

Long Term Council Community Plan and Annual Plan Special Committee

**Friday, 16 June 2006
Commencing at 9.30 am**

Item 4: Submissions - Review of Rating System

AGENDA FOR A MEETING OF THE LONG TERM COUNCIL COMMUNITY PLAN AND ANNUAL PLAN SPECIAL COMMITTEE TO BE HELD IN THE CIVIC CENTRE, 6 WAIPAREIRA AVENUE, LINCOLN, WAITAKERE CITY, FRIDAY, 16 JUNE 2006, COMMENCING AT 9.30 AM.

4 SUBMISSIONS - REVIEW OF RATING SYSTEM

PURPOSE OF THE REPORT

The purpose of this report is to advise the Long Term Council Community Plan and Annual Plan Special Committee on issues raised from submissions on the proposed changes to the rating system, matters for consideration in making final decisions and recommendations.

BACKGROUND

The draft Long Term Council Community Plan 2006 - 2016 included as a key issue for consultation a number of options for changes to the rating system. Volume 3 pages 105 to 116 of the Plan described the options. These are outlined below:

- A change from a land value system of rating on a differential basis including a stepped differential applying to properties other than the Business Sector properties, to a capital value system of rating with no such stepped differential;
- Introduction of a Uniform Annual Charge for wastewater on properties other than the Business Sector properties and Educational Establishments, ie. principally residential properties;
- Business Sector and non-rateable properties to pay a targeted rate for wastewater calculated on the same system of rating as for the general rate, ie. capital value or land value;
- Educational Establishments to pay wastewater rates based on a pan charge;
- The Business Sector share of the total rate requirement to be calculated using the Sector's capital value, the share of costs to be 22%;
- Removal of the stepped differential which applies to other properties other than the Business Sector.

In addition to the disclosure in the draft Long Term Council Community Plan 2006 - 2016 a special edition of the Waitakere City News was distributed widely throughout the City. This special edition contained the rating options. Individual property owners also received a personalised letter advising them of the indicative rates for 2006/2007 on the capital value rating system with a Uniform Annual Charge for wastewater if applicable set at \$358. The Council considered the capital value rating system worthy of consultation because it was felt that this system reflected a better indication of a person's ability to pay and that the development of a property may also reflect more use of council services than less developed property. Over half of the Local Authorities in New Zealand use a capital value rating system with Auckland City Council using annual value. In the Auckland region the Auckland Regional Authority uses a capital value system. North Shore City Council is currently consulting on capital value and Manukau City Council is consulting on annual value.

The Finance and Operational Performance Committee considered reports from officers during the period September 2005 to February 2006. In December 2005 the Committee agreed to consult upon the capital value system as part of the special consultative procedure for the draft Long Term Council Community Plan 2006 - 2016.

Under the proposed rating options for residential properties the following was estimated to occur based on the draft Annual Plan rate requirement as compared to rates presently paid:

- Under a capital value system about 32.5% of properties will have a rates reduction, 30% in the urban area and 53% in the rural area;
- A further 17.2% of properties will have a rates increase of 5% or less, 18% in the urban area and 13% in the rural area;
- Under an unmodified land value system nearly all properties will have a rates increase.

An analysis of the movements in rates for Business Sector properties based upon the draft Annual Plan rate requirement on a capital value based system showed 1,271 properties would have a reduction or no change out of 2,638 assessments. However some 428 properties had increases of over 40%. This included two of the large retail malls and Westgate.

A1-A12

Attached at pages A1 to A12 is information showing the indicative rates and analysis of impacts on the proposed capital value system for the inner and outer residential properties and the Business Sector. This information is an extract from the information that was originally circulated to all Councillors on 10 March 2006 prior to the adoption of the draft 2006/2007 rate requirement.

STRATEGIC CONTEXT

The scheduled review of the draft Long Term Council Community Plan 2006 - 2016 provides an opportunity to consider a review of the current rating system and consideration of possible future options for sharing the total rate requirement between ratepayers.

The Courts have stated that a rating system is primarily a taxation system rather than a system for charging for services, and although in setting its differential rating system a local authority must not act unreasonably, decisions on a rating system involve the exercise of political judgement by elected representatives of the community.

