How rating works

2 July 2020

Facts

- Rates are a tax
- Revenue funding and financing policy determines total amount to rate
- 75% of council’s revenue
- Rating tools and policy determine the rates burden per ratepayer

Factors to consider when formulating rating policy

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


WHANGAREI : LOVE IT HERE!

Rates assessment notice

Annual Rates Calculations as at 01 July 2019 **Property ID: 160667**

Whangarei District Council Rates for the full year				
Description / Differential Category	**Basis**	**Value/Factor**	**Rate/Charge**	**Total for Year**
General Residential	Land Value	525000	0.0023536	$1,235.64
Uniform Annual General Charge	per SUIP	1	476.00	$476.00
District-wide Refuse Management	per SUIP	1	187.00	$187.00
Total Whangarei District Council Rates (including GST)				**$1,898.64** *

* See footnote 1 on the Rates Assessment Information sheet

Northland Regional Council Rates for the full year				
Description / Differential Category	**Basis**	**Value/Factor**	**Rate/Charge**	**Total for Year**
Regional Council Services	per SUIP	1	104.25	$104.25
Regional Flood Infrastructure	per SUIP	1	26.02	$26.02
Regional Fresh Water Management	Land Value	525000	0.0002022	$106.16
Regional Infrastructure	Land Value	525000	0.0000253	$13.28
Regional Civil Defence & Hazard Management	per SUIP	1	20.68	$20.68
Regional Pest Management	per SUIP	1	58.37	$58.37
Regional Land Management	Land Value	525000	0.0000991	$52.03
Regional Sporting Facilities	per SUIP	1	16.74	$16.74
Regional Transport Rate	per SUIP	1	22.83	$22.83
Regional Emergency Services Rate	per SUIP	1	11.69	$11.69
Total Northland Regional Council Rates (including GST)				**$432.05**

TOTAL ANNUAL RATES (including GST)	**$2,330.69**

Rates for 2020-21 Annual Plan - $121 million

- Water rates *$17 million*

- Targeted rates *$32 million*
  Benefits to fund separately, can identify users
  e.g. refuse, sewerage, flood protection

- General rates *$72 million*
  Council considers that these activities & services should be funded by all as there is little benefit or high cost to fund separately
  e.g. transport, stormwater, community facilities & services, governance, strategy, support services

Value based general rates - 2020-21 AP $50.4 million

- Based on **land value**
  - In 2018 we considered using capital value for funding Transportation
- 71% of General Rates – 42% of total Rates
- Split by sectors: Residential, Commercial & Industrial, Rural

*Assessment basis: Capital or **Land value***

*Rating differentials, **sector splits***

Relief - high value farmland & residential properties

Setting of Land Values

- General Revaluation done every three years by Opteon (Valuation Service Provider – VSP)
- Mass appraisal approach, but based on all available data
- Audit and sign-off from Office of the Valuer General (OVG)
- All property owners advised of outcome
- Appeal process available if ‘objection’ lodged
- Further appeal to Land Valuation Tribunal available
- We try to get all objections settled by 30 June of the following year, because
- Rates are set on information held in the District Valuation Roll as at 30 June
- Following the 2018 Revaluation there were just under 1000 objections

Uniform Annual General Charge - 2020-21 AP $21.4 million

- $486 per SUIP - 43,490 properties
  - 3,322 additional SUIPS → $1.6 million (7%)
- Capped at 30% of rates revenue (including district wide refuse rate)
- 29% of general rates, 17% of total Rates
- Lower UAGC results in higher value based rates
  - Shifts rating burden to lower incomes (Regressive)

Assessment basis: Rating unit or ***SUIP***

Relief: jointly used, new subdivisions, family, home & business

Sector splits

Sector	agreed share	2020-21 share
Residential category	62.00%	62.66%
Multi-Unit category		0.19%
Miscellaneous category		0.34%
Rural category	9.50%	9.33%
Commercial and Industrial category	28.50%	27.48%
Total	100.00%	100.00%

SUIP definition

- *Any part of a rating unit that* ***is used****, or occupied, or* ***intended*** *to be separately used or occupied by any person, other than the ratepayer, having a right to use or inhabit that part by virtue of a tenancy, lease, license, or other agreement.*
- *Any part of a rating unit that* ***is used****, or occupied, or* ***intended*** *to be separately used by the ratepayer for more than one single use.*

SUIPS by sector

Sector	Additional SUIP’S	Total number of charges	% of total
Residential & other	2,018	40,398	5%
Rural	447	2,164	21%
Commercial & Industrial	857	2,749	31%
Total	**3,322**	**45,311**	**7%**

Targeted rate – District Wide Refuse Rate 2020-21 AP $8.4 m

$191 per SUIP - 43,490 properties

3,322 additional SUIPS → $630,000 (7%)

Assessment basis: Rating Unit or ***SUIP***

Continue separation from UAGC?

