*Financial and asset management solution for local government*

*Email info@pja.co.nz*

# Report to the Local Government Commission on the Wairarapa Rating Assessment

Report Final 3.6

15 December 2016

Prepared by Megan Scott (Associate)

Reviewed by Philip Jones (Principal)

December 2016

## Executive Summary

**What we have been asked to do:**

1. As part of its consideration of a reorganisation of the Wairarapa territorial authorities, the Local Government Commission (the Commission) has engaged PJ & Associates to:
   - identify the impacts of uniform land value and capital rating for the general rates across the three councils. Impacts include shifts in the incidence of rates between current districts, and among areas and types of property within districts (assuming, in the first instance, existing arrangement for separate targeted rates, uniform charges and rating differentials remain in place), and
   - present a range of scenarios of rating options with and without rating differentials and uniform charges, and
   - assess whether the scale of impacts is such that specific transitional provision is likely to be required to mitigate those impacts, and
   - identify and assess options for providing such mitigation

     *Note that reference to "uniform" general rates means general rates without differentials. The focus on "general" rates is on rates levied across a district as a whole, and it does not include targeted rates levied only on particular groups of properties within a district.*

2. In preparing this report a number of assumptions have been made. A full list of these assumptions used in the development of this report is included in appendix 1. We would like to thank management and staff from the three Councils for their assistance in producing this report.

**The current situation:**

3. Following engagement with the Wairarapa community, the Commission is now doing more detailed work on the community's preferred option for local government reorganisation: a single district council for the Wairarapa, combining the current South Wairarapa, Carterton and Masterton District Councils.
4. The Commission has the ability to include specific provisions relating to rating in any draft proposal, but is not required to do so. The Commission has the option of making specific provision relating to the initial rating arrangements for a new district. It is also aware of the need to foreshadow an orderly transition process towards any new council in a range of respects including rating.
5. Consequently this report and associated modelling serves several related purposes. It will assist the Commission in deciding whether or not it should make provision covering the initial rating arrangements of a proposed new council as part of the reorganisation process. Secondly, should the Commission decide to make such provision it will help inform consideration of what sort of provision might be made. It will help clarify whether there is a need for transitional provisions about rating. Finally, this work is seen as a useful resource to both a future transition body and a future new combined council, should amalgamation proceed.
6. In the Annual Plan 2016/2017 the three councils funded the general rate in the following ways:
   - Masterton District Council does not currently use general rates as a rating tool. The Council however does use district-wide value based targeted rates to fund some activities and these rates have been used in lieu of general rates in this assessment. Masterton uses both capital and land values on these rates with a differential on three land-use rating categories. The three land-use rating categories are urban residential, urban non-residential, and rural.
   - Carterton District Council sets a general rate based on capital values with a differential based on three land-use rating categories. The three land-use rating categories are residential, commercial and rural.
   - South Wairarapa District Council sets a general rate based on land values with a differential on three land-use rating categories. The three land-use categories are urban, commercial and rural.

**Rates modelling results**

7. The rates' modelling summary is based on the Annual Plan 2016/2017 general rates. The analysis considers groups of ratepayers, not individual ratepayers. Individual properties within the groups of ratepayers considered could be impacted either to a greater or lesser extent depending on the land and improvement values. Rates examples on sample properties are included in appendix 4.
8. The analysis firstly assessed the impacts of using a uniform land and capital value rating system (no differentials) within the districts. A second analysis then assessed the impacts of shifts in rating incidence, if each of the councils adopted the existing general rate and district-wide targeted rates of the other councils. The third analysis was conducted to test the extent to which shifts in rating incidence could be minimised using land-use and location differential ratios.
9. The rates models assumed no change in the quantum of general rates collected in each district, no change to the Uniform Annual General Charge[1] (UAGC) or Uniform Annual Charge (UAC)[2]. and no change to targeted rates.
10. For each of the councils the proportion of total rates deemed to be general rates for modelling purposes is:
    - Masterton District Council – 38%
    - Carterton District Council – 38%
    - South Wairarapa District Council -32%

    Rating movements referenced are only general rates, not total rates.
11. The following scale has been used when assessing the scale of impacts of changing the rating system:

**Key for the impact of rate movement**

| Impact | Movement(plus or minus) | Icon |
|---|---|---|
| Low | when movement is <5% | |
| Medium | when movement is >=5% and up to 20% | |
| High | when movement is >=20% and up to 50% | |
| Very High | When movement is >=50% | |
| Up | Higher rates | |
| Down | Lower rates | |

12. Summary Table 1 shows the impacts of changing rating systems for each of the three councils using a range of scenarios. The rate changes have been calculated by comparing the current value based general rates[3] for the 2016/2017 financial year, with what the rates would be based on the scenarios. The following options have been modelled:
    - Scenario 1: What if the combined rating system used uniform capital value (CV) general rates. No change to the UAGC or UAC
    - Scenario 2: What if the combined rating system used uniform land value (LV) general rates. No change to the UAGC or UAC.

[1] A UAGC is a general rate and is a fixed amount per rating unit or separately used and inhabited part of a rating unit.

[2] A UAC is a targeted rate and is a fixed amount per rating unit or separately used and inhabited part of a rating unit.

[3] The rating models have used the district-wide value based targeted rates for Masterton. These targeted rates are the Representation and Development rate, the Regulatory Services charges, the Sundry facilities rate, and the Roading rate.

- Scenario 3: What if the existing differential ratios and capital valuation (CV) system at Masterton District Council was used across the combined district. The Annual Plan 2016/2017 differential ratios based on land-use categories for Masterton District Council (MDC), after removing the allocation process for population and other factors, is approximately 1.00 Residential, 2.00 Non-Residential, 0.60 Rural. No change to the UAGC or UAC.
- Scenario 4: What if the existing differential ratios and capital valuation (CV) system at Carterton District Council (CDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios based on land-use categories for Carterton District Council are 1.00 Residential, 2.00 Commercial and 0.80 Rural. No change to UAGC or UAC.
- Scenario 5: What if the existing differential ratios and land valuation (LV) system at South Wairarapa District Council (SWDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios for South Wairarapa District Council are based on land-use categories and are approximately 1.00 Residential, 2.00 Commercial, and 1.00 Rural. No change to UAGC or UAC.
- Scenario 6: What if differential ratios were used to minimise shift across all land-use categories based on land-use and location using capital values (CV). For Masterton District Council the ratios are the same as Scenario 3. For Carterton District Council the ratios are the same as Scenario 4. For South Wairarapa District Council the ratios are for the land-use categories are 1.00 Urban, 1.60 Commercial, and 1.50 Rural.

| District Council and Rate Group | Scenario 1: Uniform CV | Scenario 2: Uniform LV | Scenario 3: CV MDC | Scenario 4: CV CDC | Scenario 5: LV SWDC | Scenario 6: CV Minimum Change |
|---|---|---|---|---|---|---|
| Masterton - Residential | 🟢 ↓ | 🟡 ↓ | ⚫ ↑ | 🟢 ↓ | 🟡 ↓ | ⚫ ↑ |
| Masterton - Non-Residential | 🔴 ↓ | 🔴 ↓ | ⚫ ↑ | 🟢 ↓ | 🟡 ↓ | ⚫ ↑ |
| Masterton – Rural | ↑ 🟡 | 🔴 ↑ | ⚫ ↓ | 🟢 ↑ | 🔴 ↑ | ⚫ ↓ |
| Carterton - Residential | ⚫ ↓ | 🟡 ↓ | 🟢 ↑ | ⚫ | 🟡 ↓ | ⚫ |
| Carterton - Commercial | 🔴 ↓ | 🔴 ↓ | 🟢 ↑ | ⚫ | 🔴 ↓ | ⚫ |
| Carterton - Rural | 🟢 ↑ | 🟡 ↑ | 🟢 ↓ | ⚫ | 🟡 ↑ | ⚫ |
| South Wairarapa - Urban | 🟡 ↑ | ⚫ ↓ | 🔴 ↑ | 🔴 ↑ | ⚫ ↓ | ⚫ ↑ |
| South Wairarapa - Commercial | 🟢 ↓ | 🔴 ↓ | 🔴 ↑ | 🔴 ↑ | ⚫ ↓ | ⚫ ↑ |
| South Wairarapa - Rural | 🟢 ↓ | ⚫ ↑ | 🟡 ↓ | 🟢 ↓ | ⚫ ↑ | ⚫ ↓ |

**Summary Table 1: Rating Impact of change in valuation systems including removal of general rate differentials**

**Explanation of the rating model results**

13. For all three councils the rating models show that using uniform land and capital valuations (no differentials) to fund the general and district-wide rates produced a wide range of impacts from low to very high shifts in rating incidence for all existing rating groups. The current revenue and financing policies and rating systems of all three councils use similar differential land-use categories. Using differential ratios for general rates in the models clearly show that this could minimise shifts in rating incidence if the same valuation system is in use.

14. The analysis shows that for Masterton District Council, using a uniform capital and land general rate valuation system (no differentials), all ratepayer groups would experience a range from medium to very high shifts in the incidence of rates. A uniform general rate, whether capital or land value, favours the residential and non-residential rating groups. The rating models also show that using a differential general rating system, and the same valuation system to fund the general rate, would produce lower shifts in rating incidence. The shift in rates may be explained in a number of ways:

- For scenarios 1 and 2, Masterton uses an allocation system to distribute the district-wide targeted rates to the urban and rural sectors prior to applying a differential based on land-use. Increases in the rural general rate are caused by changing rating policy from district-wide targeted rates to a general rate.
- For scenarios 1 and 2 changing the rating system from land-use differentials to a uniform general rate shifts the incidence in rates. The current Annual Plan 2016/2017 land-use differential applies a 2:1 factor to the non-residential rating group. Using a uniform rate in the dollar favours the non-residential sector and would shift the incidence of rates to both the rural and residential sectors.
- For scenarios 2 and 5, a change from capital to land value general rates, would shift the incidence of rates from the residential and non-residential sectors to the rural sector. Using a commercial differential ratio of 2.0 would lower the downward shift in rating incidence for the commercial sector.
- Scenario 4 shows using capital values, and the same differentials as Carterton District Council, would cause medium shifts in rating incidence.
- Scenarios 3, 4 and 6 show that a general rate system, using both capital values and differential land-used categories, can minimise the shift in rating incidence for Masterton District Council.

15. The analysis shows that for Carterton District Council, using a uniform capital and land general rate valuation system (no differentials), all ratepayer groups would experience a range from low to very high changes in the incidence of rates. A uniform general rate, whether capital or land value, favours the residential and commercial rating groups. The rating models also show that using a differential general rating system, and the same valuation system to fund the general rate, would produce lower shifts in rating incidence. The shift in rates may be explained in a number of ways:

- For scenarios 1 and 2 shifts in rating incidence is from changing the rating system from land-use differentials to a uniform general rate. The current land-use differential applies a 2:1 factor to the commercial rating group capital values. Using a uniform rate in the dollar favours the commercial sector, and would shift the incidence of rates to both the rural and residential sectors.
- For scenarios 1 and 2 shifts in rating incidence also comes from changing the rating system from land-use differentials to a uniform general rate. The current land-use differential applies a factor of 0.8 to the rural rating group capital values. Using a uniform rate in the dollar would shift the incidence of rates to the rural sector, and favours both the urban and commercial sectors.
- For scenarios 2 and 5 a change from capital to land value general rates shifts the incidence of rates from the residential and non-residential sectors to the rural sector. Using a commercial differential ratio of 2.0 would lower the downward shift in rating incidence for the commercial sector, though this is not shown in the table.
- Scenario 4 shows using capital values and the same differentials as Masterton District Council would cause medium shifts in rating incidence.
- Scenarios 3, 4 and 6 show that a general rate system using both capital values and differential land-use categories can minimise the shift in rating incidence for Carterton District Council.

- Comparing the results between capital and land value rating systems shows that a general rate using land valuations would increase rates for the rural land-use sector. A land value general rate system would favour both the residential and commercial rating groups.

16. The analysis shows that for South Wairarapa District Council, using a uniform capital and land general rate valuation system (no differentials), all ratepayer groups would experience a range from low to high shifts in the incidence of rates. A uniform general rate, whether capital or land value, would favour the residential and non-residential rating groups. The rating models also show that differential ratios can be used to minimise shifts in rating incidence when changing valuation systems. The shift in rates may be explained in a number of ways:

- Scenarios 2 and 5 show shifts in rating incidence due to changing the rating system from land-use differentials to a uniform general rate. The current Annual Plan 2016/2017 land-use differential approximately applies a 2:1 factor to the commercial rating group. Using a uniform rate in the dollar would favour the commercial sector and would shift the incidence of rates to both the rural and residential sectors.
- For scenarios 1, 3 and 4 shifting to a capital value general rate, from a land value rate, would increase the incidence of rates for both the residential and commercial sector, and decrease rates for the rural sector.
- Comparing the results from scenarios 1, 3 and 4 shows that a uniform rate in the dollar capital value for South Wairarapa, would cause lower shifts in the incidence in rates than applying capital values, and land-use differentials, which are currently in use in Carterton and Masterton.
- For scenario 6, shifts in the incidence of rates, caused by changing from a land to capital valuation system, may be managed using differentials based on land-use categories. Differential ratios can manage the incidence of rates between land-use groups, but still produce shifts within these categories for individual ratepayers. The shift in rates is dependent on the land to capital value ratios for each rating unit.
- Comparing the results between capital and land value systems, shows that general rates using capital valuations would increase the rates for the urban and commercial sectors and decrease the rates for the rural sector.

**General rates and Uniform Annual General Charges between Districts**

17. The table below shows the results of how using different general rating bases would allocate the shares of revenue required among the current districts differently.

| Council | Using capital value 2016/17 | Using land value 2016/17 | Using UAGC[4] 2016/17 |
|---|---|---|---|
| Masterton | 45.2% | 42.6% | 54.0% |
| Carterton | 20.8% | 20.6% | 17.6% |
| South Wairarapa | 34.0% | 36.8% | 28.4% |
| | **100%** | **100%** | **100%** |

**Summary table 2: Current District capital, land valuation and UAGC proportions**

18. The analysis highlights that activities funded by the UAGC and the UAGC cap chosen will be an important factor in terms of inter-district flows of general rate requirements.

19. The UAGC and all fixed value targeted rates except for water and wastewater are capped under the Local Government (Rating) Act 2002 at 30% of all rates[5]. Each of the councils have a different policy on

[4] UAGC units are based on a fixed amount per rating unit. The numbers are sourced from the rating models used in the Annual Plans 2016/2017.

how the UAGC cap is set. This will be an important consideration for a combined Wairarapa rating system as it will not only affect the allocation of rates between districts but also to individual groups of ratepayers. In the Annual Plan 2016/17 the three councils set the UAGC at:

- Masterton District Council – 19.5%
- Carterton District Council – 30%
- South Wairarapa District Council – 26%

20. The table shows that for Masterton the district would be allocated less general rates under a land value system than a capital value system.

21. The table shows that for Carterton the district would be allocated similar general rates under a capital and land value system.

22. The table shows that for South Wairarapa the district would be allocated less general rates under a capital value system than under a land value system.

23. It is not practicable to model the allocations to each current district that would occur under each of the general rate tools. It is only possible to indicate the proportions that would be allocated for each of the general rate funding options. This is because the general rate pool of costs will be dependent on which activities are funded through the general rate, and which activities will be funded using targeted rates; this may mean separating the current district specific services from services that should be funded by the wider Wairarapa district. It is assumed that existing arrangements for separate targeted rates will remain in place.

**Options for a combined Wairarapa general rating system**

24. Based on a rating scenario that would minimise change across the combined district a general rate using capital valuation could be selected. Masterton uses mostly capital values for the value based district-wide targeted rates and Carterton uses capital values for the general rates. Using a capital value rating system therefore could minimise shifts in rating incidence within these two districts. Conversely changing the general rate valuation system from land value to capital value for South Wairarapa may result in high shifts in rating incidence for ratepayer land-use groups and would result in changes for individual ratepayers within these groups.

25. The differential analysis is based on the general rates and district wide value based targeted rates for Masterton. The general rates and the deemed general rates for modelling purposes only make up 38% of Masterton District Council total rates, 38% of Carterton District Council total rates and 32% of South Wairarapa District Council total rates.

26. Rating differentials may be applied to the general rate and can be used to change the proportion of rates the Council collects from groups of ratepayers. All three councils use rating differentials separated by commercial/non-residential, urban/residential and rural land-use categories. A general rate with land-use differentials based on these categories for the combined district would therefore minimise shifts in rating incidence between these groups of ratepayers.

27. Rating differentials may be applied to locations as well as land-use. A combined Wairarapa rating system could use a combination of land-use and location differentials to change the proportion of rates allocated between districts and also manage the proportion of rates the Council collects from groups of ratepayers within these districts.

28. There are no specific recommendations as to what the differential ratios would be in a combined rating system for Wairarapa. The differential ratios need to be assessed at the time the funding requirements have been identified and new rating values set. This could be achieved as part of the first long-term plan or possibility the first annual plan.

---

[5] Section 21 of the Local Government (Rating) Act 2002 limits the amount of the UAGC and fixed targeted rates to 30% of total rates.

29. Based on the analysis in the rating models in this report and with the outcome of minimising shifts in the incidence of rates within the current districts a differential ratio based capital values and on land use alone would possibly be:

- Residential/Urban – 1.00
- Commercial –2.00
- Rural – 0.80

This has been modelled in scenario 4 in the summary table 1 above.

30. Based on the analysis in the rating models in this report, and with the outcome of minimising shifts in the incidence of rates within the current districts, a differential ratio based on capital values, location and land-use would possibly be:

- Residential/Urban – 1.00
- Commercial – 1.6 to 2.00
- Rural – 0.60 to 1.50

This has been modelled in scenario 6 in the summary table 1 above.

31. It is possible a new combined council could retain all existing rates and choose not to use a general rating system. The existing general rates could be targeted rates for each of the current districts, retaining all valuation systems and differential ratios. In summary this possible rates model could be a series of targeted rates based on the current council's revenue and financing policies. This would minimise the shift in rating incidence by changing rating systems but is not a recommendation.

**Assessment of scale of impacts and transitional arrangements**

32. The analysis shows that the scale of impacts on ratepayer groups within the three councils from introducing a district wide general rating system could be significant. It also makes clear however that the nature of these impacts could vary greatly depending upon the particular features of the rating system chosen, and that the range of flexible powers available to councils in relation to their rating systems provide considerable scope for impacts to be reduced. As different systems would have different impacts they would also require different approaches to transitional arrangements. Some rating options would shift the incidence of rates more than others, and some rating options could minimise the effects of moving towards a combined rating system.

33. In addition any decisions about rating structures sit within a broader context of decisions about who should be expected to pay for what services. It is important to note, with regard to any transitional rating arrangements, that a related piece of work will be for the combined Wairarapa council to make decisions about which activities it sees as "whole of district" activities and which it sees as local (e.g. current council level or township level) activities. This is because activities seen as being "whole of district" are more likely to be funded by a general rate, while those seen as more local activities are more likely to be funded by targeted rates. Some rates including water, wastewater, storm-water and solid waste would be most likely to be classified as local. These infrastructural activities are not anticipated to be included in a regional pool of general rates. Other activities like for roading and community services, the funding is less obvious. This is because the activities could be a mixture of combined district and local projects.

34. There is also a complex relationship between the decision about rating, and the decisions on service provision and service levels. To add to the complexity the current activities in all three councils are funded in numerous ways. There is also the question of the extent to which the cost of some services might be recovered wholly or in part from user charges taking them outside the rating system completely.

**Conclusions**

35. This report sets out the results of the modelling of a range of different scenarios in order to help illuminate the different potential effects of different approaches to the design of a general rating system for a future combined Wairarapa district. It shows that the use of different valuation systems for the general rate are likely to produce very different effects, and that the use or non-use of differential rates and uniform charges each produces a different range of possible effects. The report does not seek to identify or recommend a specific future system or even a range of fully developed and realistic options but does suggest some approaches that might be useful in doing so.

36. The report highlights that the application of differential ratios to the value based general rates will be critical in managing shifts in the incidence of rates within a new combined district. In this regard a differential management policy would be required to manage the transition to a combined rating system. This policy may be formulated as part of the first long-term plan for the combined council.

37. The report highlights the complexity of the interaction of the wide variety of decisions that affect rating incidence. In this context it is suggested that the Commission needs to consider carefully whether there is a compelling policy rationale for it to attempt to address these questions as part of a draft proposal, as opposed to making provision for current arrangements to continue until the new council is in a position to address them in consultation with the community under the provisions of the Local Government Act 2002.

**Recommendations for a combined Wairarapa rating system**

38. An amalgamated council for Wairarapa will be required to consult with the Wairarapa community to support the right debate, demonstrate the link between dollars and value to the ratepayer, and promote transparency. We recommend that the status quo with regard to rates and rating tools is maintained between the time of amalgamation and the first combined council long-term plan. This will likely require the ability to manage transition rates until this engagement and consultation takes place. Transition rates could be similar to those of Auckland Council and would apply to each “unchanged” rating unit” as a uniform percentage variation from the prior year’s rates.

39. Following the same principles, of the importance of community consultation and engagement, we recommend that the new council selects the general rate valuation system as well as differentials, as part of the first long-term planning process and development of the combined district revenue and financing policy.

40. We recommend that after the new council rates policies are adopted in the first long-term plan, high or unreasonable shifts in rating incidence could be managed through rates remission policies, and/or a rates transition management policy and/or land-use and location differentials. Auckland Council used a combination of all three tools to manage shifts in rating incidence.

41. In conclusion we recommend the following for a combined Wairarapa rating system:

- maintain the status quo for all rates from the amalgamation date until the first long-term plan is adopted for the combined council. This would include options to set transition rates;
- discretion for the new combined council to select appropriate rating tools for the new district, including the general rate valuation system, and targeted rates. If this is not the preferred option, then capital valuations for the general rate (as well as UAGC) could achieve the lowest shifts in rating incidence within the current districts;
- discretion for the new council to select the rating differentials to be used for the general rate including, creating a differential management strategy as appropriate;
- options for the new council to manage shifts in rating incidence via a transition management policy or similar vehicle.