ISSUES

Submissions - Capital Value

A13-A25

The Finance and Operational Performance Committee at its meeting held on 7 November 2005 received a report titled "Review of the Rating System", this report is attached at pages A13 to A25. That report contained a description of rating systems and their components, characteristics of capital value and land value rating systems, issues affecting alternative rating systems, effect of growth in the rating base, expected reactions to any proposal to change the rating system, particular issues relating to capital value rating, options for wastewater charging including pan charges, analysis of the rates impact of moving to capital value and alternatives.

The submissions received through the special consultative procedure on the proposal to move to capital value were as expected and were along the same themes that arose in the 1993 consultation on the then planned move to capital value. A preliminary assessment of the submissions received shows 428 against capital value and 102 for. The submissions against the proposal from residential properties included reasons such as:

- Properties will not be kept tidy as this will increase their value and attract more rates;
- Ratepayers will receive no more services than before but pay more rates;
- Property owners will be penalised for improving their properties;

- Some owners spend money on their property to make their living environment more enjoyable, others do not do this and spend their money on other assets or take holidays.

Submissions in support included the following reasons:

- It is fair and reasonable that all developed properties will pay their fair share for the facilities provided;
- Fairer for retired ratepayers who do not wish to develop their property;
- Capital value is more transparent;
- Large sections with single residences are disadvantaged under land value.

Of the 102 submissions supporting a capital value system 53 of those were on a pro forma submission form.

Submissions - Business Sector

Owners within the Business Sector were critical of the consultation process and in particular felt that their views and preferences had not been adequately assessed or sought. Submissions from AMP Capital Shopping Centres, Westfield (New Zealand) Limited and Progressive Enterprises Limited raised the following key issues:

- The views and preferences of the business and wider community had not been sought prior to the proposal;
- Sufficient robust analysis of the effects (including consequential effects) of capital value rating had not been undertaken;
- A capital value system will discourage investment in quality built form and disincentives investment and development in centres, and should not be adopted.

In support of those submissions Dr Doug Fairgray (Director, Market Economics Limited), Basil Sharp (Associate Professor of Economics, University of Auckland) and Mike Foster (Director, ZoMac Planning Limited) provided papers that capital value may not be best for the City. Those submissions indicated that the Council had yet to undertake a sufficient assessment of the likely impacts on business and future development.

Dr Fairgray's previous company "Mc Dermott Fairgray Group Limited" had been engaged by the Council in 1993 to undertake an assessment of the impact upon business activity in the City when the issue was last examined by the Council. As a result of that study the principal conclusions at that time were:

1. *A change to capital rating is likely to have a minor impact on businesses' decisions to locate or invest in Waitakere City, in terms of the cost implications.*
2. *For most commercial centres and industrial areas, the effect of capital rating will not impose any significant disadvantage on Waitakere City as a business location, relative to similar areas elsewhere in Auckland.*
3. *However there appears to be a significant effect on the rates costs for the core areas of Henderson and especially New Lynn, relative to their economic performance (estimated earning power, employment), and relative to comparable centres elsewhere. This raises a question about valuations which would be highlighted by a change to capital rates.*

4. *While it is difficult to anticipate a “rates differential” effect on location or investment decisions at an aggregate level, individual business circumstances and especially the potential to impact significantly on businesses which may already be suffering from difficult trading circumstances, will call for a sensitive transition to capital value based rates. Amongst other things, this would require continuing dialogue with business interests and a positive approach to meeting business expectations in other areas of Council activity.*

The results of that study may be outdated but another similar assessment may yet again produce similar conclusions. Another large investor in the City, Westgate Properties Limited, also opposes the capital value system citing the same concerns as raised by the other 3 companies. The current land value system does result in significantly lower rates for AMP Capital Shopping Centres, Westfield (New Zealand) Limited, Progressive Enterprises Limited and Westgate Properties Limited. The following table shows the rates currently being paid and the indicative rates on a capital value rating system with a business differential and without a differential.

	2005/2006 Rates Land value \$	2006/2007 Business Differential Capital value \$	2006/2007 No differential Capital value \$
AMP Capital	477,111	1,629,990	616,033
Westfield Limited	503,644	2,364,536	913,436
Progressive Enterprises	75,460	99,342	35,638
Westgate Properties	592,247	1,198,566	434,830

AMP Capital Shopping Centres has indicated in their submission that the average increase to tenants in their mall at New Lynn will be \$4,300 and Westfield (New Zealand) Limited has estimated that the proposed rates will increase occupancy costs by \$7,000 per annum for most of their retailers.

