system is very similar to that recommended by the Shand report. The recommendation with the most impact in this local authority is likely to be the removal of the UAGC (as in scenario A). This creates an extreme shift in incidence from the residential sector to around 60 percent of the rural sector. Scenario D appears to have little overall impact on affordability of residential rates.

B15. Stratford District Council

Stratford District is a small (population 8,892) predominantly rural district council in the eastern part of the Taranaki Region. The district is centred largely on Stratford township with substantial areas of farmland (including hill country farms in the east of the district).

The key features of the Stratford rating system are:

- the general rate is set on capital value and has no differentials (this is unusual for a rural authority). The general rate raises approximately 64 percent of this local authority's rate revenue
- a UAGC ($348 per rating unit) that raises around 16 percent of the total rate revenue
- targeted rates for:
  - refuse collection – one per separately used portion of a rating unit (around seven percent of rate revenue)
  - water supply – one per separately used portion of a rating unit (around 8.5 percent of rate revenue)
  - sewage disposal – a per connection charge (four percent of rates revenue)
  - community centres – a per dwelling charge (around 0.15 percent of rates revenue).

This local authority has a number of the key features of the Shand recommendations already in place. The only exceptions are that it has a moderate UAGC, and unsurprisingly does not meter water/wastewater consumption.

Under the current rating policies of this council, the median residential rate is $1451 (on a median property value of $160K). Under each of the four scenarios the median residential rate decreases to:

- scenario A $1227
- scenario B $1373
- scenario C $1373
- scenario D $1295.

In other words, under these scenarios the median residential rate decreases by between five and 15 percent depending on the scenario.

The distribution of rates between sectors is currently:

- rural 51.2 percent
- residential 38.9 percent
- commercial 3.3 percent
- other 6.6 percent.

Table 34 shows that under each of the above scenarios there will be moderate shifts (between three and five percent) in the incidence of rates from the residential sector to the rural sector (and to a lesser extent) the "other" property owners. The main factor in this appears to be the removal of the UAGC - as the shift is largest where the UAGC is removed completely and shifts get progressively smaller as more targeted fixed rates are introduced (the addition of stormwater in scenario B reduces the scale of the shift in both scenarios B and C).

Table 34: Rates Incidence (in Percentages) By Scenario: Stratford District Council

Scenario	A	B	C	D
Rural	56.3	54.1	54.1	54.6
Residential	33.2	35.4	35.4	34.9
Commercial	2.9	3.1	3.1	3.0
Other	7.6	7.4	7.4	7.4

The protection that the UAGC offers the rural sector is also well illustrated when looking at the scale of increases on a property by property basis. Under scenario A, 80 percent of residential properties receive a decrease in rates of 10 percent or more (and a further 11 percent receive a decrease of a lower magnitude), as would 59 percent of commercial properties. On the other hand, 40 percent of rural properties would receive an increase of 10 percent or more. Scenarios B and C are more moderate versions of scenario A, with the numbers experiencing significant increases or decreases being correspondingly smaller. Twenty-nine percent of the residential properties would receive a decrease of 10 percent or more, as would 47 percent of commercial properties. On the other hand around 35 percent of properties would receive a rates increase of 10 percent or more.

Given the shifts in the incidence of rates it is no surprise to learn that the recommendations would, if implemented, make residential rates a little more affordable.
Table 35 shows the ratio of median rates to household income would move from 3.4 percent to between 2.9 and 3.2 percent depending on the scenario. More detailed analysis suggests that at the present time only the Whangamomona community is at levels where rates could be creating an affordability issue (using the Shand benchmark as to what is affordable). Even this could be largely resolved by the Shand recommendations.

Table 35: Affordability of Residential Rates – Stratford District Council

Census Unit	Median	Scenario				
	Income	Present	A	B	C	D
Stratford District	$42,300	3.4%	2.9%	3.2%	3.2%	3.1%

Conclusions: Stratford District Council

This local authority already had some of the key features of the Shand report within its rating system, so the shifts in the incidence of rates within this local authority are moderate. They also appear to be driven largely by changes in the use of fixed rating (either the UAGC and/or introduction of fixed targeted rates as in scenarios B and C).