**Possible Timeline:**

42. The following is a possible guideline on a rating transition for a combined Wairarapa:

- New combined Council could come into existence 1 November 2018 at the earliest, (Poll end of 2017). This is based on certain preparations that need to be completed for a combined planning document. The time-frame between adoption of long-term plans of the current councils in June 2018 and an amalgamation date of 1 November 2018 may be too tight to complete a new whole of district planning document and other preparations.
- June 2018 - current councils adopt the long-term plans for 2018-2028. Current councils set and assess rates for year 1 of the long-term plan.
- New Wairarapa Council comes into existence 1 November 2018.
- Prior to 1 November 2018 a combined planning document prepared for the new Wairarapa Council based on the existing councils' long-term plans 2018-2028.
- From 1 November 2018, new council administers the rates set and assessed by current councils for year 1 of the long term plan.
- For year two of the 2018-2028 long-term plans the new council would adopt the 2019/2020 Annual Plan. This would also require the new council to set a transition rate for each rating unit within Wairarapa district that is a uniform percentage variation, or similar, from year 1. The transition rates may exclude specific targeted rates.
- For year three of the 2018-2028 long-term plans the new council would adopt the 2020/2021 Annual Plan. This would also require the new council to set a transition rate for each rating unit within Wairarapa district that is a uniform percentage variation, or similar, from year 2. The transition rates may exclude specific targeted rates.
- Planning and consultation for the first combined Wairarapa long-term plan 2021-2031 could commence from the amalgamation date in November 2018. If a new revenue and financing policy is consulted on and adopted prior to the first combined district long-term plan transition rates may not be required.
- June 2021, the new combined council adopts its first long-term plan for 2021-2031. This would include new revenue and financing policy and other rating and financial policies as required by the Local Government Act 2002.
- June 2021, rates assessed and set for year one of the new long-term plan 2021-2031. Rates change management policy may be required depending on the new revenue and financing policy.

## Wairarapa Rating Assessment Introduction

### Background

43. Following engagement with the Wairarapa community, the Local Government Commission (the Commission) is now undertaking a more detailed assessment on the preferred community option for local government reorganisation: a single district council for the Wairarapa, combining the current South Wairarapa, Carterton and Masterton District Councils.

44. The impact of reorganisation on people's rates is likely to be an important factor in their consideration of a reorganisation proposal. Accordingly the Commission is considering whether it should include provisions relating to rating in any draft proposal, and if it should what these might be.

### Purpose of this Report

45. The Commission has the ability to include specific provisions relating to rating in any draft proposal, but is not required to do so. There are two aspects to this. Firstly, the Commission has the option of making specific provision relating to the initial rating arrangements for a new district. Secondly, the Commission is aware of the need to foreshadow an orderly transition process towards any new council in a range of respects including rating.

46. Consequently the modelling presented in this and associated work serves several related purposes. It will assist the Commission in deciding whether or not it should make provision covering the initial rating arrangements of a proposed new council as part of the reorganisation process. Secondly, in the event that the Commission decides to make such provision, it will help inform what sort of provision might be made. Thirdly, it will help clarify whether there is a need for transitional provisions about rating. Finally, this work is seen as a useful resource to both a future transition body and a future new combined council, should amalgamation proceed.

### The Analysis Undertaken for the Commission

47. As part of its consideration of a reorganisation of the Wairarapa territorial authorities, the Local Government Commission (the Commission) has engaged PJ & Associates to:
    - identify the impacts of uniform land value and capital rating for the general rates across the three councils. Impacts include shifts in the incidence of rates between current districts, and among areas and types of property within districts (assuming, in the first instance, existing arrangement for separate targeted rates, uniform charges and rating differentials remain in place), and
    - present a range of scenarios of rating options with and without rating differentials and uniform charges, and
    - assess whether the scale of impacts is such that specific transitional provision is likely to be required to mitigate those impacts, and
    - identify and assess options for providing such mitigation

      *Note that reference to "uniform" general rates means general rates without differentials. The focus on "general" rates is on rates levied across a district as a whole, and it does not include targeted rates levied only on particular groups of properties within a district.*

48. A district-wide rating system could however combine differentials to both land and capital rating systems. Accordingly modelling of such scenarios has also been included as a comparison to using pure uniform land and capital value general rating systems.

### Interpretation of Modelling Results

49. In reading the results of the modelling it is important to understand that the different scenarios presented are not a range of options that have been developed with a view to one or other of them being chosen as preferred. There are scenarios designed that help to clarify what sorts of changes would have what sorts of impacts to help develop an understanding of the workings of rating and the sorts of impacts different sorts of changes would be likely to have in the Wairarapa context.

50. In practice the range of flexible discretionary powers councils have in relation to how they structure their rating systems is so broad that a vast number of different systems is possible. A wide range of different decisions can be made about the use of targeted as opposed to general rates, about the use of uniform charges as opposed to valuation based rates, and about the use of capital as opposed to land value as the basis of valuation based rates. Different settings on each of these variables can then be out together in different combinations. In addition, of course it also needs to be remembered that it is not just the rating structure that determines who pays how much, but also decisions about the levels of services provided, and that extent to which "user charges" can be used rather than rates to raise the necessary funding.

### Methodology

51. The analysis has used the information contained in the three Councils 2016/2017 Annual Plans, and Funding Impact Statements (FIS) as benchmark to compare the effects of using various rating tools, including pure capital and land values, to fund the general rate. For the assumptions that we used in the creation of this report, refer to appendix 1~~.~~

52. Only general rates are analysed in this report. For each of the councils the proportion of rates deemed to be general rates for modelling purposes is:
    - Masterton District Council – 38%
    - Carterton District Council – 38%
    - South Wairarapa District Council -32%

53. The report is written on a technical level and it is assumed the reader will have a reasonable understanding of the New Zealand rating system.

54. The report commences with a brief description of the legal framework surrounding rates to provide context to the report as any options must be consistent with that framework.

55. A number of rating scenarios have been completed to support analysis of the impacts of uniform land value and capital rating for the general rates across the districts. These models include:
    - no change to the quantum of general rates within districts at a uniform rate in the dollar (no differentials) for all rateable land for **capital value**;
    - no change to the quantum of general rates within districts at a uniform rate in the dollar (no differentials) for all rateable land for **land value**;
    - a comparison of the distribution of general rates under both uniform **capital and land value** rating systems.

56. The Commission has asked that in the first instance, an analysis should assume existing arrangements for separate targeted rates, uniform charges and rating differentials remain in place. The analysis has been extended to include differential rates in the dollar for general rates only.

57. To support a general rate analysis an important step is to analyse how each of the councils activities are funded and separate district-wide charges that could be general rate funded from probable targeted rates. This has been done for modelling purposes only and is not a recommendation as to which activities might be included in a future general rate pool. Existing general rates and district-wide value based targeted rates on all rateable land have been included in the models to provide meaningful comparisons as to the effect of changing the valuation basis among areas and types of properties within each of the three councils.

58. The analysis briefly refers to the use of annual uniform general charges (UAGC) as this would also affect the incidence of rates across and within the three councils.

59. All three councils were revalued by Quotable Value New Zealand (QV) in 2014, with effect from 1 July 2015. The next revaluation will completed during 2017. As a result it has not been necessary to equalise valuations between districts for this report.

60. The first long-term plan designed by the new council for the whole new district may not be until 2021 which will also be the year another revaluation takes effect. Over this time frame there is scope for many decisions to be made that may affect what ultimately happens to rating incidence, including some that might have rating impacts as great or greater than any arising from the merger of districts.

61. Each of the three Councils adopted revenue and financing policies, as well as other funding and financial policies during the 2015-2025 long-term planning process. The three Councils have significantly different funding policies and use different rating tools. Consequently the impact of uniform land value and or capital value rating across the three councils would create 'winners and losers'.

62. All rates modelling has been conducted inclusive of GST.

63. This report is intended to provide an objective discussion of the likely impacts of uniform land value and capital value across the three councils, the scale of these likely impacts, and identify options mitigating these impacts. Nothing in this report should be read as an endorsement of, or rejection of, any existing funding policies and the use of the tools that are available under the Local Government (Rating) 2002 (LRGA) that are in place within each of the three Councils.

**The Legal Framework**

64. The Local Government Act 2002 requires that local authorities adopt a revenue and financing policy, a policy on remission and postponement of rates on Māori freehold land and two optional policies – a policy on remission and a policy postponement of rates, both of which are on categories of land other than Māori freehold land.

65. Of all of the funding policies the revenue and financing policy is the most important. At its most basic level the revenue and financing policy shows who pays for what, and when. It is a device for recording and justifying the policy decisions local authorities have made regarding the funding of activities.

66. The general rate is a tool for funding those activities, all or part, of the cost of a particular activity is funded by the community as a whole and is charged to the whole of a district. Local authorities may use a uniform annual general charge (UAGC)[6] and/or a valuation based rate set on a uniform basis (all rating units are charged the same rate in the dollar) or a differential basis (groups of rating units are charged different rates in the dollar).

67. Local authorities have the choice of three ways for setting the valuation based general rates. These are land (unimproved value), capital value (land and improvements), or annual value (either rentable value or five percent of the capital value).[7] Local authorities can use differential factors on their value based rate, and charge one category of property at a higher rate in the dollar than another. All three Councils use a differential factor for residential properties, commercial properties and for rural properties.[8] Therefore differentials are a tool for altering the incidence of rates. Any changes to the differentials used in a combined rating system could change the incidence of rates between districts and properties within districts.

[6] For the purposes of this report the impacts of changing UAGC have not been included.

[7] Annual value has been excluded as a consideration as a rating tool in this report. None of the three Councils use this valuation system.

[8] Masterton District Council does not use the general rate as a rating tool. It uses district-wide targeted rates.

68. The uniform annual general charge (UAGC) is a fixed dollar charge per property, or separately used or inhabited part of a rating unit. The UAGC is a device for mitigating the impact of high property values. It is a regressive tax (you pay the same amount regardless of income or wealth).
69. The Local Government Act (Rating) Act 2002 (LGRA) Section 21 of the LGRA specifies that certain rates must not exceed 30% of total rates revenue sought. These certain rates include the UAGC[9] and targeted rates that are set on a uniform basis[10].
70. Targeted rates are devices for funding those activities where all or part of the cost of a particular activity should be met by particular groups of ratepayers, or there is some advantage in funding the activity outside the general rate. Local authorities have access to a wide range of rating powers including land value and capital rating as well as a flat dollar charge, separately used or inhabited part, and other matters and factors contained in the LGRA.
71. Local authorities also have other non-rating tools including fees and charges, fines and penalties, interest and dividends and subsidies and grants. All of these revenue types would affect a general rate requirement.
72. In context of a reorganisation process, the Third Schedule of the Local Government Act 2002 gives the Local Government Commission power to include a wide range of provisions, if considered "necessary or useful" in a reorganisation proposal. This may (and sometimes has) included specific provision about future rating systems. This report will assist the Commission's consideration of whether or not to include such provision.

[9] UAGC set in accordance with section 15 of the LGRA

[10] Targeted rates set on a uniform basis and are calculated in accordance with section 18(2) or clause 7 of Schedule 3 of the LGRA.

# Masterton District Council

## Masterton District Council Funding

73. Figure 1 displays the funding mix for Masterton District Council in the 2016/2017 Annual Plan. The graph shows that Masterton does not use general rates as a rating tool, it uses a variety of targeted rates. The rates funding tool makes up 73% of the revenue requirement for the district. Fees and charges makes up the next highest revenue stream with almost 18% of funding coming from this source.

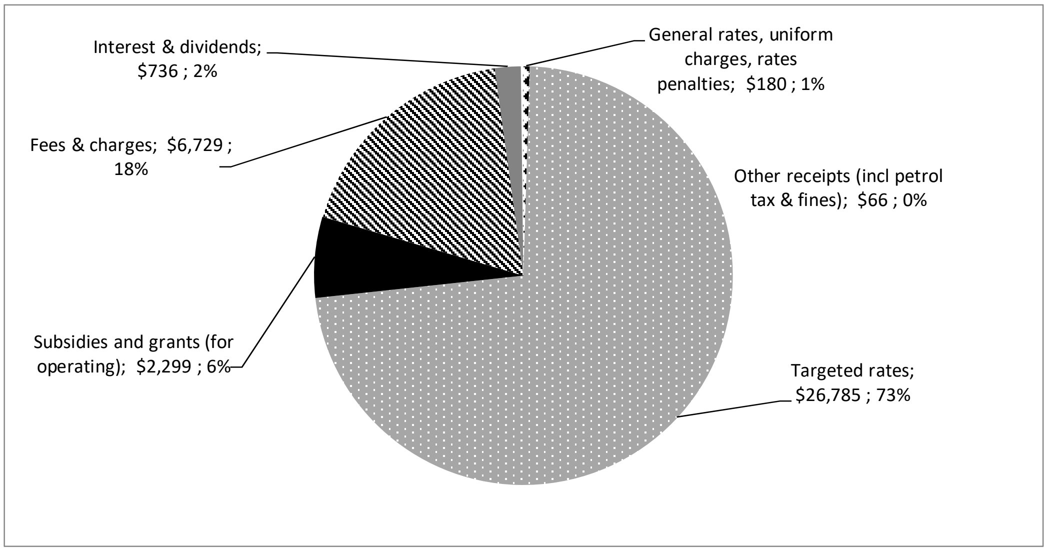



**Figure 1: Masterton Funding Impact Statement: Operating Funding – Annual Plan 2016/2017**

74. Figure 2 shows that Masterton only uses targeted rates, with penalties making up a small amount in the FIS general rate category. District-wide targeted rates make up 38% of all rates. These district-wide rates are not general rates but are treated for modelling purposes as general rates as they are charged to the whole of the district. 60% of these district-wide rates are set on a capital value basis. The remaining 40% of the district-wide rates is for the roading activity set based on land values. All district targeted rates are set using a land-use targeted rate differential.

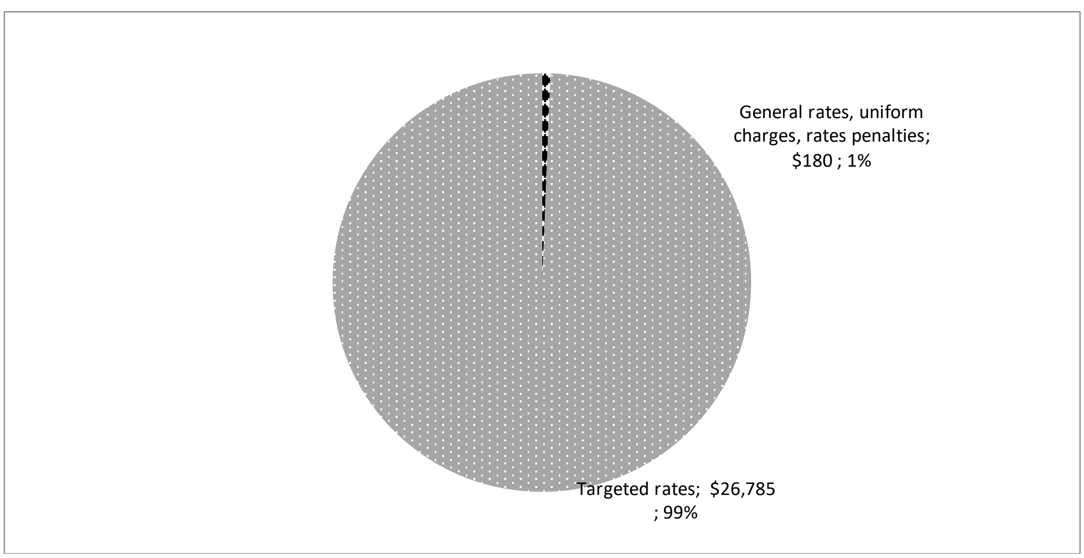


**Figure 2: Masterton District Council Funding Impact Statement – Total Rates – Annual Plan 2016/2017 ($000)**

75. The table below lists the rates from the funding impact statement in the Annual Plan 2016/2017.

| Masterton rates | Rate | General / Targeted | Charged | Activities funded | ($000) Dollars Incl. GST |
|---|---|---|---|---|---|
| Roading rate | LV | Targeted | District | Roading | 4,891 |
| Representation and Development rate | CV | Targeted | District | Governance, Community Facilities/Support | 3,146 |
| Regulatory services rate | CV | Targeted | District | Regulatory | 1,754 |
| Sundry facilities rate | CV | Targeted | District | Community Facilities/Support, Stormwater, Solid waste | 2,202 |
| Targeted uniform charge | Uniform (SUIP) | Targeted | District | Community Facilities/Support | 4,178 |
| Targeted roading charge | Uniform (SUIP) | Targeted | District | Roading | 1,525 |
| Recycling collection charge | Uniform | Targeted | Urban | Solid waste | 469 |
| Civic amenities rate | CV | Targeted | Urban | Community Facilities/Support | 2,146 |
| Rural fire rate | CV | Targeted | Rural | Community Facilities/Support | 320 |
| Urban water supply rate | CV | Targeted | Urban | Water | 2,036 |
| Urban water Supply charge | Uniform | Targeted | Urban | Water | 1,362 |
| Urban sewerage Rate | CV | Targeted | Urban | Sewerage | 4,234 |
| Urban sewerage charge | Uniform | Targeted | Urban | Sewerage | 2,835 |
| Beach collection charges | Uniform | Targeted | Rural | Solid waste | 75 |
| Opaki water race | LV | Targeted | Rural | Water | 44 |
| Tinui water supply | UAC | Targeted | Rural | Water | 12 |
| Castlepoint sewerage | UAC | Targeted | Rural | Sewerage | 62 |
| Riversdale Beach Community connected charge | | Targeted | Rural | Sewerage | 174 |
| Riversdale Beach Community capital charge | | Targeted | Rural | Sewerage | 87 |
| Tinui Sewerage | | Targeted | Rural | Sewerage | 14 |
| Sewerage Treatment Charge – Out of district | | Targeted | Out of district | Sewerage | 28 |
| **Total** | | | | | **$31,611** |

**Masterton Table 1: Schedule of rates from the funding impact statement – Annual Plan 2016/2017.**

76. Some of the targeted rates are set on all rateable land within Masterton District. For the purposes of this rating analysis, these rates have been treated as general rates to model the likely impact in rating

incidence if the valuation base of these rates is changed. This is not a recommendation to include these as general rates in a combined Wairarapa Council, but to illustrate the effect on what types of property would be affected by changing the way rates are set. District-wide rates used to model changes to the valuation base include the:

- Representation & Development Rate
- Regulatory Services Rate
- Sundry Facilities & Services Rate
- Roading Rate

These district wide targeted rates make up 38% of total Masterton District Council rates in 2016/17.

77. The Commission has specified that for the purposes of rates modelling in the first instance, existing arrangements for separate targeted rates, uniform annual general charges and non-general rating differentials remain in place. As such, all targeted rates that are not district-wide have been excluded from the analysis. Rates excluded from the analysis make up 62% of total Masterton rates in 2016/17.

78. The targeted uniform charge and targeted roading charge are district-wide rates but are not value based. As such, these rates have not been included in this analysis.

79. The table below lists the rates from the funding impact statement that have been included for modelling purposes.

| Rates ($000) Incl. GST | Annual Plan - Residential | Annual Plan – Non-residential | Annual Plan Rural | Total Annual Plan Rates |
|---|---|---|---|---|
| Roading Rate | 1,658 | 660 | 2,573 | 4,891 |
| Representation & Development Rate | 1,768 | 709 | 687 | 3,164 |
| Regulatory Services Charge | 974 | 391 | 389 | 1,754 |
| Sundry Facilities Charge | 1,202 | 483 | 517 | 2,202 |
| **Total Rates** | **5,602** | **2,243** | **4,166** | **12,010** |

**Masterton Table 2: Rates included for modelling purposes**

**Masterton – Uniform Capital Values**

80. Table 3 shows the distribution of rates if a uniform capital valuation base was used to allocate the district-wide targeted rates (without the use of differentials).

| Rates ($000) Incl. GST | Residential | Non-residential | Rural | Total |
|---|---|---|---|---|
| Roading Rate | 2,006 | 402 | 2,483 | 4,891 |
| Representation & Development Rate | 1,297 | 260 | 1,606 | 3,164 |
| Regulatory Services Charge | 719 | 144 | 891 | 1,754 |
| Sundry Facilities Charge | 903 | 181 | 1,118 | 2,202 |
| **Total Rates** | **4,925** | **987** | **6,098** | **12,010** |

**Masterton Table 3: Distribution of rates using uniform capital value with no differential**

81. Table 4 shows the shifts in the incidence of rates if uniform capital values were used for Masterton District (without the use of differentials).

| Rates ($000) Incl. GST | Residential | Non-residential | Rural | Total |
|---|---|---|---|---|
| Roading Rate | 348 | -257 | 90 | 0 |
| Representation & | -470 | -449 | 919 | 0 |

| Rates ($000) Incl. GST | Residential | Non-residential | Rural | Total |
|---|---|---|---|---|
| Development Rate | | | | |
| Regulatory Services Charge | -255 | -246 | 501 | 0 |
| Sundry Facilities Charge | -299 | -302 | 600 | 0 |
| **Total Rates** | **-676** | **-1,254** | **1,930** | **0** |
| | **% change from the Annual Plan** | | | |
| Roading Rate | 21% | -39% | -4% | |
| Representation & Development Rate | -27% | -63% | 134% | |
| Regulatory Services Charge | -26% | -63% | 129% | |
| Sundry Facilities Charge | -25% | -62% | 116% | |
| **Total % change from the Annual Plan** | -12% | -56% | 46% | |

**Masterton Table 4 - Change of distribution of rates in land-use type by using uniform capital values**

82. The major shift in incidence in rates would be between the urban and rural communities. One of the reasons for this shift is that Masterton allocates rates to the urban and rural wards prior to applying a land-use differential to the targeted rates. The table clearly shows that under this current rating model the residential community pays more targeted rates than the rural community, whereas with uniform value based rates, and value based rates with the land-use differential, the rural sector pays a far greater proportion than the residential sector. The second differential is based on land-use whereby the non-residential sector pays more than both the rural and residential sectors.

