Rating Equity in New Zealand’s Local Government

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Abstract

In New Zealand, councils have a number of different tools to achieve an equitable allocation of rates. Despite increasing debate between councils and ratepayers over funding policy, affordability and the impact on rates, there is limited academic discussion about councils’ funding policies and in particular the principles that inform council decision making in respect to rates. This thesis argues that councils choose between two competing principles in exercising their discretion about rates. One principle is that rates should be set on the basis of the ratepayer’s perceived ability to pay for council provided activities (with the value of ratepayer’s property used as a proxy for ability to pay). The other principle is that rates should be based on an assessment of the benefit each ratepayer can be assumed to receive from that activity, or the amount to which that ratepayer creates a need for the particular council activity.

These principles are considered in respect to local government in New Zealand, particularly what local government is designed or intended to do, including the division of responsibilities between central and local government, and what funding tools councils have available. The thesis then looks at the two equity principles ‘ability to pay’ and ‘benefit received’ and their relevance to the wider context of taxation, before discussing the relevance of these equity principles in New Zealand’s specific local government context. This thesis uses case studies of councils in Otago and Southland to demonstrate how these principles are applied, and how use of different rating tools reflects these principles, within the theoretical framework. It is concluded that both principles are relevant and necessary equity considerations for local government funding decisions depending on the characteristics of each activity. In particular, ‘benefit received’ is identified as an important consideration in the process of decision making and ‘ability to pay’ an important component in regarding the incidence of rating decisions. Property value based rates can be an appropriate measure of allocation on the basis of either ‘benefit received’ or ‘ability to pay’, depending on the nature of the activity being funded.
Acknowledgements

Thank you to those involved in local government issues who agreed to share their time and expertise to explain the complexities of local government funding, including (in no particular order) Dr Mike Reid of LGNZ, Bruce Robertson of the Office of the Auditor General, Nigel Billings of Federated Farmers of New Zealand, Mayor Dave Cull of Dunedin City Council, Mayor Tracy Hicks of Gore District Council, Jackie Kruger, formerly of Invercargill City Council, and Ciaran Keogh, formerly of Environment Southland. Thank you also to Rhondda Davies for her editing skills, especially her ability to navigate and translate my unique approach to referencing.

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Introduction

In New Zealand, local government is funded from a combination of sources, including subsidies from central government, dividends or returns from council owned assets, user charges, development (and financial) contributions, regulatory fees and/or fines, and rates (Local Government Rates Inquiry Panel [Rates Inquiry], 2007b). Of these funding categories, rates are “a type of tax applied to property owners, using a formula based on the value of their property” as well as being “the key source of income for local authorities” (Department of Internal Affairs [DIA], n.d. b).

Relatively recent increases in rates have made questions around rating equity more important. Since 2002, when changes were made to the Local Government Act (2002), average rates have increased by 6.8% per annum against an average increase of 3.9% per annum in the preceding decade above the rate of consumer price inflation (Smith, 2012). These cumulative increases have had an impact upon households and businesses, leading to increasing concern about the affordability of rates for communities, especially those on low or fixed incomes (Meadows, 2011). This has led councils to decide whether to increase rates despite these affordability concerns (examples: Waikato Times, 2011; Nelson Mail, 2008; Mangnall, 2010; Carroll, 2010), or reduce the amount of money spent, or the range of services or activities provided, or both, to ensure rates remain affordable (examples: Chapman, 2009; Loughrey, 2011; Groenestein, 2011).

In addition to the current level of rates, local government borrowing has also increased, with forecasts that this borrowing will increase by 98% from $5.5 billion in 2009 to $10.8 billion in 2019. Opinion differs on whether increased borrowing is a trend that should be viewed with concern. The combined effect of higher rates and increased debt is attracting significant attention, and calls for changes to the sector focus on the structure and responsibilities of local government as factors contributing to the increasing cost of rates (see Clifton, 2012).

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1 The term ‘local government’ refers to both regional and territorial authorities, unless stated otherwise.
2 It is possible that these estimates will be higher than actual expenditure, due to reporting requirements, some of which may not proceed. It is also possible that additional capital or operating expenditure will be included.
3 In Cairns (2012), then Local Government Minister Nick Smith is quoted as being “worried councils are stretching themselves too far”. On the other hand, Local Government New Zealand principal advisor, Dr Mike Reid, highlights the intergenerational equity from use of debt: “Debt is an internationally accepted way of spreading costs over future generations and ensuring the present generation doesn’t pay more than its share.”(Mike Reid, personal communication, April 4 2011).
Relatively high increases in rates over recent years do not mean that ratepayers are not getting value from local government. In other words, increased rates do not necessarily indicate that the expansion in local government expenditure, and therefore rates, is not desirable from the community’s perspective. Further, rating equity and the impacts that rating incidence has on the community and on local government decision-making are both important considerations regardless of the level of rates. However if rates bills continue to rise above the level of inflation, and more importantly above average national income increases, they will comprise an even greater portion of household and business expenditure in the future. This in turn means that the methods councils use to fund their expenditure, and the effects these decisions have on ratepayers and communities will become all the more scrutinised. As rates increase, so does the importance of considering what constitutes equity, efficiency and sustainability in regard to the distribution of the costs of local government. Particularly important are the principles that inform these considerations for those making decisions in the local government context. In addition, recent changes to local government legislation⁴ are motivated at least in part by concerns at the current level of rates (Department of Internal Affairs, 2012).

The principle legislation governing the rates portion of local government funding (the Local Government Act 2002 and the Local Government Rating Act 2002) allows councils the use of a ratepayer’s property value (generally, but not restricted to, land value or capital value) as the primary basis for setting rates and allocating rating costs among communities (Rates Inquiry, 2007). The property value basis is provided to local government as a funding tool on the broad assumption that the relative value of a property provides an accurate enough indication of the property owner’s relative ability to pay. However, the same legislation also provides councils with the ability to tailor rates to change the incidence of the rating burden, to either reduce or increase the amount a ratepayer can expect to pay for their annual rates bill, and by doing so, increase or decrease the amount that other ratepayers pay for a fixed amount of council expenditure.

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⁴ At time of writing, an amendment to the Local Government Act 2002, the Local Government Amendment Bill 2012, was passed by Parliament on 29 November 2012 and received its Royal Assent on 4 December 2012. This Bill amends the purpose of local government statement in the Local Government Act. Under the changes the purpose of local government has been amended from promoting: “the social, economic, environmental, and cultural well-being of communities, in the present and for the future” to now outline that the purpose of local government is “to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.” At the time of writing it is unclear what these changes will mean for local government provision of goods and services, and for decision making and funding. Therefore there is no significant discussion within this thesis of the reasons for this amendment or the potential implications.
Reflecting the autonomy provided to councils in the use of rating tools, there is “considerable diversity in the way local authorities have designed their rating systems” (Rates Inquiry, 2007b, p. 117). However, within the majority of territorial or regional authorities, a ratepayer’s property value remains the primary factor for deciding how much that ratepayer will pay for both regional and district council rates. In 2006/07, an average of 64% of rates revenue was based on property values in New Zealand (ibid.). There remains potential within current legislation for councils to make greater use of alternative rating tools which have the effect of decreasing the reliance on property value. At the same time, local government also has scope to increase the reliance on property value as the basis for rating. By extension, any choices around which principles to apply and how to apply these principles will shift the reliance on property value based rating and therefore the way the incidence of the rates distribution is felt across a community.

The principles behind a council’s allocation of costs are often subject to ideological debate. Some ratepayer representatives argue that the property value basis for setting rates is not only inequitable for some members of the community, but contributes to higher rates increases (Federated Farmers, 2007). Advocates for rating approaches that are less reliant on property values, argue that this would more accurately reflect the ‘benefit received’ from local government activities. The ‘benefit received’ argument is that if rates are tailored to create a better connection between what each ratepayer pays and the benefit they received from council activities, this would create a better connection between what a community wants and what it is prepared to pay, to the effect that communities would not ask for council spending unless it was necessary (as opposed to simply desirable). Proponents argue that this in turn would control what is perceived as a key driver of increasing council expenditure and also encourage more regular and extensive involvement in the local government process from a wider range of people. Those arguing for a stronger focus on the relative ‘benefit received’ from council activities in the consideration of council funding argue that ‘benefit received’ approach is relevant given local government is not involved in transfer or social redistribution, which otherwise necessitates a consideration of the individual’s relative wealth or income (Local Government Forum, 2009).

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5 For instance, Federated Farmers of New Zealand submissions to local government Annual Plans and Long Term Council Community Plans-2010, 2011, & 2012
In opposition to this is the ‘ability to pay’ argument, which in the local government context argues that rating equity incorporates a consideration of the ratepayer’s ‘ability to pay’ using relative property values. Proponents argue that as property is a major asset, albeit only one measure of total assets, there are established equity principles justifying the use of property value as a basis for allocating the costs of local government. This is based on the premise that those with higher property values have a better ability to pay more rates, and should therefore be asked by their councils to do so. Other factors relevant to the debate include the division of responsibilities between central government and local government, and whether there are sufficient funding tools in place for local government to fulfil its responsibilities. For instance, whether local government has either a direct or indirect role in addressing welfare concerns for those in the community through either expenditure or through funding mechanisms, and if so, whether local government has sufficient tools to achieve these ends when compared to the tools available to central government.

To complicate the issue, council activities differ in their private and public good characteristics (Covec Limited, 2007b). For some council activities the benefit of council activities is roughly equal for all ratepayers (‘public good’ or community services, for instance). For other activities, some ratepayers can be assessed to receive relatively more direct benefit. Even within those activities where the beneficiaries are easily identifiable there is often dispute about how to allocate costs or source funding using the available rating tools. Particularly from the perspective that the funding of activities through rates should reflect the relative benefit of an activity to ratepayers, this difference in the nature of council activities means that one method of funding may be deemed equitable or efficient for one type of council activity, yet wholly inequitable or inefficient for another type of council activity.

Nor are all councils or communities the same. Each council represents a different community or communities, and often different community preferences and opinions, including different perspectives of what the role of local government is and/or should be. The challenges, including the cost drivers, wealth, relative population, demographics, economic reliance and geographical make-up of one council may be significantly different to those faced by another council. This is particularly relevant given that a

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6 These are simplifications of the two arguments, which will be expanded upon in Chapter Three.

7 Dollery notes that while this is a function of central government, “sub-national governments also invoke equity considerations in their decision making and regional and local government activity can have significant redistributive effects” (Dollery, 2008, p. 11).
council’s expenditure should reflect community expectations to some extent. These factors have an impact on the discussion of rating equity and efficiency particularly where rates are considered as a means of achieving community feedback on the desirability of a council undertaking an activity, and the desired level of expenditure for this activity.

The discussion around the principles behind local government funding, particularly rates, is not a new one. In November 2006, then Local Government Minister Mark Burton announced an inquiry into local government rates which included the scope and effectiveness of the principle legislation behind local government, the Local Government Act 2002. The inquiry was undertaken by an independent panel with three members, David Shand (Chair), Graeme Horsley and Christine Cheyne, who released their final report in August 2007. The panel’s report, titled ‘Funding Local Government’ (‘the Rates Inquiry’) was designed to “provide an independent assessment of New Zealand’s local government rating system and identify options to enhance rates as a funding tool for local authorities” (Rates Inquiry, 2007b, p.264). Equity and efficiency concerns, raised by some of the 926 submitters to the Inquiry in regard to local government’s funding of activities through rates, can generally be divided into the two equity considerations identified in the report: ‘ability to pay’ and ‘benefit received’ (ibid., p.8). The report and the Inquiry’s supporting documents will be relied upon for analysis throughout this thesis.

The Inquiry’s report outlined the various rating tools available and categorised these tools as either regressive, in that the rating tool imposes a greater relative burden on those with a lower property value (and therefore assumed ability to pay), proportional, in that the amount paid was in proportion to the relative value of a ratepayer’s property, or progressive, in that it imposes a greater relative burden on those with a higher property value (and therefore assumed ability to pay). However, despite the report providing an extensive overview of the use of rating tools and the relevance of these tools, the report’s terms of reference did not provide scope for a deep analysis of the philosophies underpinning the two competing arguments (‘ability to pay’ and ‘benefit received’), nor a detailed assessment of how these principles are applied or balanced by local government decision makers in practice.

This thesis builds upon the work and findings of the Inquiry, by taking a step back to ask what factors councils should consider when setting rates. This requires a consideration of the funding tools available to councils and the extent to which councils use these tools, an aspect already covered by the 2007 Rates Inquiry. This thesis will draw upon the
Inquiry’s findings in these areas. Another aim is to draw out and consider the report’s discussions and findings around some of the implications that use of rating tools may have. More broadly, this thesis provides further background to the current and likely future discussions around how rates are and should be set in New Zealand, and to what extent rates should be structured to achieve what are often competing criteria or equity outcomes.

Chapter Two will provide a background discussion of the broad context of local government funding, particularly the parameters provided to local government by legislation. This chapter will discuss what local government is and how this is important in regard to rating. Consideration will be given to the various agencies with oversight of local government funding, and the importance of the community consultation processes in place to inform a council’s decisions. The chapter will draw these factors together to consider the current rating tools and what use of these tools mean in terms of outcomes, and how these tools are commonly used. It will be informed by the Rates Inquiry report and the Inquiry’s supporting documents, and the common criticisms of rates from both sides of the debate.8

Chapter Three addresses the broad discussions that sit underneath the practical question ‘what factors do councils consider when setting rates?’ It will discuss the philosophies underpinning the two main competing principles (‘ability to pay’ and ‘benefit received’) to outline the justifications for each approach, and how this can be, or is, reflected in the rates funded portion of local government expenditure. Key questions include whether these bodies of theory are valid as theoretical approaches to funding local government expenditure in New Zealand, what criteria should be used to assess local government funding, and whether the nature of local government should mean that rates should be set in line with either principle, or a combination of both. The chapter will consider the applicability of the two competing principles discussed: ‘ability to pay’ and ‘benefit received’, within New Zealand’s local government context.

Chapter Four will outline various examples of rating approaches. This will incorporate interviews with decision makers at a selection of councils, including elected local government representatives and council staff, as well as agencies with oversight of or involvement in local government. These case studies will be used to discuss how these

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8 The scope of the thesis will be a discussion of local government rating within the unique example of New Zealand’s governmental arrangements, structures, funding and expenditure systems. There is no discussion of how local government is funded in other countries.
principles are balanced in practice, the practical difficulties councils face in applying one principle or another and what factors decision makers within councils consider when they look at the question of rating equity. Interviews with representatives of specific councils are selected from councils within Otago and Southland. While the selection of councils is over a limited geographical area, these initial interviews indicated continuity between responses to the key questions being asked. As a result there are no further interviews with council representatives in other areas as there was not likely to be anything more learned from any further interviews.

While the thesis will take into account the differences in duties and expectations between regional and territorial authorities as different forms of local government, there is no detailed discussion of the varying demographic or socio-economic differences within and between each council’s constituencies. The aims of Chapter Four are to test and compare the principles and contextual application of these principles developed over Chapters Two and Three. This is in order to get a broader sense of how those making decisions in the selected councils approach the task of setting rates, the principles they believe should be prioritised when setting council funding policies, and why. It is also important to consider whether councils apply the same principles to rating and rating equity in the same manner, and if there are differences to this application, what these differences are and why they exist.