B16. Tasman District Council

Tasman is the only unitary authority in the sample and, therefore, rates for both regional and territorial functions. The district is centred on the township of Richmond, has several smaller communities (such as Motueka, Takaka and Collingwood) and a large rural hinterland. This district has a large number of separate water, wastewater and stormwater schemes, many of which are being expended to meet the demands of growth. Tasman has a large conservation estate in the south and west of the district.

The key features of the Tasman rating system are:

- a general rate set on capital value, with no differentials other than a zero differential for infrastructural utilities
- a moderate UAGC. In conjunction with the value-based general rate, the UAGC raises 57.5 percent of the total rate revenue
- a targeted rate for stormwater based on capital value, and using location based differentials. This rate accounts for around four percent of the total rate take
- metering of some urban water supplies, and a mix of land value and fixed charges in the rural area. The water rates collectively account for around nine percent of the total rate take
- other water rates, which includes a mix of rates on quantity of water supplied, fixed dollar charges and rates on land value (depending on the scheme)
- separate targeted rate for wastewater operations (pan/urinal charges) and capital, which together account for 15 percent of the total rate take
- a refuse and recycling rate which is a flat dollar charge for all serviced properties and accounts for four percent of the rate take
- a targeted river works rate, which is set on capital value with location based differentials. This rate accounts for around five percent of the total rate take
- various other rates for various other facilities and services that account for the remainder of the rates. None accounts for any more than one percent of the rate take.

With the exception of the use of a UAGC and the statutory prohibition on volumetric charging for wastewater[54], this council's rating system is very close to that recommended in the Shand report. In effect, for this local authority scenarios A, B and C are all the same and scenario D is only likely to affect ratepayers in one particular scheme.

Under the present rating policy the median residential rate is $1714 (on a median capital value of $295K). Under scenarios A, B and C the median rate decreases to $1634 (a decrease of around 4.5 percent).

Under present rating policies the distribution of rates across the sectors are:

- residential 48.8 percent
- commercial 3.8 percent
- rural 41.1 percent
- other 6.3 percent.

[54] And probably only the Richmond scheme is large enough to make volumetric charging for wastewater an economic proposition.

Under these scenarios there is a minor shift in the overall incidence of rates i.e:

- residential 47.3 percent
- commercial 3.9 percent
- rural 42.2 percent
- other 6.5 percent.

The shift from the residential sector to the rural sector evident in many provincial/rural local authorities is also present here, but to a much lower degree than is the case with other local authorities in the sample. This is a result of the removal of the UAGC shifting rates from lower valued properties to higher valued properties.

The impact of removing the UAGC can be seen more clearly on a property by property basis. Forty-four percent of residential property could expect a rates decrease of 10 percent or more, as is the case with 22 percent of rural property, and 29 percent of commercial property. On the other hand, 15 percent of rural property would receive an increase in rates of 10 percent or more (and 51 percent of rural properties can expect an increase).

Unlike many of the other local authorities in the sample, Tasman is its own regional council and as a result its rates are somewhat higher than those that appear elsewhere in this report. Ratepayers in some rural parts of the district around Golden Bay and in the south around Murchison may be experiencing some issues with affordability, which the shift in rates described above may go a little way to ameliorating.

Table 36: Affordability of Residential Rates: Tasman District Council

Census Unit	Median Income	Scenario	
		Present	A-C
Tasman District	$43,000	4.0%	3.8%

Conclusions: Tasman District Council

The current rating system in this local authority is very close to the Shand recommendations, so this modelling effectively models only the impact of removing the UAGC. Consequently, the overall swings in incidence in this local authority are probably the smallest of the sample. What little shift in incidence there is follows the general trend of moves from urban to rural ratepayers evident in the other provincial and rural councils.

B17. Taupo District Council

Taupo District Council is a moderately sized (population 32,418) provincial local authority in the central North Island. Centred in and around Lake Taupo, the district consists of Taupo township, several smaller townships (Turangi, Mangakino etc) and a large rural hinterland. The district is a tourist centre, and has substantial energy interests (both geothermal and hydroelectric). The district is also home to substantial holdings of conservation and Maori freehold land. The district has a significant non-resident ratepayer community, with holiday homes in and around the lake.

