MEDIA RELEASE

Rates report highlights need for more funding

Under embargo until 10am on 12 March 2008

Implementing the six recommendations from Report of the Local Government Rates Inquiry relating to the use of rating tools will not achieve significant benefits for ratepayers without additional funding from outside the rating system.

This is the conclusion from *No Magic Answers*, a report released today by *Local Government New Zealand* and the Society of Local Government Managers (SOLGM).

No Magic Answers presents the results of modelling undertaken by 20 councils to determine the impact of the Rating Inquiry's six recommendations on the use of rating tools.

"The results don't offer any significant benefits for residential ratepayers in our cities, although some provincial and rural residential ratepayers may gain. The results show the commercial sector would be clear 'winners' from these recommendations and rural ratepayers would be clear 'losers'," said Basil Morrison, President of *Local Government New Zealand*.

"In cities rates are likely to shift from the commercial sector to the residential sector, with one case showing a shift of as much as $38 million. In provincial and rural areas, rates are likely to shift from the town (both the residential and commercial ratepayers) to the rural ratepayer," said Mr Morrison.

The shift in median residential rates could range from a $650 annual decrease per ratepayer in a provincial council to a $600 annual increase per ratepayer in a city council. These figures represent only the impact of redistributing rates as the Inquiry recommended, and do not include future allowances for cost increases, changes in services or the effect of future changes in the level of funding from Government. Some local authorities may be able to reduce some of the extremes created by the shifts through the use of targeted rates.

"Without additional funding from sources other than rates, all these recommendations achieve is to move rates from one sector of the community to another - rearranging the problem rather than actually solving it.

"It's ironic that one of the key results shows many urban residential ratepayers are likely to face higher rates than they would have before the Inquiry started, unless there is more funding from outside the rating system.

"We continue to push the case for additional funding for long-term investment in network infrastructure, and will not be limiting our advocacy to the recommendations in the Rating Inquiry report.

"The 2006-16 LTCCPs highlighted that development of our infrastructural networks is at a cross-roads. Underinvestment now will have consequences within the life of the current LTCCPs, not in 20 – 50 years down the track.

"The 2008 budget represents an opportunity for the Government to walk the talk on sustainability and make an investment in the long-term economic future of this country", said Mr Morrison.

Mr Morrison emphasized the Local Government Rates Inquiry was independent advice commissioned by the Government. The Government is still considering these recommendations as part of its evaluation of the Rating Inquiry. *No Magic Answers* models what could happen under certain scenarios but does not indicate any intention of these councils to change their current rating tools.

Copies of the report can be found on the 'what's new' section of www.solgm.org.nz and www.lgnz.co.nz .

Note for editors:

The following were the recommendations from the Report of the Local Government Rates Inquiry report which were modelled in *No Magic Answers*:

- 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).

ENDS

Local Government New Zealand is the national voice of all 85 councils of New Zealand.

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Background Information

Table 1: Shifts in Incidence by Local Authority and Sector

Local Authority	Category	Present Share (%)	Change from present share under Scenario A	Change from present share under 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

Table 1 continued: Shifts in Incidence by Local Authority and Sector

Local Authority	Category	Present Share (%)	Change from present share under	
			Scenario A	Scenario C
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.

This table shows how the distribution of rates across the different sectors of the community could change under each scenario. So, for example, under scenario A the share paid by the residential sector in Wellington City moves from 49 percent of the total rate take to 67 percent, while the share paid by the commercial sector decreases from 50 percent to 32.

Table 2: Residential Rates[1] 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[2]	$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[3]	$1,708	$2,320	$2,320	$2,320

The above table shows the potential movement in residential rates in each of the sample local authorities under each of the three scenarios in the report. These results are hypothetical to the extent that:

- no account has been taken for any additional funding from central government. The Government has not decided which of these recommendations it wishes to progress (if any);
- local authorities may be able to reduce some of the extremes of the shifts in the incidence of rates through use of targeted rates.

This data should not be used to compare levels of rates between local authorities.

The scenarios are:

- *scenario A* – the council applies its present rating policies with the exception that it may not use differentials on its general rate, and it may not use uniform annual general charges. This scenario tends to produce the largest shifts in most of the sample.
- *scenario B* - no differentials on the general rate, no UAGCs, present valuation base, increased use of fixed targeted rates. For consistency's sake councils were asked to assume that fixed targeted rates would apply to the following 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.
- *scenario C* – the assumptions in Scenario B plus all councils were required to use capital value as the basis for the general rate. Of the three scenarios above, this is the closest to the intent of the Rating Inquiry report. A local authority already on the capital value system should report almost identical results for this scenario as for scenario B.

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