The conclusion to this thesis, Chapter Five, will compare the theory developed in the earlier chapters with the practices described in Chapter Four, to reconcile the two. This chapter will summarise any clear themes that result from the considerations addressed throughout the preceding chapters, concluding with a discussion on why these principles are relevant considerations for local government funding decisions in New Zealand’s local government context.
CHAPTER TWO
Local government accountability and rating tools

Councils are subject to legislation set by central government, and are overseen by external agencies and individuals. Despite this external oversight, councils do have a significant degree of autonomy when deciding what activities to undertake, the level of service or the cost of these activities, and how activities will be funded. Importantly, however, these decisions must be made in consultation with the community (Rates Inquiry, 2007b). While there is direction provided to councils around the processes they use to develop their funding policies and some advice on the use of rating tools, there are no prescribed rating outcomes that councils are required to achieve. Generally, councils have the ability to translate the relevant legislation, and apply the available rating tools, in a manner that reflects either the ‘benefit received’ principle or the ‘ability to pay’ principle. As Chapter Four will show, the effect is that both principles are reflected in the rating outcomes, albeit to varying degrees.

This chapter will briefly summarise some of the factors relevant to local government accountability and funding decisions, including the principle legislation governing rating decisions, the Local Government Act 2002 (LGA)\(^9\) and the Local Government Rating Act 2002 (Rating Act) (Bruce Robertson, personal communication, 6 September 2011).\(^{10}\) The role of the community in informing local government decision making and the importance of the community as an accountability measure will also be outlined. This chapter will also look at the rating tools available to councils and how use of these tools can align rating outcomes with either of the two principles to be discussed in Chapter Three, the principle of ‘ability to pay’, and/or the principle of ‘benefit received’. Finally, this chapter will summarise the House of Representatives’ debate during the passage of the LGA and

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\(^9\) At time of writing, an amendment to the Local Government Act 2002, the Local Government Amendment Bill 2012, was passed by Parliament on 29 November 2012 and received its Royal Assent on 4 December 2012. This Bill amends the purpose of local government statement in the Local Government Act. Under the changes the purpose of local government has been amended from promoting: “the social, economic, environmental, and cultural well-being of communities, in the present and for the future” to now outline that the purpose of local government is “to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.” It is currently unclear what these changes will mean for local government provision of goods and services, and for decision making and funding. Therefore there is no significant discussion within this thesis of the reasons for this amendment or the potential implications.

\(^{10}\) Bruce Robertson is the Assistant Auditor-General for the Office of the Auditor-General’s (OAG) Local Government section. The OAG website notes that the Auditor-General has “a statutory duty to issue opinions on local authorities' long-term plans under sections 84(4) and 94 of the Local Government Act 2002”. The OAG has “worked with local government to put in place the resources, standards, and know-how to audit councils’ 10-year plans... and promote best practice in long-term planning” (Office of the Auditor-General, 2007)
the Rating Act, to ascertain the intent of the legislation governing the requirements councils are to meet when they make funding/rating decisions.

**Local government accountability**

As discussed further in Chapter Three, what local government is and how the sector makes decisions are both factors relevant to questions around how local government should be funded. These broad factors are important to the debate on rating equity for two reasons. The first is because the perceptions and preferences of the local community are an important factor for council decision makers to consider. The second reason is because these communities are different, and both the structure and funding of local government is largely designed to accommodate these differences. The following chapters will expand upon these ideas further and how they are relevant to rating equity, however a brief summary provides some context to this debate.

Knight (2011) divides local government accountability factors into two categories, the formal and the informal. In the formal category is the “number of external public functionaries like the courts, Auditor-General, Ombudsman, and ultimately the relevant Minister have some responsibility for ensuring the legislative obligations are observed”. In addition to these formal measures of accountability are the “informal judges of compliance: ratepayers, media, fellow elected members, and so forth” (Knight, 2011, p.5). The community is a fundamental component of local government, both as a measure of accountability and as a factor in local government’s decision making processes; “the very raison d’être of local government is the facilitation of citizen participation and local self-government” (ibid., p. 27). Decision making in New Zealand’s local government is devolved to the local level; “broadly speaking the system has not been set up for one answer fits all… the decision on how local communities will pay for their goods and services is to be determined at the local level” (Bruce Robertson, personal communication, 6 September 2011).

The Office of the Auditor-General, for example, has an auditing and advisory role in regard to local government decision making. However, oversight of local government decision making is largely around the consultation process, and whether or not the relevant decision made after consultation, can be considered ‘unreasonable’ (Bruce Robertson, personal communication, 6 September 2011). The Office of the Auditor-General notes that the “approach of New Zealand courts to the question of unreasonableness is more or less settled, particularly with regard to local authorities,
following the decision of the Court of Appeal in the *Wellington City Council v Woolworths* case. That case involved a review of the council’s differential rating system. P. Richardson, delivering the judgment of the Court, stated:

*For the ultimate decisions to be invalidated as “unreasonable”, to repeat expressions used in the cases, they must be so “perverse”, “absurd” or “outrageous” in [their] defiance of “logic” that Parliament could not have contemplated such decisions being made by an elected council*” (Office of the Auditor-General, 2007).

In addition to being an important component of local government decision making and accountability, each council is charged with representing different geographical areas and a range of circumstances. The individual communities that New Zealand’s councils represent “range in population from 3,400 to 1.3 million inhabitants” (Department of Internal Affairs, n.d. a) and councils’ areas “vary considerably in population density, socio-economic and economic composition” (ibid.). The result is “councils operate under very different circumstances and with different priorities and resources to address” (ibid.). These differences are fundamental to why local government is structured as it is, rather than a more centralised decision making and ‘one size fits all’ policy. In New Zealand local government’s structure recognises that “different communities of interest have different needs and preferences for the provision of public facilities and services”, and that these differences “arise from a mixture of circumstances, aspirations and distinct community identity” (ibid.).

While the range of responsibilities and functions delegated to local government from central government (and the interpretation of whether a responsibility should be delegated to the local government level) varies,¹¹ the general principle remains constant. Responsibilities are delegated to local government by central government through a legislative framework that empowers political judgement and accountability at the local government level (Knight, 2011). While there are legislative requirements to follow, each individual community is left to establish how to execute these requirements in accordance with their own position and preferences, and this is borne out in the applicable case law (Bruce Robertson, personal communication, 6 September 2011). Therefore the requirement to consult with the community, and the processes councils are to follow, are important components of local government’s autonomy.

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¹¹ Brian Easton, in a 2001 article, provides a brief summary of the ebbs and flows of local government responsibilities and argues the case for greater subsidiarity in the local government context.

The Local Government Act 2002 (LGA)\textsuperscript{12} provides direction on what councils can do and how they have to go about doing it, while the Local Government (Rating) Act 2002 (Rating Act) provides “the detailed legislative empowerment for council rating” (Rates Inquiry, 2007b, p. 42). The provisions of interest in the LGA for the purposes of this thesis are the directions councils are required to consider when funding their activities. In the Rating Act, the particular areas of interest are the tools councils have been provided to align these considerations with rating outcomes.

The LGA provides a set of criteria councils are to consider when developing the approach for funding their activities, specifically Section 101 (3) which states the funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of:

\begin{itemize}
  \item \textit{a) in relation to each activity to be funded,—}
    \begin{itemize}
      \item \textit{(i) the community outcomes to which the activity primarily contributes; and}
      \item \textit{(ii) the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and}
      \item \textit{(iii) the period in or over which those benefits are expected to occur; and}
      \item \textit{(iv) the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and}
      \item \textit{(v) the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and}
    \end{itemize}
  \item \textit{(b) the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.}
\end{itemize}

This outlines that ‘the funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of’ the factors that follow within the section 101 (3). While funding ‘must be met’ with appropriate funding methods, councils are only required to consider these; there is no prescription for how this consideration should be applied and no prescription for how certain activities are to be funded. Rather there is a set of factors for councils to consider, presumably with intent to allow councils sufficient autonomy and flexibility to reflect each

\textsuperscript{12} As noted earlier, at time of writing the the overall purpose of Local Government has been changed as a result of the Local Government Amendment Bill 2012, which was passed by Parliament on 29 November 2012 and received its Royal Assent on 4 December 2012. The impacts that this changed ‘job description’ for local government will have on rating issues are unclear.
community’s unique needs and preferences. This enables or requires councils to develop their own answers to how these aspects are to be reflected in council funding policy.

Also of interest is the requirement under section 101 (3) of the Local Government Act 2002 for councils to consider the aspects that follow “in relation to each activity to be funded”. Councils are asked to look at the specific activity, the characteristics of that activity, and then make a judgement on the range of considerations that follows within the Act. The requirement for different funding approaches to reflect the unique characteristics of each activity is an important component of the Act. The Rates Inquiry noted that these provisions allow “councils to consider the public good or private good characteristics of an activity” and “recognises that council expenditure, particularly on infrastructure, may provide benefits over a number of generations of ratepayers” (Rates Inquiry, 2007b p.41).

In terms of reflecting either the ‘ability to pay’ or the ‘benefit received’ principle, section 101 (3) of the Local Government Act 2002 gives clear direction to consider the benefit of each activity with a view to rating appropriately. This includes paragraph (a)(iv) which “is a user pays or polluter pays type of consideration that would support the use of fees and charges or metered use of a service” (ibid., p. 41). Balanced against this is Paragraph (a)(v), which “allows councils to consider the administrative costs of funding mechanisms. In some cases the fairest funding mechanism may have high costs of collection relative to the revenue gained” (ibid., p. 42). Taken in conjunction, (a)(iv) reflects a ‘service charge’ approach, (a)(v) acknowledges that the costs, of accurately identifying this and rating appropriately, may be prohibitive.

Section 101 (3)(b) expands the criteria councils are to consider significantly, to include “the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.” While paragraph (a)(iv) may indicate a user pays type of consideration, the requirement to consider the ‘overall impact’ on current and future aspects of community well-being, particularly the economic and social aspects, could be read as a justification for councils to consider a ratepayer’s relative ability to pay when setting rates.

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13 Inclusion of these considerations in the LGA aligns the legislation with similar provisions in the purpose of the Resource Management Act 1991.
Practically, these factors result in opportunity for one council to apply the legislative criteria in an entirely different fashion to another council, and provides councils with what are often competing choices between aligning perceived ‘benefit received’ with the amount of rates paid, and the community outcomes in terms of relative ‘ability to pay’. These underlying principles will be discussed in greater detail in Chapter Three. For the purposes of this chapter it is sufficient to note that there is “considerable diversity in the way local authorities have designed their rating systems” (Rates Inquiry, 2007b, p. 117).

**Rating tools**

While councils are provided with property value as the primary basis on which to allocate rates, they are also provided with a number of rating tools through the Local Government Rating Act 2002. These tools can be used by each council to tailor rates and rating outcomes as relevant. These rating tools are generally divided into three broad categories: the general rate, targeted rates, and uniform annual general charges. Differentials can also be applied to both the general rate and targeted rates to change the allocation of rates among ratepayer types (and change the reliance on property value as the basis for allocation). In addition, councils can recover costs through fees and charges.

**Basis for rating**

The main property value based rate is the ‘general rate’ which, as the name suggests, is a general rating tool which is applied “to all rateable land within a local authority area and have traditionally formed the majority of local authority funding” (Rates Inquiry, 2007b, p. 44). The general rate is “appropriately used where a local authority decides that all ratepayers should pay for all or part of a particular council service” (ibid., p.43).

For rates set on the basis of property value, the Rating Act provides three different types of property value for councils to set rates, land value, capital value, or annual value. “Each local authority, after consulting with its community, can decide which basis to use”,

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14 While some councils and rating guidelines, categorise the UAGC as part of the ‘general rate’ because it is paid ‘generally’ by all eligible properties, the UAGC has been separated from the general rate for the purpose of this thesis because the different form and incidence of these rates are relevant to the factors discussed in this chapter.

15 While not strictly a rating tool, fees and charges are included in this description to reflect the principles behind these as funding sources as ‘benefit received’ alternatives to rates. Some of the funding sources available to councils, for instance development or financial contributions, have been excluded from this chapter where inclusion would not add to the discussion of the underlying principles.

16 As discussed later in this chapter, property value can also act as a basis for targeted rates.
and councils can also “use a mix of these bases; for example, land value for the general rate and capital value for a targeted rate” (ibid., p. 46). These are described as:

- **capital value** – the price that a property probably would have sold for at the date of the rating valuation (excluding chattels, etc.)
- **land value** – the price that a property’s land component probably would have sold for at the date of the rating valuation (including any work on drainage, excavation, filling, retaining walls, reclamation, and so on)
- **annual value** – the greater of (i) the estimated gross annual rental less 20% (or 10% for vacant land) or (ii) 5% of the property’s capital value (ibid., p. 46).

The relative incidence of cost shifts among the properties, depending on the choice of basis for the general rate; rating outcomes depend on the value of a property relative to the value of other properties. A council may consider changing (for example) from land value to capital value as a basis for the general rate. While the change will still rely on a property value basis to allocate the costs through rates, the incidence of rates will be different. Some properties have a relatively greater level of capital value compared to land value. Chapter Four includes some examples of how individual councils make use of these rating tools. For the purpose of briefly demonstrating the implications of these funding choices, take three properties:¹⁷

- a residential property, with a capital value of $500,000 and a land value of $250,000
- a motel, with a capital value of $1.5 million and a land value of $500,000
- a farm, with a capital value of $5 million and a land value of $4.5 million

For the purposes of simplicity, examples provided below for each rate type will assume that the imaginary community is within Pohewa District Council¹⁸ boundaries, with the council comprised of only these properties. Scenarios using these examples (the residential property, the motel and the farm) will consider both the relative amount paid and how the choice of the basis for the general rate shifts the incidence of rating costs.

Pohewa District Council’s general rate based expenditure is forecast at $21,000 for the year ahead. Because the general rate is based on property value (examples for both land and capital values are provided below), the amount paid in rates by each property is

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¹⁷ These examples are not intended to be representative of any particular properties or national average, but to demonstrate how the incidence of rating changes as a result of different rating approaches or the rating basis.

¹⁸ Pohewa is a Māori verb for which one of the definitions is ‘to imagine’.
reliant on the relative value of each ratepayer’s property (again, assuming a community is comprised of only three properties):

Under a **capital value** based general rate (total capital value of the “community” is $7 million) the $21,000 general rate expenditure is allocated as follows:
- The residential property, with a capital value of $500,000, pays a general rate of $1,500,
- The motel, with a capital value of $1.5 million, pays a general rate of $4,500,
- The farm, with a capital value of $5 million, pays a general rate of $15,000

Under a **land value** based general rate (total land value of the “community” is $5.25 million) the $21,000 general rate expenditure is allocated thus:
- The residential property, with a land value of $250,000, pays a general rate of $1,000,
- The motel, with a land value of $500,000, pays a general rate of $2,000,
- The farm, with a land value of $4.5 million, pays a general rate of $18,000

Regardless of the choice of basis for the general rate, the amount paid on a property value based rate increases as the relative value of a property increases; however the incidence of rating shifts as a result of the choice of rating base.