The key features of the Taupo rating system are:

- a value based general rate set on the land value, with differentials based on property location and property use. The differentials are moderate by sector standards. With the exception of the electricity sector, no sector pays more than twice the rate in the dollar paid by the residential sector. This accounts for approximately 42 percent of the total rate take
- a targeted uniform charge – which is levied as a flat charge with minor differences based on location. This rate accounts for around 22 percent of the total rate take
- a targeted rate for sewerage based on the number of connections to the sewerage system (there is also a charge to properties which can be, but are not connected)
- a targeted rate for sewerage loan servicing set as a charge per rating unit within particular schemes. When added to the previous rate the two together account for 15 percent of the total rate take
- targeted rates for water supply – some are set as fixed targeted rates, others are set on land value, and there is also some metering. Taken together the water rates account for 11 percent of the total rate take
- a targeted rate for refuse disposal, set as a targeted fixed rate (four percent of the total rate take)
- a targeted rate for marketing development set on land value, and levied on all commercial, industrial and electricity properties (two percent of the rate take)
- targeted rates for mainstreet development and security in Turangi (together one percent of the rate take)
- a targeted rate for management of the Taupo town centre (again about one percent of the rate take)
- a targeted lake protection rate which is set differential – with two categories paying a flat dollar charge, and a third predominantly rural category paying a rate based on land value.

Under current rating policies the median residential rate is $1469 (on a median property value of $150K[55]). Under each of the four scenarios the median residential rate decreases to:

- scenario A $1252
- scenario B $1286
- scenario C $1440
- scenario D $1300.

In other words, under these scenarios the median residential rate decreases by between two percent (scenario C) and 15 percent (scenario A).

55 Land value.

The distribution of rates between sectors is currently:

- rural 17 percent
- residential 67 percent
- commercial/industrial 13 percent
- electricity 3 percent[56].

As is the case with many of the other provincial and rural councils, Table 37 shows the set of recommendations around scenario A. It creates a moderate shift in the incidence of rates from the urban sector to the rural sector. The rural sector moves from paying about one sixth of the rates to almost one quarter. With the exception of some of the higher valued properties, most residential properties would receive a rates decrease of 10 percent or more. While there is an overall shift in rates to the rural sector, it is interesting to note that a majority of rural properties would actually see their rates decrease.

Table 37: Rates Incidence (in Percentages) By Scenario: Taupo District Council

Scenario	A	B	C	D
Rural	23	22	19	20
Residential	62	63	65	64
Commercial	11	11	13	13
Electricity	3	3	3	3

Percentages may not add to 100 due to rounding.

In scenario B, the council made a slight adjustment to the specified assumptions by adopting a targeted rate based on land value and applied to all but rural properties. Table 37 shows that the impact of this is to moderate the impact of scenario A, especially with regards to the numbers of properties receiving significant increases and decreases.

The impact of capital value when taken in tandem with the other assumptions is to produce a distribution of rates incidence that in aggregate looks little different from that under the current set of policies. There is a two percent shift from the residential sector to the rural sector. It is here (and scenario D) where the assumptions around the electricity sector appear to have most impact. The electricity sector accounts for 0.4 percent of the district land value, but nine percent of the district capital value. While the aggregate results suggest little change, these recommendations have more impact on individual properties. Around 60 percent of residential ratepayers receive a decrease (including 36 percent where the increase is 10 percent or more). On the other hand, around 40 percent of rural properties would receive an increase of 10 percent or more.

In scenario D, this local authority modified the assumption around volumetric charges for wastewater and retained the existing rate. The impact of this is very similar to scenario D.

There is a significant level of income disparity within the Taupo District Council. While some parts of the district around Lake Taupo have very high incomes, Mangakino township has one

[56] This grouping consists of 17 properties that are covered by an agreement with the council that this sector will pay no more than three percent of the district rates. The council has assumed that this agreement holds across the four scenarios i.e. the council would be permitted to retain a differential for this sector even if the others were removed. Note that the assumption around the electricity sector probably means that this sector is paying less than it would if the recommendations of the Shand Report were followed “to the letter” and other sectors are accordingly paying more.

of the lowest household incomes in the country. The Shand benchmark for affordability (rates no more than five percent of household income) suggests that there are some pockets of residential property in the district that may have affordability issues. However, the data in Table 38 suggests that the shift in incidence described above will generally make residential rates in this community slightly more affordable.