83. The urban community would pay more for the roading rate switching this rate from land value to capital value. This increase in rates would be off-set by a decrease in the current capital value rates. The reason for this decrease is that the rural community pays more with no rate differentials.

84. The rural community would pay approximately 46% more rates using a uniform capital value system. The roading rate is currently rated for using land values. Shifting the charging of this rate means the rural community would pay 4% less of this rate. Other rates that are currently rated for using capital values increase substantially because of using uniform rates in the dollar.

85. Using a uniform rate in the dollar would change the incidence of rates within the district for Masterton District Council as it uses a land-use differential on the district-wide targeted rates including:

- Urban Residential – all rating units in the urban rating area are used primarily for residential purposes, or for public halls, for sporting purposes or are vacant land. This is a differential of 1. Not using a differential based on land-use would mean these rateable properties would pay more, as the non-residential properties would pay less.
- Non-residential urban – all rating units in the urban rating area used for purposes other than residential use. This would include properties used for both commercial and industrial purposes. This is a differential of 2, meaning that these properties are charged twice the non-residential valuation base. Not using a differential would mean these rateable properties would pay the same rate per dollar of capital or land value as other properties.
- Rural – all rating units in the rural rating area. This is a differential of 1. Not using a differential based on land-use would mean these rateable properties would pay more, as the non-residential properties would pay less.

**Masterton – Uniform Land Values**

86. Table 5 shows the distribution of rates if a uniform land valuation base (no differential ratios between land use categories, and no allocation of rates prior to applying the differential) was used to allocate the general rates.

| Rates ($000) Incl. GST | Residential | Non-residential | Rural | Total |
|---|---|---|---|---|
| Roading Rate | 1,563 | 311 | 3,017 | 4,891 |

| Rates ($000) Incl. GST | Residential | Non-residential | Rural | Total |
|---|---|---|---|---|
| Representation & Development Rate | 1,011 | 201 | 1,951 | 3,164 |
| Regulatory Services Charge | 561 | 112 | 1,082 | 1,754 |
| Sundry Facilities Charge | 703 | 140 | 1,358 | 2,201 |
| **Total Rates** | **3,838** | **764** | **7,408** | **12,010** |

**Masterton Table 5 - Distribution of rates using uniform land value with no differential**

87. Table 6 shows the shifts in the incidence of rates if uniform land values (no differential ratios between land use categories, and no allocation of rates prior to applying the differential) were used to calculate a general rate for Masterton District.

| Rates ($000) Incl. GST | Residential | Non-residential | Rural | Total |
|---|---|---|---|---|
| Roading Rate | -95 | -349 | 444 | 4,891 |
| Representation & Development Rate | -757 | -508 | 1,265 | 3,1640 |
| Regulatory Services Charge | -413 | -279 | 693 | 1,754 |
| Sundry Facilities Charge | -498 | -343 | 841 | 2,202 |
| **Total Rates** | **-1,763** | **-1,479** | **3,242** | **12,010** |
| | **% change from Annual Plan** | | | |
| Roading Rate | -6% | -53% | 17% | |
| Representation & Development Rate | -43% | -72% | 184% | |
| Regulatory Services Charge | -42% | -71% | 178% | |
| Sundry Facilities Charge | -41% | -71% | 163% | |
| **Total change** | **-31%** | **-66%** | **78%** | |

**Masterton Table 6 - Change of distribution of rates in land-use type by using uniform land values**

88. There would be a major rating incident shift between urban to rural ratepayers. There are three reasons for this change. Firstly, changing the valuation base from capital values to land values means the rural community would pay more. Secondly, removing the commercial differential would shift the incidence of rates to both the residential and rural communities. Thirdly, removing the allocation of rates to the urban and rural wards prior to applying the differential ratios would result in a significant swing in rating incidence. This means the rural community would pay more using a uniform rate in the dollar general rate. It also means the rural community would pay more using land values as the general rateable values.

89. The roading rate is currently calculated using land values. This means that the shift in the incidence of rates for the rural community for the roading rate is 17%, would be far less than for other rates that are currently rated on a capital basis.

90. The modelling shows that there would be a major shift downwards in rates for the commercial sector if the rates were set on a uniform land value basis. There are three reasons for this change. Firstly, changing the valuation base from capital values to land values means the commercial sector would pay less. Secondly, removing the commercial differential would shift the incidence of rates to both the residential and rural communities. Thirdly, removing the urban and rural allocation of rates prior to applying the differential would shift the incidence of rates to the rural community. This means the commercial sector would pay significantly less using a uniform rate in the dollar general rate.

91. The residential community would have a rate reduction from using a uniform land value system to set the rates of 31%. The reasons for this change include changing the valuation base from capital to land values, which would shift the incidence of rate to the rural community. This rates shift downwards would be partially off-set by an increase in the proportion of rate the urban community pays by removing the allocation of rates to the urban and rural sectors prior to applying the commercial differential.

**Masterton – Rate Change Indicators**

92. Masterton Table 7 shows the incidence of rates using the existing valuation and differentials in the Annual Plan, uniform capital value for all rateable land and uniform land value for all rateable land.

93. The rates model used the district-wide targeted rates excluding the UAC from the Annual Plan 2016/2017.

94. The table below shows a number of very high "one off" impacts on rating incidence on the sample properties.

| Rates (whole dollars) Incl. GST | Land value | Capital Value | (A) Annual Plan Total rates | (B) Annual Plan General rates | (C) Rate increase (decrease) Uniform Capital Value General rates | (D) Rate increase (decrease) Uniform Land Value General rates | % change Annual Plan (B) to Uniform CV (C) | % change Annual Plan (D) to Uniform LV (D) |
|---|---|---|---|---|---|---|---|---|
| Residential – low value | 62,000 | 150,000 | 1,763 | 438 | (53) | (137) | -12% | -31% |
| Residential –median value | 105,000 | 225,000 | 2,234 | 682 | (105) | (172) | -15% | -25% |
| Residential – high value | 200,000 | 405,000 | 3,346 | 1,251 | (213) | (279) | -17% | -22% |
| Masterton central, small area | 131,000 | 325,000 | 2,795 | 942 | (109) | (305) | -12% | -32% |
| Commercial - industrial | 150,000 | 770,000 | 9,311 | 3,791 | (1,817) | (3,062) | -48% | -81% |
| Commercial – Queen Street Shop | 140,000 | 405,000 | 5,567 | 2,250 | (1,212) | (1,570) | -54% | -70% |
| Riversdale - rural | 122,000 | 455,000 | 1,884 | 511 | 656 | 82 | 128% | 16% |
| Castlepoint - rural | 245,000 | 440,000 | 1,935 | 708 | 420 | 482 | 59% | 68% |
| Rural - lifestyle, 2 ha | 150,000 | 465,000 | 1,325 | 565 | 627 | 164 | 111% | 29% |
| Rural - forestry | 1,510,000 | 1,590,000 | 4,522 | 3,614 | 462 | 3,723 | 13% | 103% |
| Rural - hill country farm | 3,100,000 | 3,550,000 | 8,782 | 7,610 | 1,490 | 7,451 | 20% | 98% |
| Rural - dairy farm | 6,000,000 | 7,400,000 | 17,469 | 15,083 | 3,886 | 14,067 | 26% | 93% |

**Masterton Table 7 - Rate Change Indicators on sample properties**

95. The following observations may be made when analysing the data in Masterton Table 7 with regard to using a uniform capital value rating system:

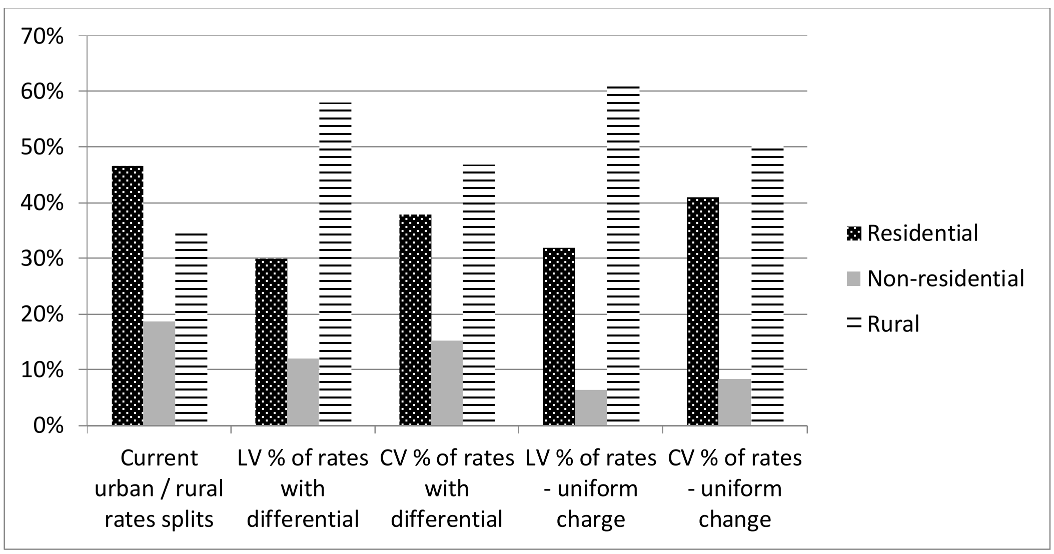
- The sample residential properties whether classified as low, medium or high capital values would have a reduction in rates.
- Non-residential properties would have a rate reduction due to the removal of a commercial differential in the rates.

- Rural properties would have the most significant shift in rating incidence using uniform capital values. This is dependent to a large extent on whether roading is included in the general rates, as roading is currently rated using differential land value.
- Rural utilities would have a significant shift in rate incidence.
- Utility and networks with no land value are not shown in the Annual Plan sample properties. It is important to note utility and networks with no land value but high capital values would have a 55% rise in rates.

96. The following observations may be made when analysing the data in Masterton Table 7 with regard to using a uniform land value rating system:

- The sample residential properties whether classified as low, medium or high capital values would have a reduction in rates, but more than if using a capital value system.
- The sample rural properties would have rate rises with some properties having close to or over a 100% rate rise. High land value properties compared to their capital values like forestry, hill country farms, and dairy farms would experience significant "one off" impacts on rating incidence.
- Rural utilities with no land value would have a 100% reduction in rates.
- Utility and networks with no land value are not shown in the Annual Plan sample properties. It is important to note that they would have no rates, having a 100% reduction in current rates.

97. Figure 3 shows the distribution of land and capital values between residential, commercial and rural properties when a uniform rate in the dollar is applied, and when the current differential is applied.




**Masterton Figure 3: Distribution of rates to different categories of land using land (LV) and capital values (CV) and current differential ratios**

98. A number of observations may be made when analysing the distribution of rates for different categories of land. These are:

- Rural properties as a group would pay a higher proportion of rates using land values than capital values than other land-use groups.
- Rural properties as a group would pay a higher proportion of rates without a land-use differential assigned to non-residential rate-payers
- Allocations to the rural and urban sectors prior to applying the differential to the commercial sector are very high. Using a uniform valuation system would significantly alter the incidence of rates in the rural community

- Residential classified rating units as a group would pay more under a capital valuation system than land value system.
- Non-residential properties as a group would pay less under a uniform land and capital valuation system than if a differential system is in use.
- Non-residential properties as a group would pay less using a uniform land value system than a capital system.

99. Rating differentials may be applied to the general rate and can be used to change the proportion of rates collected from groups of ratepayers. This option is explored in the section on differential rates. The use of differential rates can minimise shifts in the incidence of rates between regardless of which valuation system were selected.

## Carterton District Council

### Carterton District Council Funding

100. Figure 4 displays the funding mix for Carterton District Council in the 2016/2017 Annual Plan. The graph shows that the major funding sources are general rates making up 53% of the funding mix, targeted rates 27%, with fees and charges at 11%.

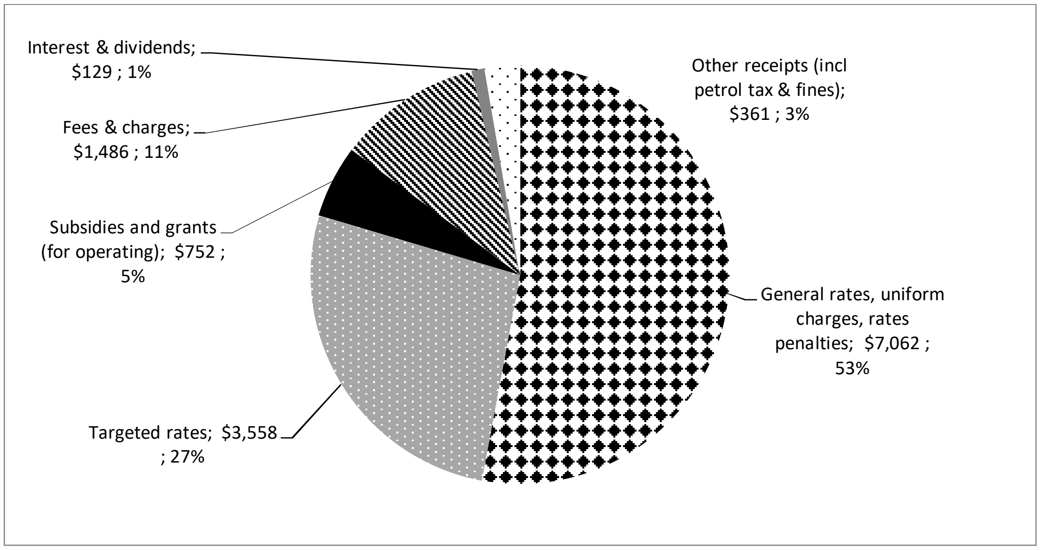
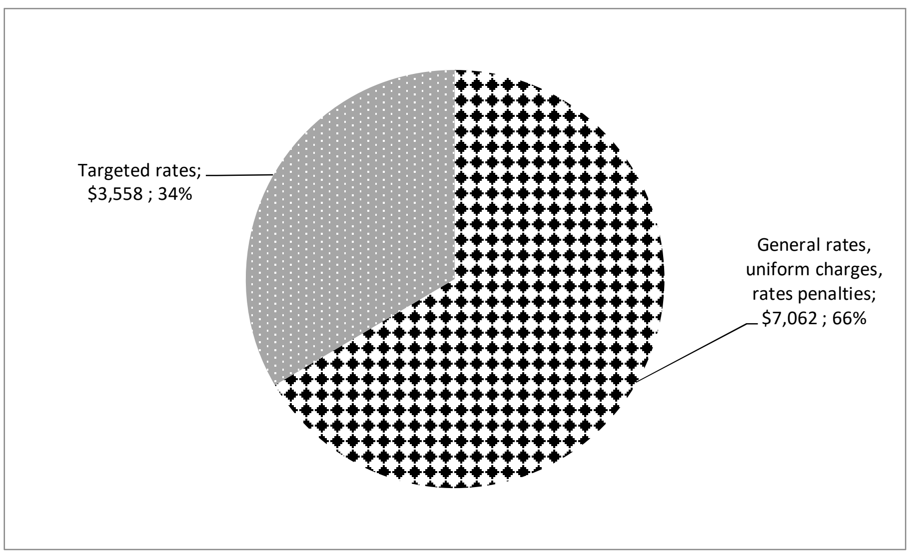



**Figure 4: Funding Impact Statement: Operating Funding - Annual Plan 2016/2017**

101. Figure 5 displays the proportion of general to targeted rates in the 2016/2017 Annual Plan. The graph shows that 66% of the rates set including rates penalties are general rates. The Carterton general rate is set using capital values with a differential based on land-use. The remaining 34% of rates are targeted, and are excluded for modelling purposes in the rates scenarios.




**Carterton Figure 5: Funding Impact Statement Total Rates – Annual Plan 2016/2017**

102. Carterton Table 8 lists the rates from the funding impact statement in the Annual Plan 2016/2017.

| Carterton rates | Rate | General / Targeted | Charged to | Activities funded | ($000) Dollars Incl. GST |
|---|---|---|---|---|---|
| General rates - Residential | CV | General | District | Community Facilities / Support, Roading, (10% of Water, Stormwater, Wastewater, Solid Waste) | 1,409 |
| General rates - Commercial | CV | General | District | As above | 436 |
| General rates - Rural | CV | General | District | As above | 2,812 |
| UAGC | Uniform | UAGC | District | Governance | 3,436 |
| Regulatory & Planning Services | CV | Targeted | District | Regulatory | 482 |
| Urban sewerage - connected | Uniform | Targeted | Urban | Sewerage | 1,412 |
| Urban sewerage – servicable | Uniform | Targeted | Urban | Sewerage | 28 |
| Stormwater targeted rate | LV | Targeted | Urban | Stormwater | 233 |
| Urban water - metered | Fixed amount | Targeted | Parts of district | Water | 1,252 |
| Urban water - servicable | Uniform | Targeted | Urban | Water | 25 |
| Water race - Carrington | Mixed | Targeted | Rural | Water | 111 |
| Water race - Taratahi | Mixed | Targeted | Rural | Water | 286 |
| Waingawa water - | Mixed | Targeted | Rural | Water | 8 |
| Refuse Collection | Uniform | Targeted | Urban | Solid Waste | 216 |
| **Total** | | | | | **12,185** |

**Table 8: Schedule of Carterton District Council rates – Annual Plan 2016/2017**

103. Carterton Table 9 lists the rates included in the rating incidence models. Only the general rate value based rates have been modelled. The general rates make up 38% of total Carterton District Council rates in 2016/17.

104. The Commission has specified that in the first instance, existing arrangements for separate targeted rates, uniform annual general charges and non-general rating differentials remain in place. As such all targeted rates and the UAGC have been excluded from the analysis. The targeted rates and UAGC make up 66% of total Carterton District Council rates in 2016/17.

| Rates ($000) Incl. GST | Residential | Commercial | Rural | Total Annual Plan Rates incl. GST |
|---|---|---|---|---|
| General Rates | 1,409 | 436 | 2,812 | 4,657 |

**Carterton Table 9: Rates included for modelling purposes**

**Carterton – Uniform Capital Values**

105. Carterton Table 10 shows the distribution of general rates if a uniform capital valuation base (no differential ratios) was used to allocate the general rates. Changes from the Annual Plan reflect a shift in incidence of rates from the urban sector to the rural community.

| Rates ($000) Incl. GST | Residential | Commercial | Rural | Total |
|---|---|---|---|---|
| **General Rate** | **1,276** | **198** | **3,183** | **4,657** |

| Rates ($000) Incl. GST | Residential | Commercial | Rural | Total |
|---|---|---|---|---|
| Change from the Annual Plan 2016/17 | -133 | -239 | 372 | 0 |
| % change from Annual Plan | -9% | -55% | 13% | |

**Carterton Table 10: Distribution of general rates using uniform capital value with no differential**

106.Using a uniform rate in the dollar would change the incidence of rates within the district for Carterton as it currently uses capital values to set the general rate with a land-use differential as follows:

- Residential - assigned a differential of 1
- Commercial – assigned a differential of 2
- Rural - assigned a differential of 0.8

107.With all sectors of the community paying the same differential with a uniform capital value rating system the following observations may be made:

- The residential sector would pay less because the shift in the incidence of rates from the rural sector is greater than the shift in incidence of rates from the commercial sector;
- The commercial sector would pay less as the differential has changed from 2 to 1. The incidence of rates is shifted to both the residential and rural community;
- The rural sector would pay more for two reasons. Firstly the differential has changed from 0.8 to 1. Secondly the commercial sector would pay less because the differential has changed from 2 to 1.

**Carterton – Uniform Land Values**

108.Carterton Table 11 shows the distribution of general rates if a uniform land valuation base (no differential ratios) was used to calculate the general rates for Carterton District.

| Rates ($000) Incl. GST | Residential | Commercial | Rural | Total |
|---|---|---|---|---|
| **General Rate** | **828** | **90** | **3,708** | **4,626** |
| Change from the Annual Plan 2016/17 | -21 | -91 | 112 | 0 |
| % change from Annual Plan | -2% | -50% | 3% | |

**Carterton Table 11: Distribution of general rates using uniform land value with no differential**

109.This scenario shows a major shift upwards in the incidence of rates to the rural sector. This shift would be equivalent to a 36% rate rise. This is larger than if uniform capital values were used to distribute the rates at 13%. There are two reasons for this rate rise for the rural sector. Firstly, a shift in rates from the current capital value system to land value means the rural community pays more. Secondly, the removal of the 0.8 differential and setting it to 1 means the rural community would also pay more.

110.The commercial sector would have a shift downwards in rates of 77% using uniform land values. This is larger than if uniform capital values were used to distribute the rates where there was a shift in rates downwards of 55%. There are two reasons for this rate reduction in the commercial sector. Firstly, a shift in rates from the current capital value system to land value means the commercial sector would pay less. Secondly, the removal of the rural differential of 2 and setting it to 1, and the removal also of the commercial differential, means the commercial sector also would pay less.

111. The urban sector would have a shift downwards in rates of 47% using uniform land values. This is larger than if uniform capital values were used to distribute the rates at 9%. There are two reasons for this rate reduction for the urban community. Firstly, a shift in rates from the current capital value system to land value means the urban community would pay less. Secondly, the removal of the general rate differential means the urban community would also pay less.

**Carterton – Rate Change Indicators**

112.The table below shows the incidence of rates using the existing capital valuation and differentials in the Annual Plan, uniform capital value for all rateable land and uniform land value for all rateable land.

113.The rates model used the general rates excluding the UAGC from the Annual Plan 2016/2017.