The Rates Inquiry recommended “the promotion of a common system of valuation for rating purposes and strongly favours the capital value system because of the closer relationship of capital values with household incomes” (ibid., p. 8). The Inquiry found that “valuation problems are greater under land value rating systems... capital value also has the advantage of being a somewhat more progressive system, especially for rural properties” (Rates Inquiry, 2007b, p.118) and that “the use of capital value for rating gives a better relationship of rates to incomes than does land value” (ibid., p. 117). In December 2011, Waimakariri District Council chose to move to a capital value basis for rating from the previous land value basis, noting that “the majority view held that, under the options available for general rates, a capital value based system provided the most equitable and fairest means of rating for the community”. At the same time Council acknowledged that this decision apportioned “the rating load differently between ratepayers” (Waimakariri District Council, 2011a).

In addition to allocating rating costs on the basis of a measure of a ratepayer’s property, councils can also adopt a targeted rate. Targeted rates are used where the local
authority decides that all or part of the cost of a particular function or group of functions should be funded by a specific rate, and perhaps targeted to particular categories of rating units (Rates Inquiry, 2007b). The targeted rate is reliant on some differentiating factor, for instance the primary land use of a property, connection to a service (for instance sewerage, wastewater or rubbish collection), or based on the geographical location or ward within which the property is located. Targeted rates “are often used as a proxy for a user charge where the costs of individual charging (such as water meters) may be prohibitive” (ibid., p. 44).

The Rates Inquiry divided targeted rates into two broad categories: 19

1) Targeted value-based rates, which are based on the value of a ratepayer’s property (generally land or capital value). These are “typically used to fund roading, stormwater (sic), tourism promotion, water supplies, and sewage treatment” (ibid., p.44). Under a property value based targeted rate, some properties in a community are ‘targeted’ to pay a rate while others are excluded from paying the rate, though as with any property value based rate the relative amount a ratepayer eligible for the rate pays is still reliant on the relative value of the ‘targeted’ property.

2) Targeted uniform or fixed rates. Again, properties in a community are “targeted” for the rate, but the amount paid is the same per eligible property, 20 regardless of the relative value of that property.

Using the example properties from earlier, take the example of Pohewa District Council setting a targeted value based rate for a rubbish collection service, where the council deems that only the properties that receive the service should pay, with land value used as a basis for the rate. The residential property and the motel receive the service and therefore pay the targeted rate; the farm does not use the service and therefore is not charged the targeted rate. The total cost of the service to the council, which the council is trying to recover wholly through the targeted rate, is $750.

- The residential property, with a land value of $250,000 and a receiver of the service, pays a targeted rate of $250,

19 Practical examples of targeted rates are provided and discussed in Chapter Four.
20 Or more accurately, per eligible rating unit. In some instances contiguous properties that are owned by the same person or entity may be eligible for only one charge, while a property with multiple dwellings on one title may be eligible for multiple charges. The ‘units’ eligible for a UAGC may differ from the amount of titles within a District. Depending on an individual council’s unique policies, a title may pay more than one rate if it has more than one “Separately Used or Inhabited Part”, generally a residence.
- The motel, with a land value of $500,000 and a receiver of the service, pays a targeted rate of $500,
- The farm does not receive the service and is therefore not rated, under the targeted rate approach.

**Uniform rates**
In comparison to property value based rates, uniform annual general charges (UAGC), or uniform targeted rates (UTR), are rates set where the amount paid is the same by all eligible properties (rating units). In the instance of UAGC, the same dollar value amount is paid by all eligible rating properties.\(^{21}\) For a UTR, a rate may be set at the same amount, but payable by only a section of the community. The important distinction between the UAGC and the general rate is that where the general rate allocates rates based on property value as an estimate of the ratepayer’s relative ability to pay, the UAGC is the same for all properties, regardless of the value of a property. The UAGC is regressive in nature, as it is set at the same rate per property regardless of the ratepayer’s relative property value (Rates Inquiry, 2007). As will be outlined in some examples in Chapter Four, the UAGC is often used as a method of funding activities where relative benefit is regarded as ‘per person’ in nature (Local Government New Zealand, 2002). In order to limit the regressive impacts of the UAGC, councils are allowed to recover only 30% of the total rates take through a UAGC under the Rating Act.\(^{22}\)

Using the example properties above, a UAGC would mean all properties within a council’s boundaries would pay the same amount. However, for a uniform targeted rate, some ratepayers may be excluded. Consider a uniform targeted rate for a hall in the rural area. The council decides that only those in the rural environment (in this example, the residential property and the farm) are eligible for the rate as these properties receive direct benefit from the presence of the hall, and that the benefit is equal to all properties in the affected area, regardless of the value of the property, and that the appropriate rating tool is therefore a targeted uniform rate. Use of this rate means that each ratepayer pays the same amount regardless of relative property value. The total cost of the service (wholly recovered through the targeted rate) is $1,000.

\(^{21}\) As above (regarding targeted rate eligibility), the eligibility for UAGC depends on each individual council’s unique policies. Some titles with multiple properties are eligible for multiple UAGC, and multiple contiguous titles with one dwelling may only be eligible for one charge.

\(^{22}\) Unless otherwise noted, the term ‘uniform charge’ will be used throughout to refer to both the UTR and the UAGC.
- The residential property is in the affected area, and pays $500,
- The motel is not in the affected area and is therefore not rated, under the targeted rate approach,
- The farm is in the affected area, and pays $500.

**Differentials**

Councils can also ‘target’ rates or shift the incidence of rating through differentials. Differentials are effectively a percentage multiplier or reducer applied to a property’s value, to change the rate that property would otherwise pay on an undifferentiated rate. A differential is generally applied on the basis of a property's primary land use. The differential is “usually expressed as multipliers of the residential rate... for example, if the residential rate is $1.00 per $1,000 of property value and the business rate is $2.50, the business differential is said to be 2.5‖ (Covec Limited, 2007b, p. 38). Differentials may be used for a number of reasons and for both the general rate and targeted rates, but are most commonly used for the general rate (ibid.), with the aim of increasing the load on business properties, decreasing the load on rural properties, or easing the burden on high value properties (ibid.).

Consider the example properties discussed earlier. The Pohewa District Council has a land value based general rate, with general rate based expenditure forecast at $21,000 for the year ahead. Council decides, after a review of the activities funded through the general rate, that it will base the rating distribution on perceived relative benefit, and use differentials to align this perceived relative benefit with the amount each property pays. After consideration the council decides that:

- The residential property, which currently pays a general rate of $1,000, receives 10% of the benefit from council activities and should therefore be paying 10% of the general rate, an *increase* to $2,100.
- The motel, with a land value of $500,000, which currently pays a general rate of $2,000, receives 40% of the benefit from council activities and should therefore be paying 40% of the general rate, an *increase* to $8,400.
- The farm, with a land value of $4.5 million, which currently pays a general rate of $18,000, receives 50% of the benefit from council activities and should therefore be paying 50% of the general rate, a *decrease* to $10,500.

As a result the hypothetical example council can decide to adopt differentials to tailor the general rate in such a manner that the amount paid by each example matches the
amount council believes accurately reflects the relative benefit they believe each property receives. Examples of this will be discussed in Chapter Four.

‘User based’ charges
In addition to rating, fees and charges can be used where “the local authority decides that all or part of the cost of a particular function should be met by the individuals who benefit from the particular service” (Local Government New Zealand, 2002 p. 15). The recovery of costs through fees and charges are important to the rates debate from two important perspectives. The first is that the recovery of costs through a fee or a charge reduces the cost of an activity that would – generally - otherwise be recovered through rates. The second is that, where the direct beneficiaries of an activity are clearly identifiable (ie, where the activity is largely of a private good nature as opposed to a public good), a significant proportion may be funded through ‘user charges’. In setting fees and charges councils have to have the ability to both identify those who benefit from the service, and charge for that service.

A supporting paper to the 2007 Rates Inquiry, ‘Trends in the Use of Rating Tools’ (Covec Limited, 2007b) noted that benefits from local government spending can be broadly divided into public and private good characteristics, and that “most services with high private benefits are funded (at least partially) by user charges, only a small portion of private benefits are funded by rates” (ibid. p. 2). The report noted that the extent to which “funding matches the distribution of public benefits depends on the service in question” (ibid., p. 2). The fees and charges portion of a council’s revenue is therefore aligned with the ‘benefit received’ principle, that is, those who receive a benefit from a council activity are asked to pay some portion or all of the costs of providing that service.23

Recommendations of the 2007 Rates Inquiry
The key findings of the Inquiry in regard to use of rating tools can be found in Appendix 1. In general, the Inquiry found that “overall rates tend to be somewhat regressive in their impact” (Rates Inquiry, 2007b, p. 2), and that, owing to the property value basis, “general rates are less regressive in relation to income than uniform targeted rates and generally less regressive than user charges... where councils have greater reliance on value-based general rates it is likely the rating system will be more progressive” (ibid., p. 122). The report also found that that “UAGCs (and other uniform charges) bear little

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23 Local government is also the recipient of significant amounts of funding from central government, mainly in the form of transfers for roading expenditure from central government’s national roading revenue sources.
relationship to ‘ability to pay’; that as a flat charge, UAGCs are regressive. In contrast, value-based rates have a reasonable fit with ‘ability to pay’. Although the closeness of this fit is influenced by the choice of valuation base and the use of differentials” (ibid., p. 125). Notably, since the 2002 Rating Act “was introduced, rating systems have become generally more regressive”, with “rates based on the value of properties... reducing, with a higher proportion of rates now coming from flat charges (uniform annual general charges and targeted uniform rates)” (ibid., p.117). If the assumption is that a property value based rate is the primary tool indicating the application of the ‘ability to pay’ principle, a move away from property value based rates potentially indicates a decision to move—if not towards the ‘benefit received’ principle—then at least away from the ratepayer’s assumed relative ‘ability to pay’.

The 2007 Rates Inquiry also made a number of recommendations around the use of rating tools (please see Appendix 1). In particular the panel recommended that local government’s power to set differentials and uniform annual general charges should be removed and that councils should instead make greater use of targeted rates, “for which a greater degree of transparency is required where there is a justification for levying different classes of ratepayers differently” (ibid., p. 118). The panel found that both differentials and uniform annual general charges appear to be “set arbitrarily, with little relationship to the services they are to fund” (ibid., p. 118), underlining the importance of transparency in local government rating. In regard to uniform annual general charges in particular, the panel noted that the power to set these rates should be removed on the basis of both transparency and equity grounds. The panel noted that, while this would not prevent UAGCs being replaced by uniform targeted rates (which would have the same effect in terms of incidence), it would require councils “through an explicit requirement in section 101(3) of the Local Government Act 2002 to consider rates affordability when designing the rating system” (ibid., p. 118).

Debt is another equity tool available to councils, as a means of providing intergenerational equity. This is where a council decides to spread the allocation of the capital costs of an asset over the life of that asset, by borrowing to fund the expenditure and then repaying this debt over time. Intergenerational equity deals with “the way that capital costs are recovered over time” (ibid., p. 128) rather than the distribution of rates among the community at a point in time, but the fundamental basis for the use of debt as a tool to achieve intergenerational equity is that the allocation of costs should reflect relative benefit over time. Other than to note the possibility of using debt as a tool, and to note that the underlying principle behind intergenerational equity is based on an assessment of relative benefit over time, this thesis will not discuss intergenerational equity in any detail.

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The different approaches to rates as a form of taxation and how these reflect different ideological views of tax and government will be discussed at greater length in Chapter Three. It is useful, however, to consider briefly now the differences between progressive, proportional and regressive taxation to inform the discussion in New Zealand’s local government context.

Under a *progressive* tax, the average rate of tax increases as income (or consumption) increases.  

Under a *proportional* tax, the average rate of taxation remains the same regardless of the size of consumption or income.

A *regressive tax* is one where the average rate declines as income increases, so that the tax takes a steadily reducing amount of income as that income increases.

Notably, the term “regressive tax” is also applied to instances where everyone paying the tax pays the same amount of money, for example a poll tax, or as discussed in Chapter Three, a uniform charge (Rates Inquiry, 2007b). In the instance of a ‘flat tax’ the regressive nature of the tax refers to the relatively greater cost impact of that tax on relatively lower income payers.

**Rates rebate scheme and remissions policies**

The Rates Inquiry acknowledged that “pockets of affordability problems will inevitably exist as a result of low income and high housing costs” (ibid., p. 197). To address affordability concerns directly, central government have implemented a Rates Rebate Scheme, which was established in 1973 as a result of The Rates Rebate Act 1973 “to provide a subsidy to low-income homeowners on the cost of their rates” (Department of Internal Affairs, n.d. b) In following years central government has revised the scheme and increased the rates rebate thresholds significantly, making more people eligible for

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25 For example, New Zealand currently has a progressive income taxation system, with earnings up to $14,000 taxed at a rate of 10.5%, earnings between $14,000 and $48,000 at a rate of 17.5%, earnings between $48,000 and $70,000 at a rate of 30% and earnings over $70,000 at a rate of 33% (Inland Revenue Department, 2011).  

26 New Zealand has a proportional consumption tax of 15%, the Goods and Services Tax (GST) (ibid.).

27 Using New Zealand’s progressive taxation system as an example, instead of the rate of tax increasing as the rate of income increased, the higher rates of income would incur a lower rate of tax, for example income up to $14,000 may be taxed at a rate of 33%, earnings between $14,000 and $48,000 at a rate of 30%, earnings between $48,000 and $70,000 at a rate of 17.5% and earnings over $70,000 at a rate of 10.5%. While the nominal amount paid by those on higher incomes increases, therefore arguably meeting the requirement for vertical equity, the relative tax burden falls more on those with lower incomes than under a progressive or proportional tax.
the rebate (ibid.,). The Rates Rebate Scheme attempts to target affordability concerns based on each individual’s specific need, taking account of the total amount of rates a homeowner pays, the number of dependants the homeowner is responsible for and the household’s total gross income. For the 2011/12 year the income threshold for a full rates rebate is $23,240 and is increased by $500 for each dependant in the household, while the total rebate available is $580. Although a ratepayer’s income might exceed the income threshold a rates rebate could still be granted, depending on the rates amount and number of dependants that ratepayer is responsible for (ibid.).

While councils can implement their own rates remissions policies, either to offer support to certain members of the community (for example community organisations), or in reaction to specific events,28 the Rates Rebate Scheme is applicable to all councils and subject to significant uptake. In 2009/10 the scheme paid rebates of just over $47 million, and it is estimated that around 62% of those estimated to be eligible took up some rebate (New Zealand Parliament, 2010). This offers a perspective into the division of responsibilities between local and central government, particularly around addressing affordability concerns. Although applicants apply to their council for a rates rebate, the funding for the scheme is sourced from central government.