Table 38: Affordability of Rates – Taupo District Council

Census Unit	Median Income	Scenario				
		Present	A	B	C	D
Taupo District	$47,900	3.1%	2.6%	2.7%	3.0%	**2.7%**

Conclusions: Taupo District Council

The recommendations of the Shand inquiry are likely to produce a moderate shift in the incidence of rates from the residential sector to the rural sector. As a general rule, the impact of the recommendations is more moderate than is the case in many of the other provincial authorities.

B18. Tauranga City Council

Tauranga City Council is a metropolitan local authority (population 106,635) in the Bay of Plenty. This local authority is one of the most rapidly growing local authorities in New Zealand and is facing major growth-related issues with both its network and community infrastructure. Tauranga has a significant community of elderly people mixed in among a reasonably high level of non-resident housing (i.e. holiday homes). Concern about the affordability of future rating requirements was a major campaign issue in the most recent triennial election.

The key features of Tauranga's rating system are:

- a value based general rate set on undifferentiated capital value. This rate accounts for around 36 percent of the total rate take
- a significant UAGC ($500 per separately used or inhabited part of a rating unit). Tauranga has a policy of setting this at the legal maximum
- water by meter (under Section 19 of the Rating Act). This accounts for 16 percent of the total rate revenue
- a small fixed targeted rate for water supply which accounts for 1.5 percent of total rate revenue
- a wastewater disposal rate that accounts for 15 percent of the rates revenue. This is set on a per connection basis (commercial property) or as a fixed targeted rate (residential property)
- a small capital value rate for economic development set on all commercial property. This rate accounts for two percent of the total rate revenue
- a small capital value rate for mainstreet purposes, which is levied on commercial property in the CBD, Mount Maunganui and Greerton. This rate accounts for 0.5 percent of the total rate revenue.

It can be seen that this council already has a substantial number of the Shand recommendations in place. Any impact here is likely to come from the abolition of the uniform charge and will tend to move rates within categories of property, rather than between categories (i.e. from low to high valued residential property etc). As this council is already on capital value the impact of scenarios B and C are effectively the same.

Under present rating policies the median residential rate is $1202. Under each of the scenarios the median rate decreases to:

- Scenario A $1086
- Scenario B $1127
- Scenario C $1127
- Scenario D $1110.

i.e decreases of between six and 10 percent over the present levels of rates.

Under the present rating policy the distribution of rates between the residential and commercial sectors is 83 percent and 17 percent respectively. Rating incidence under each of the scenarios is shown in Table 39.

Table 39: Rating Incidence (in Percentages) By Scenario - Tauranga City Council

Sector	A	B	C	D
Residential	80	81	81	80
Commercial	20	19	19	20

Under scenario A, it appears that the removal of the UAGC shifts rates from the residential to the commercial sector i.e. around two thirds of the rates would now be apportioned on a value basis. This would shift rates from the lower to the higher valued properties. Forty-two percent of commercial properties, therefore, would receive a rates increase of 10 percent or more, but interestingly 28 percent would receive a decrease of the same magnitude. More than half the residential properties would receive a rates decrease of 10 percent or more, but around one property in seven would receive a similar sized increase. Conversations with council staff suggest that if the UAGC were removed, they might well consider greater use of targeted fixed rates for identified services (a result which may be what the Shand report was contemplating).

Scenario B shifts refuse and stormwater disposal into fixed targeted rates and is even more moderate in its impact. In effect, this scenario replaces some of the UAGC with fixed targeted rates. Thirty-three percent of commercial properties would receive a rates increase of 10 percent or more, and 21 percent would receive a decrease of the same magnitude. Thirty-seven percent of residential properties would receive a rates decrease of 10 percent or more, but around one property in 10 would receive a similar sized increase.

In this council, scenario D would replace one targeted rate with another form of targeted rate (i.e. a volumetric charge for wastewater would replace the present per connection or per property charge). Although the shift in overall incidence is similar to that in scenario A, the results on a per property basis fall between scenarios A and B/C.

The impact of the scenarios on the affordability of residential rates is shown in Table 40. The shifts in the incidence of rates tend to make residential rates slightly more affordable, although as the table shows, affordability in this local authority is very much a ratepayer by ratepayer issue.

Table 40: Affordability of Residential Rates - Tauranga District Council

Census Unit	Median	Scenario				
	Income	Present	A	B	C	D
Tauranga City	$45,500	2.6%	2.4%	2.5%	2.5%	**2.4%**

Conclusions: Tauranga City Council

The shifts in incidence in this local authority are almost minor by comparison with many other metropolitan local authorities, and may well be manageable with sufficient lead time. The recommendation that appears to have most impact in Tauranga is the abolition of the UAGC.