114.Carterton Table 12 shows a number of very high "one off" impacts on rating incidence on the sample properties.

| Rates (whole dollars) Incl. GST | Land value | Capital Value | (A) Annual Plan Total rates | (B) Annual Plan General rates | (C) Rate increase (decrease) Uniform Capital Value General rates | (D) Rate increase (decrease) Uniform Land Value General rates | % change Annual Plan (B) to Uniform CV (C) | % change Annual Plan (B) to Uniform LV (C) |
|---|---|---|---|---|---|---|---|---|
| Residential – low value | 75,000 | 165,000 | 2,504 | 393 | (37) | (102) | -9% | -26% |
| Residential – medium value | 110,000 | 290,000 | 2,896 | 691 | (65) | (264) | -9%% | -38% |
| Residential – high value | 120,000 | 365,000 | 3,162 | 870 | (82) | (404) | -9% | -46% |
| Commercial | 225,000 | 475,000 | 5,327 | 2,264 | (1,239) | (1,390) | -55% | -61% |
| Commercial - rural | 95,000 | 160,000 | 4,054 | 763 | (417) | (394) | -55% | -52% |
| Rural no water race | 1,000,000 | 1,500,000 | 4,055 | 2,860 | 378 | 1025 | 13% | 36% |
| Rural – 5.45 hectares on Carrington Water race | 230,000 | 575,000 | 2,721 | 1,096 | 145 | (203) | 13% | -18% |
| Rural - 120 ha -Taratahi | 2,025,000 | 2,250,000 | 7,557 | 4,290 | 567 | 3,577 | 13% | 83% |

**Carterton Table 12: Rate Change Indicators on sample properties**

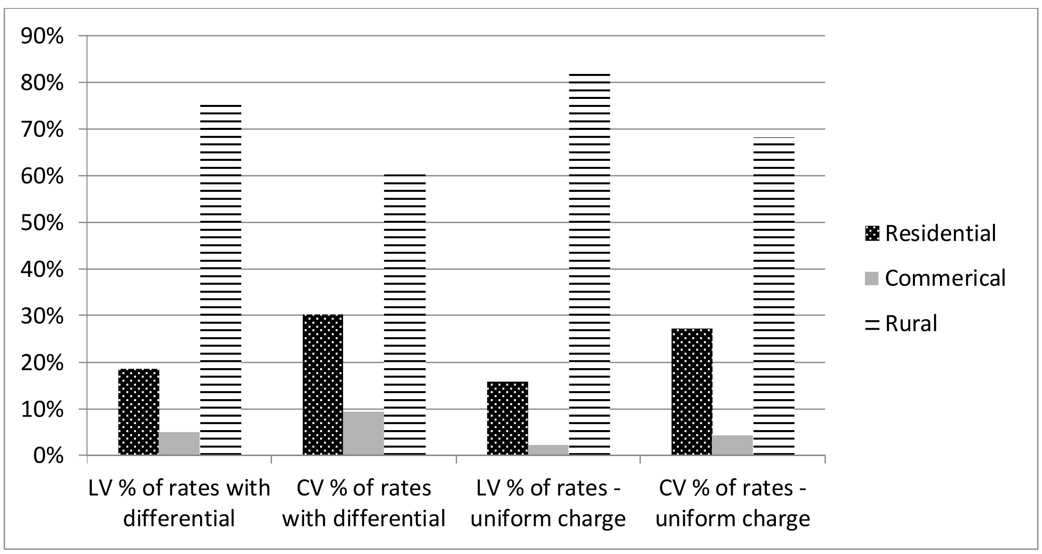
115.The following observations may be made when analysing the data in Table 12 with regard to using a uniform capital value rating system:

- The sample residential properties, whether classified as low, medium or high capital values, would have a reduction in rates of 9%. This reduction in rates may be attributed to using uniform rates in the dollar rather than applying different rates in the dollar based on land-use.
- The commercial sector would have a major shift in the incidence of rates with a reduction of 55%. This reduction applies to both rural and urban properties that use the rating units for commercial use. This reduction in rates may be attributed to using uniform rates in the dollar rather than applying different rates in the dollar based on land-use.
- The rural community would have a rate rise of 13%. This increase in rates may be attributed to using uniform rates in the dollar rather than applying different rates in the dollar based on land-use.

116.The following observations may be made when analysing the data in Table 5 with regard to using a uniform land value rating system:

- The sample residential properties whether, classified as low, medium or high land values, would have a reduction in rates ranging between 26% and 46%. The reduction is because changing from capital value based rates, to land value based rates would reduce rating incidence where the capital improvement ratio to land value is higher. In contrast, properties with high land values with small capital improvements would probably experience a rate rise.
- The sample commercial properties would have a major shift in the incidence of rates with a reduction of between 52% and 61%. This reduction applies to both rural and urban properties that use the rating units for commercial use. This reduction in rates may be attributed to using uniform rates in the dollar rather than applying different rates in the dollar based on land-use. The shift in rating incidence for the commercial sector is greater using uniform land values as opposed to uniform capital values
- The sample rural properties that would have a rate reduction using uniform land values are those properties with relatively high capital improvements to the land. The sample rural properties that would have rate rises, are those properties that have relatively high land values with small capital improvements.

117.Figure 6 shows the distribution of land and capital values between residential, commercial and rural properties when a uniform rate in the dollar is applied, and when the current differential is applied.




**Carterton Figure 6: Distribution of rates to different categories of land using land (LV) and capital values (CV) and current differential ratios**

118.A number of observations may be made when analysing the distribution of rates to different categories of land. These are:

- The rural sector would pay the highest amount of rates regardless of valuation system in use compared to other land-use types.
- The rural sector would pay higher rates using a land valuation system than a capital valuation system. The rural sector currently pays 60% of the general rate. If a uniform capital value system was introduced they would pay 68% and under a uniform land value rating system 82%.
- Removing the differential based on land-use, means the rural sector would pay a significantly higher proportion of rates. The residential and commercial sectors would pay lower rates.
- The residential and commercial sectors would pay a lower proportion of rates under a land valuation system than a capital valuation system. This would be a significant shift in rating incidence if the general rate is changed to a uniform land value system. The uniform land value proportion for the residential sector is 16% as opposed to the uniform capital proportion of

27%. For the commercial sector the uniform land value proportion would be 2% as opposed to 4% under a capital valuation system.

119. Rating differentials may be applied to the general rate and can be used to change the proportion of rates collected from groups of ratepayers. This option is explored in the section on differential rates. The use of differential rates can minimise shifts in the incidence of rates between regardless of which valuation system were selected.

# South Wairarapa District Council

## South Wairarapa District Council funding

120. Figure 7 displays the funding mix for South Wairarapa Council in the 2016/2017 Annual Plan. The graph shows that South Wairarapa sources almost half of its operating funding from general rates, with targeted rates making up 24% and fees and charges 7%. Subsidies and grants make up 12% sourced from external parties.

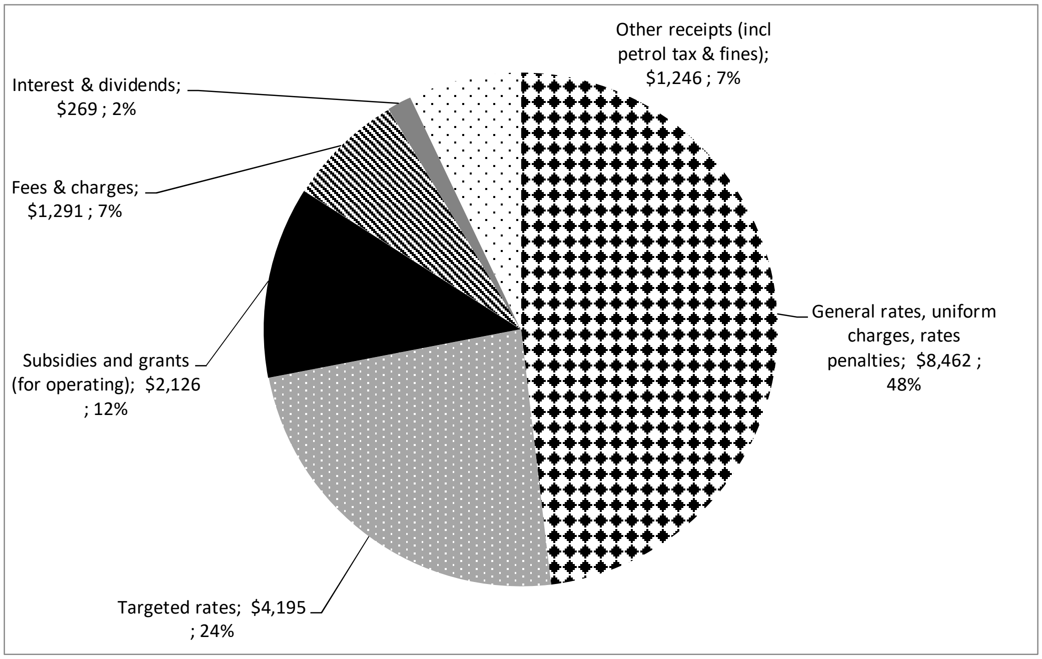
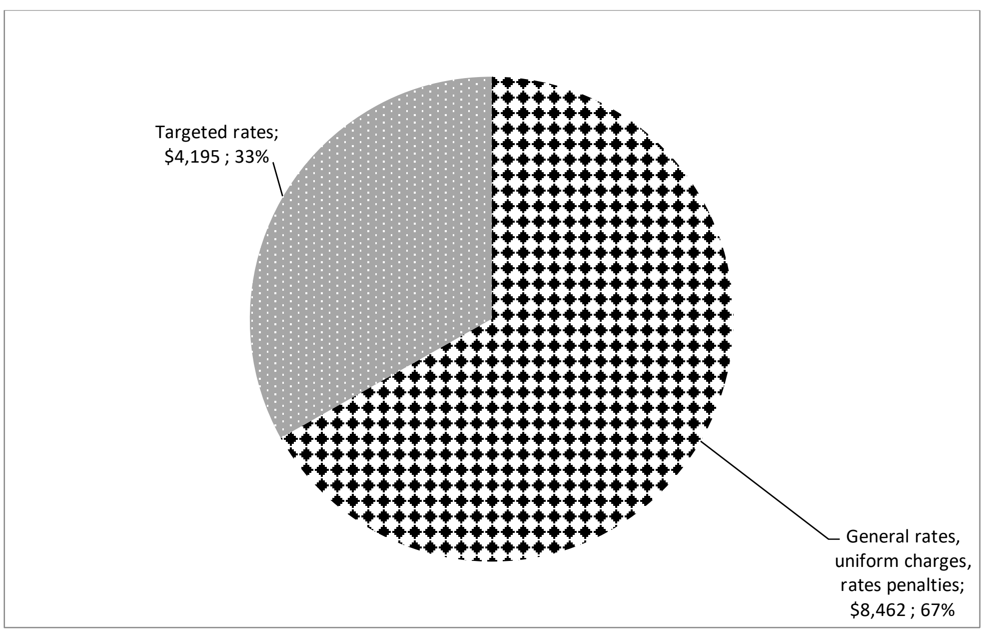



**Figure 11: South Wairarapa Figure 7 – Annual Plan 2016/2017 Funding Impact Statement: Operating Funding ($000)**

121. Figure 8 shows the proportion of general to targeted rates in the 2016/2017 Annual Plan. The graph shows that 67% of the rates set including rates penalties are general rates. The South Wairarapa general rates are set using land values with a differential based on land-use. The remaining 33% of rates are targeted and are excluded for rates modelling purposes in this report.




**South Wairarapa Figure 8: Funding Impact Statement Total rate – Annual Plan 2016/2017 ($000)**

122.Table 13 lists the rates from the funding impact statement in the Annual Plan 2016/2017.

| South Wairarapa rates | Rate | General / Targeted | Charged to | Activities funded | ($000) Dollars Incl. GST |
|---|---|---|---|---|---|
| General rates - Residential | LV | General | District | Governance, Community Facilities / Support, Regulatory Services, Roading, Stormwater | 849 |
| General rates - Commercial | LV | General | District | As above | 181 |
| General rates – Rural | LV | General | District | As above | 3,596 |
| UAGC | Uniform | UAGC | District | As above | 3,075 |
| Amenities rate - urban | Uniform | Targeted | Urban | Community Facilities / Support | 909 |
| Amenities rate – rural | Uniform | Targeted | Rural | Community Facilities / Support | 389 |
| Water Supply | Uniform | Targeted | Parts of district | Water | 2,530 |
| Featherston - Longwood water race rate | LV | Targeted | Rural | Water | 75 |
| Moroa water race rate | LV | Targeted | Rural | Water | 81 |
| Sewage Disposal - uniform targeted rate | Uniform | Targeted | Parts of district | Sewerage | 2,139 |
| Refuse Collection – uniform targeted rate | SUIP | Targeted | Parts of district | Solid Waste | 732 |
| **Total rates** | | | | | **14,556** |

**South Wairarapa Table 13: Schedule of rates – Annual Plan 2016/2017**

123.South Wairarapa Table 14 lists the rates included in the rating incidence models. Only the general value based rates have been modelled. General rates make up 32% of South Wairarapa District Council total rates.

| Rates ($000) Incl. GST | Residential | Commercial | Rural | Total Annual Plan Rates incl. GST |
|---|---|---|---|---|
| General Rates | 849 | 181 | 3596 | 4,626 |

**South Wairarapa Table 14: Rates included for modelling purposes**

124.The Commission has specified that in the first instance, existing arrangements for separate targeted rates, uniform annual general charges and non-general rating differentials remain in place. As such all targeted rates and the UAGC have been excluded from the rates modelling analysis. Targeted rates and the UAGC make up 53% of the total Wairarapa District Council rates.

**South Wairarapa – Uniform Capital Values**

125.Table 15 below shows the distribution of rates if a uniform capital valuation base was used to allocate the general rates. Changes from the Annual Plan reflect a shift in incidence of rates from the commercial and rural sector to the residential community.

| Rates ($000) Incl. GST | Residential | Commercial | Rural | Total |
|---|---|---|---|---|
| **General Rate** | **1,177** | **160** | **3,289** | **4,626** |
| Change from the Annual Plan 2016/17 | 328 | -22 | -306 | 0 |
| % change from Annual Plan | 39% | -12% | -9% | 0 |

**South Wairarapa Table 15: Distribution of rates using uniform capital value with no differential**

126. Using a uniform rate in the dollar would change the incidence of rates within the district for South Wairarapa as it currently uses land values to set the general rate with a land-use differential as follows:

- Residential - assigned a differential of 1
- Commercial – assigned a differential of 2
- Rural - assigned a differential of 1

127. With all sectors of the community paying the same differential with a uniform capital value rating system the following observations may be made:

- The residential sector would pay 39% more rates changing from a land to capital valuation system.
- The residential sector would pay more rates by using a uniform rate in the dollar and not the current commercial differential.
- The commercial sector would pay 12% less rates because the differential factor of 2 is removed using uniform rates in the dollar.
- The rural sector would pay 9% less rates changing from a land to capital value system. This reduction in rates is slightly off-set by an increase in rates caused by using a uniform rate in the dollar and removing the commercial differential.

**South Wairarapa – Uniform Land Values**

128. Table 16 below shows the distribution of general rates if a uniform land valuation base (no differentials) was used to calculate the general rates for South Wairarapa District.

| Rates ($000) Incl. GST | Residential | Commercial | Rural | Total |
|---|---|---|---|---|
| **General Rate** | **828** | **90** | **3,708** | **4,626** |
| Change from the Annual Plan 2016/17 | -21 | -91 | 112 | 0 |
| % change from Annual Plan | -2% | -50% | 3% | |

**South Wairarapa Table 16: Distribution of rates using uniform land value with no differential**

129. There would be a major shift in rates incidence for the commercial sector. This is because the commercial differential of approximately 2 would be removed by using a uniform rate in the dollar.

130. The residential community would have a rate reduction of 2% because of using a uniform rate in the dollar. The shift in incidence of rates is less than using a uniform rate in the dollar of land value as the current rating system uses land valuation.

131. The rural community would have a rate rise of 3% because of using a uniform rate in the dollar. The shift in incidence of rates is less than using a uniform rate in the dollar of land value as the current rating system uses land valuation.

**South Wairarapa – rate change indicators for uniform general rates**

132. The table below shows the changes in general rates using the existing land valuation and differentials in the Annual Plan 2016/17, uniform capital value for all rateable land and uniform land value for all rateable land.

133. The rates used in the rating model are the general rates from the Annual Plan 2016/2017.

134.The sample properties are the rates examples used in the Annual Plan 2016/17. Capital values are not included for the sample properties. The capital values used in the table below are the average capital values for properties in the sample land value range.

| Rates Incl. GST (whole dollars) | Land value | Capital Value | (A) Annual Plan Total rates | (B) Annual Plan General rates | (C) Rate increase (decrease) Uniform Capital Value General rates | (D) Rate increase (decrease) Uniform Land Value General rates | % change Annual Plan (B) to Uniform CV (C) | % change Annual Plan (A) to Uniform LV (D) |
|---|---|---|---|---|---|---|---|---|
| Commercial – Low Value | 100,000 | 315,000 | 2,569 | 437 | (23) | (221) | -5% | -50% |
| Commercial – Medium Value | 150,000 | 515,000 | 2,787 | 655 | 22 | (331) | 3% | -50% |
| Urban – Low Value | 125,000 | 315,000 | 2,405 | 273 | 141 | (3) | 52% | -1% |
| Urban – Medium Value | 250,000 | 615,000 | 2,614 | 546 | 263 | (5) | 48% | -1% |
| Rural – Low Value | 240,000 | 585,000 | 1,175 | 501 | 245 | (5) | 47% | -1% |
| Rural – Medium Value | 600,000 | 1,055,000 | 1,926 | 1,252 | 136 | 46 | 11% | 4% |
| Rural – High Value | 4,000,000 | 5,000,000 | 9,020 | 8,346 | (1,770) | 308 | -21% | 4% |

**South Wairarapa Table 17: Rate change Indicators on sample properties**

135.The following observations may be made when analysing the data in table 5 using a uniform capital valuation system (no differentials):

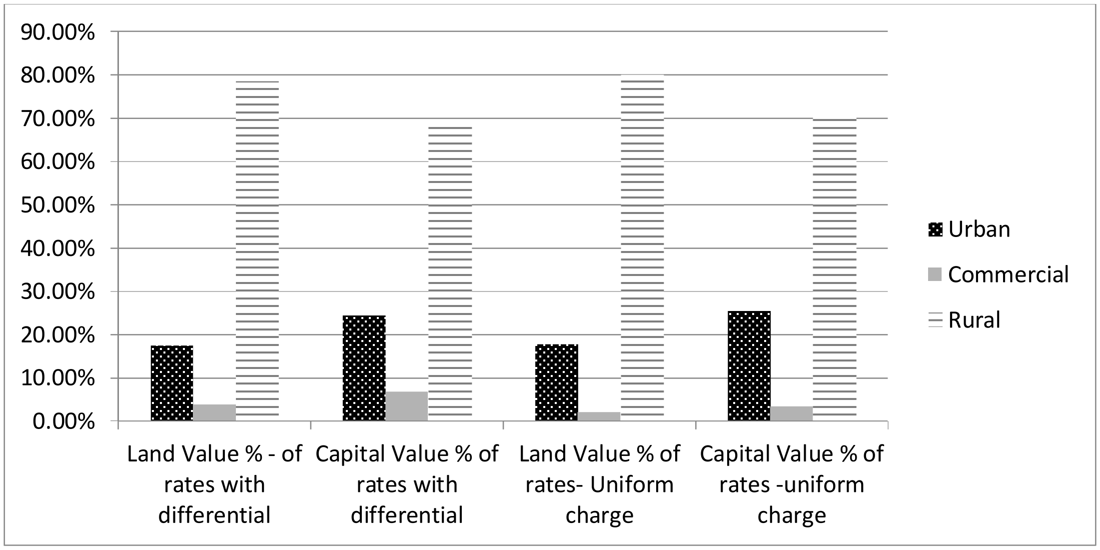
- Properties in the commercial sector could have a reduction in general rates by removing the commercial differential ratio and switching to capital values. This is dependent on the land to capital value ratios for each property.
- All of the sample urban properties would experience a rise in rates due to switching from the current land valuation system to uniform capital rating and removing the commercial differential. This is similar to the rate rises experienced in the commercial sector whereby high capital to land value ratios would shift the incidence in rates when changing rating valuation systems.
- The rural sector, like the commercial sector sample properties have mixed results. The low and medium value rural properties would have high capital to land value ratios. These properties would experience a rate rise using a capital valuation system. Removing the commercial differential in these rating scenarios would also cause a rate increase. The rural properties with low land to capital ratios would benefit from a shift to capital rateable values. This is demonstrated in the sample high value property whereby there is a rate decrease despite the removal of the commercial differential shifting rates to the rural sector.

136.The following observations may be made when analysing the data in table 5 using a uniform land valuation system (no differentials):

- The commercial sector would have a downward shift in rates incidence of 50%. This is because the current commercial differential would be removed.

- The residential sector would have a small rate reduction of approximately 1% also because of using uniform rates in the dollar.
- The rural sector would have a rate increase of 4% as a result of using uniform rates in the dollar.

137. Figure 9 below shows the distribution of land and capital values between residential, commercial and rural properties when a uniform rate in the dollar is applied and when the current differential is applied.




**South Wairarapa Figure 9: Distribution of rates to different categories of land using land (LV) and capital values (CV) and current differential ratios**

138. A number of observations may be made when analysing the distribution rates for different categories of land. These are:

- The rural sector would pay the highest amount of rates regardless of valuation system is in use compared to other land-use types
- The rural sector would pay higher rates using a land valuation system than a capital valuation system. In contrast under a uniform capital valuation system, the rural sector would pay 9.5% less than under a uniform land valuation system.
- Removing the current commercial differential means the rural sector would pay more rates than under a uniform rate in the dollar.
- The commercial sector would pay less rates using a uniform rate in the dollar.
- The change in overall distribution of rates to the commercial sector comparing both uniform land and capital value systems is a 1.51% rate rise.
- The urban sector would pay significantly more rates using a capital valuation system than a land valuation system. The change in overall distribution of rates to the residential sector comparing both uniform land and capital value systems for urban ratepayers is a 7.5% rate rise.