Relief: jointly used, new subdivisions, family, home & business

Targeted rate – Sewerage disposal 2020-21 AP $22.8 million

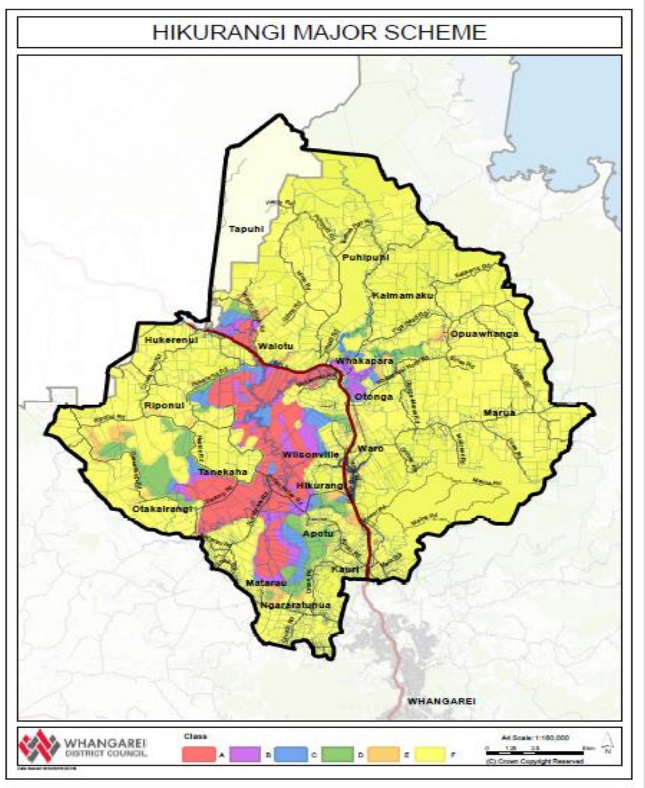
- 80% Residential per SUIP $754
  - 23,190 properties - 24,280 charges
  - 1,090 (5%) additional SUIPS
- Non-residential - per pan $482
  - 1,700 properties - 9,900 pan charges

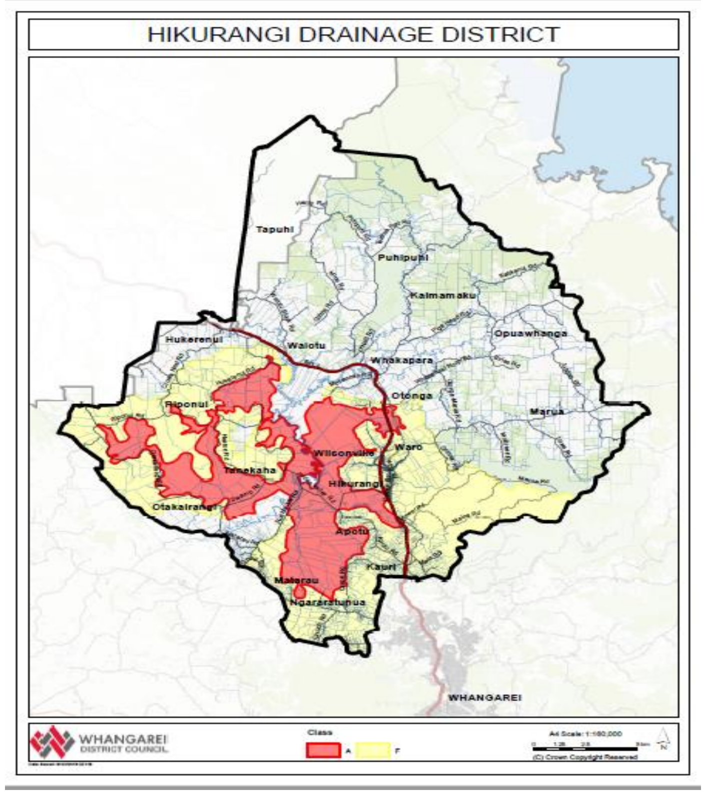
*Assessment basis: differential: **residential/other**,*

*basis of charge: **SUIP**, rating unit, **pans***

Relief: schools, non-residential

Targeted rate – Flood protection 2020-21 AP $1.4 million





Targeted rate – Water rates 2020-21 AP $17.5 million

- Per cubic metre, $2.26
- Per connection - supply charge, $34.50
- Backflow preventors $80-$500

*Assessment Basis:– level of **supply charge** and **consumption**, scale of charges*

Relief: water leaks

Rates Relief –from Local Government Rating Act (LGRA)

- LGRA Schedule 1 non-rateable land
  - 100%– reserve; conservation; council used park, sports, library, museum, arts, hall, soil/river control; school; hospital/health; church; cemetery; Māori customary land, marae; road; wharf; airport; railway; marine and coastal …
  - 50%- A&P: society owned or used sports and arts

- LGRA s20 contiguous, jointly used and owned

Rates relief – Council policy

- Remission
  - UAGC – Home and business, dependent family in second dwelling, vacant subdivided land for 5 years, jointly used (different owners or not contiguous)
  - Community organisations,
  - Unoccupied/unused Māori land
  - Natural calamity/fire
  - QEII,
  - High value residential properties
  - Miscellaneous,
  - Water leaks
  - Penalties
  - Discount if annual rates paid by 20/09/2020
- Postponement –
  - High value farmland, hardship, Māori land - development

Potential Targeted Rate

City Core funding
e.g. 'Free' carparking & CitySafe

- 234 properties / 487 SUIPs
- Costs $1,390,000
  - Carparking revenue $1.2 million less $200,000 reduction in costs
  - CitySafe cost $390,000
- Rating options to fund say 60% $834,000 (remainder -$556,000 to general rates)
  - $3,564 per rating unit
  - $1,712 per SUIP
  - $0.006006 rate/dollar land value
  - $0.002813 rate/dollar capital value

Tools for debt recovery

- Penalties
  - Up to 10% if instalment not paid by due date
  - Up to 10% if prior years arrears not paid
  - (Changed to 5% in 2020/21 for COVID-19 relief)

- Rates are a property tax
  - Mortgagee demand
  - Recovery via the courts
  - Rating sale (general titled land)