In addition to those submissions there have been individual letters from their tenants expressing concern over the magnitude of the rate increases and the suggestion that future investment may be redirected out of the City, closure of shops and loss of employment. Other businesses have also opposed the proposal.

The timing of the change has also been criticised with insufficient time available to reorganise budgets and business strategies.

In contrast to the above submissions the Auckland Chamber of Commerce and the Employers and Manufacturers Association (Northern) supported a capital value system. This support though was conditional subject to a review of the Business Sector differential. The Federated Farmers of New Zealand also supported a capital value system.

One of the Councils Strategic Platforms is a “Strong Innovative Economy”. The vision and summary of this platform included on page 18, Volume 3 of the draft Long Term Council Community Plan 2006 2016 is as follows”

The Vision: Waitakere is a place of innovative economic activities, providing local, quality work and development options for its people. Environmentally responsible businesses are supported and flourishing.

Summary: This platform is about promoting local enterprise, jobs and economic growth in high quality town centres designed for the task. It included promoting research and development; identification and development of business clusters (organics, film etc) working with businesses to improve the environment; increasing the City's profile as a good place to do business; working with other councils to develop the regional economy; maintaining out environmental advantages; and providing the basis for sustainable economic growth.

The issues raised by the Business Sector may impact upon this strategic platform.

Submissions - Utilities

The Committee heard submissions from Vector Limited, Telecom New Zealand and the New Zealand Refining Company. These are three of the Utility Companies that receive rate increases as their land valuation is low but the value of their infrastructure networks are high. Vector Limited requested that special consideration be given to them as their pricing structure is regulated by legislation and it would be unable to pass on the additional rate costs to its retailers until next year. Rates postponement was requested with an amendment to the current Rates Postponement Policy.

Submissions - Wastewater Charging

A13-A25

The draft Long Term Council Community Plan 2006 - 21016 contained a proposal to charge residential properties connected to the City's wastewater system a Uniform Annual Charge for wastewater disposal of \$358. The fair charging for wastewater was raised by ratepayers during August last year. The first rates instalment was issued in August, 2005 and the assessment showed the targeted rate for wastewater. From 1 July 2005 the latest revaluations of the City's properties were required to be used and there were some significant shifts in rates between properties. It became apparent to some ratepayers that they were paying a large portion of their rates as a contribution to wastewater disposal. The charge was seen as excessive by some given the relatively small amount of water that they purchased. The Council had signalled that its preferred method for charging for wastewater was on a volumetric basis but was unable to do so without setting up a Council Controlled organisation similar to Metrowater in Auckland City. The current Local Government Rating Act 2002 does not allow the Council itself to rate on that basis. The attached agenda report of 7 November 2005 to the Finance and Operational Performance Committee at pages A13 to A25 includes discussion on wastewater charging. The preliminary assessment of submissions shows 67 submissions in support of a Uniform Annual Charge, 15 against and 35 in support of a user pays system. There were also 65 submissions in support of increasing the Uniform Annual General Charge to the maximum level of approximately \$600.

Both of these changes result in more rates being paid by lower valued properties and consequential decreases for above average valued properties. This occurs as the fixed charges contribution increases leaving a smaller residual component of rates to be based on the properties value. The introduction of a Uniform Annual Charge for wastewater can be introduced on either a land value or capital value rating system.

A26-A30

Attached at pages A26 to A30 are various rates models showing the impact on the distribution of rates on a full wastewater charge and a charge for half that amount for 2006/2007. The models are based on a land value system and with a Business Sector contribution to the total rate requirement of 20%.

Column B shows the rates payable for the 2005/2006 year on the land value in column A.

Column C shows the indicative rates for the 2006/2007 year with a Uniform Annual Charge for wastewater of \$365, but no stepped differential.

Column D shows the indicative rates with a Uniform Annual Charge for wastewater of \$365 with the stepped differential retained.

Column E shows the indicative rates with a Uniform Annual Charge for wastewater of \$183 with the remainder of wastewater costs being levied on land value with a stepped differential.