139. Rating differentials may be applied to the general rate and can be used to change the proportion of rates collected from groups of ratepayers. This option is explored in the section on differential rates. The use of differential rates can minimise shifts in the incidence of rates between regardless of which valuation system were selected.

## Wairarapa District Overview

**Rating Units**

140.In the 2016/2017 financial year the combined number of rating units for the Wairarapa district was forecast at 23,636. Masterton had 52% of the rating units, with South Wairarapa 28% and Carterton the lowest number at 20%. The table below shows the forecast rating units from the long term plans for all three councils 2015-2025.

| ***Number of rating units*** | ***2016*** | ***2017*** | ***2018*** | ***2019*** | ***2020*** | ***2021*** | ***2022*** | ***2023*** | ***2024*** | ***2025*** |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Masterton*** | 12,190 | 12,251 | 12,312 | 12,374 | 12,436 | 12,498 | 12,560 | 12,623 | 12,686 | 12,750 |
| ***Carterton*** | 4,750 | 4,820[11] | 4,890 | 4,940 | 4,990 | 5,040 | 5,090 | 5,140 | 5,190 | 5,250 |
| ***South Wairarapa*** | 6,550 | 6,565 | 6,580 | 6,595 | 6,610 | 6,625 | 6,640 | 6,655 | 6,670 | 6,685 |
| ***Source: The Council's 2015-2025 Long-term Plan*** | | | | | | | | | | |

**Table 18: Forecast rating units: Long Term Plans 2016-2026**

141.The uniform annual general charge (UAGC) is a fixed amount per rating unit, or a fixed amount per separately used or inhabited part (SUIP) of a rating unit. Table 19 shows that if a fixed amount per rating unit was used to allocate the UAGC, Masterton would end up with 54% of the UAGC rates, South Wairarapa 28.5% and Carterton 17.6%. The UAGC makes up only a proportion of rates and is legally capped along with uniform targeted rates at 30% of total rates.[12] The percentage of UAGC to total rates will be an important rating tool, along with the choice of land and capital valuation systems, and differentials, to manage shifts in rates between districts.

| ***Annual Plan 2016/2017*** | ***Masterton District*** | ***Carterton District*** | ***South Wairarapa District*** |
|---|---|---|---|
| ***Rating units*** | 12,251 | 3,994 | 6,460 |
| *% of district rating units* | 54% | 17.6% | 28.5% |
| ***Source: Source: Rates models – 2016/17 Annual Plans*** | | | |

**Table 19: Number of rating units after allowance for contiguous properties - Annual Plan 2016/2017**

142.The use of either a SUIP or a fixed amount per rating unit as the UAGC will affect the distribution of rates between districts. Both Carterton and South Wairarapa District Council use a fixed amount per unit UAGC so the number of SUIPs in each of the districts for analysis is not available.

143.Masterton uses a SUIP to set the UAGC. The number of SUIPs is 12,670 for the 2016/2017 rating year as opposed to 12,251 rating units. This is an additional 419 charges available to spread the cost per unit or 3% more than using rating units alone. Properties affected by using a SUIP include retirement villages and rest homes. For example a retirement village could be one legal rating unit, but have 100 SUIPs. The number of charges using a SUIP to set the UAGC would be 100 as opposed to one charge for a fixed amount per rating unit. The 'winners' in this instance changing to a fixed amount per rating unit

[11] The number of rating units for Carterton District Council used to set the UAGC in the2016/17 financial year was approximately 4000 as opposed to 4,820. This is because of the number of rating units treated as contiguous properties as allowed under the LGRA.

[12] Section 21 of the Local Government (Rating) Act 2002 states that a maximum of 30% of total rates can be levied using uniform targeted rates including the uniform annual general charge This excludes uniform targeted rates for water and wastewater.

would be properties with a large number of SUIPs. The 'losers' would be existing properties classified as one SUIP as the fixed charge per property would be higher.

144. In the Annual Plan 2016/2017 Carterton District Council set the UAGC to the maximum of 30% permitted under the LGRA[13], Masterton at 19.5% and South Wairarapa at 26%. Any changes to the UAGC cap will affect the distribution of rates between districts with Masterton having the highest number of rating units receiving the highest proportion, South Wairarapa the second highest, and Carterton the lowest.

**Capital Values**

145. Table 20 shows the total capital values for each district broken down by land use category. The table shows that Masterton has the highest total capital values, followed by South Wairarapa and then Carterton district.

| *Capital Value $ Whole dollars* | *Masterton District* | *Carterton District* | *South Wairarapa District* |
|---|---|---|---|
| ***Urban Residential*** | 1,921,365,000 | 591,258,900 | 890,914,100 |
| ***Commercial or Non-residential*** | 385,507,000 | 91,555,500 | 121,455,800 |
| ***Rural*** | 2,378,471,000 | 1,474,646,200 | 2,501,156,300 |
| ***Total Capital values – Annual Plan 2016/17 as at 30 June*** | 4,685,343,000 | 2,157,460,600 | 3,517,526,200 |
| ***Source: Rates models – 2016/17 Annual Plan: Revaluation date June 2015*** | | | |

**Table 20: Capital valuation estimate by district - All figures are in whole dollars.**

146. Figure 10 shows the percentage of capital values for each of the three Councils based on a combined Wairarapa district. It shows that the allocation to each district council of uniform capital value rates would be 45.2% for Masterton, 20.8% for Carterton and 34.0% for South Wairarapa.

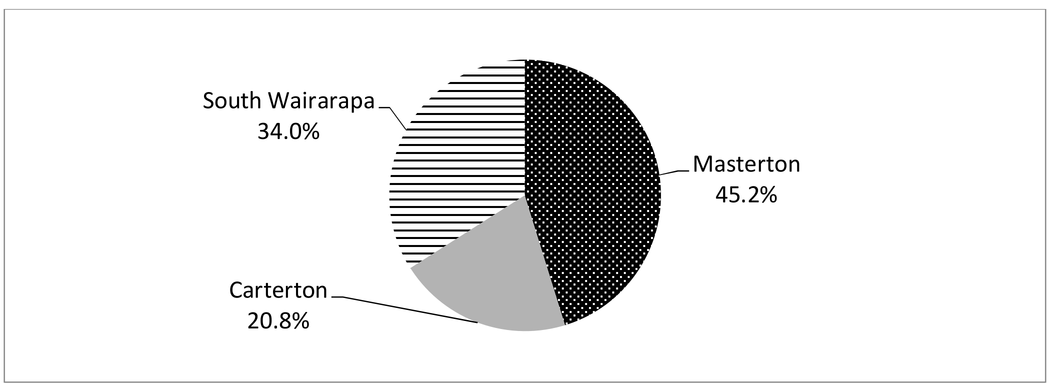



**Figure 10: Percentage of capital value by districts for Wairarapa**

**Land Values**

| *$ Land value whole dollars* | *Masterton District* | *Carterton District* | *South Wairarapa District* |
|---|---|---|---|
| ***Urban Residential*** | 789,965,000 | 190,675,000 | 382,689,500 |
| ***Commercial or Non-residential*** | 157,250,000 | 25,874,500 | 41,567,200 |

13 Ibid.

| $ Land value whole dollars | Masterton District | Carterton District | South Wairarapa District |
|---|---|---|---|
| **Rural** | 1,524,850,000 | 982,249,000 | 1,713,792,000 |
| **Total Land values** | 2,472,065,000 | 1,198,798,500 | 2,138,048,700 |
| ***Source: Source: Rates models – 2016/17 Annual Plan: Revaluation date June 2015 and Rating Information Database from the three Councils*** | | | |

**Table 21: Land valuation estimate by district - all figures are in whole dollars**.

147.Figure 11 shows the percentage of land values for each of the three Councils based on a combined Wairarapa district. It shows that the allocation to each district council of uniform capital value rates would be 42.6% for Masterton, 20.6% for Carterton and 36.8% for South Wairarapa.

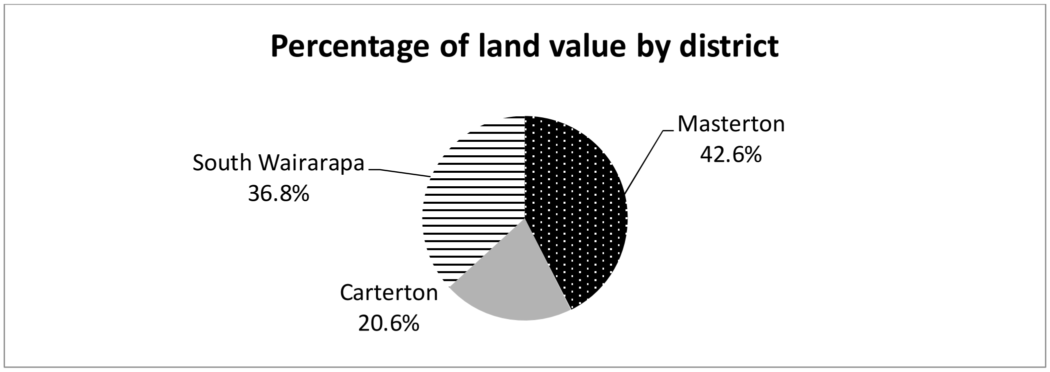



**Figure 11: Percentage of land value by district for Wairarapa**

**District comparison of general rating tools**

148.The share of general rates allocated to each of the three councils under a combined rating system will be affected by the choice of valuation systems as well as the split between general rates and the UAGC.

149.Table 22 shows the percentage of general rates that would be allocated to each district council if the following general rating tools were used:

- Capital value;
- Land value;
- UAGC[14].

It is important to note that the rating models and analysis in this report assume that the existing UAGC and targeted rates[15] remain unchanged. The rates models and analysis only include the value-based general rates in Carterton and South Wairarapa and the district wide value based targeted rates in Masterton.

- For Masterton District Council district wide value capital and land value based targeted rates make up 38% of total rates for the council. 62% of rates are assumed to remain unchanged.
- For Carterton District Council capital value general rates make up 38% of total rates for the council. 62% of rates are assumed to remain unchanged.

[14] Note; it is not legally possible to rate solely using a UAGC but this is included to demonstrate the impacts of having a high fixed component to the general rate

[15] The exception to this statement is that the rates models assume that for Masterton District Council, the district wide value based targeted rates are general rates

- For South Wairarapa District Council land value general rates make up 32% of total rates for the council. 68% of rates are assumed to remain unchanged.

| Council | Using capital value | Using land value | Using UAGC[16] |
|---|---|---|---|
| Masterton | 45.2% | 42.6% | 54.0% |
| Carterton | 20.8% | 20.6% | 17.6% |
| South Wairarapa | 34.0% | 36.8% | 28.4% |
| | **100%** | **100%** | **100%** |

**Table 22: Comparing general rating tools**

150. As a theoretical indicator of how the choice of rating tools may shift the incidence of rates between districts. Table 23 shows the share of $1 million to each Council using current 2016/2017 district capital values, land values and rating units to distribute the rates.

| Council (whole dollars) | Using capital value | Using land value | Using UAGC |
|---|---|---|---|
| Masterton | 452,239 | 425,564 | 539,573 |
| Carterton | 208,242 | 206,372 | 175,909 |
| South Wairarapa | 339,519 | 368,064 | 284,518 |
| **Total** | **$1,000,000** | **$1,000,000** | **$1,000,000** |

**Table 23: What if a million dollars was allocated to each council on a uniform basis using current capital values, land values and UAGC rating units.**

**Financial Overview from the 2016/2017 Annual Plans**

151. Figure 12 displays the applications of operating funding (expenditure) to each Council activity sourced from the funding impact statements. The table shows that Masterton the largest Council, has the highest expenditure on all activities, with South Wairarapa the second highest and the lowest expenditure in Carterton.

[16] UAGC units are based on a fixed amount per rating unit. The numbers are sourced from the rating models used in the Annual Plans 2016/2017.

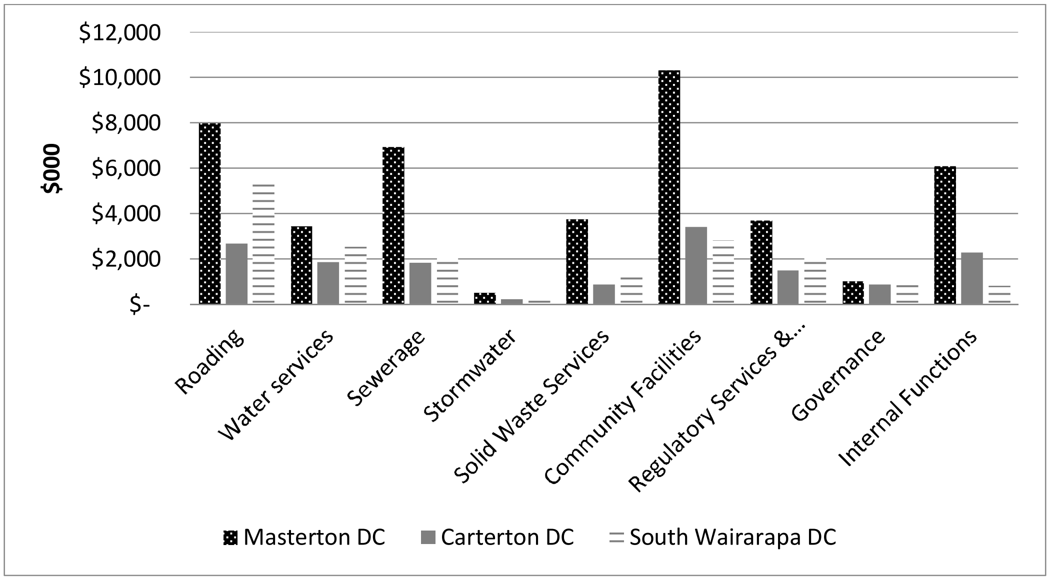



**Figure 12: Annual Plans 2016/2017 Funding Impact Statement: Applications of Operating Funding**

152.Figure 13 shows the operating funding of each Council from the 2016/2017 Annual Plans funding impact statements. The table shows that Masterton, the largest Council, has the highest revenue reflective of the highest expenditure in figure 12, with South Wairarapa the second highest revenue and the lowest revenue in Carterton.

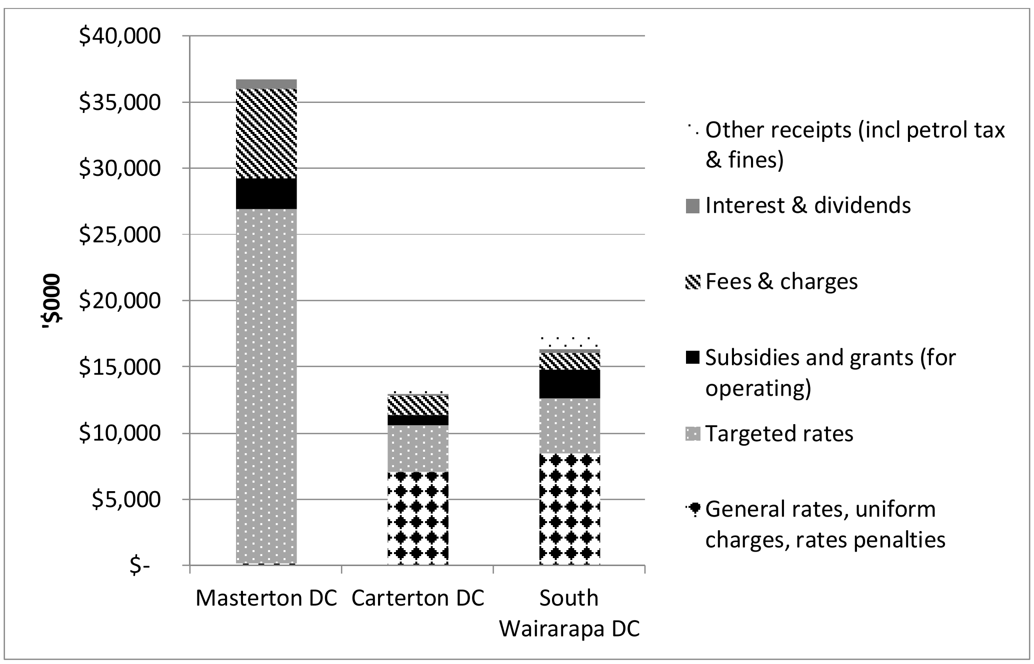



**Figure 13: Annual Plans 2016/2017 Funding Impact Statement: Operating Funding**

**Differential rates models**

153.Rating differentials may be applied to the general rate and can be used to change the proportion of rates collected from groups of ratepayers. Currently all of the three councils use differential ratios for the following land-use categories:

- Urban/residential

- Commercial/non-residential
- Rural

154. The rates modelling results for each of the councils showed that a uniform rate in the dollar without the use of any differentials would produce high shifts in the incidence of rates. It is unlikely that that a future council for a combined district would adopt a rating system without differentials. For it to do so would departs in a major way from the current revenue and financing policy for all three current councils.

155. The table below shows four differential ratio scenarios to test how the use of differentials can shift the incidence of rates. The rates model assumes no changes in the quantum of general and district-wide rates from the 2016/2017 annual plans, targeted rates, the UAGC and UAC have been excluded.

- The first differential scenario (scenario 3 in the rates summary table 1) shows a possible differential for each land-use group that based on the current average differential ratio used by Masterton District Council for the district-wide targeted rates. These district wide targeted rates are set using both land and capital values but for this analysis it is assumed that capital values are used only.
- The second differential scenario (scenario 4 in the rates summary table 1) shows a possible differential for each land-use group based on the current differential ratio used by Carterton District Council for the general rates based on capital values.
- The third differential scenario (scenario 5 in the rates summary table 1) shows a possible differential for each land-use group based on the current differential ratio used by South Wairarapa District Council for the general rates based on land values.
- The forth scenario shows the differential ratios that could be used to minimise shifts in rating incidence for each district land-use category using general rate capital values.

156. These scenarios are not presented as representing realistic options. In reality it is not likely that a future combined council would seek to simply adopt the differential system of any one of the current councils and apply it across the combined district. Rather any future differential rating system would be likely to be purpose built taking a whole of district view. They do however demonstrate the powerful impact differential rating systems have on patterns of rating incidence.

| Property category | Scenario 3: Capital Value MDC | Scenario 3: % change | Scenario 4: Capital Value CDC | Scenario 4: % change | Scenario 5: Land Value SWDC | Scenario 5: % change | Scenario 6: Capital Value differentials to minimise change | Scenario 6 :% change |
|---|---|---|---|---|---|---|---|---|
| Masterton Residential | 1.00 | 0% | 1.00 | -10% | 1.00 | -36% | 1.00 | 0% |
| Masterton – Non-residential | 2.00 | 0% | 2.00 | -10% | 2.00 | -36% | 2.00 | 0% |
| Masterton - Rural | 0.60 | 0% | 0.80 | 19% | 1.00 | 67% | 0.60 | 0% |
| Carterton - Residential | 1.00 | 18% | 1.00 | 0% | 1.00 | -49% | 1.00 | 0% |
| Carterton - Commercial | 2.00 | 18% | 2.00 | 0% | 2.00 | -55% | 2.00 | 0% |
| Carterton - Rural | 0.60 | -12% | 0.80 | 0% | 1.00 | 33% | 0.80 | 0% |
| South | 1.00 | 85% | 1.00 | 55% | 1.00 | -3% | 1.00 | 1% |

| Property category | Scenario 3: Capital Value MDC | Scenario 3: % change | Scenario 4: Capital Value CDC | Scenario 4: % change | Scenario 5: Land Value SWDC | Scenario 5: % change | Scenario 6: Capital Value differentials to minimise change | Scenario 6 :% change |
|---|---|---|---|---|---|---|---|---|
| Wairarapa - Urban | | | | | | | | |
| South Wairarapa - Commercial | 2.00 | 135% | 2.00 | 97% | 2.00 | -4% | 1.60 | 2% |
| South Wairarapa - Rural | 0.60 | -27% | 0.80 | -18% | 1.00 | 1% | 1.50 | 0% |

**Differential rates Table 24: Scenarios for a general rate using land-use and location differentials (current council land and capital valuation rating systems)**

157. Scenario 3 shows shifts in rating incidence across land-use categories if the average differential ratios used by Masterton District Council were applied across the new Wairarapa combined district. This option would minimise change for Masterton District Council. Changes would occur for Masterton ratepayers within this category as the roading targeted rate is included. The roading targeted rate is currently based on land values. Shifting the value base of this rate to capital values would shift the incidence of rates for individual ratepayers within all of the three land-use categories.

158. Scenario 3 shows a medium increase in rating incidence for Carterton of 18% for both the residential and commercial land-use categories with a decrease for the rural sector of 12%. This option favours the rural sector in Carterton.

159. Scenario 3 shows a very high shift in rating incidence for South Wairarapa in both the urban and commercial land-use categories of between 85% and 135%, and a high shift in rating incidence downwards for the rural community of 27%. This option favours the rural sector in South Wairarapa.

160. Scenario 4 shows shifts in rating incidence across land-use categories, if capital values and the current differential ratios used by Carterton District Council, were applied across the new combined Wairarapa District. This option would minimise change for Carterton District Council.

161. Scenario 4 shows a medium shift in rating incidence for Masterton residential and non-residential land-use categories of -10% and an increase of 19% for the rural sector. For South Wairarapa the shift in rating incidence to the urban (55%) and commercial (97%) sectors are very high changing to a capital value rating system combined with using the Carterton general rate land-use differential ratios.

162. Scenario 5 shows shifts in rating incidence across land-use categories, if land values and the current differential ratios used by South Wairarapa District Council, were applied across the new combined Wairarapa District. This option would minimise change for South Wairarapa District Council.

