POLICY AND DEVELOPMENT COMMITTEE

FOR THE MEETING OF 10 FEBRUARY 2015

Report for Agenda Item No *

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Effects on Rates of Rateable Value Revaluations and Sector Differentials (File F1/4)

Purpose of Report

The purpose of this report is for Council to consider whether or not the sector differentials should be altered for the 2015/16 rating year.

Background

During the 2014/15 financial year a revaluation was undertaken of the land values of all properties for rating purposes in the Timaru District. These new valuations are as at 1 September 2014 to take effect for rating purposes from 1 July 2015. The changes can be seen in the table below.

Category	Number of Properties	Capital Value change	Land Value Change
Rural	1,820	+35.2%	+41.9%
Lifestyle	2,376	+3.9%	+6.4%
Residential	15,908	+13.0%	+10.6%
Business	1,521	+7.0%	+1.2%
Other	918	+19.1%	+16.0%
Total	22,543	18.1%	+24.0%

Previously the differentials have been amended after each revaluation so as to compensate for the effects of the revaluation on rates that are subject to the differential. The effect of this being that the proportion of rates paid by each category remained the same i.e. the ‘pie’ is divided up in the same way.

Council has also developed a policy of increasing or decreasing the Uniform Annual General Charge (UAGC) annually by a percentage movement similar to the general rate movement.

The differential on the land value of properties only applies to the General Rate. This rate was for $11.5 million for 2014/15 which is 27%% of the total rates. This rate, plus the UAGC, fund community facilities, roading network costs, regulatory activities, civil defence, economic development and promotion, the airport and a portion of street lighting and refuse disposal.

Based on the 2014/15 budget, the amount of district wide rates paid by the sectors was:

Table 1:

Sector	**Current differential**	**District wide rates paid** (UAGC, General Rate, and Aquatic Centre Rate)	
		$	%
Commercial/Industrial	4.212	$4,844,480	22.0
Primary	0.358	$3,115,190	14.2
Residential/Recreational	1.000	$13,727,226	62.4
Residential – Multi unit	2.050	$312,605	1.4
Total		$21,999,501	100.0

Roading is the largest cost that is funded from the General Rate at $6.3 million for the year. More than 50% of the roading costs are for roads in the rural area of the district. Currently the roading costs are funded 44% by the residential sector, 35% by the commercial sector and 19% by the primary sector. It is considered that the contributions from the sectors no longer fairly reflect the current spend and future spends. One of the key changes that has happened over the years that has not been reflected in the differentials has been the substantial intensification in the rural sector significantly increasing the pressure on the roading network. In addition, there has been additional spend required in the rural sector that is no longer subject to financial assistance from New Zealand Transport Agency.

Options

The number of options available to the Council when considering a level at which to set the sector differentials is infinite. This report will present 5 options for the consideration of the Council. These options depict how the existing rates are divided between the sectors and do not allow for any increase in the total district wide rates paid. Any change in the total amount of district wide rates will need to be considered at the Council budget meeting on 24 February 2015. Rating tools that might be appropriate for an increase in total rates, including for a particular activity such as roading, will need to be considered at the budget meeting.

Option 1

Option 1 is that the differentials remain at their current levels. The effect of this is outlined in the table below:

Table 2:

Sector	Current differential	District wide rates paid (UAGC, General Rate, and Aquatic Centre Rate)		Difference from table 1
		$	%	
Commercial/Industrial	4.212	$4,363,350	19.8	-$481,130
Primary	0.358	$3,675,646	16.7	$560,456
Residential/Recreational	1.000	$13,653,423	62.1	-$73,803
Residential – Multi unit	2.050	$307,082	1.4	-$5,523
Total		$21,999,501	100.0	$0

Option 2

Option 2 is that the differentials be amended to recognise a shift in cost recovery that Council may wish to consider, such as has been suggested to reflect the cost of rural roads and a $50 increase in the UAGC as well. As an example, the table below shows the impact of reducing the commercial sector and increasing the primary sector:

Table 3:

Sector	Amended differential	District wide rates paid (UAGC, General Rate, and Aquatic Centre Rate)		Difference from table 1
		$	%	
Commercial/Industrial	4.0	$3,723,493	16.9	-$1,120,987
Primary	0.5	$4,289,974	19.5	$1,174,784
Residential/Recreational	1.0	$13,695,479	62.3	-$31,747
Residential – Multi unit	2.0	$290,555	1.3	-$22,050
Total		$21,999,501	100.0	$0