**Parliamentary debate over Local Government Bill 2002**

Debate on both the Local Government and Rating Acts saw those to the right of the political spectrum (National and ACT) arguing from the perspective that rates should be set on the basis of the relative benefit received from activities. This was primarily justified on the basis of the significant difference in amounts paid as a result of the property value basis for rating, which ignored the relative ‘benefit received’ from an activity. Those to the left of the political spectrum (Labour, in government at the time), appeared relatively comfortable with the property value basis for rating, the range of tools provided, the outcomes that would result and particularly that each council could decide best how to make use of these tools to fit the needs and preferences of their communities. Chris Carter of Labour (2001) explained that these questions were for the councils themselves: “Setting rates is the responsibility of locally elected politicians. We have made that absolutely clear in the new legislation”.29 However, the ideological differences were most

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28 For instance, Christchurch City Council implemented a rates relief package for property owners worst affected by the September 4 2010 earthquake, February 22 2011 earthquake and aftershocks.
29 A majority of concerns from those opposing the bill appeared to be regarding the additional expense expected to be incurred by councils (including reporting requirements) adding to costs for the ratepayer. The Hon. Dr Nick Smith (2002), for instance, pointedly argued “the proper title for this Bill should be the ‘Rate Increases Bill 2002’, because... the bottom line is that it will cost ordinary New Zealanders a hell of a lot more,
notable in the debate around clause 97Q, an ‘Obligation to provide free membership of libraries’. Opposition to this clause appeared to be based on the idea that there should be some form of ‘user pays’ cost recovery for council services, including libraries. David Carter (National Party MP) in particular opposed this clause, justifying opposition on the basis that the amounts paid on a property value basis bore no relationship to the relative ‘benefit received’. The underlying objection appeared to be both the relative incidence of costs, and whether this was a fair reflection of relative benefit. Carter quoted a “Marlborough farmer” who paid “$1,326 a year for use of the free library in Blenheim” while “urban people” (presumably residential ratepayers) “are paying $40 per rateable home”. Carter noted it “costs $40 for someone living almost next door to the library, and $1,326 for a farmer who lives miles away from it, and who probably never manages to get in to town to use that service. That is just unreasonable” (Carter, D., 2001).

In response to the question of the funding of libraries, Dail Jones of New Zealand First agreed that the amount paid by the farmer was “pretty high”, but that “farmers should still make a contribution to the library” (Jones, 2001). Jones considered the answer was that “a local authority, when imposing a library charge, should look for a better way of setting the charge, rather than imposing it in the bland way that rates so often are. The fact that a rate is imposed without giving proper consideration to how it ought to be imposed is no reason for us to prevent people from getting free membership of libraries” (Jones, 2001). Sue Bradford of the Green Party demonstrated similar support for community provision of library services. “Without public libraries, many people would have little or no access... [to the] material and activities that enable citizens of all ages and abilities to participate actively and well in society” (Bradford, 2001) Bradford took the argument a step further than Jones by arguing the need for regard to be given to the ratepayer’s ability to pay. “For example, the situation of a single mother with three young children at home, trying to survive on a low-level benefit. If she has a free public library in her district, at a place that she can access, she has the world of books at her fingertips for the education and pleasure of both herself and her children. Start charging her for the privilege, and her borrowing will drop off or disappear altogether” (ibid.).

and they will not get a hell of a lot for that”. The Rt Hon. Winston Peters (2002) argued that the Bill gave “a power of general competence to local government bodies that allows them to do whatever they like, as long as it is not prohibited by law”. 30 Section 142 of the Local Government Act 2002 states that “If a local authority or a council-controlled organisation provides a library for public use, the residents in the district or region are entitled to join the library free of charge”.

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This debate covers four areas relevant to rating equity. The first is the perspective that libraries are an important example of a local government provided ‘community good’ service. This underlines the particular nature of local government good provision, and the ‘community wide’ or social importance of many local government goods and services. The second is whether the costs of these goods or services should be borne by users or by ratepayers. This in turn underlines that local government can address perceived inequities or ‘market failure’ in the delivery of positive ‘public goods’ through the provision of a free service, in addition to or as part of the equity concerns a council can seek to address through the rating system. The final consideration is that there are no council goods or services that are actually ‘provided free of charge’; that there should be a coupling of both the delivery of a service and a council’s consideration of who pays for that service.

Within the debate, concern appeared to be primarily whether the relative amount paid in rates for an activity was within some broad band of reasonableness. For instance, Dail Jones indicated that a property value basis for rating led to a less than optimal outcome. The amount paid by the farmer (quoted as $1,326 by David Carter) was high compared to that paid by the average residential ratepayer ($40). However, it was the relative amount paid, rather than the relation of that amount to the benefit each ratepayer can be assumed to receive, that Jones appeared to have had issues with. Jones and Bradford both made reference to the “community good” benefits that libraries provide, to demonstrate the importance of ensuring these remained free for all to access. “The free education provided in a public library is one of the best forms of education one can have... education is the key to how we will develop our entire community” (Bradford, 2001). This, and the intent of the initial clause, indicates some regard should be given not just to the way in which an activity is funded but also the characteristics of the activity itself.

**House debate – Local Government Rating Act 2002**

The Rating Act deals specifically with the tools allocated to councils to fund their activities. In the House debate over the provisions within the Rating Bill prior to adoption, there was discussion in regard to the principles underpinning the rating tools provided.³¹

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³¹ There was also significant debate over the decision to include the power of councils to remit or postpone rates on Māori freehold land will be carried forward in the new legislation. While this debate was an interesting one and important to the overall discussion of local government funding, it has largely been covered by the Rates Inquiry and is outside the immediate scope of this thesis.
This discussion was generally from the opposition benches and served to highlight the issues with the proposed approach rather than outlining acceptable alternatives.

The different perspectives in the House debate over the Rating Bill mirrored those of the Local Government Act debate. The Labour Government’s intent was to “provide a toolbox… to enable local authorities to have total flexibility to adapt their rating processes to the needs of their individual communities”. The property value basis for rating was intended as the “main way that local authorities obtain funding from the community as a whole”, (Lee, 2002) presumably because of a relative comfort with the effects and equity of a property value based approach to rating. However the rates ‘tool kit’ was expanded to provide councils with a greater range of tools, often enabling councils to move away from the property value basis for rating if they so wished; “local authorities will retain the power to deal with anomalies arising from valuation-based general rates by differential rating and/or uniform annual general charges” (ibid.).

Anne Tolley (National) criticised the lack of consideration about “the basic ideas and philosophy behind rating”, asking outright “is rating about the value of one's land, or about the provision of services? Nowhere in this Bill do I see that basic concept addressed” (Tolley, 2002). Tolley felt this was a “continual dilemma of how to charge fairly for the services the council delivers, when the charges are based on the value of one's land”. She believed the property value basis for rating was derived from “the old English poor tax, when the landed gentry… had an obligation to look after the poor”. She argued that this approach was outdated: “we are long past that”. In contrast Tolley felt the answer was to put in place a rating system that asks ratepayers to pay for services “on an even basis”, (ibid.). Her perspective appeared to be that council activities provide roughly equal benefit to all ratepayers, and therefore the appropriate contribution is an equal contribution, regardless of that ratepayer’s relative ability to pay. As a result Tolley objected to the 30% legislative cap on use of UAGCs, as it “maintains a distribution-of-income philosophy” (ibid.).

In objecting to the outcomes of the property value based approach to rating, Tolley sought a significant change to the way local government was being funded. Broadly this was an attempt to move the discussion around local government funding from the property value basis for rating, as a tool that attempts to reflect the ratepayer’s relative ability to pay, to a funding mechanism very much like a ‘poll tax’, where property owners pay the same, regardless of relative ability to pay. By referring to the distribution of
income philosophy, Tolley asserted that distribution of income is not an outcome that local government need concern itself with; that the funding tools used by local government should reflect relative benefit, and that relative benefit roughly accrues to all ratepayers equally. Gerrard Eckhoff (ACT) reiterated Anne Tolley’s perspective: “Any rating base must be applied not because the local councillors or whoever want the money; it should be based on a very sound principle… that is the principle that those who use a particular facility should pay for it” (Eckhoff, 2002).

Conclusion
The intentions behind the Local Government Act (2002) were, as Knight (2011) has outlined, to empower councils to make individual decisions, within reason and within the formal and informal accountability measures set out in the beginning of this chapter. A key basis for the separation of local government from central government is because of the intent to provide for “the facilitation of citizen participation and local self-government” (Knight, 2011, p. 1). This autonomy extends to the allocation of the rates burden and as an extension the principles underpinning this allocation.

The range of tools provided to councils through the Local Government (Rating) Act (2002), and the freedom councils have to make decisions on when and where to apply these tools, are an extension of the principle of subsidiarity that underlines local government autonomy. The primary rating tool is the property value basis for rating, a funding tool that attempts to differentiate between ratepayers on the basis of the ratepayer’s relative ability to pay, using property value as a measure. However, under S101 (3) Local Government Act councils are also directed to consider factors such as the extent to which a ratepayer or group of ratepayers benefits, and are provided tools to reflect these factors. The provision of these tools may indicate that either the property value basis for rating may not be sufficient to achieve the desired outcomes for all of a council’s activities, that there are substantive differences between council’s funding needs, or that there are some concerns that may arise as a result of the use of property value as a basis for allocating costs. This includes rating tools such as the UAGC or UTR, which are regressive funding tools as they do not attempt to differentiate on the basis of a ratepayer’s relative ability to pay. At the same time, use of the UAGC is capped so as to ensure rates are not too regressive. In this way central government appears to have set some very broad parameters around what can be considered ‘reasonable’ in regard to the allocation of local government costs through rates, while
retaining significant scope for individual councils to apply the underlying principles as they see fit, including the outcomes sought.

There is no objective ‘blueprint’ for councils to follow in regard to the way rates are allocated; councils are make their own decisions on these factors, in consultation with the affected community or communities, and after consideration of the factors set out under the Local Government Act (2002). The role of central government through this legislation is to set out a process that councils must follow, rather than pre-determining the decisions councils must make. The limited scope for national agencies like the Office of the Auditor General reflects this latter intent, where focus appears to be on ensuring that councils have followed the proper reporting and consultation processes.

As evidenced in the parliamentary debate in the passing of the LGA and the Rating Act, the debate over the way councils choose to allocate their costs through rates can be viewed broadly along the traditional lines of debate between the political left and the political right. Those to the left of the political spectrum favour the autonomy provided to local government and appear relatively comfortable with the idea that local government costs will be allocated to some extent on the basis of each ratepayer’s relative property value. In contrast those political parties to the right of the political spectrum (the National and ACT parties) expressed concerns over the impact of property value based rates. The political right favoured a less proportional (to property value) distribution of the costs, particularly that there should be some reflection of relative benefit in the allocation of local government costs, in other words a ‘benefit received’ perspective.

These competing understandings of ‘equity’ form the basis of this thesis, and are relevant to a debate on taxation that goes beyond the local government funding context. As the following chapter will discuss, what constitutes an equitable outcome in any debate concerning taxation is subjective, as is the extent to which equity should be a consideration. In addition to this wider debate there are some specific considerations relevant to the discussion of local government and local government funding that influence the discussion of equity in the local government context. The following chapter will discuss both the wider debate around these competing principles, ‘ability to pay’, and ‘benefit received’, and the particular considerations that are relevant to the discussion in New Zealand’s local government context.
CHAPTER THREE
A rating framework for local government in New Zealand

Introduction
Two competing principles, ‘ability to pay’ and ‘benefit received’ were identified in the 2007 Rates Inquiry as applicable to the debate over how rates should be set by New Zealand’s local government councils. This chapter will consider the broader debate around factors relevant to New Zealand’s local government context and discuss how this should impact rating decisions. To achieve this aim, the chapter is divided into three sections. The first section is a brief discussion of the wider ideological or political debate about tax; the effects of tax; and the way taxes are distributed at a national level. This will include a summary of the theoretical foundations of the ‘ability to pay’ and ‘benefit received’ principles, why these are considered the dominant competing theories, and the various arguments for and against the application of these principles in general taxation.

The second part of this chapter will establish and justify four criteria relevant to local government rating decisions. The chapter will argue that local government should seek to achieve equity, efficiency, ease of administrability and transparency when considering how to set rates. These aims will be summarised and discussed in regard to the particular context of local government in New Zealand as explained earlier in the chapter. The third section is an explanation of how these principles and the wider debate can be considered relevant to the context of New Zealand’s local government. The chapter will consider the relative taxation tools available to local government compared to central government, and what this may mean in terms of the rating outcomes sought. This section will also consider how the purpose of local government, the relationship between the sector and the community and the relationship or division of responsibilities between central and local government all play a role in influencing what local government funding ‘should’ seek to achieve. In particular this chapter will consider whether local government should be involved in redistribution, to what extent, and what the answers to these questions mean to rating equity.

32 These measurement criteria will not be applied to the case study councils in Chapter Four as there is insufficient space to meaningfully measure the different case studies and rating approaches. They are used in this chapter to compare and contrast the ‘ability to pay’ and ‘benefit received’ approaches in a way that is relevant to the local government context. The selection of these is explained further in this chapter.
33 The 2007 Rates Inquiry for instance, both discussed and made recommendations on factors relevant to this debate. As discussed further in this chapter, the Inquiry discussed local government’s role in redistribution, and
**Taxation - the wider debate**

As Eisenstein (2010) notes of taxation, “few things are viewed with as much distaste and distress as these coerced contributions to our general welfare” (p. 4). The effect of this distaste is “a constant striving to place them on the backs of others. The tax laws record the terms of the uneasy peace which happens to prevail at a particular moment” (ibid., p. 6). An individual’s perspective on what constitutes ‘ideal’ taxation is to some extent dependent on the implications of the tax for that individual, as much as it is influenced by any objective, principled discussion on optimal outcomes for the specific tax and for taxation in general. Nonetheless, taxation and tax fairness are fundamental to modern government and to society in general: “a society’s tax system is one of its most basic and essential social institutions” (Duff, 2008, p. 2). As a result tax equity is integral to the interaction between the state and the people of that state, and should be based on sound, broadly understood and accepted principles. The “struggle to overcome the arbitrariness in taxation was one of the early objectives of constitutional government... the setting of tax maxims [provide] a means of defining the status of the individual in the social compact” (Musgrave, 1959, p. 61).

The most basic purpose of taxation is the raising of “revenue to finance public expenditures” (Duff, 2008, p. 2). There is consensus that meeting the costs of government requires some form of taxation; although consensus often ends at that point. Contemporary debate around income taxes versus consumption taxes as a base for taxation, for example, demonstrates that not only the methods used to tax but also the fundamental goals of taxation are still widely debated (for instance, Avi-Yonah and Reuven (2005)). There is ideological disagreement not only over who should bear the costs of taxation, how and when, but also over what different approaches to taxation mean for the size of government, and by extension the freedom of the individual and/or the aggregate good of society.