Current Policies – Common customer comments

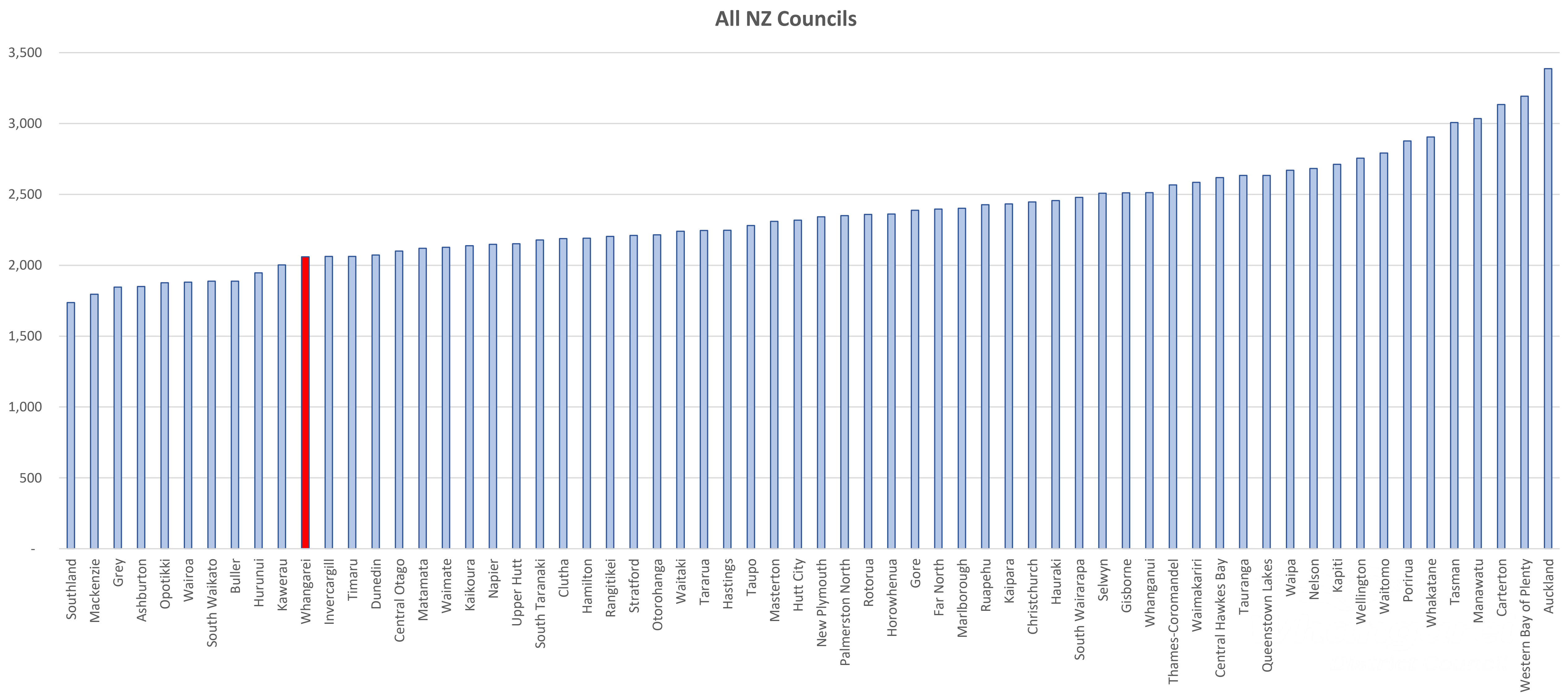
- Commercial rates are too high
- SUIPs impact some ratepayers unfairly
- Carparking should be free
- 2018 proposed capital value-based transportation rate, opposed by ratepayers with higher value properties (people generally want to pay less not more)
- Status quo - don’t fix what isn’t broken

Rating Calendar

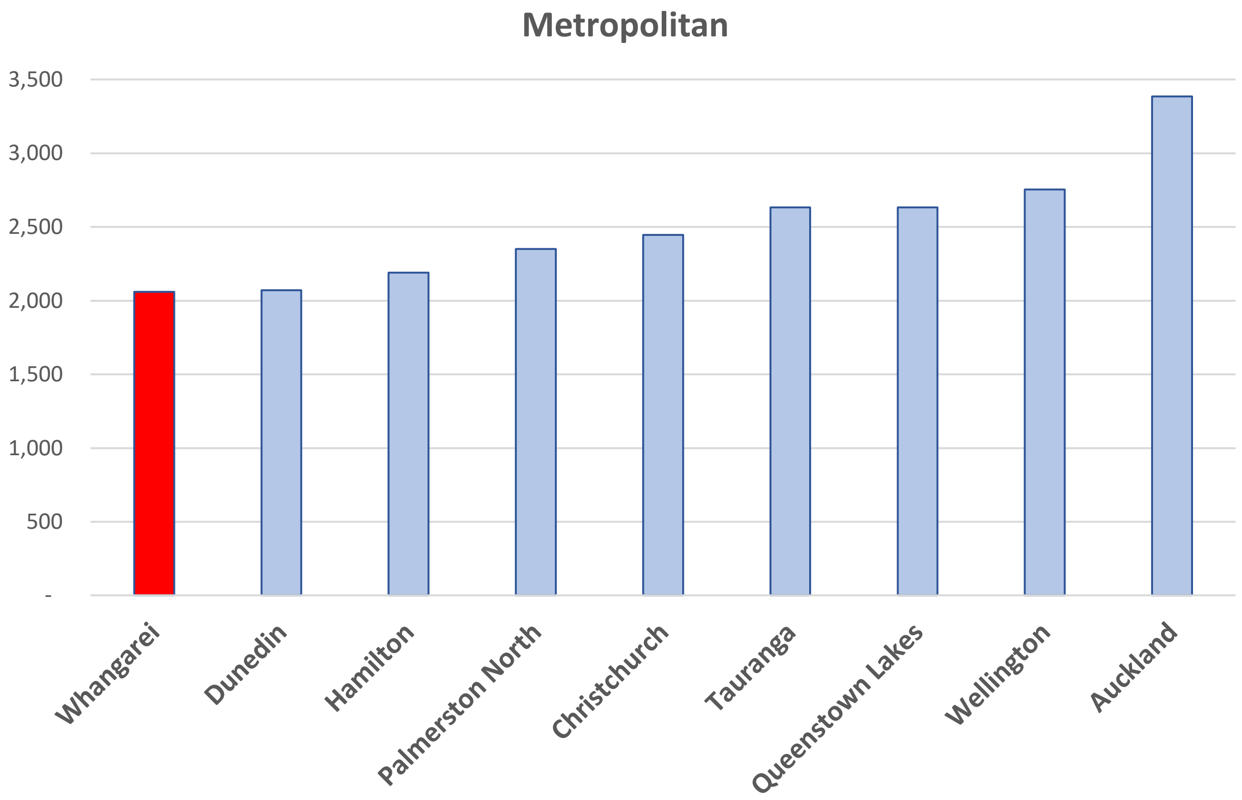
June	Annual plan and rates resolution, for next year
July	Set rates and send 1st instalment, rates rebate office, mortgagees informed of prior year rates
August or September	1st instalment due, instalment penalties added and letters sent, rates rebate office
October	Send 2nd instalment, mortgagees contacted for payment of prior year rates
November	2nd instalment due, instalment penalties added and letters sent
January	Send 3rd instalment
February	3rd instalment due, instalment penalties added and letters sent
March-May	Consultation on annual or long term plan, draft documents prepared
April	Send 4th instalment
May	4th instalment due, instalment penalties added and letters sent