B19. Timaru District Council

Timaru District Council is a moderate sized provincial centre (population 42,867) in South Canterbury.

The main features of Timaru's rating system are:

- a general rate that is set on the land value system. The council has a moderate number of differential categories: residential, recreational and community; commercial, industrial and accommodation (each pay a rate in the dollar 5.6 times the rate for general residential property); primary (essentially farming property which pays a rate in the dollar 0.36 times the rate for general residential property); and multi-unit residential (which pays a rate in the dollar 1.8 times that for general residential property). This accounts for about 19 percent of the total rate take, quite low in comparison with the remainder of the sector
- a UAGC of $350 per rating unit. This accounts for about 20 percent of the total rate take
- targeted rates for the following:
    - district works and services (differentiated land value). This accounts for about eight percent of the total rate take
    - community works and services (differentiated land value based on location) that collectively account for eight percent of the total rate take
    - rural fire protection (land value over part of the district)
    - community board charges (a fixed charge per rating unit) – less than 0.1 percent of the rate take
    - sewerage charge (charge per connection) a rate that makes up about 12 percent of the total rate take
    - waste management (a charge per set of three bins) – which accounts for 14 percent of the rate take
    - water charges – which are a mix of metering, area rates, and fixed targeted rates, which collectively account for 18 percent of the total rate take.

The main impact of the Shand recommendations in this local authority is likely to be the move away from differentials on the general rate and the abolition of the UAGC. Timaru already targets rates for its utility services[57].

Under the current rating policies of this council the average residential rate[58] is $1337 (on an average land value of $71K). Under each of the scenarios[59] the average residential rate decreases to:

- scenario A $1131
- scenario C $1233.

In other words, under these scenarios the median residential rate decreases by between eight and 15 percent depending on the scenario.

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57 Stormwater disposal is funded through the community works and services rate.

58 Timaru urban area.

59 Timaru did not model scenario B as it already has targeted fixed rates for water, refuse, sewage disposal and a targeted rate based on land value for stormwater. Timaru does not believe the impact of the suite of assumptions for scenario B would be significantly different from scenario A. Timaru also did not model scenario D citing a lack of data on water consumption.

The distribution of rates between sectors is currently:

- rural 11.6 percent
- residential[60] 71.4 percent
- commercial 17.1 percent.

Table 41 shows that the shift in the incidence of rates in this community under scenario A is similar to those in other rural and provincial centres in terms of its direction and its magnitude i.e. a shift away from the residential sector of (in this case) 9.7 percent. Residential properties go from paying 70 percent of the rates to 61 percent. The commercial sector moves from paying one dollar in six to one dollar in twelve. On the other hand the rural share trebles. The impact of both the removal of differentials and the abolition of the uniform charge are at work here.

Table 41: Rates Incidence (in Percentages) By Scenario: Timaru District Council

Scenario	A/B	C
Rural	29.9	20.3
Residential	61.7	66.0
Commercial	8.4	13.7

Percentages may not add to 100 due to rounding.

Timaru did not separately identify the impacts on properties by sector. The analysis shows roughly two thirds of all properties in the district would receive a rates decrease of 10 percent (probably the shift away from residential and commercial properties manifesting itself). On the other hand, 13 percent of properties can expect a rates increase of at least 10 percent (likely to be virtually all rural properties). Timaru notes that 87 properties would receive rates increases of $10K or more (in some cases as much as a 331 percent increase). These are, without exception, large rural holdings.

The introduction of capital value (scenario C) generates an overall incidence of rates that represents a "halfway house" between the status quo and scenario A. The extremes in impact on individual properties appear to be slightly greater under this scenario e.g. 19 percent of all properties receive an increase in their rates of 10 percent or more[61], and 52 percent would receive an increase of at least 10 percent.

Table 42 suggests that there will be some improvement in the affordability of rates within the Timaru urban area. The above data suggests this comes at the expense of ratepayers in the rural parts of Timaru.