It is impossible to give full attention to this debate or accurately reflect the full opposing arguments within this thesis. For simplicity’s sake, the varying opinions on the goals of taxation can be considered in a traditional political ideological framework. Across the political spectrum there are (often markedly) different perspectives on the extent to which income, wealth or asset ownership should dictate the incidence of the tax burden. In

considered the arguments for and against property value as a basis for rating. The Inquiry made findings and put forward a number of recommendations that are also relevant to this discussion.
general, the political left tend to argue for progressive taxation, or that those with relatively greater means should shoulder a progressively greater cost of the running of the state. The left perspective on the role of taxation incorporates the view that the state has a responsibility to redistribute wealth in order to ensure a relatively equitable distribution of assets in a society. From this view, a properly functioning democratic society should look to provide all citizens with reasonable opportunities relative to other citizens, and taxation is a fundamental component of this responsibility. Those to the left of the tax debate argue that the very idea of a working democracy rests on the idea of equal participation; and equal participation includes some measure of a relatively equal distribution of wealth. If a society becomes too unequal in its distribution of wealth or income, and this in turn creates too great an imbalance of power within a society, problems arise which bring into question the fundamental aspects of a democratic society. As noted by political scientist and economist, Frances Fukuyama:

If income is relatively evenly distributed and there are not very sharp differences between rich and poor, you have a greater sense of community. You have a greater sense of trust. You do not have parts of the community that have superior access to the political system that they can use to advance their own interests (Fukuyama, as quoted in Der Spiegel 01 February 2012).

Contrastingly, those to the political right argue for either less progressive taxation, a proportional tax system or (at the far right of the spectrum) a flat tax structure (with the latter being regressive in impact). The broad arguments are that a progressive taxation system imposes significant administrative costs, or creates a deadweight loss through administration and incentive costs, the distortion of the ‘market’ for capital and an increase in the incentives provided for tax evasion. The political right argue that progressive taxation discourages work effort and as a result reduces overall welfare. This fits with the wider ideological focus of the right to empower and reward individual effort as a means of achieving optimal societal outcomes; adoption of the ability to pay principle means that the wealthy are not burdened with a greater relative share of the cost of society’s expectations. Like their opponents to the left, the political right argue that it is these incentives which form the basis for an engaged and achieving society.

Broadly, these ideological differences can be described as a preference for collectivism on the left, and a preference for individualism to the right. Ball (2001) describes the different societies that result from these two different perspectives thus:
In more individualistic societies, people tend to behave like Homo economicus: they choose actions that maximize their private material self-interest. In more collectivist societies, people tend to behave like Homo sociologicus: their actions are conditioned by the norms, expectations, and interests of the social groups of which they are part (p. 58).

These arguments around taxation incorporate debate over what role a state should have in addressing inequality, and whether this responsibility sits with the individual or with the society of which that individual is a part. This wider debate includes disagreement over the optimal size of the state and state intervention and what these factors mean to individual freedoms, incentives for productivity, and equality of opportunity. In practice the myriad political views are not polarised but represent a sliding scale of different preferences and opinions. More broadly, the differences incorporate a discussion of the optimal level of this responsibility; whether a society comprised of ‘Homo economicus’ acting as an aggregate group of individuals will lead to ‘better’ outcomes than would be the case in a world constructed by ‘Homo sociologicus’.

These broader differences in opinion form the basis for arguments around the allocation of local government costs. As discussed in Chapter Two, while the range of tools necessary to achieve a progressive tax system in the strictest sense is not currently available to local government, the local government sector does have a range of tools to achieve different rating outcomes and a broad mandate to define these outcomes. The impact of the use of these different tools was noted by the 2007 Rates Inquiry. As with the wider taxation debate, the discussion around local government rating can be viewed in traditional ideological terms.

**Two competing principles**

As outlined in the introductory chapter, the two broad competing approaches to the taxation debate are the ‘ability to pay’ principle and the ‘benefit received’ principle. These are “two distinct points of view” and the “two major approaches” to taxation (Musgrave, 1959 p. 61). Musgrave further notes that both the ability to pay principle and the benefit received principle “have something to contribute, (as well as) serious defects” (ibid.).

**Ability to pay**

The ‘ability to pay’ principle has its roots in the writings of sixteenth century philosopher, Jean Jacques Rousseau (Rousseau, 1755). The principle was further championed by
political economist, Jean-Baptiste Say (Forget, 1999) and by economist, John Stuart Mill (1848). The ‘ability to pay’ principle is based on the perspective that the amount paid by the tax payer should be based on that individual’s ‘ability to pay’, or income and/or wealth.

The ‘ability to pay’ principle was further expounded by Adam Smith as one of his four ‘canons’ of ‘evident justice and utility’ in taxation.

The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation is like the expense of a great estate, who are all obliged in proportion to respective interests to the estate (Smith, 1776, p. 777,778).

The ‘ability to pay’ principle strives to meet two equity criteria. The first is horizontal equity. This principle is “fundamental to the ability to pay approach” and “requires equal taxation of people with equal ability and unequal taxation of people with unequal ability to pay” (Musgrave, 1959 p. 160). For instance, if individual A has exactly the same ‘ability to pay’ as individual B, then horizontal equity would dictate that both pay the same amount in taxes or rates. If individual C’s ‘ability to pay’ is less than that of individuals A and B, then horizontal equity simply requires that individual C pay a different amount.

The second key equity principle under the ‘ability to pay’ principle is vertical equity, under which an individual with a greater ‘ability to pay’ will pay a higher amount in rates. For instance, if individual A earns a total income of $100,000 and individual B earns a total income of $50,000, then vertical equity dictates that individual A should pay more than individual B. Vertical equity is therefore more concerned with the relative contributions made as a result of the difference in ‘ability to pay’. As Musgrave (1959) notes, “without a scheme of vertical equity, the requirement of horizontal equity at best becomes a safeguard against capricious discrimination... to mean more than this the principle of horizontal equity must be seen against a backdrop of an explicit view of vertical equity” (p. 160).³⁴

³⁴ Musgrave made this comment in the context of an argument between the equity of a consumption tax versus an income tax. Despite the need to view horizontal equity as a component of vertical equity, horizontal equity remains an important consideration in regards to the perception of equity of a taxation system, in that it ensures a taxation system treats those with equal ability to pay in the same manner.
Even where there is agreement that an unequal ‘ability to pay’ should justify an unequal contribution to a tax, a question remains as to what relative contribution is fair. The actual effects and incidence of a tax are different depending on factors like the basis of the system chosen, the basis on which the tax is applied (for instance, income, type of asset or consumption) and the proportion or rate of tax. There is on-going discussion, for example, about whether vertical equity justifies a progressive or proportional approach, what tax treatment different types of asset should receive, and what the broader implications of the answers to some of these questions are. Progressive, proportional and regressive taxation systems all meet the requirements of horizontal equity in that those on unequal incomes are treated differently. Progressive and proportional taxation systems meet the requirements of vertical equity in that those with relatively greater ability to pay are asked to pay relatively more. It is worth underlining that, in order to achieve either vertical or horizontal equity it is necessary to first establish what each individual’s actual ‘ability to pay’ is. This is a particularly relevant concern in regard to local government rating where councils have only the individual’s relative property value as an indicator of overall ‘ability to pay’.

A key basis for the ‘ability to pay’ principle is that of social justice. Social justice argues that there is a need to supply all people in a society with the “basic human obligations: life, liberty, and the pursuit of happiness, both proximate and ultimate, and the maintenance of similar opportunity for his children” (Dempsey, 1946, p. 355). This recognises both the benefit to all of a stable society in which everyone’s basic needs are met, and that the “natural resources of the earth are destined for the maintenance of all” (ibid., p. 355). The ‘ability to pay’ theory also draws on the diminishing marginal value of money, an argument that in essence states the more money an individual earns or accrues, the lower the ‘value’ of each additional dollar, or that “the marginal utility of money declines with an increase in its supply” (Kendrick, 1939, p. 93). If the cost or sacrifice of the contribution to taxes reduces as the income of an individual increases, then by requiring those with a higher relative income to contribute more the overall or total sacrifice of the tax is minimised on an aggregate level, as the ‘cost’ or ‘value’ per dollar contributed is lower for those who are contributing the most.

*Benefit received*

35 Kendrick (1939 p.94) outlines some of these concerns in the application of the diminishing marginal value of money by quoting Pigou (1928, p.102).
In contrast to ‘ability to pay’, the ‘benefit received’ principle holds that those who benefit from (government or local government) expenditure should be the ones from whom the money should be sourced to fund this spending. The ‘benefit received’ principle was developed by philosophers Thomas Hobbes (Hobbes, 1651), John Locke (Locke, 1690) and Hugo Grotius (Grotius, 1625). The principle was refined by economist Erik Lindahl (Lindahl, 1919). An observation of the ‘benefit received’ principle in a society would see individuals paying for any good or service that they consume, in proportion to their relative level of consumption. Individuals would be charged for those services they do receive, relative to the level to which they benefit, and not charged for any goods and services they do not benefit from. The ‘benefit received’ principle is based on a ‘fee for service provided’ approach; if an individual benefits from something then that individual is asked to contribute in proportion to the relative level of benefit. A basic example in local government is a petrol tax to fund the roading network, with petrol consumption used as a proxy for benefit (or cost creation). In the local government context an example of this principle applied would see a ratepayer asked to pay for an activity if and only if that ratepayer receives benefit from that activity, and only asked to contribute an amount related to the level of ‘benefit received’ relative to all others who benefit.

In its simplest form there is an assumption that the ‘benefit received’ principle considers that an individual’s relative income should not be a factor in regards to the amount that individual is taxed. However, while the two principles appear to represent ideologically divided approaches, taxation according to these principles has not “led to consistently different views on the... correct distribution of tax burdens; in either school... there were those who favoured and those who opposed a progressive distribution of tax payments” (Musgrave, 1959 p. 62) For instance, Murphy and Nagel (2002) argue that those with a higher level of property and pre-tax income receive relatively greater benefit from the ongoing stability that the state offers. As the state relies on taxation to exist, the relative benefit those with greater means receive, justifies a greater relative contribution to the functioning of the state. This, they argue, means the relatively greater contribution is not a burden, rather it is a just outcome. While the authors do not explicitly defend the ‘benefit received’ principle, they do note that “a tax burden that is matched by an equivalent transfer is not in the relevant sense, a burden at all” (Murphy & Nagel, 2002, p. 14).

Duff (2008) also highlights the specific wording of Adam Smith’s contention that the contribution of those living within a state should be in proportion to the revenue they earn
under the protection of the state (Duff, 2008, p. 9). The inherent argument is that those with a high degree of wealth receive relatively more benefit from a structured and ‘protected’ society than do those with a relatively lower degree of wealth; though the question remains whether this contribution should be proportional or progressive. Regardless, that the definition of benefit itself can incorporate the justification of at least a proportional approach—if not a progressive approach—to funding activities is an interesting point, and as shown in Chapter Four there is a component of this to some rating approaches adopted by councils. However, it is not widely agreed that the idea of benefit incorporates this broader idea of a proportional contribution. For instance, Duff (2008) cites Nozick’s (1974) summary of the libertarian perspective that people have a right to property that is justly acquired and justly transferred (Duff, 2008). An individual’s perspectives on these differences are dependent upon that individual’s views on society and the individual’s rights and responsibilities within that society; the differences between ‘Homo economicus’ and ‘Homo sociologicus’ discussed in Ball (2001).

In practice, there are some issues with applying the ‘benefit received’ principle to government expenditure, goods and/or services. The first is that not all goods or services are the same in terms of the public and private good characteristics, and many of these services are non-excludable. It is impossible “to apply the benefit principle to pure public goods and services (like public security and national defence) the benefits from which are generally shared, without resorting to arbitrary presumptions regarding the manner in which these benefits are distributed” (Duff, 2008, p. 7). In these examples the decision is context and principle dependent.

From the ‘benefit received’ perspective, the extent to which a tax can be considered ‘fair’ hinges on consideration of what a tax is spent on, once it is collected. For example, Wagner (1962) justified a consideration of ‘benefit received’ because the ‘ability to pay’ principle “fell short of providing a full answer to the determination of budget policy, as it dealt with the tax side of the picture only” (p. 8,9), and not where the money taken as tax was spent, or what the implications of these decisions were from an equity perspective. Wagner argued that the expenditure side of tax revenue was considered a political matter, or function of the democratic system, rather than a consequence of economic analysis or a factor relevant to the tax itself. As a solution, Wagner proposed to divide the functions of taxation into two aspects: the purely fiscal on one hand, and the social

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36 The differences between private and public goods, particularly the manner in which the characteristics of these different types allow for direct charging or not, are discussed later in this chapter.
welfare function of taxation on the other. Equity or efficiency considerations may be different for each function, but a full consideration of equity required both of these aspects. Again, as discussed in Chapter Four, the uneven relationship between the incidence of rates and the democratic process through which local government decides what to spend money on (and how much), is a concern for those with relatively more valuable land, particularly when assessed from the ratepayer’s use of services.

While there is an ideological divide to the broader taxation debate, recent attempts to develop an objective approach appear to hinge on the purpose or purposes of a tax as the priority consideration. In some cases this may justify the consideration of one principle over another, in others a combination of both principles. This is particularly so where the argument over what taxation should achieve becomes more complicated and the range of taxation outcomes sought more varied. Duff (2008) for instance, builds upon Wagner’s insights by arguing that a practical application of tax fairness requires consideration of the “particular purpose for which the tax is imposed”, and that as a result any discussion of tax fairness is “inescapably plural” (p. 25). Avi-Yonah and Reuven (2005) also argue that a mix of tax tools (specifically income and consumption taxes) should be used to meet the differing goals of taxation in the modern era. This broader dialogue around what the particular purposes of rates are, is also relevant, if not fundamental, to the local government rates debate.

**Assessing competing approaches in New Zealand’s local government context**

How should these alternative approaches to equity be measured? Infanti (2008) outlines a “triad of tax policy concerns” which he lists as “efficiency, equity, and administrability” (p. 1). While Infanti outlines these concerns specifically regarding the United States Federal Tax context, he cites a “large number of basic income tax textbooks that begin with a discussion of (these principles)” (p. 1) as evidence of the importance and relevance of these considerations in any discussion around tax policy concerns. In general he believes it is important to “strive for a tax system that (1) minimizes interference with economic decision-making, (2) is fair, and (3) is easy to administer and comply with” (Infanti, 2008, p. 1).

Are these relevant measures in New Zealand’s local government context? Public submitters to the Rates Inquiry highlighted the contentious nature of local government rating. The Inquiry report noted that “almost all submitters suggested changing the rating system”, ranging from “minor changes to the mix of tools used in particular local authority
areas, to introducing totally new methods of rates funding” (Local Government Rates Inquiry Panel, 2007(a), p. 26). Submissions from those seeking changes within the current rating system in general asked that “where possible, rates should align with benefits received”, however there were “a small number of submitters who were concerned about the possibility that any changes would be regressive in their effects” (ibid., p. 26).

In order to address these concerns, the 2007 Rates Inquiry, and a background consultant report, “Trends in the Use of Rating Tools” (the Trends report, Covec Limited, 2007b) weighed the available rating tools against the broad equity criteria outlined in this chapter. This report was used by the Inquiry’s authors as a basis for assessing the use of rating tools and the impacts of these tools. The Trends report assessed the equity of rating tools using an evaluation framework that included “two equity criteria… commonly used to assess rates: ability to pay and benefits received” (ibid., p. 14). These criteria were “considered both across ratepayer groups and within them” (ibid., p. 14). Consequently the Inquiry itself noted that ‘ability to pay’ and ‘benefit received’ are the two equity criteria that have primarily been used to assess rating equity (Rates Inquiry, 2007b).