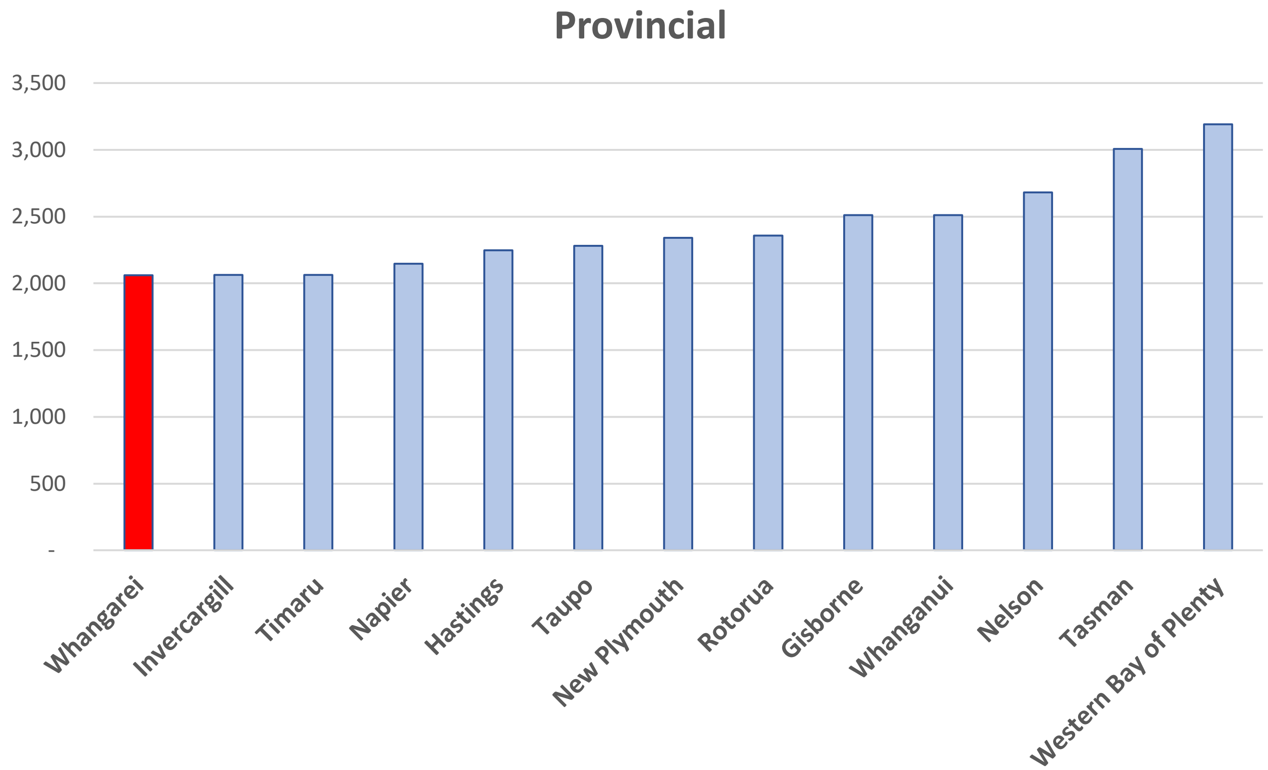
Background Information

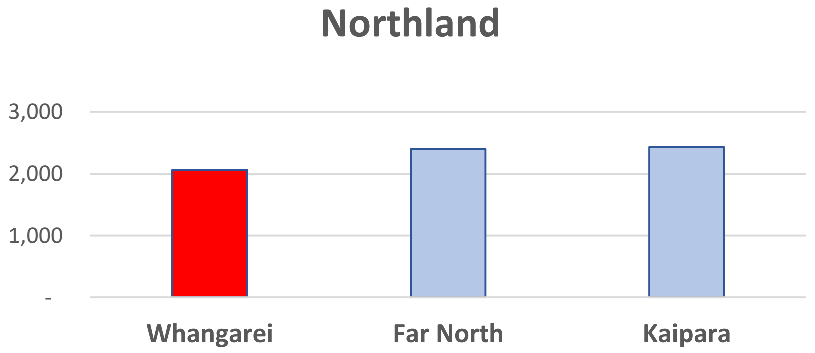
Residential Rates compared to other Councils – Taxpayers' Union