163. Scenario 5 shows that for Masterton and Carterton shifting to land valuation general rates and the differential used by South Wairarapa would cause very high shifts in the incidence of rates from both the residential and non-residential/commercial sectors to the rural sector.

164. Scenario 6 in the table above shows that specific differentials may be used to smooth changes to the incidence of rates across land-use categories in each current district. For each of the districts and each of the land-use categories the shift in rating incidence is low.

165.Based on minimising shifts in the incidence of rates within districts the likely future combined rating system would use a capital value general rate with land-use differential ratios. Also based on minimising shifts in the incidence of rates within districts the differential ratios could be residential/urban 1.0, a range for non-residential/commercial of between 1.6 to 2.0 and a range for the rural sector of between 0.6 and 1.5. Managing the differential ratios between land use categories and between districts would most likely be critical to managing changes in the incidence of rates.[17]

166.Minimising change for Wairarapa would require completely different differential ratios than for the other two councils, as the ratios would be compensating for a shift of valuation systems from land to capital values. Changing to a capital valuation general rating system would mean a higher shift in the incidence of rates for South Wairarapa District that would possibly require a specific change management policy. There would need to be a specific focus on managing this in the design of a new system and transition to it.

## Summary of Rates Modelling

**Rates modelling results**

167.The rates' modelling summary is based on the Annual Plan 2016/2017 general rates and exclude the UAGC and targeted rates. The analysis considers groups of ratepayers, not individual ratepayers. Individual properties within the groups of ratepayers considered could be impacted either to a greater or lesser extent depending on the land and improvement values.

168.The analysis firstly assessed the impacts of using a uniform land and capital value rating system within the districts. A second analysis then assessed the impacts of shifts in rating incidence, if each of the councils adopted the existing general rate and district-wide targeted rates of the other councils. The third analysis was conducted to minimise the shifts in rating incidence using land-use and location differential ratios.

169.The rates models assumed no change in the quantum of general rates collected in each district, no change to the UAGC or UAC and no change to targeted rates. The net financial effect of rate increases and decreases within each land use category for each council is zero. Changing the rating systems for each council causes shifts in the incidence of rates on individual properties but the overall amount collected remains the same. Rates examples on sample properties are included in appendix 4.

170.Rates included in the analysis were the Masterton value based district-wide differential targeted rates, the Carterton capital value differential general rates, and the South Wairarapa land value based differential general rates.

171.For each of the councils the proportion of total rates deemed to be general rates for modelling purposes is:

- Masterton District Council – 38%
- Carterton District Council – 38%
- South Wairarapa District Council -32%

172.The following scale has been used when assessing the scale of impacts of changing the rating system:

**Key for the impact of rate movement**

| Impact | Movement(plus or minus) | Icon |
|---|---|---|
| Low | when movement is <5% | |
| Medium | when movement is >=5% and up to 20% | |
| High | when movement is >=20% and up to 50% | |

[17] Auckland Council set the former Franklin District commercial general rates at a lower level in the first years of the new council, gradually transitioning the rate to match the rest of the region in 2016/2017

| Impact | Movement(plus or minus) | Icon |
|---|---|---|
| Very High | When movement is >=50% | ● |
| Up | Higher rates | ↑ |
| Down | Lower rates | ↓ |

173.Summary Table 1 shows the impacts of changing rating systems for each of the three councils using a range of scenarios. The rate changes have been calculated by comparing the current value based general rates[18] for the 2016/2017 financial year with what the rates would be based on the scenarios. The following options have been modelled:

- Scenario 1: What if the combined rating system used uniform capital value (CV) general rates. No change to the UAGC or UAC.
- Scenario 2: What if the combined rating system used uniform land value (LV) general rates. No change to the UAGC or UAC.
- Scenario 3: What if the existing differential ratios and capital valuation (CV) system at Masterton District Council (MDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios based on land-use categories for Masterton District Council, after removing the allocation process for population and other factors, is approximately 1.00 Residential, 2.00 Non-Residential, 0.60 Rural. No change to the UAGC or UAC.
- Scenario 4: What if the existing differential ratios and capital valuation (CV) system at Carterton District Council (CDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios based on land-use categories for Carterton District Council are 1.00 Residential, 2.00 Commercial and 0.80 Rural. No change to UAGC or UAC.
- Scenario 5: What if the existing differential ratios and land valuation (LV) system at South Wairarapa District Council (SWDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios for South Wairarapa District Council are based on land-use categories and are approximately 1.00 Residential, 2.00 Commercial, and 1.00 Rural. No change to UAGC or UAC.
- Scenario 6: What if differential ratios were used to minimise shift across all land-use categories based on land-use and location using capital values (CV). For Masterton District Council the ratios are the same as Scenario 3. For Carterton District Council the ratios are the same as Scenario 4. For South Wairarapa the ratios for the land-use categories are 1.00 Urban, 1.60 Commercial, and 1.50 Rural.

| District Council and Rate Group | Scenario 1: Uniform CV | Scenario 2: Uniform LV | Scenario 3: CV MDC | Scenario 4: CV CDC | Scenario 5: LV SWDC | Scenario 6: CV Minimum Change |
|---|---|---|---|---|---|---|
| Masterton - Residential | ● ↓ | ● ↓ | ● ↑ | ● ↓ | ● ↓ | ● ↑ |
| Masterton - Non-Residential | ● ↓ | ● ↓ | ● ↑ | ● ↓ | ● ↓ | ● ↑ |

[18] The rating models have used the district-wide value based targeted rates for Masterton. These targeted rates are the Representation and Development rate, the Regulatory Services charges, the Sundry facilities rate, and the Roading rate.

| District Council and Rate Group | Scenario 1: Uniform CV | Scenario 2: Uniform LV | Scenario 3: CV MDC | Scenario 4: CV CDC | Scenario 5: LV SWDC | Scenario 6: CV Minimum Change |
|---|---|---|---|---|---|---|
| Masterton – Rural | 🟡 ↑ | 🔴 ↑ | ⚫ ↓ | 🟢 ↑ | 🔴 ↑ | ⚫ ↓ |
| Carterton - Residential | ⚫ ↓ | 🟡 ↓ | 🟢 ↑ | ⚫ | 🟡 ↓ | ⚫ |
| Carterton - Commercial | 🔴 ↓ | 🔴 ↓ | 🟢 ↑ | ⚫ | 🔴 ↓ | ⚫ |
| Carterton - Rural | 🟢 ↑ | 🟡 ↑ | 🟢 ↓ | ⚫ | 🟡 ↑ | ⚫ |
| South Wairarapa - Urban | 🟡 ↑ | ⚫ ↓ | 🔴 ↑ | 🔴 ↑ | ⚫ ↓ | ⚫ ↑ |
| South Wairarapa - Commercial | 🟢 ↓ | 🔴 ↓ | 🔴 ↑ | 🔴 ↑ | ⚫ ↓ | ⚫ ↑ |
| South Wairarapa - Rural | 🟢 ↓ | ⚫ ↑ | 🟡 ↓ | 🟢 ↓ | ⚫ ↑ | ⚫ ↓ |

**Summary Table 1: Rating Impact of change in valuation systems including removal of general rate differentials**

**Explanation of the rating model results**

174. For all three councils, the rating models show that using uniform land and capital valuations to fund the general and district-wide rates, a wide range of impacts from low to very high shifts in rating incidence for all existing rating groups. The current revenue and financing policies and rating systems of all three councils use similar differential land-use categories. Using differential ratios for general rates in the models clearly show that this can minimise shifts in rating incidence if the same valuation system is in use.

175. The analysis shows that for Masterton District Council, using a uniform capital and land general rate valuation system (no differentials), all ratepayer groups would experience a medium to very high shift in the incidence of rates. A uniform general rate, whether capital or land value favours the residential and non-residential rating groups. The rating models also show that using a differential general rating system and the same valuation system to fund the general rate can produce lower shifts in rating incidence. The shift in rates may be explained in a number of ways:

- For scenarios 1 and 2, Masterton uses an allocation system to distribute the district-wide targeted rates to the urban and rural sectors prior to applying a differential based on land-use. Increases in the rural general rate are caused by changing rating policy from district-wide targeted rates to a general rate.
- For scenarios 1 and 2 changing the rating system from land-use differentials to a uniform general rate shifts the incidence in rates. The current Annual Plan 2016/2017 land-use differential applies a 2:1 factor to the non-residential rating group. Using a uniform rate in the dollar favours the non-residential sector and shifts the incidence of rates to both the rural and residential sectors.

- For scenarios 2 and 5 a change from capital to land value general rates shifts the incidence of rates from the residential and non-residential sectors to the rural sector. Using a commercial differential ratio of 2.0 lowered the downward shift in rating incidence for the commercial sector.
- Scenario 4 shows using capital values and the same differentials as Carterton District Council caused medium shifts in rating incidence.
- Scenarios 3, 4 and 6 show that a general rate system using both capital values and differential land-used categories can minimise the shift in rating incidence for Masterton District Council

176.The analysis shows that for Carterton District Council, using a uniform capital and land general rate valuation system (no differentials), all ratepayer groups would experience a range of impacts from low to very high changes in the incidence of rates. A uniform general rate, whether capital or land value favours the residential and commercial rating groups. The rating models also shows that using a differential general rating system and the same valuation system to fund the general rate can produce lower shifts in rating incidence. The shift in rates may be explained in a number of ways:

- For scenarios 1 and 2, shifts in rating incidence is from changing the rating system from land-use differentials to a uniform general rate. The current land-use differential applies a 2:1 factor to the commercial rating group capital values. Using a uniform rate in the dollar favours the commercial sector, and shifts the incidence of rates to both the rural and residential sectors.
- For scenarios 1 and 2, shifts in rating incidence is also from changing the rating system from land-use differentials to a uniform general rate. The current land-use differential applies a factor of 0.8 to the rural rating group capital values. Using a uniform rate in the dollar shifts the incidence of rates to the rural sector, and favours both the urban and commercial sectors.
- For scenarios 2 and 5 a change from capital to land value general rates shifts the incidence of rates from the residential and non-residential sectors to the rural sector. Using a commercial differential ratio of 2.0 lowered the downward shift in rating incidence for the commercial sector, though this is not shown in the table.
- Scenario 4 shows using capital values and the same differentials as Masterton District Council caused medium shifts in rating incidence.
- Scenarios 3, 4 and 6 show that a general rate system using both capital values and differential land-used categories can minimise the shift in rating incidence for Carterton District Council
- Comparing the results between capital and land value rating systems shows that a general rate using land valuations would increase rates for the rural land-use sector. A land value general rate system favours both the residential and commercial rating groups.

177.The analysis shows that for South Wairarapa District Council, using a uniform capital and land general rate valuation system (no differentials), all ratepayer groups would experience a range of changes from low to high shifts in the incidence of rates. A uniform general rate, whether capital or land value favours the residential and non-residential rating groups. The rating models also show that differential ratios can be used to minimise shifts in rating incidence when changing valuation systems. The shift in rates may be explained in a number of ways:

- For scenarios 2 and 5 show shifts in rating incidence due to changing the rating system from land-use differentials to a uniform general rate. The current Annual Plan 2016/2017 land-use differential approximately applies a 2:1 factor to the commercial rating group. Using a uniform rate in the dollar favours the commercial sector and shifts the incidence of rates to both the rural and residential sectors.
- For scenarios 1, 3 and 4 shifting to a capital value general rate, from a land value rate, increases the incidence of rates for both the residential and commercial sector, and decreases rates for the rural sector.
- Comparing the results from scenarios 1, 3 and 4 show that a uniform rate in the dollar capital value for South Wairarapa causes lower shifts in the incidence in rates than applying capital values and land-use differentials that are currently in use in Carterton and Masterton.

- For scenario 6, shifts in the incidence of rates caused by changing from a land to capital valuation system may be managed using differentials based on land-use categories. Differential ratios may manage the incidence of rates between land-use groups but still produce shifts within these categories for individual ratepayers. The shift in rates is dependent on the land to capital value ratios for each rating unit.
- Comparing the results between capital and land value systems shows that a general rate using capital valuations would increase the rates for the urban and commercial sectors and decrease the rates for the rural sector.

**General rates and Uniform Annual General Charges between Districts**

178. The table below shows the results of using each of the general rate tools to allocate rates between the districts based on the 2016/17 financial year.

| Council | Using capital value | Using land value | Using UAGC[19] |
|---|---|---|---|
| Masterton | 45.2% | 42.6% | 54.0% |
| Carterton | 20.8% | 20.6% | 17.6% |
| South Wairarapa | 34.0% | 36.8% | 28.4% |
| | **100%** | **100%** | **100%** |

**Summary table 2: Current district UAGC, capital and land valuation proportions**

179. The analysis highlights that activities funded by the UAGC and the UAGC cap chosen will be an important factor in terms of inter-district flows of general rate requirements.

180. Certain rates including the UAGC and targeted rates set on a uniform basis are capped under the Local Government (Rating) Act 2002 at 30% of total revenue from rates. Each of the councils have a different policy on how the UAGC cap is set. This will be an important consideration for a combined Wairarapa rating system as it will not only affect the allocation of rates between districts but also to individual groups of ratepayers. In the Annual Plan 2016/17 the three councils set the UAGC at:

- Masterton District Council – 19.5%
- Carterton District Council – 30%
- South Wairarapa District Council – 26%

181. It is not practicable to model the allocations to each current district that would occur under each of the general rate tools. It is only possible to indicate the proportions that would be allocated for each of the general rate funding options. This is because the general rate pool of costs will be dependent on which activities are funded through the general rate, and which activities will be funded using targeted rates. This may mean separating the current district specific services from services that should be funded by the wider Wairarapa district. It is assumed that existing arrangements for separate targeted rates will remain in place.

## Options for a combined Wairarapa general rating system

182. Based on a rating model that would minimise change across the combined district, a general rate using capital valuation would be selected. Masterton uses mostly capital values for the value based district-wide targeted rates and Carterton uses capital values for the general rates. Using a capital value rating system therefore would minimise shifts in rating incidence within these two districts. Conversely changing the general rate valuation system from land value to capital value for South Wairarapa may

[19] UAGC units are based on a fixed amount per rating unit. The numbers are sourced from the rating models used in the Annual Plans 2016/2017.

result in high shifts in rating incidence for ratepayer land-use groups and would result in changes for individual ratepayers within these groups.

183. Rating differentials may be applied to the general rate, and can be used to change the proportion of rates the Council collects from groups of ratepayers. All of the three councils use rating differentials separated out by commercial/non-residential, urban/residential and rural land-use categories. A general rate with land-use differentials based on these categories for the combined district would therefore, minimise shifts in rating incidence between these groups of ratepayers.

184. Rating differentials may be applied to locations as well as land-use. A combined Wairarapa rating system could use a combination of land-use, and location differentials, to change the proportion of rates allocated between districts, and also manage the proportion of rates the Council collects from groups of ratepayers within these districts.

185. There are no specific recommendations as to what the differential ratios would be in a combined rating system for Wairarapa. The differential ratios need to be assessed at the time the funding requirements have been identified and new rating values set. This could be achieved as part of the first long-term plan.

186. Based on the analysis in the rating models in this report, and with the outcome of minimising shifts in the incidence of rates within the current districts, a differential based on capital values and land-use alone would possibly be:

- Residential/Urban – 1.00
- Commercial –2.00
- Rural – 0.80

187. Based on the analysis in the rating models in this report, and with the outcome of minimising shifts in the incidence of rates within the current districts, a capital value differential ratio based on location and land-use would possibly be:

- Residential/Urban – 1.00
- Commercial – 1.6 to 2.00
- Rural – 0.60 to 1.50

188. The differential analysis is based on the general rates and Masterton District Council district wide value based targeted rates set in the Annual Plans 2016/17. The general rates and deemed general rates for modelling purposes only make up 38% of Masterton District Council total rates, 38% of Carterton District Council total rates and 32% of South Wairarapa District Council total rates.

189. It is possible a new combined council could retain all existing rates and choose not to use a general rating system. The existing general rates could be targeted rates for each of the current districts, retaining all valuation systems and differential ratios. In summary this possible rates model could be a series of targeted rates based on the current council's revenue and financing policies. This would minimise the shift in rating incidence by changing rating systems.

190. One of the key rating mechanisms to minimise the shift in rating incidence for a combined Wairarapa will be the use and management of general rate differential ratios.

**Assessment of scale of impacts and transitional arrangements**

191. The analysis shows that the potential scale of impacts on ratepayer groups within the three councils from introducing a district wide general rating system are potentially significant. It also makes clear however that the nature of these impacts could vary greatly depending upon the particular features of the system chosen. As different systems would have different impacts they would also require different approaches to transitional arrangements. Some rating options would shift the incidence of rates more than others, and some rating options could minimise the effects of moving towards a combined rating system.

192.In addition any decisions about rating structures sit within a broader context of decisions about who should be expected to pay for what services. It is important to note, with regard to any transitional rating arrangements, that a related piece of work will be for the combined Wairarapa council to make decisions about which activities it sees as “whole of district” activities and which it sees as local (e.g. current council level or township level) activities. This is because activities seen as being “whole of district” are more likely to be funded by a general rate, while those seen as more local activities are more likely to be funded by targeted rates. Some rates including water, wastewater, storm-water and solid waste would be most likely to be classified as local. These infrastructural activities are not anticipated to be included in a regional pool of general rates. Other activities like for roading and community services, the funding is less obvious. This is because the activities could be a mixture of combined district and local projects.

193.There is also a complex relationship between the decision about rating, and the decisions on service provision and service levels. To add to the complexity the current activities in all three councils are funded in numerous ways. There is also the question of the extent to which the cost of some services might be recovered wholly or in part from user charges taking them outside the rating system completely.

194.The following table shows a summarised version of the funding sources at a common group of activity level for Masterton District Council, Carterton District Council and South Wairarapa District Council.

195.Activities and services included in the common group of activities for Masterton District Council are:

- 1) Governance – Governance and Corporate Services
- 2) Community – Community Facilities & Activities
- 3) Regulatory – Regulatory Services
- 4) Roading – Roading (Roads, Streets, Footpaths and Carparks)
- 5) Water – Water Supplies (Urban and Rural)
- 6) Wastewater – Wastewater Services (Urban and Rural)
- 7) Stormwater – Stormwater
- 8) Solid Waste – Solid Waste Management

196.Activities and services included in the common group of activities for Carterton District Council are:

- 1) Governance - Governance
- 2) Community – Community support
- 3) Regulatory – Regulatory and planning
- 4) Roading – Roads and footpaths
- 5) Water – Water supply
- 6) Wastewater - Sewerage and the treatment and disposal of sewage
- 7) Stormwater - Stormwater drainage
- 8) Solid Waste - Waste Management

197.Activities and services included in the common group of activities for South Wairarapa District Council are:

- 1) Governance – Governance/Leadership/Advocacy
- 2) Community – Economic, Cultural and Community Development, Amenities
- 3) Regulatory – Public Protection, Resource Management
- 4) Roading – Land Transport
- 5) Water – Water Supply
- 6) Wastewater – Wastewater
- 7) Stormwater – Stormwater Drainage
- 8) Solid Waste – Solid Waste Management

198.The table groups the funding sources into general rates, Uniform Annual General Charges (UAGC), district wide uniform targeted rates (UAC) and other targeted rates.

| Common group of activities | Masterton District Council | Carterton District Council | South Wairarapa District Council |
|---|---|---|---|
| 1) Governance | Targeted rates | UAGC | UAGC, General rates |
| 2) Community | UAC, Targeted rates | UAGC, General rates | UAGC, General rates |
| 3) Regulatory | Targeted rates | Targeted rates, General rates | UAGC, General rates |
| 4) Roading | UAC, Targeted rates | General rates | UAGC, General rates |
| 5) Water | Targeted rates | Targeted rates, General rates[20] | Targeted rates |
| 6) Wastewater | Targeted rates | Targeted rates, General rates[21] | Targeted rates |
| 7) Stormwater | Targeted rates | Targeted rates, General rates[22] | UAGC, General rates |
| 8) Solid Waste | Targeted rates | Targeted rates, General rates[23] | Targeted rates, UAGC, General rates |

**Summary Table 3: High level funding sources at a group of activity level**

199. Summary Table 3 shows that the groups of activities are funded in multiple ways by the three councils, and demonstrate that creating a combined rating system for the Wairarapa is complex and will necessitate full revenue and financing policy review. Combining the current rating systems is not only a matter of selecting a general rate valuation base and possibly differentials, but separating out funding sources for each of the activities and services provided at a local and regional level requires a separate set of judgements about who should be expected to pay for what services. These sorts of decisions can only really be made by future councillors with community consultation in accordance with the requirements set out in the Local Government Act.

**Auckland transition and rating arrangements**

200. The Auckland transition arrangements may provide a guideline to some of the considerations and recommendations for a possible future-combined Wairarapa transition, albeit noting the size, diversity and complexity of the Auckland amalgamation was far larger, and involved combining a greater number of authorities. A synopsis of the Auckland Council Transitional Provisions and other rating arrangements in detailed in appendix 2.

201. In relation to rates the Local Government (Auckland Transitional Provisions) Act 2010 ("Transitional Provisions Act") provided Auckland Council with mechanisms to manage any significant changes in rating liability from 1 July 2012 to 30 June 2015, as a result of creating a single uniform rating system for Auckland.[24] The transition arrangements were for three rating years after amalgamation in 2011. In the first rating year 2011/12 the rates were assessed and set by the existing councils prior to amalgamation.

---

[20] Carterton District Council funds 10% of Water Supply rating requirement from general rates.

[21] Carterton District Council funds 10% of Wastewater rating requirement from general rates.

[22] Carterton District Council funds 10% of Stormwater rating requirement from general rates.

[23] Carterton District Council funds 10% of Solid Waste rating requirement from general rates.