The Trends report looked at the rating tools available to local government and assessed these tools against the ‘ability to pay’, the ‘benefit received’ principles, as well as comparing these tools against the measures of efficiency, ‘simplicity and transaction costs’ (administrability) and transparency. The Society of Local Government Managers (SOLGM, 2008) has also outlined criteria by which rating decisions may be assessed. The 2007 Rates Inquiry itself applied “generally accepted public finance principles” in examining the present funding system for local government, “mainly those of efficiency, buoyancy, ease of administration, and equity” (Rates Inquiry, 2007b, p. 3). For the purposes of this chapter, the criteria of efficiency, equity, administrability and transparency will be adopted as measures against which the competing principles ‘ability to pay’ and ‘benefit received’ will be assessed in regards to local government funding. These appear to be the concerns most widely incorporated into assessment frameworks

37 Tax buoyancy is the measure of the extent to which tax rises as the tax base rises, including any change due to a change in the tax law. As such it is a useful measure when comparing alternative revenue bases, for instance a land value based tax versus an income based tax. See, for example, Haughton (1998) for a discussion. Buoyancy has been excluded as a measure of the relative benefits of the two competing principles discussed in this thesis for simplicity’s sake. However the 2007 Rates Inquiry did discuss the buoyancy of a local income tax as an alternative revenue base to property value.
for the New Zealand local government funding context, and will be useful benchmarks to compare the two competing principles.\(^{38}\)

**Equity**
Both the 2007 Rates Inquiry, and SOLGM explain equity as an overall concept that incorporates vertical equity, horizontal equity and intergeneration equity.\(^{39}\) As outlined earlier, the first two of these criteria are considered primary aims of the ‘ability to pay’ principle. The Covec (2007b) report discussed equity as a consideration specifically from both the ‘benefit received’ and the ‘ability to pay’ perspectives.

*Equity - Ability to pay -* The report found that flat charges (or UAGCs) bore little relationship to ability to pay. In terms of property value based rates, the Covec report analysed the relationships between property values and income for a large (but unnamed) city council. The report found that there was a “relatively strong linear relationship between household incomes and land values”, and a “relatively strong linear relationship between household incomes and capital values” (ibid., p. 18). The report stated that “one might reasonably conclude that there is a broad relationship between rates and ability to pay” (ibid., p. 18). However, the report noted that these relationships were “far from perfect”, (ibid., p. 18) and that the use of property values to set rates gives rise to both horizontal and vertical inequities, for the reasons mentioned above. In addition, the report was not able to compare relative incomes against relative property values across different ratepayer categories, as there was not sufficient information on business and farming incomes, meaning the analysis was for residential ratepayers only.

This latter point does not appear to have been acknowledged in the final Rates Inquiry report which stated “the data indicates [sic] that there is a strong relationship between incomes and property values”, and that “although rates are not based purely on property values, the link to income is evident” (Rates Inquiry, 2007b, p. 127), without qualifying that this fit was for residential properties only, excluding business and farming properties.

\(^{38}\) It is important to note again here that these measurement criteria will not be applied to the case study councils in Chapter Four, that they are only used in this thesis to compare and contrast the ‘ability to pay’ and ‘benefit received’ approaches in a way that is relevant to the local government context. Given the number of case study councils and the range of different rates used by each council there is insufficient space to meaningfully apply these criteria to these case studies.

\(^{39}\) The question of intergenerational equity is an important and topical one, particularly given the current and forecast growth in local government debt. However, the intention of this chapter is to assess the distribution of rates at any one point in time, rather than across time. The 2007 Rates Inquiry provides a very good summary of the arguments for and against intergenerational equity; for simplicity’s sake this chapter will not address the concept in any detail other than to note the importance of the concept.
This leads the panel to the conclusion that the rates system is “not inherently inequitable” (ibid., p. 127). However there is no conclusion to be drawn from the relative correlation between property value and ability to pay between or across different land use types. Nor is there any significant discussion of the extent to which the horizontal and vertical inequities identified by the Trends report were considered in reaching the conclusion in the final Inquiry report.

Because vertical and horizontal equity are fundamental to the ‘ability to pay’ principle, the question of how property values fit with overall relative ‘ability to pay’ is an important one. This is not a problem that only plagues local government rating. Tax is levied on a number of different bases – in this instance property value, in other instances incomes, profit, or alternative asset bases - and these assets or incomes are generally taxed at different rates. The difficulty in regard to rates is that they are a tax on an asset, rather than the income, profit or other benefit derived from that asset. Taxes on assets may not accurately capture the economic return or economic benefit from that asset; some uses of that asset may result in significant profit while others result in losses. As such they are simply an indicator of overall ‘ability to pay’, and may breach vertical or horizontal equity.

Mike Reid of Local Government New Zealand (personal communication, April 4 2011) indicates that the local government sector takes significant interest in local government’s reliance on property values. Reid notes that in New Zealand local government derives approximately 60% of income from property taxes of various kinds, and Local Government New Zealand share the view of the 2007 Rates Inquiry that such a heavy reliance on one funding source is not ideal (Mike Reid, personal communication, April 4 2011). Reid believes that compared to local government funding internationally, New Zealand’s reliance on property value based rates is “the highest in the world” apart from some provinces in Canada, and in South Australia which are similarly reliant on property value as a funding source (ibid.). As a result Local Government New Zealand consider it is important that councils have some sort of complimentary forms of income, primarily because “it’s very bad practice to rely on only a single taxing tool”. The local government sector would prefer alternative tools, for instance a regional petrol tax (ibid.). While a regional petrol tax would create some “problems around the margins” for example people choosing to buy petrol out of district if it is cheaper, Reid considers that problems of this nature are minimal compared to the larger concerns around the local government’s sector’s use of property value for the majority of activities. Reid believes that a wider range of taxation tools would allow councils to “better target funding” (ibid.) However,
while rates are a blunt instrument that councils are heavily reliant on, the range of choices provided to local government in New Zealand in regards to how these tools may be used is a positive. Reid believes that these choices allow individual councils to design the basis of their rates depending on the nature of their community or communities, and having the ability to tailor rates may assists councils in achieving rating equity (ibid.).

Equity - Benefit received – The Trends report began by distinguishing between the private and public benefits of local government activities (discussed later in this chapter). The report concerned itself with the public benefit aspects of local government activities, because “private benefits accrue directly to the users of services” and “most services with high private benefits are funded (at least partially) by user charges, only a small portion of private benefits are funded by rates” (Covec Limited, 2007b, p.19).

The report found that “the extent to which funding matches the distribution of public benefits depends on the service in question” (ibid., p. 19), noting that from a ‘benefit received’ perspective, use of rating tools depends on the way the public benefits of a service accrued to the community. The report noted that if the public benefits of a service accrue to:

- “Each property in the district uniformly, then UAGCs (uniform charges) provide the best fit. E.g.: refuse collection, animal control, community halls and libraries, noise control, parks and reserves.
- Each property in proportion to property values, general rates provide the best fit. E.g. flood control and local democracy
- Only a subset of properties, either uniformly or not, targeted rates provide the best fit. E.g. main street programmes, and localised flood control” (ibid., p. 19).

In the opinion of the Covec report, “all three scenarios seem likely (albeit to varying degrees). Thus, a blend of all three tools should be used, the exact mix of which depends on the perceived spread across these scenarios” (ibid., p. 20). In practice the authors considered it “likely that a high proportion of public benefits accrue on a uniform basis. Indeed it was much easier to find examples of services that matched UAGCs than it was for general rates and targeted rates. This suggests that, if we wish to match funding with benefits received, a fairly high level of uniform charges should be set” (ibid., p. 20). Mike Reid of Local Government New Zealand, agrees that in many instances property value based rates are not a good fit with relative benefit from a direct perspective. Reid considers that in general, councils that use a lot of targeted rates
better capture relative benefit factors than those who are reliant on the general (property value based) rate. Where a council makes extensive use of targeted rates there is some comfort that a council has considered the relevant ‘benefit received’ and is “sheeting home the costs to the particular bits of the community who receive the services”. (Mike Reid, personal communication, April 4 2011).

More questionable is the Covec reports finding that “some funding benefit studies allocate public benefits to ratepayers on the basis of property values. There is absolutely no theoretical basis for this, and it is done seemingly to create artificial linkages between funding and benefits. We consider this practice both spurious and misleading” (Covec Limited, 2007b, p.20). This latter comment takes a broader interpretation of benefit than that put forward by Duff (2008), as discussed earlier.

These different perspectives serve to highlight that even if a council does approach the rates question from a ‘benefit received’ perspective, there remains a question around whether benefit being considered is solely the benefit that accrues to each individual (direct or primary benefit) or whether the wider community (indirect or secondary) benefit is the appropriate measure of benefit upon which to allocate costs. This in turn often depends on the individual’s perception of society; whether those societies are comprised of ‘Homo economicus’ or of ‘Homo sociologicus’ as explained by Ball (2001); and what these different perceptions of individual and societal obligations and responsibilities mean to the broad question of who should bear the costs of society.

Reid argues that relying on property values to accurately capture benefit is fraught, and underlines that many councils take the idea of indirect or secondary benefit into consideration. “The people who are using the libraries are more likely to be older, retired, so they’ll have lower value properties” (Mike Reid, personal communication, April 4 2011). Because it is feasible to charge for libraries and swimming pools through user charges, a ‘benefit received’ approach would dictate that user charges rather than rates would be an appropriate funding mechanism for these services. However, this idea of benefit relies on ‘primary’ or ‘individual’ benefit only; in many examples (discussed further in Chapter Four) councils may consider that activities of this nature have ‘secondary,’ wider ‘public’ benefit by increasing the knowledge of the community (in the case of libraries) or increasing the health of the community (in the case of swimming pools). As discussed in Chapter Four, councils appear to consider that ‘benefit received’ incorporates a range of different levels; at the individual level, the national level, and at
many different levels in between (for instance, the community, ward, city, district, regional or ‘other area’ level, based on some form of proximity). As with the wider argument over what constitutes ‘equitable’ taxation, the individual’s perspective on this is likely to be tied to their particular ideological outlook, with those to the political right preferring a more ‘individualistic’ or ‘direct’ assessment of benefit while those to the political left prefer a more ‘societal’ or ‘indirect’ assessment. More particularly, the perspective is likely to differ depending on the actual cost to the ratepayer, and the particular value each ratepayer places on both the direct and indirect benefits of pools and libraries. In either respect the particular nature of the activity being funded is relevant to the discussion.

With both the ‘ability to pay’ and the ‘benefit received’ principles essentially containing different perspectives of what constitutes equity, which is most relevant to the New Zealand local government context? In regard to the question of taxation in general, Duff (2008) notes, “the ability-to-pay approach has considerable appeal as a principle for allocating the costs of government expenditures on goods and services the benefits from which are indeterminate and generally shared – reflecting a principle of political equality that is the foundation of a democratic society” (p. 10). The ‘ability to pay’ basis appears most reasonable to those who argue for some measure of equal opportunity within a society, or that funding should reflect the particular resources available to each individual. As Duff outlines these aspects should be a fundamental aim for the revenue function of a democratic society, along with some form of redistribution, or need based expenditure.

Efficiency

The Trends report noted that “the meaning of efficiency is context dependent” (Covec Limited, 2007b, p. 20), but offered examples of efficiency that encompass the extent to which a tax alters behaviours, or behavioural efficiency. The report noted that “in relation to sales taxes, efficiency means not altering people’s decisions to buy goods or services, while in relation to income taxes, it means not altering decisions to work. In relation to rates, efficiency means not altering decisions about owning property” (ibid., p. 20). The 2007 Rates Inquiry focussed on behavioural efficiency as the primary measure of rating efficiency, noting that in the local government context this included whether the tax

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40 As discussed in Chapter Four, behavioural efficiency is particularly relevant to the role of regional councils in terms of the use of rates and other funding sources or incentives to encourage good environmental behavior, or discourage bad environmental behavior (for example as a “negative externality tax” on pollution).
encouraged or discouraged certain behaviours. In terms of the first, the minimal distortion of behaviour, the Trends report argued that “uniform charges are the most efficient form of rating” for behavioural efficiency because “although they may affect the decision to rent versus buy, uniform charges do not alter decisions about which property to rent or buy” (Covec Limited, 2007b, p. 20). However, the report noted that with value based rates, while property value based rates may create an incentive to purchase a cheaper house, these effects are likely to be minor (ibid., p. 20). Overall the report found that “all forms of rates are efficient overall, when compared to income taxes and sales taxes, as rates are a tax on shelter and shelter is one of the basic necessities of life (ibid., p. 21, 22).

The Society of Local Government Managers (SOLGM) notes three further measures of efficiency: allocative efficiency, dynamic efficiency and productive efficiency (SOLGM, 2008). Dynamic efficiency means the “funding systems should not be designed in such a way as to move production and consumption decisions from the present into the future (or from the future into the present)” (SOLGM, 2008, p.13). Productive efficiency in the local government context refers to the “cost of collection and enforcement within the local authority”, and ensuring the “lowest cost for those paying the tax (in terms of the way they arrange their affairs)” (SOLGM, 2008, p. 13).

The impact of local government rates on productive efficiency can include considerations like the choice of property value basis for a rate, the type of rate, either uniform or property value based, and whether the rate is targeted to any one particular group. The choice of whether to set a rate on either a land value or a capital value basis will have an effect on productive efficiency. For instance, if a council decides to set the general rate on a capital value basis rather than a land value basis, this ‘taxes’ capital investment and may influence the extent to which someone invests in capital to develop a property. In practice, the impact will depend on the extent to which capital is rated—if the rate costs that result are low there will be little impact on capital investment; if the rate costs are high there will be some impact. In this respect productive efficiency favours a charge that treats all ratepayers the same, for instance through a uniform charge. As SOLGM notes

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41 The Rates Inquiry provides two examples. The first is to discourage bad behaviour – or a negative externality. The second is to encourage efficient use of a good by placing a price on that good and encouraging efficient use in order to discourage over-use and therefore over-investment in infrastructure assets.

42 SOLGM notes this “is a particularly relevant consideration when determining whether to fund a particular activity via a targeted rate” (SOLGM, 2008, p. 13).
however, “achieving productive efficiency in the short-term does not necessarily mean that allocative or dynamic efficiency will be achieved in the long-term” (ibid., p. 13).43

Allocative efficiency relates to the “use of resources where they promise the highest relative returns, given existing technology and preferences” (Kaul & Condeicao, 2006, p. 70). SOLGM (2008) considers that allocative efficiency “implies that the design of funding systems would minimise distortions between differing types of activity” (p. 13). The common concept of allocative efficiency is a ‘Pareto efficient outcome’, where the allocation of resources or goods is such that no individual can be made better off without another individual being made worse off.44 A variation of the Pareto efficient outcome is the Kaldor-Hicks improvement, where “improvement allows changes in which there are both winners and losers, but requires that the gainers gain more than the losers lose” with the result that the winners can compensate the losers and still have surplus for their own purposes (Van den Bergh & Camesasca, 2006, p.14).