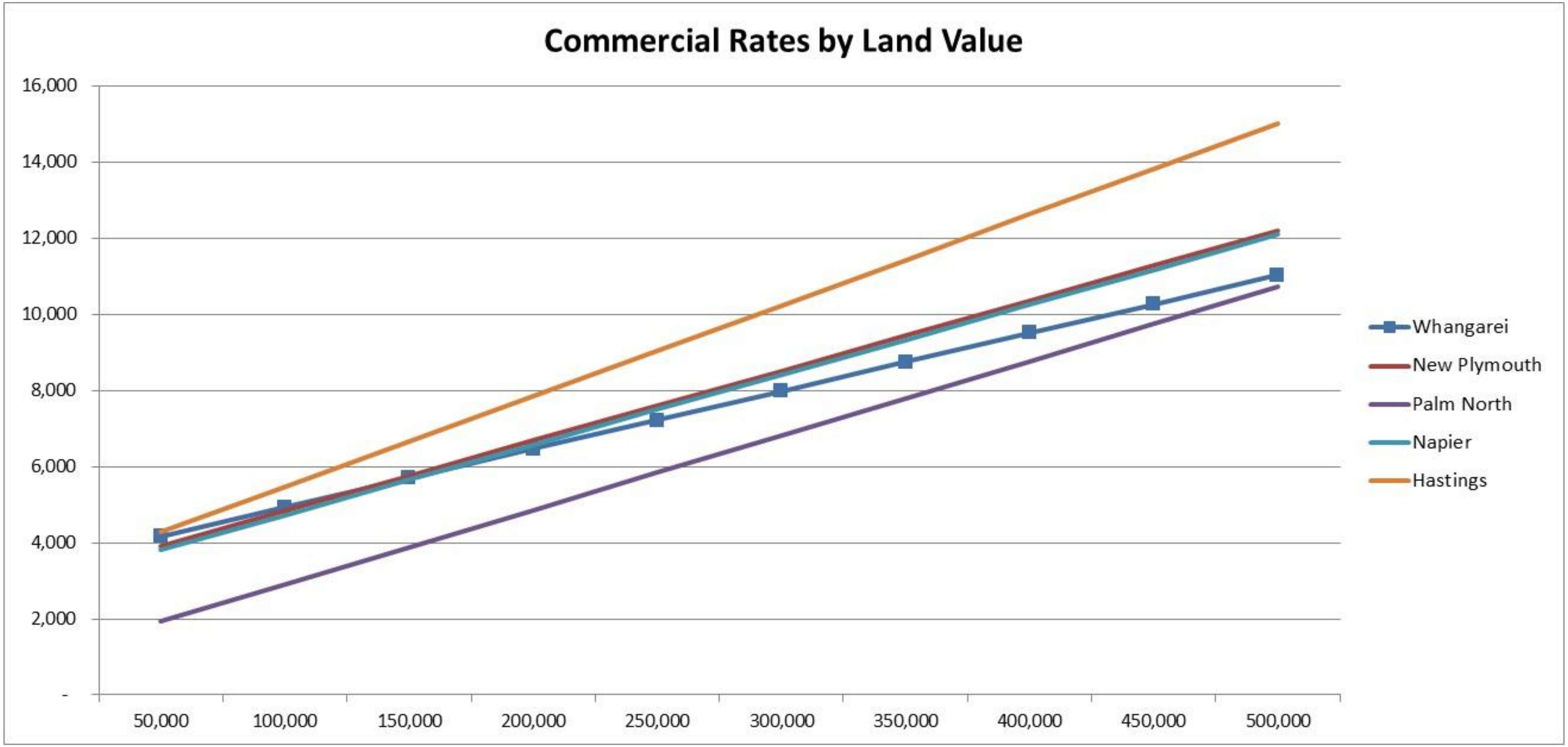
Residential Rates compared to other Councils







Commercial Rates compared to other Councils



Example: CBD Property with 3 SUIPS and 3 toilet pans

2011 Rates review
Introduction of Sector Splits

Work out how much money we need

e.g. Current Strike plus CPI

Adjust variables to produce this

USER CHARGES

TARGETED RATES

GENERAL RATES → UAGC
Land Values
Differentials
Steps
Remissions → “Rate in the Dollar”

- Residential
- Rural
- Commercial

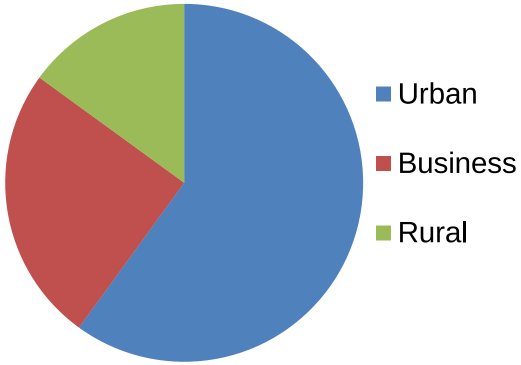
The current system is heavily influenced by changes in Land Value