[24] Transitional Provisions Act, sections 39 to 43 inclusive

202.The Transitional Provisions Act[25]:

- enabled Auckland Council to have a rates transition management policy which set the maximum change in rating liability permitted in relation to an unchanged rating unit in a rating year.[26] This rates transition management policy was adopted in the first long-term plan adopted for 2012-2022;
- required Auckland Council to set and assess a transition rate for each rating unit within Auckland for the 2011/2012 financial year.[27] The rate on each "unchanged" rating unit"[28] had to be a uniform percentage variation from the 2010/2011 rate;[29]
- prohibited the Auckland Council from setting any other rate, including a local board targeted rate, for the 2011/2012 financial year;[30]
- specified the general rate for 2012/2013 must be calculated under the Local Government (Rating) Act 2002 using the capital value of the land.[31]

203.For Auckland Council the rates transition policy was optional but prescriptive if adopted. Important features in the rates transition policy included the following :

- required the rate change limit to be identified;
- allowed the rate change limit to be a percentage rate rise / reductions and/or a uniform amount measured against the prior rating year;
- allowed the rate change limit to be differential for both rate rises and rate reductions but only to the extent that the net financial effect was zero;
- required the rate change limit to be applied for only three years of the first long-term plan, then all ratepayers would pay the set uniform rates;
- the rate change limit specifically excluded certain targeted rates;
- required compliance with governance, accountability and disclosure conditions both in the long-term plan and on individual rating statements.

204.Auckland Council adopted a differential management strategy to manage the shifts in incidence of rates. The strategy enabled Auckland Council to maintain proportionally the level of rates collected between sectors, to minimise change in the first year of the uniform policy. The policy targeted the commercial sector slowly reducing the differential ratio, and set a separate lower commercial differential ratio for Franklin also slowly reducing the differential ratio on an annual basis. This policy did not involve any transition arrangements but evolved out of the long-term planning process.

**Conclusions**

205.This report sets out the results of the modelling of a range of different scenarios in order to help illuminate the different potential effects of different approaches to the design of a general rating system for a future combined Wairarapa district. It shows that the use of different valuation systems for the general rate are likely to produce very different effects, and that the use or non-use of differential rates and uniform charges each produces a different range of possible effects. The report

[25] An extract of the Transitional Provisions Act is provided in appendix 3.

[26] Transitional Provisions Act, section 41

[27] Transitional Provisions Act, section 33(1)

[28] Unchanged rating units (properties) are defined under the Transitional Provisions Act, section 40 as unchanged from the previous financial years in terms of information used to set and assess rates. The transition policy did not apply to properties that had changed in terms of factors used to determine rates. This included subdivisions, a change in land-use, or the construction or demolition of buildings.

[29] Transitional Provisions Act, section 34

[30] Transitional Provisions Act, section 35(2)

[31] Transitional Provisions Act, section 38

does not seek to identify or recommend a specific future system or even a range of fully developed and realistic options but does suggest some approaches that might be useful in doing so.

206.The report highlights that the application of differential ratios to the value based general rates will be critical in managing shifts in the incidence of rates within a new combined district. In this regard a differential management policy would be required to manage the transition to a combined rating system. This policy may be formulated as part of the first long-term plan for the combined council.

207.The report highlights the complexity of the interaction of a wide variety of decisions that affect rating incidence. In this context it is suggested that the Commission needs to consider carefully whether there is a compelling policy rationale for it to attempt to address these questions as part of a draft proposal, as opposed to making provision for current arrangements to continue until the new council is in a position to address them in consultation with the community under the provisions of the Local Government Act 2002.

**Recommendations for a combined Wairarapa rating system**

208.An amalgamated council for Wairarapa will be required to consult with the Wairarapa community to support the right debate, demonstrate the link between dollars and value to the ratepayer, and promote transparency. We recommend that the status quo with regard to rates and rating tools is maintained between the time of amalgamation and the first combined council long-term plan. This will likely require the ability to manage transition rates until this engagement and consultation takes place. Transition rates could be similar to those of Auckland Council and would apply to each "unchanged" rating unit" as a uniform percentage variation from the prior year's rates.

209.Following the same principles, of the importance of community consultation and engagement, we recommend that the new council selects the general rate valuation system as well as differentials, as part of the first long-term planning process and development of the combined district revenue and financing policy.

210.We recommend that after the new council rates policies are adopted in the first long-term plan, high or unreasonable shifts in rating incidence could be managed through rates remission policies, and/or a rates transition management policy and/or land-use and location differentials. Auckland Council used a combination of all three tools to manage shifts in rating incidence.

211.In conclusion we recommend the following for a combined Wairarapa rating system:

- maintain the status quo for all rates from the amalgamation date until the first long-term plan is adopted for the combined council. This would include options to set transition rates;
- discretion for the new combined council to select appropriate rating tools for the new district, including the general rate valuation system, and targeted rates. If this is not the preferred option, then capital valuations for the general rate (as well as UAGC) could achieve the lowest shifts in rating incidence within the current districts;
- discretion for the new council to select the rating differentials to be used for the general rate including, creating a differential management strategy as appropriate;
- options for the new council to manage shifts in rating incidence via a transition management policy or similar vehicle. This policy option may, or may not, resemble the Auckland model.

**Possible Timeline:**

212.The following is a possible guideline on a rating transition for a combined Wairarapa:

- New combined Council could come into existence 1 November 2018, (Poll end of 2017). This is based on certain preparations that need to be completed for a combined planning document. The time-frame between adoption of long-term plans of the current councils in June 2018 and an amalgamation date of 1 November 2018 may be too tight to complete a new whole of district planning document and other preparations.

- June 2018 - current councils adopt the long-term plans for 2018-2028. Rates are set and assessed by the current councils for year 1 of the long term plan.
- New Wairarapa Council comes into existence 1 November 2018.
- Prior to 1 November 2018 a combined planning document prepared for the new Wairarapa Council based on the existing councils' long-term plans 2018-2028.
- From 1 November 2018, new council administers the rates set and assessed by current councils for year 1 of the long term plan.
- For year two of the 2018-2028 long-term plans the new council would adopt the 2019/2020 Annual Plan. This would also require the new council to set a transition rate for each rating unit within Wairarapa district that is a uniform percentage variation, or similar, from year 1. The transition rates may exclude specific targeted rates.
- For year three of the 2018-2028 long-term plans the new council would adopt the 2020/2021 Annual Plan. This would also require the new council to set a transition rate for each rating unit within Wairarapa district that is a uniform percentage variation, or similar, from year 2. The transition rates may exclude specific targeted rates.
- Planning and consultation for the first combined Wairarapa long-term plan 2021-2031 could commence from the amalgamation date in November 2018. If new revenue and financing policy is consulted on and adopted prior to the first combined district long-term plan transition rates may not be required.
- June 2021, the new combined council adopts its first long-term plan for 2021-2031. This would include new revenue and financing policy and other rating and financial policies as required by the Local Government Act 2002.
- June 2021, rates assessed and set for year one of the new long-term plan 2021-2031. A rates change management policy may be required depending on the new revenue and financing policy.

‘

**Appendix 1: Assumptions**

All modelling has been based on the three councils 2016/17 Annual Plans and information specifically provided by each of the councils for this assignment. PJ and Associates has not reviewed the accuracy of any of the information provided.

The modelling has been based on the rate income from each Council and has mainly only considered the impact of groups of ratepayers. Therefore individual properties may be affected at different levels than those included in the rates summary table within the report.

The rates models assumed no change in the quantum of general rates collected in each district, no change to the UAGC or UAC and no change to targeted rates. This is consistent with the brief given by the Local Government Commission.

**Impacts of levels of service and funding philosophies of each Council**

As the requirement was to identify impacts of uniform land value and capital rating for the general rates across the three councils, there has been no assessment of the impact of different levels of service between the Councils, of internal charges, different recovery mechanisms (fees and charges) and spend per activity between the councils. The impacts of these areas could significantly impact the amounts of rates paid by groups of ratepayers within each of the respective councils.

**The following rates have been included both in the analysis and the associated "rates models":**

**Masterton District Council**

- Representation & Development Rate – Capital value
- Regulatory Services Charge - Capital value
- Sundry Facilities Rate - Capital value
- Roading Rate – Land value

**Carterton District Council**

- General rates – all capital value rates

**South Wairarapa District Council**

- General rate – all land value rates

**The following groups of rates have been excluded both in the analysis and the associated "rates models":**

All *General Uniform Annual General Charges (*UAGCs) has been excluded from all models. While the Local Government Act 2002 section 103 (2)(a) includes the UAGC as a general rate, section 13 of the Local Government Act (Rating) Act 2002 (LGRA) does not include the UAGC is a general rate. Therefore for this report, the UAGC has been excluded from the modelling.

Furthermore there is a difference in the way the UAGC has been applied by the councils because of the ability to either use rating units or separately used or inhabited part of a rating unit (SUIP). Masterton uses SUIPs where the other councils do not; therefore this does impact on the incidence of rating.

**Masterton District Council**

- Uniform charges
- Recycling collection charges
- Water charges
- Uniform Sewerage charges
- Roading charges fixed changes
- Civic amenities rates
- Sewerage Rates – LV
- Regulatory Services rate
- Rural Fire rate
- Sewerage rate
- Water rate
- Rural targeted rates for solid waste, sewerage and water

**Carterton District Council**

- Regulatory and Planning Services
- Urban Water
- Rural Water rates
- Water races
- Stormwater
- Urban Sewerage
- Waingawa Sewerage
- Refuse collection and recycling

**South Wairarapa District Council**

- Water races
- Sewerage disposal rates
- Water Supply
- Amenities
- Refuse Collection

**Other matters identified in the development of this report**

There are matters and potential issues identified while developing this report that may affect or impact during the transition period and transition provisions. These matters and issues are outside of the scope of this report but are considerations the Commission may wish take into account for a new combined Wairarapa rating system.

The matters and issues that may affect the analysis, outcomes and recommendations contained in this report include:

- The allocation of internal charges and recoveries would affect the inter-district flow of funding requirements. Based on the Annual Plan 2016/17 funding impact statements for the three councils, these charges and recoveries are approximately $6.5 million.

- Changes in expenditure and service levels for the three Councils affecting funding requirements.
- Future revaluations of land and capital valuations affecting the allocation of rates between districts and within districts.
- Existing rates remission and postponement policies.
- Changes in land-use and number of rating units.
- Changes in economic factors such as interest rates and inflation may affect funding requirements.
- Impacts of other funding tools on the general rate requirement including fees and charges, interest and dividends, and subsidies and grants.
- Potential changes to the Valuer General rules which may impact rating units and valuations.

**Appendix 2 Synopsis of the Auckland Council Transitional Provisions and other rating arrangements**

A number of Acts were passed relating to Auckland Council when it was established as a unitary authority. The first key piece of the legislation was the Local Government (Tamaki Makaurau Reorganisation) Act 2009 ("Reorganisation Act"). The Reorganisation Act provided that the Auckland Council would come into existence on 1 November 2010.

The Reorganisation Act required a detailed prescription of what was to be included in the planning document[32] for the Auckland Council, which was prepared by the Transition Agency.[33] The planning document was required to include:

- an integrated accounting policy for the Auckland Council[34]
- interim funding and financial policies[35]
- budgets for the 2011/2012 financial year for each board area[36]
- forecast financial statements for the council[37]
- an investment policy for the council[38]
- certain details relating to CCOs[39]

In relation to rates the Local Government (Auckland Transitional Provisions) Act 2010 ("Transitional Provisions Act") provided Auckland Council mechanisms to manage any significant changes in rating liability from 1 July 2012 to 30 June 2015 as a result of creating a single uniform rating system for Auckland.[40] For example the Transitional Provisions Act:

- enabled Auckland Council to have a rates transition management policy which set the maximum change in rating liability permitted in relation to an unchanged rating unit in a rating year.[41] This rates transition management policy was adopted in the first long-term plan adopted for 2012-2022;
- required Auckland Council to set and assess a transition rate for each rating unit within Auckland for the 2011/2012 financial year.[42] The rate on each "unchanged" rating unit"[43] had to be a uniform percentage variation from the 2010/2011 rate;[44]
- prohibited the Auckland Council from setting any other rate, including a local board targeted rate, for the 2011/2012 financial year;[45]

---

[32] The planning document was based on a consolidation of financial information contained in the 2009-2019 LTCCPs and (to the extent relevant) on the annual plans prepared by the existing local authorities. Reorganisation Act, Schedule 2, clause 1(1)

[33] The Auckland Transition Agency (ATA) was established by the Government to amalgamate the councils across the Auckland Region in to the Auckland Council by October 2010. The ATA ceased to exist prior to the establishment of Auckland Council which occurred on 1 November 2010. The focus of the agency was on the processes required to establish the Auckland Council

[34] Reorganisation Act, Schedule 2, clause 2(1)(a)

[35] Reorganisation Act, Schedule 2, clause 2(1)(b)

[36] Reorganisation Act, Schedule 2, clause 2(2)

[37] Reorganisation Act, Schedule 2, clause 3

[38] Reorganisation Act, Schedule 2, clause 4(2)

[39] Reorganisation Act, Schedule 2, clause 6

[40] Transitional Provisions Act, sections 39 to 43 inclusive

[41] Transitional Provisions Act, section 41

[42] Transitional Provisions Act, section 33(1)

[43] Unchanged rating units (properties) are defined under the Transitional Provisions Act, section 40 as unchanged from the previous financial years in terms of information used to set and assess rates. The transition policy did not apply to properties that had changed in terms of factors used to determine rates. This included subdivisions, a change in land-use, or the construction or demolition of buildings.

[44] Transitional Provisions Act, section 34

[45] Transitional Provisions Act, section 35(2)

- specified the general rate for 2012/2013 must be calculated under the Local Government (Rating) Act 2002 using the capital value of the land.[46]

The transitional provisions[47] enabled the Auckland Council to introduce the council's preferred combined rates transition management policy. The policy could apply for three years from July 2012. The policy had to set the maximum change in rating liability permitted in relation to an unchanged rating unit.

The first long-term plan for Auckland Council (2012-2022) with regard to rates included:

- a revenue and financing policy;
- a rating policy (funding impact statement) and a differential strategy for ratepayer groups, and;
- a rates transition management policy.

The purpose of the Auckland Council rates transition management policy was to manage the level of change experienced by ratepayers due to the transition to the single uniform rating system. The key features of the policy were that:

- Residential and farm/lifestyle ratepayers had rate increases and decreases capped for three years
- Business ratepayer would move to a uniform rating policy over three years

The approach slowed the speed of increase for those rates that would rise and funded this by slowing the speed of increase for those whose rates would fall.

In the first long-term plan 2012-2022 Auckland Council set the general rate on a differential basis using land-use and location. The business differential was set so that the council would collect the same proportion of rates revenue from the business sector as it collected in the prior financial year in 2011/2012. This helped to minimise change for all ratepayers in the move to a single uniform rating policy. The council set a lower differential for business properties in the former Franklin District Council. It was proposed that this differential for Franklin urban-business had a starting differential and was increased each year until parity was reached with the urban-business differential in year 2015/2016. The Franklin business rates reached parity in 2016/2017. The council also applied a lower rates differential to properties defined rural, farm/lifestyle and sea only access properties. This reflected the lower availability of council services in the rural parts of Auckland.

| **Property Category** | **Rates differential ratio 2012/2013** | **Rates differential ratio 2015/16** |
|---|---|---|
| Urban business | 2.63 | 2.76 |
| Urban Franklin business | 2.03 | 2.68 |
| Urban residential | 1.00 | 1.00 |
| Rural business | 2.37 | 2.48 |
| Rural Franklin business | 1.83 | 2.41 |
| Rural residential | 0.90 | 0.90 |
| Farm and lifestyle | 0.80 | 0.80 |
| Sea on access | 0.25 | 0.25 |
| Uninhabitable land (remote islands) | 0.00 | 0.00 |

[46] Transitional Provisions Act, section 38

[47] The Local Government (Auckland Transitional Provisions) Act 2010, as modified by the Local Government (Auckland Transitional Provisions) Rating Regulations 2012

**Auckland Table 1: Value based rate differentials for Auckland Council**

The table above shows the shifts in differential ratios across the long-term plans adopted by Auckland Council in 2012-2022 and 2015-2025. The differential ratios remained stable between the long-term plans for residential, rural and farm and life-style properties with adjustments to the business differential ratios.

Auckland Council adopted a long-term differential strategy in the first long-term plan 2012-2022 for its value based general rate. The setting of the business rates did not reflect the council's view on the ideal proportion of rates to be paid by business. Instead it maintained proportionally the level of rates collected between sectors to minimise change in the first year of the single uniform policy. [48] The strategy was to reduce the business differential ratio over 10 years. For the urban business differential ratio this meant a reduction of 0.1 per annum from year 2 of the LTP 2012-2022. As Franklin business properties had a lower initial differential compared to other business properties until they reached parity with other business differentials in 2015/2016.

| Property Category | Relative effective differentials for the general rate for 2012/2013 % | Relative effective differentials for the general rate for 2013/2014 % | Relative effective differentials for the general rate for 2021/2022 % |
|---|---|---|---|
| Urban business | 2.63 | 2.53 | 1.73 |
| Urban Franklin business | 2.03 | 2.13 | 1.73 |
| Urban residential | 1.00 | 1.00 | 1.00 |
| Rural business | 2.37 | 2.28 | 1.56 |
| Rural Franklin business | 1.83 | 1.92 | 1.56 |
| Rural residential | 0.90 | 0.90 | 0.90 |
| Farm and lifestyle | 0.80 | 0.80 | 0.80 |
| Sea on access | 0.25 | 0.25 | 0.25 |
| Uninhabitable land (remote islands) | 0.00 | 0.00 | 0.00 |

**Auckland Table 2: Impact of the differential strategy on each of the rating groups – Auckland City Long-term Plan 2012-2022**

The table above shows the proposed changes to the business differential ratios for the first Auckland Council long-term plan 2012-2022. It was a gradual approach to minimise the impact of shifting rating incidence between the rating groups.

In the long-term plan 2015-2025 Auckland Council changed its long-term differential strategy. It continued the strategy to reduce rates for businesses but extended the duration of the strategy. This was to reduce the impact on non-business properties. In 2015/2016 the business differential ratios were set so that 33% of general rates came from business. The strategy was to reduce the business rates in steps to 25.8% by 2036/37. This change in the duration of the differential strategy demonstrates that changes to rating systems may require a very long-term strategy in order to mitigate the effects of shifting rating incidence.

Under the Rates transition management policy residential, farm or lifestyle and sea only access properties had caps on rate increases. This rates increase was limited to no more than 10% of the previous year's rates for each year the policy applied. The policy applied for three years between 2012/2013 and 2014/2015. In 2015/2016 the cap was removed with all residential, farm and life-style properties transitioned to the new uncapped rates amount in 2015/2016. The cap on rate decreases was calculated every year to ensure the overall financial impact on the council was neutral. The cap on rates decreases in 2012/2013 was 5.6% and forecast at 3.8% in 2013/2014, and 3.7% in 2014/2015 at the time of adoption of the policy.

[48] Auckland Council Long-term Plan 2012-2022, Volume 3, Page 152

The Rates transition management policy specifically excluded identified targeted rates as the intent of the policy was to address movements in underlying rates due to a move to a single uniform rating policy.

The Rates transition management policy was required by the Transitional Provisions Act to show the effect of changes to the uniform rating system on properties. This included properties impacted by the policy in terms of rates reductions and rates increases, and the number and proportion of properties affected.

Auckland Council also adopted a rates remission policy in the 2012-2022 long-term plan that included a section on the remission of rates for miscellaneous purposes. This policy gave Auckland Council wide discretion to remit rates where it considered it just and equitable to do so. The conditions and criteria included:

- Special circumstances in relation to the rating unit, or the incidence of rates (or a particular rate) assessed for the rating unit, which mean that the unit's rates are disproportionate to those assessed for comparable units
- The circumstances of the rating unit or the ratepayer are comparable to those where a remission may be granted under the council's other rates remission policies, but are not actually covered by those policies
- There are exceptional circumstances that the council believes that it is equitable to remit the rates

**Appendix 3: Extract from Local Government (Auckland Transitional Provisions) Act 2010 – Sections 29-47 (Reprinted as at 30 April 2016)**

*Interim rating matters*

**29 District valuation roll, rating information database, and rates records**

(1) On and from 1 November 2010,—

(a) the district valuation roll of each existing local authority as at the close of 31 October 2010 must be treated as the district valuation roll of the Auckland Council for the area to which each roll relates; and

(b)the rating information database of each existing local authority as at the close of 31 October 2010 must be treated as the rating information database of the Auckland Council for the area to which each database relates; and

(c) the rates records of each existing local authority as at the close of 31 October 2010 must be treated as the rates records of the Auckland Council.

(2) In this section,—

**district valuation roll** has the meaning given to it in section 2(1) of the Rating Valuations Act 1998

**rates records** and **rating information database** have the meanings given to them in section 5 of the Local Government (Rating) Act 2002.

**30 Charges on rates**

(1) This section applies if, by operation of section 35 of the Reorganisation Act, the Auckland Council assumes liability for a loan or an incidental arrangement in relation to which an existing local authority has charged a rate or rates revenue as security.

(2) Section 115 of the Local Government Act 2002 applies as if the security had been charged by the Auckland Council.

(3) Every charge to which this section applies must be treated as of equal ranking.

**31 Consolidation of charges on rates**

(1) This section applies if, by operation of section 35 of the Reorganisation Act, the Auckland Council assumes liability for security arrangements over rates, granted by existing local authorities, in respect of loans or incidental arrangements (**existing security arrangements**).

(2) The Governor-General may, by Order in Council made on the recommendation of the Minister, effect the consolidation of the existing security arrangements.

(3) An order must effect the consolidation by—

(a) extinguishing the existing security arrangements; and

(b) deeming a single security document to have been granted by the Auckland Council in substitution for the existing security arrangements extinguished under paragraph (a).

(4) For the purposes of subsection (2), the order must identify each existing security arrangement granted by an existing local authority that is extinguished by the order.