Nigel Billings, a Senior Policy Advisor for Federated Farmers of New Zealand, argues that allocative efficiency has a broader meaning in the local government context, and that it is integral to council’s role in engaging with the community over expenditure priorities and desired levels of service (Nigel Billings, personal communication, September 4th 2011). Billings argues that councils can’t possibly prioritise decisions in an allocatively efficient manner until the council is able to receive informed feedback from the community on the relative benefit of one council activity over another. Billings argues this is particularly the case in regard to qualitative council activities, where the perception of value is subjective. For example, a council is considering increasing expenditure on parks and reserves, and must increase rates to fund this higher level of service (increasing user charges is not an option). The community’s perspective on whether or not this is a ‘good’ answer will depend on the extent to which the ratepayers and council value parks and reserves, or what value there is for the community in having lower rates. From an individual ratepayer’s perspective the answer will depend on the way rates are structured, to allocate costs among ratepayers.

43 For instance, where a local government decision does not accurately factor in future values (or is too focussed on the short term) then productive efficiency can be achieved at a cost to dynamic efficiency. There are also examples where producing goods at least cost (productive efficiency) may not result in the highest returns.

44 There is an obvious issue for the measurement in regards to the ‘Pareto optimal’ allocation of public goods, which generally do not have an individual pricing mechanism that requires each individual to announce their ‘utility’.
Because a council’s role is to make a decision on these factors, informed on the basis of ratepayer feedback, Billings argues that “value perceptions can only be formed on a clear understanding of price” (Nigel Billings, personal communication, September 4th 2011). He argues that where rates are allocated on the basis of property value rather than a consideration of the relative ‘benefit received’ from an activity, the ‘real cost’ of council activities is not made available to each ratepayer. Instead, “contributions for services vary depending on factors unrelated to the service (often) property value”. As councils are “service provider organisations… value for money is sought from councils in a similar way to which it might be sought form a lawn mowing contractor”. Billings believes that councils fail to deliver the environment where ratepayers could form a more informed perception of value as councils fail to deliver the necessary information, by relying too heavily on property values to allocate costs. (Nigel Billings, personal communication, September 4th 2011). Without this information Billings argues that councils can not make allocatively efficient spending decisions because they do not receive informed feedback from the community on the relative worth of competing expenditure.

**Administrability**

Local government rating requires consideration of the administrative costs that would be involved through targeting a particular section of the community or a particular action or inaction as a way of recovering costs (SOLGM, 2008). Administration costs include “the cost of creating the information necessary to administer a targeted rate on the rating information database and adding extra information to the invoice, invoicing and collection of a fee or charge, etc.” (ibid., p. 17).

The Trends report found that uniform charges are the simplest rating tools, because they do not require information on property values, while value based rates (and presumably targeted rates) are more complex and incur higher income costs (Covec Limited, 2007b). Property value based rates require that a council hold information on the value of a ratepayer’s property, and regularly update these values to allow for shifts in relative property values. Therefore property value based rating incurs higher administration costs than funding rates solely through uniform charges. However, the existence of some measure of property value basis for rating means there will be little marginal cost for further property value based rates; once a council has that information the marginal cost of striking a further rate is nominal, assuming the information would be regularly updated. Administration costs would be higher still for a council that makes significant use of
targeted rates, because this would require the council to hold and update further information upon which the rates are targeted. For instance, targeted rates based on a geographical area require mapping information, and targeted rates based on the use of the land would require updating of land use information. In either example the administration costs must be weighed against the equity and efficiency of striking a property value based rate or targeted rate. In some cases the cost of holding and updating the required information may make striking a targeted rate too costly for the likely equity or efficiency benefits.

Transparency

In New Zealand’s local government context, transparency is particularly important. As discussed in Chapter Two, the very reason for ‘local’ government is the facilitation of citizen participation and local self-government (Knight, 2011). In order for the local citizenry to participate, there must be a high degree of transparency. In the local government context transparency is a broad but important consideration. Local government should be reflective of local concerns, priorities and preferences. Councils also service differing population sizes, and have to maintain or fund the development of a range of different assets. These differences too have a role to play in terms of informing local government decisions. The 2007 Rates Inquiry noted that “there are strong policy and legislative expectations that the choice of rating system will be the subject of community consultation” (Rates Inquiry, 2007b, p. 123). One council may have significantly different expectations of the optimal role of local government than another; these preferences may in turn include a consideration of what constitutes equity that differs from that for other communities.

Transparency in local government is fundamental to public participation. Participation includes “participation in the expression of community views and participation in the actual delivery of services” (Knight, 2011, p. 1, quoting the Report of the Committee of

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45 Transparency was one of the concerns that resulted in the Local Government Amendment Act 2010. The primary driver for the Amendment Act appears to have been that local government was becoming too costly, and that part of this increase in costs was due to a lack of accountability and transparency on the part of the local government sector.

46 The principle of empowerment was one of the guiding principles behind the Rates Inquiry’s findings, for these reasons. The Inquiry supported “the concepts of local autonomy and local choice... but these decisions must be made with appropriate use of the decision-making framework – covering consultation, planning, and accountability (Rates Inquiry, 2007b, p. 3). As discussed in earlier footnotes, recent changes to the Local Government Act through the Local Government Amendment Acts in 2010 and 2012 have reduced this general empowerment, but these changes have occurred too recently to enable a discussion of the resulting implications.
Inquiry on the Conduct of Local Authority Business [1986]). Transparency offers the community the opportunity to participate “both through the process of electing representatives as councillors and through the opportunity to influence local government more directly through consultation, co-option, and local lobbying” (ibid., p.1). For the purpose of this thesis, transparency concerns the public’s understanding of what a council does and how it is funded, primarily the way the adoption of either the ‘benefit received’ or the ‘ability to pay’ approaches may have an effect on the public understanding of these considerations.

The 2007 Rates Inquiry underlined the importance of transparency in local government funding but found that “there is considerable public misunderstanding about how the rating system works” (p. 7). In regard to rating transparency, the Inquiry found that “overall, there is a need for much greater transparency on the basis for the various components of the rates” (Rates Inquiry, 2007b, p. 123). One example was that “many ratepayers believe that increases in property values by themselves increase rates” (ibid., p. 7). As the report noted, it is council expenditure that that drives rates, with property value being one of the means by which these costs are allocated. For example a property may increase in value, but incur a lower rates bill if other properties have experienced higher increases in value, or if there has been a significant increase in the amount of rateable titles contributing to the same amount of costs (ibid.).

More specifically, the Inquiry found that “the basis on which differentials or targeted rates are set are often not well explained, reflecting a wide variation in the quality of analysis behind the determination of these policies” (ibid., p. 7). While the Report noted that some councils had “undertaken a robust analysis of cost and benefits to different classes of ratepayers. In others there is little analysis or transparency” (ibid., p. 7). Partially to improve this transparency, the panel recommended that the power to set differential rates and to use UAGCs should be removed, as these tended to be set arbitrarily without explicit justification in terms of the services to be funded, and there was little transparency of the criteria that are being used. The panel argued that if the ability to use these tools was removed, councils would be left to set rates based on general rate and targeted rates. As the Inquiry noted, this may not have a significant impact on the relative incidence of rates, as targeted rates could be used to maintain the rating incidence that existed under the availability of differentials and uniform charges. It is difficult to know whether the panel would have looked more favourably on uniform charges and
differentials if councils had better justified and explained the levels at which these were set.

As a broad statement, fewer rating tools may increase the transparency of cost allocation. The Covec report concluded that, “because they do not rely on property values, the exact process for which is not well understood, uniform charges are more transparent than value based rates” (Covec Limited, 2007b, p. 21). Likewise, a council could fund the entirety of its rates funded costs from a capital value based general rate as a way of increasing the transparency of its approach. As long as the general public understood the basic premises behind property value based rating, this would be relatively transparent. However, simplicity isn’t the only requirement for transparency, and again the particular relevance of allocative efficiency is important. If a council breaks its expenditure down into separate components and does a good job of explaining what these activities are and how these are funded, this can also result in greater transparency.

Targeted rates can be used to enable this understanding, and from a ‘benefit received’ perspective can enable a more direct connection between individuals, the community and their council. Under this perspective the transparency is more specific in regard to the way individuals and communities in an aggregate sense signal their expectations to their councils, and how councils respond. This recognises that councils’ expenditure decisions and the way activities are funded can be considered to influence each other. For example, if a ratepayer understands that requesting council undertake activity X to desired level of service Y will result in $Z cost, this has an effect on the ratepayer’s consideration of the relative value of that activity and the level of service requested. This is particularly important where a council’s role is to be decided in large part on the basis of the preferences of the community or communities that council is representing.

This was recognised in the Rates Inquiry which recommended councils should make greater use of targeted rates “for which a greater degree of transparency is required where there is a justification for levying different classes of ratepayers differently” (p. 118). The Inquiry found that in setting “targeted rates councils need to define the activity to be funded, the amount to be raised, the factors to be used in calculating the rate, and the group of properties to be targeted” (Rates Inquiry 2007b, p. 128). The underlying finding is that targeted rates require a concomitant engagement between the council and
the ratepayer around the requirement for, and costs of, an activity; this interaction is influenced heavily by the method used to fund the activity.

There is an obvious contradiction in that while a greater use of targeted rates would increase the ‘direct’ understanding of the way each activity is funded, it may result in a high level of complexity around how a council funds the entirety of its activities. Rating therefore needs to be a pragmatic combination of both overall and individual transparency, together with a combination of principle and consultation; there must be sound principles behind the approach to rating but, at the same time, consultation over the approach to rating is an integral component of a council’s rating system. The implication is that rates need to be set in a manner that is transparent and understandable, with this transparency incorporating an understanding of the options councils have at their disposal for funding and what the implications of these options are. Importantly, this transparency can incorporate both the way a rating system is structured and the way a council explains their approach to rating to the community.

The importance of role definition

In considering the purposes of local government and the tools available for rating, the division of responsibilities between central and local government is particularly relevant. To answer this question it is relevant to consider where local government’s functions begin and end, and what these roles mean to rating equity.

A fundamental question of the division of roles between central and local government is whether the latter is either directly (purposefully) or indirectly (incidentally) involved in redistribution, and to what extent. If one of local government’s functions is redistribution then both the funding and expenditure sides of a council’s role should reflect this. This in turn requires further consideration of horizontal and vertical equity; both essential to the ‘ability to pay’ principle, and whether local government’s ‘ability to pay’ tool—property values—can meet these requirements. In order to address the question it is useful to consider redistribution from both the allocation perspective and the funding perspective.

In regard to funding, it is clear that central government has a wider range of tools to engage in the direct funding of redistribution. The Local Government Forum, a group of

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47 Dollery (2008) in particular has a very comprehensive discussion of the division of responsibilities between local and central government in the New Zealand context, drawing on international perspectives.
business organisations with an interest in the activities of local government, notes that redistribution is “almost exclusively the responsibility of central government in New Zealand at present” (Local Government Forum, 2009, p. 21). The Forum notes that “where local government plays a role, its programmes are mainly funded, in whole or part, by central government (for example, the rates rebate scheme) or were previously subsidised by central government (for example, housing for the elderly)” (Local Government Forum, 2009, p. 21). Dollery (2008) also notes that it is generally accepted that explicit redistribution (as distinct from allocative distribution) is broadly seen as a central government or national function, because “the national government holds a comparative advantage in macroeconomic policy” (p. 30). Dollery argues that equity of distributional policy should be exercised at the national level because “migration of relatively poor people between local jurisdictions would both thwart the intentions of local redistribution and add to its costs” (p. 30). This latter consideration is important because “territorial authority districts differ widely in size (both area and population), in character, and in economic wealth” (Department of Internal Affairs, 2006, p. 6). The ability for each council to redistribute would otherwise be constrained by the availability of resources in that community. In essence, Dollery (2008) states that “if poverty alleviation is seen as a national public good, then it is best tackled at the national level” (p. 30). Nigel Billings (Senior Policy Advisor for Federated Farmers) agrees. Billings claims the distinction is the tools available to each level of government; that “councils are not in a position to apply ‘good’ tax principles related to ‘ability to pay’, as they do not know the income, expenditure or net wealth details of their ratepayers” (personal communication, September 4th 2011). Central government can better discern these factors.

Nonetheless, by the very act of taking revenue and engaging in expenditure on behalf of communities, local government does impact on redistribution, albeit not in the direct fashion that central government does. Dollery (2008) notes this is a function of local government’s allocative distribution:

“While the redistribution function of government almost always occurs at the level of central government by means of budgetary programs, national tax structures, unemployment benefits and the like, sub-national governments also invoke equity considerations in their decision making and regional and local government activity can have significant redistributive effects. For example, local government expenditure can affect inward and outward

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48 The Local Government Forum is comprised of the following organisations: Business New Zealand, the Electricity Networks Association, Federated Farmers of New Zealand, New Zealand Business Roundtable, New Zealand Chambers of Commerce and New Zealand Retailers’ Association.
migration from their jurisdictions. Thus improved local public services financed through higher local property taxes can induce out-migration by wealthy households seeking to avoid high rates and at the same time increase in-migration by poor households which benefit from the improved services, whilst not bearing the costs of these programs". (p. 11,12)

While the 2007 Rates Inquiry discussed some of these issues it did not address the questions in any detail. The Inquiry’s Terms of Reference specifically stated that the inquiry was not a review “of the purpose, autonomy, or structure of local government; or the principles of democracy, transparency, equity and accountability that local government operates under” (Rates Inquiry, 2007b, p. 265). The Inquiry considered that this exclusion from the terms of reference was at that time “appropriate given that the Local Government Act 2002 (LGA 2002) is relatively recent legislation”, and because a substantive review “of the performance of local government would require extensive data, much of which does not currently exist, and a much longer time frame for the inquiry” (ibid., p. 2). In terms of the distributive impact of local government decisions, the Inquiry concluded that “local government should recognise that it is inherently involved in income redistribution, along with central government” (p. 3). Further the Inquiry supported “the goal of progressive rating systems as a key tool to assist rates affordability” (Rates Inquiry, 2007b, p. 196). In general the Rates Inquiry indicated a preference for an ‘ability to pay’ based approach for New Zealand’s local government rating, with a ‘benefit received’ approach applicable for particular services. However, the Inquiry also recognised there is often a trade-off between equity and other important funding considerations, noting there must “also be consistency with other good taxation principles such as transparency. The latter underpins the use of environmental taxes or user charges such as volumetric pricing for waste water to ensure that environmental costs are borne by those who generate them” (Rates Inquiry, 2007b, p. 196).

Because local government is not concerned with redistribution in the direct sense of social transfers, rating equity in the local government context takes on a different meaning. Equity is a consideration integral to the interaction between councils and the community; the relevance and acceptance of rating as a funding mechanism impacts on the acceptance of local government and should be based on sound and understandable

49 The 2007 Rates Inquiry did however attract a number of submissions suggesting that “local authorities should not be concerned with issues of equity between ratepayers and that income redistribution is a task for central government” (p. 124). However, submitters also highlighted the concerns of “asset rich, cash poor”, ratepayers, including older people (p. 124). The latter example was primarily the retired, who “own high-value properties that now attract high rates but their income is not high” (p.127).
principles. Equity is also a fairly subjective measure, dependant on the individual’s perception of equity or the relevance of either principle; one that needs to be balanced against the other outcomes sought by local government, including efficiency, administrability and transparency, where these compete. In the local government context one of the contributing factors to the discussion of equity is the nature of the goods or services being funded.