Table 42: Affordability of Timaru Urban Rates

Census Unit	Median Income	Scenario		
		Present	A/B	C/D
Timaru Urban	$40,500	3.3%	2.8%	**3.0%**

60 Includes multi-unit residential properties.
61 We understand that this comprises a mix of large farm holdings, high capital value commercial property, and some retirement villages.

Conclusions: Timaru District Council

Although it is the removal of differentials on the general rate and the UAGC that create the biggest shift in the overall incidence of rates, any shift to capital value creates bigger extremes in changes in individual properties. The overall shifts in incidence in Timaru follow the same pattern as in many other provincial and rural local authorities.

B20. Wellington City Council

Wellington City Council is a metropolitan local authority. As the nation's capital it is home to Parliament, the Governor-General's residence and the "head office" of government departments. Wellington has a substantial central business district and a number of other pockets of commercial and industrial use. Wellington has the highest levels of household income in the country. Only Berhampore, and parts of Kilbirnie and Mt Cook have household incomes below the national median[62],[63].

The key features of the Wellington rating system are:

- a general rate set on the capital value system. Wellington has a substantial commercial differential (commercial property pays a rate in the dollar which in the current year is approximately 4.2 times higher than the base rate[64]). The general rate accounts for approximately 54 percent of the total rate take. There is no UAGC
- a targeted rate for sewage disposal which is differentiated by land use. Commercial properties pay a rate based on capital value, while residential properties pay a flat charge of $112.50. Taken together these rates raise about 16 percent of the total rates requirement
- a targeted rate for water supply which is also differentiated by land use. Commercial properties pay either a volumetric charge or a rate on capital value. Most residential properties pay a flat charge of $112.50 but some are metered. These rates account for about 14.5 percent of the total rate take
- a targeted rate for stormwater set on capital value, which is levied on all non-rural properties. This rate is set differentially and in such a way that 20 percent of the revenue is collected from the commercial sector. This rate accounts for approximately six percent of the total rate take
- two sector rates, one for commercial and one for all other property. These pay for services/facilities where the council has judged that the sector should meet part of the cost. Both are levied on capital value and together these rates account for four percent of the total rate take
- a downtown levy on commercial property which is set on capital value and accounts for five percent of the total rate take
- three smaller rates – which in total account for around 0.5 percent of the total rate revenue.

Wellington City is on capital value and already targets rates for water, stormwater and sewage disposal[65]. Water is metered in the commercial sector and some residential property. The council considering moving to full volumetric charging for water and sewage disposal is unlikely to change the incidence of rates significantly. Thus, council scenarios A, B and C are effectively one and the same.

The main issue that the Shand report raises for this local authority is around differentials on the general rate, and the implications of the shift in incidence that the complete removal of differentials would create.

Under present rating policies the <u>average</u> residential rate is $1,708 (on an average capital value of $468K). The council estimates that the impact of the scenarios will see residential rates increase by approximately 36 percent (to around $2300).

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62 Source: 2006 Census
63 The 2005 Report of the Local Government Funding Project concluded that Wellington was one of the territorial authorities with the ten lowest rates to income ratios, even though Wellington had one of the highest levels of rates.
64 The council is moving towards a commercial differential of 2.8 by 2012.
65 Waste management is 100 percent funded by sale of rubbish bags and tip fees.

Under present rating policies the distribution of rates by sector is:

- residential 49.0 percent
- other 0.6 percent
- rural 0.4 percent
- utilities 3.4 percent
- commercial 46.6 percent.

The impact of the removal of differentials is to move $38 million in rates from the commercial sector to the residential sector. The result is a dramatic shift in the incidence of rates to:

- residential 67 percent
- other 1 percent
- rural 1 percent
- utilities 1 percent
- commercial 31 percent.

Wellington City was unable to find any residential or rural property that would receive a rates increase of less than 10 percent. Every commercial property, however, would receive a decrease of at least 10 percent.

The data in Table 43 suggests that based on the Shand report's benchmarks for affordability, issues with the affordability of residential rates within Wellington City are at the level of individual ratepayers. The scale of the shift in incidence into the residential sector may be sufficient to push some parts of Newtown, Kilbirnie and Mt Cook close to, or over the five percent limit. It is doubtful that this is the result the Government had in mind when it established the rates inquiry.

Table 43: Affordability of Rates – Wellington City Council

Census	Median	Scenario	
Unit	Income	Present	A-C
Wellington City	$74,200	2.3%	3.1%