DIFFERENTIAL

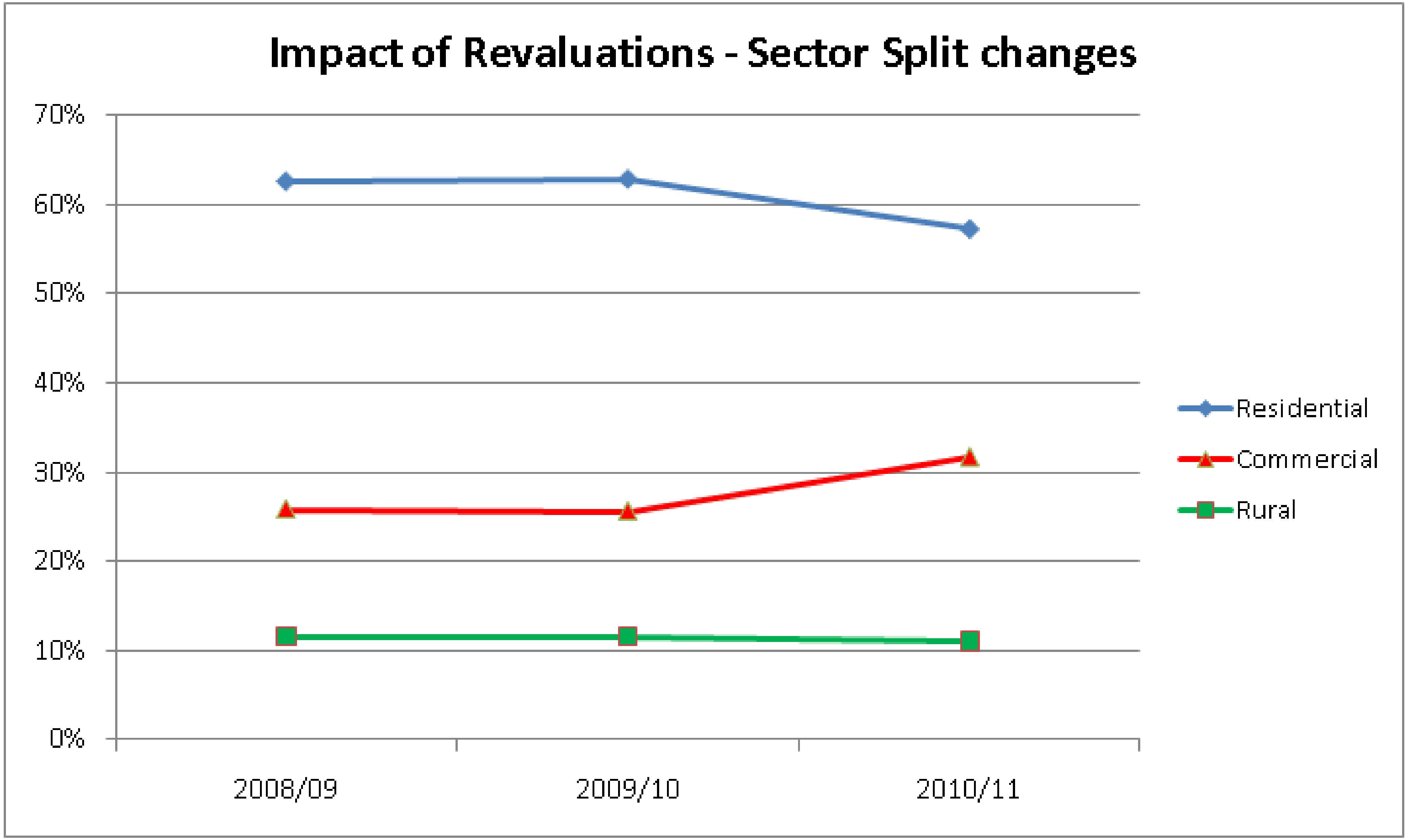
Urban: 1
Rural: 0.8
Business: 5

VALUATIONS

SHARE OF GENERAL RATES



Each time we have a revaluation the sector splits change


Impact of Revaluations - Sector Split changes
70%
60%
50%
40%
30%
20%
10%
0%
2008/09
2009/10
2010/11
Residential
Commercial
Rural

The Impact of Revaluations

In WDC's current system:

- Can lead to big movements between sectors
- Can lead to big movements within sectors
- Can lead to conflict with Ratepayers
- Takes time to resolve via Land Valuation Tribunal
- Resolution in ratepayers' favour means we lose revenue

Examples:

- Swing to Commercial in 2009
- Rise in Coastal values in 2006
- Last revaluation had limited sales data
- Can take over 3 years!
- Overall rates are struck on original value – can't go back and adjust them