All models in columns C to E include a Uniform Annual General Charge of \$540.

Columns F and G show the effects of Uniform Annual Charges for wastewater of \$365 and \$183 respectively with a Uniform Annual General Charge set at close to the maximum level of \$600.

The introduction of a wastewater Uniform Annual Charge could be an interim step to address ratepayer's concerns over what they perceive as inequitable charging for wastewater disposal when considering the volume of water used. The Council could continue to advocate to Central Government for its preferred method for charging on a volumetric basis of water purchased for each household.

Submissions - Uniform Annual General Charge

Some 61 submissions were received supporting an increase in this charge. The increase to the maximum allowable 30% of the total rate requirement (including water rates) would provide additional rate relief for properties above average residential land value of \$150,000 in the City.

Submissions - Pan Charges

The draft Long Term Council Community Plan 2006 – 2016 had an option for a pan charge to be introduced to educational establishments instead of the current wastewater charge recovered as a targeted rate based on land value. Some 87 submissions along with a large delegation from affected schools in Waitakere have opposed the new method of charging.

The main opposition being:

- The extent of the increase;
- No additional funding from Central Government;
- Families of students already pay for wastewater in their rates;
- Payment would require cut backs in educational activities;
- The new charge was against the spirit of partnership in working with the community.

The Council is able to charge educational establishments for water supply and wastewater. This is specifically provided for in the Local Government (Rating) Act 2002. The proposal was based on an agreed formula that had been put in place by the current Government and the Ministry of Education. It was seen as an agreed method to fairly charge educational establishments.

The proposed charge resulted in varying increases to all of the educational establishments. For example one educational establishment currently paying wastewater charges of \$1,129 would have a new charge of \$24,344 based on the new pan charge formula. That educational establishment has 2,432 pupils and 130 staff.

It is estimated that the residential sector is contributing around \$270,000 to subsidise schools. If the pan charge is not introduced then the residential sector will again share this cost.

During the hearings the Committee supported working closely with the schools to ensure that the required funding is provided from Central Government so schools could meet their legislative requirement to pay their assessed share of wastewater costs. The Committee may wish to reconsider the proposal given the submissions made.

In the event of a decision to not charge educational establishments for wastewater by way of a pan charge, a decision will be required on the basis on which they will be charged for wastewater in the 2006/2007 year.

Currently under the land value based rating system wastewater rates are calculated applying the stepped differential.

The intention behind the introduction of a stepped differential rating system for residential properties was to reduce the rates on higher valued residential properties to what was considered to be a more reasonable level. The consequence of this decision was to also reduce wastewater rates on schools and other non-rateable properties to which the stepped differential also applies.

If the stepped differential was discontinued for residential properties with the introduction of a Uniform Annual Charge for wastewater, or was retained but with a part Uniform Annual Charge with the remainder of wastewater costs being calculated on land value, and a pan charge is not charged on schools, the basis on which wastewater charges would be calculated needs to be determined.

The continued application of the stepped differential on the targeted rate for wastewater together with a Uniform Annual Charge to meet half of the cost of wastewater would result in wastewater rates on schools being almost halved.

For the 2005/2006 year total wastewater rates levied on educational establishments amounted to approximately \$116,000.

For the 2006/2007 year total wastewater rates levied on educational establishments on the same basis as in 2005/2006 would amount to approximately \$125,000. If no stepped differential was applied and rates were calculated on the full land value, wastewater rates would amount to approximately \$188,000.

Wastewater Rates on Non-rateable Properties

Similar issues arise with other non-rateable properties if part of the cost of wastewater is funded from a Uniform Annual Charge, and the remainder is funded from a targeted rate calculated on land value.

However if it was wished that the status quo be maintained for calculating wastewater rates on schools and other non-rateable properties for the 2006/2007 year, a method of calculating their wastewater rates with a stepped differential that was based on the total cost of wastewater excluding income from Uniform Annual Charges could be devised.

The models referred to earlier in this report are based on pan charges not being charged on schools in the 2006/2007 year with a consequential increase in the amount of the Uniform Annual Wastewater Charge for residential properties.

Submissions - Overall Rate Rise

The preliminary assessment of submissions shows 367 opposing the rates rise. Some of those could also be linked to the movements in rates due to the proposal to introduce capital value rating.