Option 3

Option 3 is another example to reflect amount of rural roading costs and would see similar proportions of rates paid by the commercial and primary sectors. The effect of this is outlined in the table below:

Table 4:

Sector	Amended differential	District wide rates paid (UAGC, General Rate, and Aquatic Centre Rate)		Difference from table 1
		$	%	
Commercial/Industrial	4.0	$4,137,321	18.8	-$707,159
Primary	0.4	$3,961,156	18.0	$845,966
Residential/Recreational	1.0	$13,599,931	61.8	-$127,295
Residential – Multi unit	2.0	$301,093	1.4	-$11,512
Total		$21,999,501	100.0	$0

Option 4

Option 4 is another example to reflect increased rural roading costs. The effect of this is outlined in the table below:

Table 5:

Sector	Amended differential	District wide rates paid (UAGC, General Rate, and Aquatic Centre Rate)		Difference from table 1
		$	%	
Commercial/Industrial	4.0	$4,195,384	19.1	-$649,096
Primary	0.375	$3,820,243	17.4	$705,053
Residential/Recreational	1.0	$13,680,045	62.2	-$47,181
Residential – Multi unit	2.0	$303,829	1.4	-$8,776
Total		$21,999,501	100.0	$0

Option 5

Option 5 is based on establishing a targeted rate for roading costs based on capital values (undifferentiated) within the district. This is consistent with many other provincial local authorities in the South Island. The effect of this is outlined in the table below:

Table 6:

Sector	Differential on General Rates	District wide rates paid (UAGC, General Rate, and Aquatic Centre Rate and new targeted roading rate)		Difference from table 1
		$	%	
Commercial/Industrial	4.212	$3,117,933	14.2	-$1,726,547
Primary	0.358	$4,604,220	20.9	$1,489,030
Residential/Recreational	1.000	$13,981,981	63.5	$254,755
Residential – Multi unit	2.050	$295,366	1.4	-$17,238
Total		$21,999,501	100.0	$0

Due to the infinite number of scenarios possible, further guidance from the committee would be required to allow officers to investigate any additional options.

Identification of Relevant Legislation, Council Policy and Plans

The Local Government Act 2002 (Schedule 10, Clause 15) requires a local authority to state:

> "the objectives of the differential rate, in terms of the total revenue sought from each category of rateable land or the relationship between the rates set on the rateable land in each category."

The 2012 LTCCP states that the objective of differential rating is to ensure a fair proportion of rates are paid by the various differential sectors. Council has amended the rating sector differentials after the last three property revaluations.

Should the Council wish to amend the sector differentials the Local Government (Rating) Act 2002 requires the decision to be consulted on in the 2015-25 LTP.

Assessment of Significance

This matter is deemed significant under the Council's Significance and Engagement Policy and will be consulted on in the 2015-25 LTP.

Consultation
Discussions have been held with Council as part of the Council workshops to discuss the 2015-25 LTP. QV presented the revaluation information to the Policy and Development Committee on 25 November 2014.

As the decision is to be included in the LTP, the community will have the ability to submit on any decision the Council makes in relation to the differentials.

Other Considerations
It is important for Councillors to be aware that there will be variances within the sectors due the variances in land value movements of individual properties and across the district. There is no mechanism available to the Council to smooth valuation swings within a sector.

Increasing the UAGC and reducing the rates based on land values, also reduces the swings in rates at the time of revaluations.

Funding Implications
There are no significant funding implications for the Council.

Conclusion
The Council has previously amended the sector differentials to compensate for the effects of the property revaluations on the apportionment rates between the sectors. This has not however reflected the intensification in the rural sector and the impact on the roading network. Any change in the differentials only changes the allocation of the existing rates and sets a basis for future increases to be allocated. There is opportunity at the Council budget meeting to review any significant specific increases and review rating tools at that stage.

Irrespective of the option chosen, there will continue to be significant variations in rate movements within the sectors due to the variance of changes in property values, which has caused confusion and dissatisfaction with some ratepayers in the past.

Recommendation

That the Committee considers the report and recommends to the Council budget meeting the level and objectives of the sector differentials for inclusion in the 2015-25 Long Term Plan.