We have a plan to mitigate these effects

Proposed change in approach

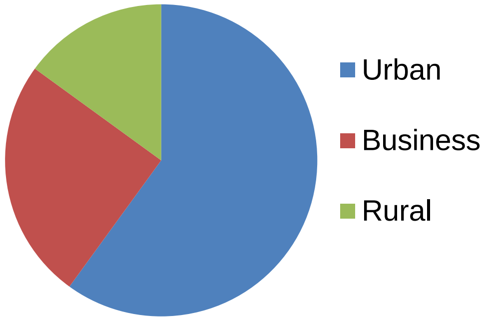
FROM

DIFFERENTIAL

Urban: 1
Rural: 0.8
Business: 5

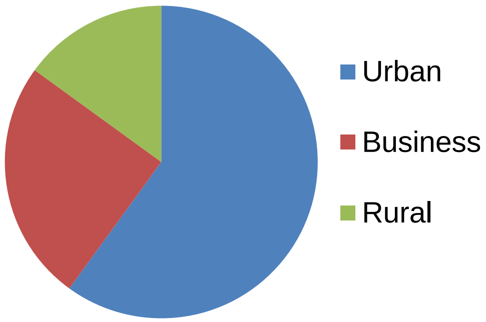
VALUATIONS

SHARE OF GENERAL RATES



TO

'LOCK IN' SHARE OF GENERAL RATES



DIFFERENTIAL

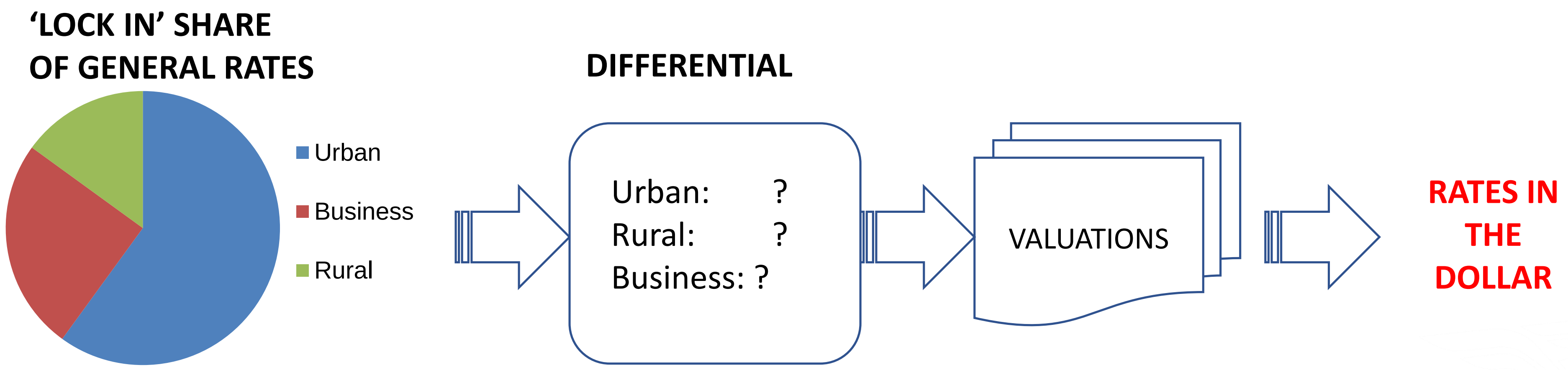
Urban: ?
Rural: ?
Business: ?

VALUATIONS

RATES IN THE DOLLAR

Proposed change in approach

- This approach removes the impact of revaluations **BETWEEN** sectors
- It is still used to adjust the individual rates calculation **WITHIN** each sector
- We will effectively adjust the differential each year to maintain the sector splits we want
- On a periodic basis we will review what the sector splits should be



How should we calculate sector splits?

‘Purist’ Approach

- Review what sectors we should have e.g. CBD plus Other Commercial
  New Lifestyle sector
- Consider what services each sector receives
- Examine the funding (both long and short term) of those services
- Work out the best way to allocate costs e.g. Fixed charge or ‘value’ based
- Determine valuation method e.g. Capital or Land Value
- Introduce more targeted rates where service benefit a defined group
- Adjust for relative growth/decline in each sector

BUT

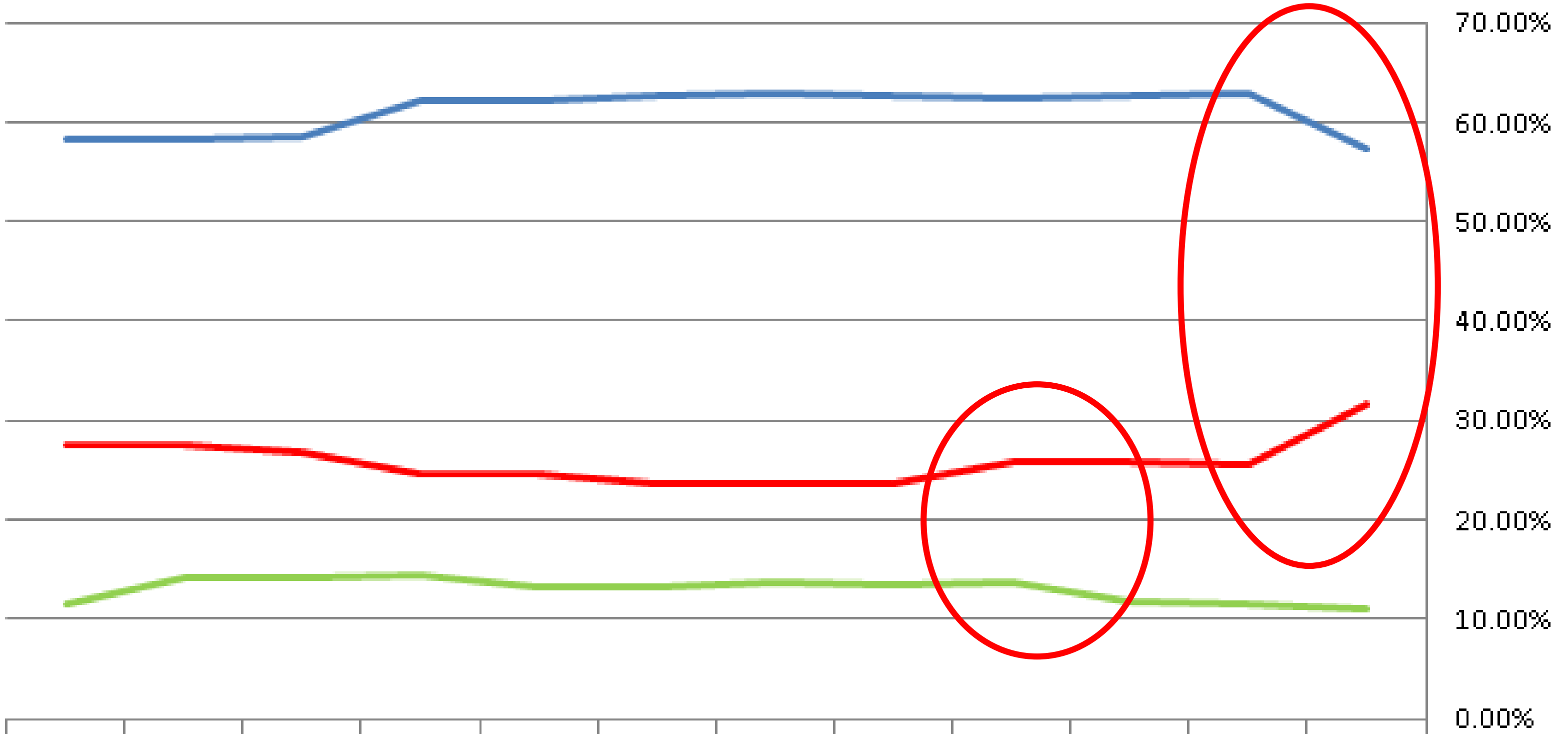
- We need to remember Rates are **NOT** a direct ‘payment for services received’
- They are a **land tax** that **reflects** the services Council provide to the community
- There are also some practical considerations:
    - A review of this nature would take many months to complete
    - It would trigger changes to our Revenue & Financing policies in the LTCCP
    - Any transition required needs to be achievable!