Rates Rebates Act

From 1 July 2006 the new rates rebates scheme will come into effect. The maximum rebate payable will increase from \$200 to \$500 for eligible applicants. The Department of Internal Affairs has estimated that up to 8,000 Waitakere City ratepayers may be eligible for all or some of the rebate.

Other Considerations - Outer Area

The capital value proposal was of particular benefit to some properties in the outer area. These properties having a high ratio of land value compared to the improvements on the property. Over half of the outer area properties would receive a decrease in rates or no increase based on the draft rates requirement for 2006/2007. The capital value proposal included the removal of the stepped differential.

The existing land value rating system with the stepped differential currently provides rates relief for higher valued properties across the City. If the land value system is retained then consideration must be given to retaining the stepped differential as its removal would result in some large increases for some properties in the outer area for example:

Land Value	2005/2006	2006/2007 No stepped differential
\$	\$	\$
200,000	1,432	1,609
400,000	1,978	2,489
500,000	2,166	2,929
750,000	2,636	4,028

The outer area properties have not been advised of the potential impact of the removal of the stepped differential if a land value system was retained. It was indicated as an option, but focus primarily has been on the capital value proposal as evidenced by submissions. The retention of the stepped differential would be necessary to avoid large shifts in rates on a land value basis.

CONCLUSION

The proposals to the rating system attracted a large number of the submissions to the draft Long Term Council Community Plan 2006 - 2016. This was always expected as the shift in the basis of rating provides for a redistribution of rates. The submission response does not seem so overwhelmingly negative as to not warrant further investigation by the Council for a capital value rating system. Strong opposition has come from elements of the Business Sector citing lack of consultation and future investment will be curtailed. However there has been some support provided the existing business differential is reviewed. In view of the mixed reaction from the Business Sector to the proposed change to a capital value rating system it is recommended that the current land value system in the interim be retained. A work programme addressing the matters raised in all submissions both residential and business could be presented to the August meeting of the Finance and Operational Performance Committee.

There was a mixed response to the charging of wastewater as Uniform Annual Charge to inner area residential properties. If the charge is to be introduced then it should be done in conjunction with the current stepped differential on city wide land value basis. The retention of the stepped differential will avoid widespread shifts in rates for outer area properties.

Strong opposition was received from educational establishments opposing the introduction of a pan charge. It is recommended that a decision on a pan charge system for educational establishments be deferred until such time appropriate discussions have taken place with Central Government to address the statutory requirement for those establishments to contribute to their share of wastewater disposal costs in the City. Dependent upon the decision and recommendation of this Committee to Council on the introduction of a Uniform Annual Charge for wastewater the Committee will also need to determine the appropriate method of charging educational establishments for wastewater.

The level of the Uniform Annual General Charge can be set at 30% of the total rate requirement. Presently this charge is at 26.16%. The Committee needs to consider the impact of any additional increase from the current charge of \$540.

RECOMMENDATIONS

1. That the Submissions - Review of Rating System report be received.
2. That it be recommended to the Council that the land value based rating system be retained in the interim and that further analysis and consultation is undertaken on the matters raised through the submission process on capital value rating.
3. That it be recommended to the Council that a work programme to further address the benefits and costs of a capital value rating system be presented to the Finance and Operational Performance Committee in August 2006.
4. That the Long Term Council Community Plan and Annual Plan Committee determine whether to introduce a Uniform Annual Charge for wastewater costs along with the retention of the current stepped differential after consideration of the submissions received and other advice from council officers.
5. That it be recommended to the Council that it continue to advocate for the ability to charge for wastewater on a volumetric basis without the requirement to establish a Council Controlled Organisation.
6. That the Long Term Council Community Plan and Annual Plan Special Committee determine the level of the Uniform Annual General Charge after consideration of the submissions received and other advice from council officers.
7. That the proposal to introduce a pan charge for educational establishments not proceed in 2006/2007 and that the Council in partnership with educational establishments in Waitakere City advocate to local Members of Parliament, Ministry of Education and Central Government for educational establishments to be funded appropriately so they are able to meet their share of wastewater charges required under legislation without compromising their educational programmes.
8. That the share of the rate requirement to be met from the Business Sector under a land value based rating system remain at 20% of the total rate requirement for 2006/2007.

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