(5) The Minister must not recommend the making of an order unless he or she—

(a) is satisfied that the proposed single security document will comply with the requirements of any relevant enactment; and

(b) is satisfied that no party to, or person having a benefit under, the existing security arrangements will be adversely affected by the making of the order; and

(c) has consulted the Minister for the time being responsible for the administration of the Securities Act 1978 on the form and substance of the proposed single security document.

**32 Council authorised to collect and deal with balance of rating matters for 2010/2011 and previous financial years**

(1) In respect of the following rates, the Council may exercise all the powers and perform all the functions and duties of a local authority under the Local Government (Rating) Act 2002, as if the Council had itself set the rates:

(a) rates set under section 29B of the Reorganisation Act by each existing local authority; and

(b) rates set by an existing local authority prior to 1 July 2010.

(2) For the purposes of subsection (1), the Council may deliver separate rates assessments and separate rates invoices in respect of the rates set by each existing local authority.

(3) Any money collected by the Council under subsection (1) in respect of a rate set for water supply or wastewater services provided by Watercare Services Limited must be paid to Watercare Services Limited as soon as practicable.

(4) Except as provided in subsection (3), nothing in this Act or any other enactment requires the Council to apply any money collected under this section in any particular way or in any particular part of Auckland.

*Rates for 2011/2012 financial year*

**33 Rates for 2011/2012 financial year**

(1) The Auckland Council must set and assess a transition rate for each rating unit within Auckland for the 2011/2012 financial year.

(2) The rate must be assessed in accordance with—

(a) subsection (3), for a rating unit that is an unchanged rating unit (within the meaning of section 40 of this Act); and

(b) subsection (4), for any other rating unit **(a changed rating unit).**

(3) The rate on each unchanged rating unit must be a uniform percentage variation from the total liability of that rating unit for rates for the 2010/2011 financial year.

(4) The rate on each changed rating unit must be the same uniform percentage variation from the total liability for rates that the changed rating unit would have had for the 2010/2011 financial year had the information recorded in the rating information database for that unit for the 2011/2012 financial year been entered in the database for that unit in the 2010/2011 financial year.

(5) For the purposes of subsections (3) and (4),—

(a) the uniform percentage variation must be calculated to meet the rates revenue requirements of the Council for the 2011/2012 financial year; and

(b) the total rates liability of an unchanged rating unit or a changed rating unit for the 2010/2011 financial year is determined by the rates set in accordance with section 29B of the Reorganisation Act, excluding any rates set for water supply or wastewater services.

(6) A rates assessment for the 2011/2012 financial year does not have to contain any of the information required by section 45(1) of the Local Government (Rating) Act 2002 that does not apply in the area of the rating unit to which the assessment relates.

(7) In subsection (6), area means the former district of the existing local authority in which the rating unit is situated.

(8) This section prevails over anything to the contrary in the Local Government (Rating) Act 2002.

**34 Wastewater rate for 2011/2012 financial year**

(1) The Auckland Council must set and assess a wastewater rate for each rating unit within Auckland for the 2011/2012 financial year.

(2) The rate for each rating unit must be a uniform percentage variation (assessed as described in section 33) from the liability of that rating unit for rates set for wastewater services for the 2010/2011 financial year.

(3) The wastewater rate must be set at a level sufficient to meet the wastewater revenue requirements of Watercare Services Limited.

(4) As soon as practicable, the Council must transfer all the money it receives from the wastewater rate to Watercare Services Limited.

(5) In this section, **rating unit within Auckland** does not include any rating unit within Auckland that—

(a) pays for wastewater services by direct charging; or

(b) does not receive wastewater services from Watercare Services Limited.

**35 Council otherwise prohibited from setting rates for 2011/2012 financial year**

(1) Other than the rates provided for under sections 33 and 34, the Auckland Council is prohibited from setting any other rate, including a local board targeted rate, for the 2011/2012 financial year.

(2) A local board may not propose any targeted rate for its local board area for the 2011/2012 financial year.

**36 Application of Local Government (Rating) Act 2002 to rates for 2011/2012 financial year**

(1) Except as required by sections 33, 34, and 35 of this Act, the Local Government (Rating) Act 2002 applies to the setting, assessment, and collection of rates by the Auckland Council for the 2011/2012 financial year.

(2) Without limiting subsection (1), and to avoid doubt, the Council—

(a) may discount rates for the 2011/2012 financial year paid before 1 or more specified dates only in accordance with a policy adopted by the Council under section 55 of that Act; and

(b) may impose penalties on unpaid rates for the 2011/2012 financial year only in accordance with a resolution of the Council under section 57 of that Act.

*Payment of rates for 2010/2011 and 2011/2012 financial years*

**37 Payment of rates for 2010/2011 and 2011/2012 financial years**

(1) Until the close of 30 June 2012, the Auckland Council is not required to accept payment of rates in respect of a rating unit at any office outside the former district of the existing local authority in which the rating unit is located.

(2) This section prevails over section 52(1)(a) of the Local Government (Rating) Act 2002.

*General rate for 2012/2013 financial year*

**38 General rate for 2012/2013 financial year must be set using capital value of land**

For the 2012/2013 financial year, the Council must set any general rate under section 13 of the Local Government (Rating) Act 2002 using the capital value of land.

*Mechanism to adjust significant changes resulting from Council moving to single rating system*

**39 Purpose of sections 40 to 43**

The purpose of sections 40 to 43 is to provide a mechanism by which the Auckland Council may manage any significant changes in rating liability during the 3-year period beginning on 1 July 2012 and ending at the close of 30 June 2015 arising from the reorganisation (and the resultant creation of a single rating system for Auckland).

**40 Interpretation**

In sections 41 to 43,—

**change limit** means the maximum change in rating liability permitted in relation to a rating unit in a rating year as set out in any Council policy made under section 41

**current rates**, in respect of a rating unit, means the rates assessed in accordance with section 43 of the Local Government (Rating) Act 2002 for the rating unit in a particular rating year

**previous rates**, in respect of a rating unit, means—

(a) for the 2012/2013 financial year, the rate assessed for the rating unit under section 33 of this Act in the 2011/2012 financial year:

(b) for any other rating year,—

(i) the rates assessed for the rating unit in accordance with section 43 of the Local Government (Rating Act) 2002 in the immediately preceding rating year; or

(ii) if applicable, the rates liability for the unit under section 42 of this Act in the immediately preceding rating year

**rating year** means the following financial years:

(a) the 2012/2013 financial year:

(b) the 2013/2014 financial year:

(c) the 2014/2015 financial year

**unchanged rating unit**, in respect of a particular rating year, means a rating unit that, compared with the immediately preceding rating year, is unchanged in terms of the information to be used for setting and assessing rates for the rating unit. For the purposes of this definition, the following are not changes in information:

(a) a change resulting from the valuation required by section 18B of the Reorganisation Act; or

(b) a change resulting from an objection under section 29 of the Local Government (Rating) Act 2002; or

(c) a change resulting from a correction under section 40 of the Local Government (Rating) Act 2002; or

(d) a change resulting from the implementation of a decision of the Land Valuation Tribunal under section 39 of the Rating Valuations Act 1998.

**41 Council may have rates transition management policy for 3-year period commencing 1 July 2012**

(1) The Council may include in its long-term plan for the period commencing 1 July 2012 a rates transition management policy.

(2) The policy must identify the change limit for each rating year, being the maximum change in rating liability permitted under the policy in relation to an unchanged rating unit in a rating year.

(3) The change limit may be—

(a) uniform (so that the same change limit applies to increases and decreases in rating liability); or

(b) differential (so that the change limit that applies to increases in rating liability is different from the change limit that applies to decreases in rating liability), but only if the difference is calculated so that the expected net impact referred to in subsection (5)(c) is zero.

(4) The change limit may be an actual amount or a proportion of the previous rates, or both, and, if a differential change limit, the positive and negative components may differ in amount or proportion, or both.

(5) The policy must also describe the estimated impact of the policy, for each rating year, in terms of—

(a) the proportion of rating units for which the policy will result in a reduction in rates liability, and the expected range of reductions; and

(b) the proportion of rating units for which the policy will result in an increase in rates liability, and the expected range of increases; and

(c) the expected net impact of the policy on the Council's rates revenue.

(5A) Sections 84(4) and 94 of the Local Government Act 2002 do not apply to an amendment to the policy.

(6) Section 102 of the Local Government Act 2002 applies to the policy as if it were a policy listed in subsection (3) of that section.

**42 How Council must apply rates transition management policy**

(1) This section applies to the calculation of rating liability for rating units within Auckland if the Council adopts a rates transition management policy under section 41 of this Act.

(2) If the current rates on an unchanged rating unit in a rating year differ from the previous rates for the rating unit by more than the change limit specified for the rating year, the total rating liability for the rating unit for the year is—

(a) the previous rates increased by the change limit, if the current rates are higher than the previous rates; or

(b) the previous rates reduced by the change limit, if the current rates are lower than the previous rates.

(3) The adjustment in rating liability described in subsection (2) must be—

(a) separately and clearly identified on the rates assessment and rates record for the rating unit; and

(b) accounted for separately as if it were a rate itself.

(4) A rates assessment under section 45 of the Local Government (Rating) Act 2002 for a rating unit to which subsection (2) applies must also include the following information (in addition to the information required under section 45):

(a) an explanation of the Council's rates transition management policy; and

(b) clear identification of the amount of rates payable in respect of the rating unit (having applied the policy).

**43 Local Government (Rating) Act 2002 otherwise applies**

(1) Except as modified by sections 41 and 42 of this Act, the Local Government (Rating) Act 2002 otherwise applies to rates assessed in the 2013/2014 and 2014/2015 rating years by the Council.

(2) Except as modified by sections 38, 41, and 42 of this Act, the Local Government (Rating) Act 2002 otherwise applies to rates assessed in the 2012/2013 rating year by the Council.

*Rates as security*

**44 Rates as security**

To avoid doubt, nothing in this Part affects the ability of the Council to charge rates or use rates revenue as security for a loan in accordance with the Local Government Act 2002.

*Planning document prepared by Transition Agency*

**45 Planning document treated as satisfying sections 93 and 95 of Local Government Act 2002**

(1) The planning document prepared by the Transition Agency under section 19A of the Reorganisation Act must be treated as the Council's long-term plan for the period beginning on 1 November 2010 and ending at the close of 30 June 2012.

(2) The planning document prepared by the Transition Agency under section 19A of the Reorganisation Act must also be treated as the Council's annual plan for the period beginning on 1 November 2010 and ending at the close of 30 June 2011.

(2A) Subsections (1) and (2) do not apply to the following policies included in the planning document:

(a) remission and postponement of rates on Māori freehold land under section 108 of the Local Government Act 2002:

(b) rates remission under section 109 of the Local Government Act 2002:

(c) rates postponement under section 110 of the Local Government Act 2002.

(3) Despite subsections (1) and (2), Parts 1 and 2 of Schedule 10 of the Local Government Act 2002 do not apply to the planning document.

(4) The Council may amend the planning document—

(a) in accordance with the requirements for amending a long-term plan under the Local Government Act 2002; but

(b) any amendment must not be inconsistent with any provision of this Part.

(5) Without limiting subsection (1), the initial allocation of decision-making responsibility for the non-regulatory activities of the Council between the Council's governing body and its local boards included in the planning document must be treated as satisfying section 18(1) and (2) of the Local Government (Auckland Council) Act 2009.

**46 Policies included in planning document treated as policies of Council**

(1) On and from 1 November 2010, the policies referred to in clause 4 of Schedule 2 of the Reorganisation Act, included in the planning document prepared by the Transition Agency under section 19A of that Act, must be treated as the policies of the Auckland Council, and may be amended in accordance with section 93 of the Local Government Act 2002.

(2) However, the development contributions policies referred to in clause 4(3)(a) of that schedule must be amended in accordance with section 54 of this Act.

**47 Certain policies have effect only in former districts and must be replaced by 30 June 2012**

(1) This section applies to—

(a) the policies of the existing local authorities included in the planning document prepared by the Transition Agency under section 19A of the Reorganisation Act in accordance with clause 4(3) of Schedule 2 of that Act; and

(b) any policies of the existing local authorities included in the planning document prepared by the Transition Agency under section 19A of the Reorganisation Act in accordance with clause 4(4) of Schedule 2 of that Act; and

(c) any policies or adjusted policies of the existing local authorities included in the planning document prepared by the Transition Agency under section 19A of the Reorganisation Act in accordance with clause 4(5)(b) or (c) of Schedule 2 of that Act.

(2) The policies have effect only within the former district of each of the existing local authorities.

(3) If there is any inconsistency between a policy made by the Auckland Regional Council and a policy made by any of the other existing local authorities, the policy made by the Auckland Regional Council prevails.

(4) The policies must be replaced by the Council with a single integrated policy no later than 30 June 2012.

(5) Despite subsection (4), the following policies must be replaced by the Council with a single integrated policy no later than 30 June 2011:

(a) the policies of the existing local authorities in relation to remission and postponement of rates on Māori freehold land under section 108 of the Local Government Act 2002:

(b) the policies of the existing local authorities in relation to rates remission under section 109 of the Local Government Act 2002:

(c) the policies of the existing local authorities in relation to rates postponement under section 110 of the Local Government Act 2002.

(5A) The Auckland Council must use the special consultative procedure in adopting the single integrated policy described in subsection (5).

**Appendix 4: Rate change indicators on sample properties: Summary Table 1**

The following tables below shows the impact of changing rating systems on sample properties listed in the annual plans 2016/17 using a range of scenarios set out in summary table 1, page 3. The tables show rate rises or decreases using the 2016/17 value based general rates or value based district wide targeted rates as the base-line.

The following options have been modelled:

- Scenario 1: What if the combined rating system used uniform capital value (CV) general rates. No change to the UAGC or UAC.
- Scenario 2: What if the combined rating system used uniform land value (LV) general rates. No change to the UAGC or UAC.
- Scenario 3: What if the existing differential ratios and capital valuation (CV) system at Masterton District Council (MDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios based on land-use categories for Masterton District Council, after removing the allocation process for population and other factors, is approximately 1.00 Residential, 2.00 Non-Residential, 0.60 Rural. No change to the UAGC or UAC.
- Scenario 4: What if the existing differential ratios and capital valuation (CV) system at Carterton District Council (CDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios based on land-use categories for Carterton District Council are 1.00 Residential, 2.00 Commercial and 0.80 Rural. No change to UAGC or UAC.
- Scenario 5: What if the existing differential ratios and land valuation (LV) system at South Wairarapa District Council (SWDC) was used across the combined district. The Annual Plan 2016/2017 differential ratios for South Wairarapa District Council are based on land-use categories and are approximately 1.00 Residential, 2.00 Commercial, and 1.00 Rural. No change to UAGC or UAC.
- Scenario 6: What if differential ratios were used to minimise shift across all land-use categories based on land-use and location using capital values (CV). For Masterton District Council the ratios are the same as Scenario 3. For Carterton District Council the ratios are the same as Scenario 4. For South Wairarapa the ratios for the land-use categories are 1.00 Urban, 1.60 Commercial, and 1.50 Rural.

Where the sample properties in the annual plans do not include land or capital values, similar properties have been identified in the rating information database, and the values estimated. Changes to these estimated values would change the modelling results, producing lower or higher rates for the sample properties. The net financial effect of rate increases and decreases within each land use category for each council is approximately zero. Changing the rating systems for each council causes shifts in the incidence of rates on individual properties but the overall amount collected remains the same.

The following table shows rate rises or decreases to the district wide targeted rates for Masterton District Council calculated based on the scenarios in summary table 1.

| Numbers are in whole dollars incl. GST | Land value | Capital Value | District Wide Targeted Rates Annual Plan | Scenario 1: Uniform CV Change to Annual Plan | Scenario: 2: Uniform LV Change to Annual Plan | Scenario 4: CV CDC Change to Annual Plan | Scenario 5: LV SWDC Change to Annual Plan | Scenario 3 & 6: CV MDC, CV Minimum Change to Annual Plan |
|---|---|---|---|---|---|---|---|---|
| Residential – low value | 62,000 | 150,000 | 438 | (53) | (137) | (46) | (155) | (1) |
| Residential – median value | 105,000 | 225,000 | 682 | (105) | (172) | (94) | (203) | (26) |
| Residential – high value | 200,000 | 405,000 | 1,251 | (213) | (279) | (192) | (337) | (70) |
| Masterton central, small | 131,000 | 325,000 | 942 | (109) | (305) | (92) | (344) | 6 |

| Numbers are in whole dollars incl. GST | Land value | Capital Value | District Wide Targeted Rates Annual Plan | Scenario 1: Uniform CV Change to Annual Plan | Scenario: 2: Uniform LV Change to Annual Plan | Scenario 4: CV CDC Change to Annual Plan | Scenario 5: LV SWDC Change to Annual Plan | Scenario 3 & 6: CV MDC, CV Minimum Change to Annual Plan |
|---|---|---|---|---|---|---|---|---|
| area | | | | | | | | |
| Commercial - industrial | 150,000 | 770,000 | 3,791 | (1,817) | (3,062) | 234 | (3,106) | 699 |
| Commercial – Queen Street Shop | 140,000 | 405,000 | 2,250 | (1,212) | (1,570) | (133) | (971) | 111 |
| Riversdale | 122,000 | 455,000 | 511 | 656 | 82 | 441 | 604 | 285 |
| Castlepoint | 245,000 | 440,000 | 708 | 420 | 482 | 212 | 411 | 61 |
| Rural - lifestyle, 2 ha | 150,000 | 465,000 | 565 | 627 | 164 | 408 | 121 | 249 |
| Rural - forestry | 1,510,000 | 1,590,000 | 3,614 | 462 | 3,723 | (289) | 3,284 | (832) |
| Rural - hill country farm | 3,100,000 | 3,550,000 | 7,610 | 1,490 | 7,451 | (187) | 6,550 | (1,400) |
| Rural - dairy farm | 6,000,000 | 7,400,000 | 15,083 | 3,886 | 14,067 | 390 | 12,234 | (2,139) |

**Masterton District Council Table: Rate change indicators on sample properties – dollar changes from the 2016/17 value based district wide targeted rates.**

The following table shows rate rises or decreases to the general rates for Carterton District Council calculated based on the scenarios in summary table 1.

| Numbers are in whole dollars incl. GST | Land value | Capital Value | General rates Annual Plan | Scenario 1: Uniform CV Change to Annual Plan | Scenario: 2: Uniform LV Change to Annual Plan | Scenario: 3: CV MDC Change to Annual Plan | Scenario 5: LV SWDC Change to Annual Plan | Scenario 4 & 6: CV CDC & CV Minimum Change to Annual Plan |
|---|---|---|---|---|---|---|---|---|
| Residential – low value | 75,000 | 165,000 | 393 | (37) | (102) | 70 | 150 | 0 |
| Residential – medium value | 110,000 | 290,000 | 691 | (65) | (264) | 123 | 105 | 0 |
| Residential – high value | 120,000 | 365,000 | 870 | (82) | (404) | 155 | (1) | 0 |
| Commercial | 225,000 | 475,000 | 2,264 | (1,239) | (1,390) | 402 | 1,484 | 0 |
| Commercial - rural | 95,000 | 160,000 | 763 | (417) | (394) | 136 | 820 | 0 |
| Rural no water race | 1,000,000 | 1,500,000 | 2,860 | 378 | 1025 | (334) | 37 | 0 |
| Rural – 5.45 hectares on Carrington Water race | 230,000 | 575,000 | 1,096 | 145 | (203) | (128) | (430) | 0 |
| Rural - 120 ha -Taratahi | 2,025,000 | 2,250,000 | 4,290 | 567 | 3,577 | (501) | 1,576 | 0 |

**Carterton District Council Table: Rate change indicators on sample properties – dollar changes from the 2016/17 general rates.**

The following table shows rate rises or decreases to the general rates for South Wairarapa District Council calculated based on the scenarios in summary table 1.

| Numbers are in whole dollars incl. GST | Land value | Capital Value | General rates Annual Plan | Scenario 1: Uniform CV Change to Annual Plan | Scenario : 2: Uniform LV Change to Annual Plan | Scenario: 3: CV MDC Change to Annual Plan | Scenario 4: CV CDC Change to Annual Plan | Scenario 5: LV SWDC[49] Change to Annual Plan | Scenario 6: CV Minimum Change to Annual Plan |
|---|---|---|---|---|---|---|---|---|---|
| Commercial – Low Value | 100,000 | 315,000 | 437 | (23) | (221) | 668 | 492 | (12) | 45 |
| Commercial – Medium Value | 150,000 | 515,000 | 655 | 22 | (331) | 1,150 | 863 | (19) | 132 |
| Urban – Low Value | 125,000 | 315,000 | 273 | 141 | (3) | 279 | 191 | (8) | 28 |
| Urban – Medium Value | 250,000 | 615,000 | 546 | 263 | (5) | 532 | 360 | (16) | 42 |
| Rural – Low Value | 240,000 | 585,000 | 524 | 245 | (5) | 91 | 165 | (15) | 314 |
| Rural – Medium Value | 600,000 | 1,055,000 | 1,252 | 136 | 46 | (142) | (8) | 22 | 260 |
| Rural – High Value | 4,000,000 | 5,000,000 | 8,346 | (1,770) | 308 | (3,086) | (2,451) | 143 | (1,179) |

**South Wairarapa District Council Table: Rate change indicators on sample properties – dollar changes from the 2016/17 general rates.**

[49] The differential applied to the general rate is approximately 1 for urban, 2 for commercial and 1 for rural. There are other allocations prior to applying the differential giving a small variance to the annual plan rates calculations.

Appendix 5

**Disclaimer**

This report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

To the fullest extent permitted by law, PJ and Associates accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PJ and Associates accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us. We have not reviewed either the information contained within the funding impact statement nor the application of the rates to ensure compliance with either the Local Government Act 2002 or the Local Government (Rating) Act 2002. Consequently we have not conducted any form of audit. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.