A more practical approach, based on history is proposed

We have reviewed the sector splits over the last 12 years

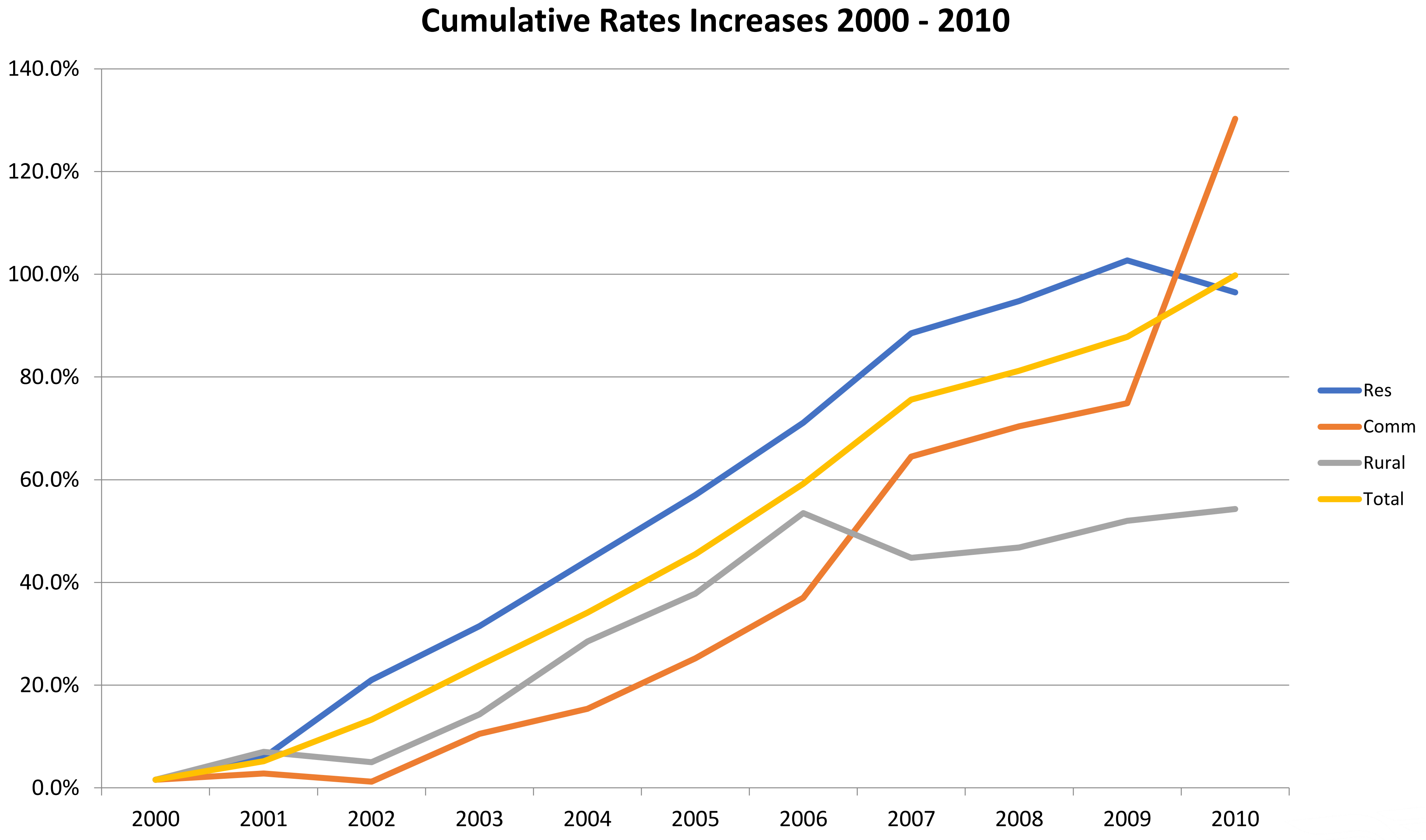
This highlights the effect of the last two revaluations

Percentage of rates paid by sector



	1999	2000	2001	2008	2003	2008	2005	2008	2007	2008	2009	2010
Rural	11.57%	14.30%	14.30%	14.54%	13.25%	13.26%	13.71%	13.55%	13.79%	11.79%	11.58%	11.04%
Commercial	27.50%	27.50%	26.87%	24.56%	24.65%	23.67%	23.66%	23.66%	25.76%	25.85%	25.61%	31.70%
Residential	58.20%	58.20%	58.58%	62.18%	62.08%	62.63%	62.79%	62.55%	62.46%	62.57%	62.82%	57.25%

This is borne out by the rates actually received over time



We have calculated average splits, after removing extremes

	High	Low	Average (Adjusted)
RESIDENTIAL	**62.82%**	**57.25%**	**61.3%**
RURAL	**14.54%**	**11.04%**	**13.1%**
COMMERCIAL	**31.7%**	**23.66%**	**25.6%**

These splits are being used to model the impacts at a macro level

In the New Year we will model this right down to individual Rating Units to assess the impacts

In a subsequent workshop, the following analysis was presented

Following our last discussion two options have been evaluated for further review:

Commercial Differential of 4 (others unchanged)

Lockdown, with sector splits of:

- ***Residential 62%*** *(61.3% used in previous model)*
- ***Rural 12%*** *(13.1%)*
- ***Commercial 26%*** *(25.6%)*

The 'Status Quo' approach was not considered, as this simply defers the issues to the next valuation round in 2012 without addressing the central issue of relief for the Commercial sector.

The sector splits shown above were recommended for adoption by staff.
While the approach was supported, the splits adopted were:

- **Residential 61%**
- **Rural 10%**
- **Commercial 29%**

They were changed again in 2013/14 to 62% / 28.5% / 9.5% where they have remained since