**The nature of local government goods and services**

As discussed briefly in Chapter Two, local government goods and services differ in terms of public and private good characteristics. Councils can fund activities with private good characteristics using user charges rather than rates where appropriate. As the 2007 Rates Inquiry outlined, rates can and are used as a funding tool for both private and public goods (p. 45). However, as Chapter Four will demonstrate the approach to funding an activity is dependant in large part on the particular nature of that activity.

It is generally argued that if all individuals within a society are not made to contribute to the cost of a public good, individuals will try to ensure others bear the cost of supplying the good while enjoying a free ride (de Jasay, 1989). Simply leaving the private sector to the provision of these ‘quasi public goods’ may lead to an undersupply. The Local Government Forum, outlines two distinct characteristics of public goods. The first, non-excludability, is where “non-payers cannot easily be excluded from receiving the benefit that others pay for (that is, public goods are susceptible to free riding)” (ibid., p. v). The second, non-rivalry, is where “one person’s consumption does not reduce the consumption opportunities of others”. The report argued that, local government should not provide pure private goods at all; that “community well-being would be enhanced if councils exited from such activities” (ibid., p. vii). The forum’s report included a table (Table 1) outlining the rivalry and excludability of common local government goods and services (ibid.):
Table 1: Public and Private good characteristics of local government goods (source: Local Government and the Provision of Public Goods, 2009, p. 16)

<table>
<thead>
<tr>
<th>Excludability of consumption</th>
<th>Rivalry in consumption</th>
<th>Public goods</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Street lighting, street and traffic signs, parks and reserves, civil defence, public health and safety (eg security cameras), and democratic, representative and regulatory functions</td>
<td>Low-use roads, footpaths and cycleways</td>
<td>Remedying marine pollution, biosecurity (pests and noxious plants) and graffiti removal from public facilities and areas</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>Flood protection</td>
<td>Sports grounds, public conveniences and bus ways</td>
<td>High-use roads, tourism promotion, economic development</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Museums and galleries</td>
<td>Public libraries, swimming pools, indoor recreation facilities and public venues</td>
<td>Ports, airports, public transport, water and waste water, rubbish disposal, cemeteries, car parks, cinemas and housing</td>
<td>Private goods</td>
</tr>
</tbody>
</table>

There is likely to be disagreement over the extent to which these activities fit into the assigned categories, and particularly whether those activities regarded as highly rivalrous do not have some wider (indirect) public good benefit. For instance, ports and airports arguably have a national security aspect, while water, waste water, rubbish and cemeteries have a public good health aspect. It is likely that the majority of goods have both private and public characteristics, but that the direct and indirect benefit factors differ significantly. Water and waste water, for example, have clearly defined direct beneficiaries in that the users of the water are identifiable and there is some basis for charging directly. However there are indirect public good outcomes arising from water and waste water treatment to a certain standard, in terms of having a healthier populace and reducing the spread of disease. Therefore it is the extent to which these direct and indirect characteristics dictate local or central government provision that is the key question. Regardless, where activities are high in excludability and high in rivalry, and these are provided by a council, it is likely that a large portion of the costs associated with these activities will already be recovered by user charges or fees, or that these can be recovered through direct targeted rates.

In applying funding policies on the basis of the public good characteristics of an activity, councils may consider rates funding appropriate for an activity that is high in rivalry and low to medium in excludability. In this example one person’s consumption reduces the
consumption opportunities of others, but non-payers cannot easily be excluded from receiving benefit; therefore it is not feasible to apply a charge based on use. Rates funding may also be appropriate for goods or services that are high on the excludability scale but low or medium on the rivalry scale. These are activities that are likely to be underprovided if they were left to the private sector. For services that are categorised as low in rivalry, but medium or high in excludability, there is some capacity to apply user charges but the provision “may benefit the community at large by helping people become functioning members of society (just as education has a public good element, especially at the elementary levels)” (Local Government Forum, 2009, p. 7).

**Direct and indirect benefit**

From a ‘benefit received’ perspective there is an additional and important consideration, and this is the incidence of benefit. Local government good and service provision can provide both direct (individual) and indirect (public) benefit. In the case of indirect benefit, the benefits of an activity are to the entire community. In the case of direct benefit, the benefits accrue largely to only a portion of that community. The distribution of benefit can be considered across a continuum:

![Figure 1: The local government benefit continuum. The ‘benefit received’ approach is useful for those activities towards the ‘individual benefit’ end of the spectrum; the ‘ability to pay’ approach is more useful for those activities towards the ‘public benefit’ end of the spectrum.](image)

Where the benefit of an activity is isolated to one group of ratepayers, it is arguably more equitable that a portion or all of the associated costs are paid by those particular ratepayers. For instance, in the council provision of flood protection over a geographical area, where the benefit of the flood protection is largely for those in the immediate area. A second instance would be where a council takes on the responsibility of promoting commercial interests in a manner that will result in increased business and profits for identifiable sectors of a community. It would arguably not be equitable, for example, for a retired couple on restricted incomes and a relatively valuable house to contribute to

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50 Though this may have the effect of promoting use of the good or service, as individuals seek to ‘get their money’s worth’ of the good they are being charged for.
these activities, given that the activities largely provide direct benefit which accrues to individual ratepayers.

For activities of this nature there is a need to ensure that the level of service is efficient, the costs are transparently allocated, and the cost burden of expectations from those receiving the service does not result in significant costs to others, who will receive no corresponding benefit. If the entire community is funding these costs, then there is some incentive for those receiving the direct benefit of the activity to ask for a higher level of service than they would otherwise ask for if they were apportioned the entire cost. This would not be fair or equitable. In this instance, public good contributions from all ratepayers are not allocatively efficient, and it is arguably less equitable due to the distribution of benefit for that particular activity.

While in both examples used above there is some ‘wider public benefit’ to other ratepayers, it is the relative split between indirect and direct benefit that is important. As outlined in chapter two, this is essentially what is required of councils already under S 101 (3) of the Local Government Act (2002). Under this provision councils are to consider the relevant funding tools to reflect this relative incidence of benefit, for each activity. This underlines the point that the distribution of benefits from each activity differs, and that an activity can provide both direct and indirect benefit. The choice of funding tool is also appropriate; in some instances user charges or fees may be a more applicable funding tool than rates. This too is largely dictated by the particular nature of each activity. Where an activity is both rivalrous and excludable, a council has the ability to apply user charges in order to achieve this efficiency and transparency, where relevant. Where an activity is excludable but not rivalrous, a council can apply user charges but must make a call on whether user charging is appropriate for the activity. Where an activity is rivalrous but not excludable, a council can not apply user charges but can strike targeted rates as ‘default user charges’, if this is an appropriate method of funding.

**Conclusion – choosing between principles for New Zealand’s local government context**

Both the ‘ability to pay’ and the ‘benefit received’ approaches have positives and negatives when measured against the criteria used in this chapter: efficiency, equity, transparency and ease of administration. However, neither principle is clearly preferable
across all of these criteria. Where and when to favour, for instance, efficiency over equity, or ease of administration over transparency, are more complex questions, and the answers to these questions require consideration of the particular nature of local government in New Zealand, including the roles of councils and the division of responsibilities between central government and local government, and between local government and communities or community organisations. The question of what principles local government should use when allocating costs to ratepayers is reliant upon both whether local government rating has the right funding tools to achieve either principle, and whether these outcomes are relevant for local government.

Compared to local government, central government is better placed to achieve the outcomes that rely on the ‘ability to pay’ approach; particularly the sourcing of revenue (for instance the progressive taxation system) and also in the distribution of transfers in the provision of social welfare, where knowledge of an individual’s overall ‘ability to pay’ is important. While property value is a ‘good’ tax base in that it is difficult to avoid a tax levied on property, there are some shortcomings as a measure of relative ‘ability to pay’ because property value based rates can result in both vertical and horizontal inequities. As Covec report noted, if property value based rates are not reasonable matches to relative income or overall wealth, then the use of property values to set rates gives rise to both horizontal and vertical inequities, particularly for those who have high relative property values and constrained or relatively low income, for example the retired and other groups who may be ‘asset rich but cash poor’ (2007b, p.18).

Simply put, if the intention is to reduce inequality (for instance) then local government rates are not the ideal funding tool, and local government is not the level of government appropriate to address this responsibility. This doesn’t mean that equity is not a core concern for councils; clearly it is a fundamental consideration for the funding of any level of government. However, it does mean that the particular interpretation of equity should be relevant to what local government is and what it does. In regard to taxation in general, the ‘ability to pay’ approach resonates as the most equitable principle, particularly for allocating the costs of public goods. ‘Ability to pay’ as a basis for revenue collection also fits with the general idea that a society has a moral obligation to provide for some equal level of opportunity by requiring less of those who have less, and more of those who have more. So, while ‘ability to pay’ is relevant to New Zealand’s local government context, it has a particular type of relevance.
Within the local government context ‘benefit received’ is also an important consideration. Both because of the nature of local government’s roles and accountability mechanisms, and the nature of local government goods and services, ‘benefit received’ is for some activities the most equitable allocation of costs. However, local government goods and services differ in the distribution of benefit, with benefit occurring across a spectrum. Activities that provide indirect or public benefit are located on one side of the spectrum, and activities that provide direct or individual benefit on the other side of the spectrum, with local government’s range of goods and services occurring across this spectrum, often providing both direct and indirect benefit. Therefore application of the ‘benefit received’ principle to the local government context requires further consideration of the incidence of benefit.

In terms of application, the ‘benefit received’ principle largely appears to be most useful for councils in the process of deciding how to allocate costs. This requires a consideration of the particular nature of the activity, the distribution of benefit, particularly what proportion of the activity results in indirect benefit to the community as a whole, or direct to specific ratepayers. The ‘ability to pay’ principle is most useful in regard to the implications of allocation decisions overall. That is, the ‘ability to pay’ principle is used to consider what impact the overall allocation of rating costs has on specific ratepayers; what the annual rates bill means to specific ratepayers given the particular circumstances of that ratepayer. Where the ‘benefit received’ principle applies to each particular activity, at a ‘whole of council’ level, the ‘ability to pay’ principle is relevant to the total impact of council’s activities, at the individual level. This is where the rates rebate scheme and the particular targeting of specific cost and income factors for individual circumstances are relevant.

For councils the difficulty comes in wading through these complex factors to develop a framework which incorporates the principles as they are relevant to each activity, to enable a decision to be made on the preferred funding approach. In a real world application of principles councils will no doubt have to balance a number of pragmatic political factors and the difficulty in defending a funding approach against myriad relative perceptions of value. It is a simple proposition to discuss the implications of local government rating decisions in a theoretical sense when, in actuality, local government decision makers will be confronted with the impact of their cost allocation decisions from a range of different perspectives. However principled a funding policy is it is difficult to imagine general contentment with all rating allocation decisions. Chapter Four will apply
the considerations outlined in this chapter and assess how some councils are balancing these complexities in their funding policies.
CHAPTER FOUR
Councils use of rating tools: Otago and Southland Councils

Chapter Two looked at the context within which councils make funding decisions. Chapter Three looked at the funding principles ‘ability to pay’ and ‘benefit received’ from a broad perspective, before considering these principles in regard to local government in particular. This chapter aims to investigate how a variety of councils make use of the available rating tools, the justifications for using these tools, and how these may or may not reflect the competing principles that form the main focus of this thesis, ‘ability to pay’ and ‘benefit received’. To achieve these goals this chapter will assess the ten councils in Otago and Southland, through each council’s 2012 Long Term Plans (LTPs). In particular, the Funding Impact Statement and funding policies will be summarised to assess the principles applied to funding decisions and the methods the council uses to apply these principles. A selection of local government representatives: the Mayors of Dunedin City and Gore District Councils, the former Deputy Mayor of Invercargill City Council, and the former Chief Executive of Environment Southland (Southland Regional Council) have also been interviewed to get their perspectives on the principles behind rating decisions, and the complexities that local government decision makers face in the rating context.

Dunedin City Council (DCC)

An important rating tool for Dunedin City is the use of differentials for the capital value based general rate, as outlined below. Residential ratepayers face a differential of 1.00, meaning the general rate contribution is in line with the relative capital value of a ratepayer’s property. Any factor above 1.00 results in that ratepayer category paying a

51 The choice of Otago and Southland councils as case studies was made because the regional basis for selection offered a good spread of different council types within a defined geographical area. These councils are (in no particular order): Dunedin City Council, Invercargill City Council, Queenstown Lakes District Council, Clutha District Council, Gore District Council, Southland District Council, Waitaki District Council, Central Otago District Council, Otago Regional Council and Environment Southland.

52 LTPs describe the activities of the council and how these are funded in order to provide both the council and the community a long term focus for decision-making. These are required every three years, with Annual Plans required in the intervening years.

53 The Funding Impact Statement is prepared under the Local Government (Rating) Act 2002, and the Local Government Act 2002, which requires each Council to prepare a Funding Impact Statement disclosing the revenue and financing mechanisms it intends to use.

54 See Appendix 5: Council revenue 2012/13. Of the council’s operating income, approximately 30% is taken through general rates, and rates penalties (DCC has no UAGC), 30% is sourced from targeted rates excluding targeted rates for water supplies but including the Community Services Rate (CSR), a uniform rate paid by all ratepayers to fund a portion of the costs associated with activities regarded as community services. DCC categorise this rate as a targeted rate rather than a UAGC. A further 26% from ‘use based’ measures: Fees, Charges and Targeted rates for Water Supply.

55 As shown in Table 2 of Appendix 2: Expenditure and revenue for Otago and Southland councils, in 2012 DCC will derive around 58% of its income from rates.
higher general rate than they would otherwise pay without a differential, and any factor below 1.00 essentially results in a discount to what that ratepayer category would pay without a differential system in place. The general rate is set on capital value with a differential for each land use as follows:

<table>
<thead>
<tr>
<th>Land Use</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>1.00</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>0.95</td>
</tr>
<tr>
<td>Non-residential</td>
<td>2.59</td>
</tr>
<tr>
<td>Non-residential Strath Taieri</td>
<td>1.40</td>
</tr>
<tr>
<td>Farmland</td>
<td>0.84</td>
</tr>
<tr>
<td>Residential Heritage Bed and Breakfasts (B&amp;Bs)</td>
<td>1.72</td>
</tr>
<tr>
<td>Forsyth Barr Stadium</td>
<td>0.23</td>
</tr>
</tbody>
</table>

These differentials increase the amount paid by the non-residential (industrial and commercial ratepayers) category, non-residential Strath Taieri, and residential heritage B&Bs categories, and reduce the amount paid by lifestyle and farmland categories.

The general rate differential for the non-residential and farmland categories has changed significantly since 2009. The 2012 LTP explains that, in the 2009/10 year, the non-residential general rate was 3.08 times more than the residential general rate (Dunedin City Council Long Term Plan 2012/13 – 2021/22 [DCC LTP 2012]). Council decided to reduce the differential for the non-residential category so that, at the end of the ten-year period, the 2018/19 year, the non-residential general rate would only be 2.5 times more than the residential general rate. The aim "was to remedy a growing imbalance in the distribution of the rating burden on non-residential properties which is attributed to changes in property valuations over time" (p. 262). This change was brought forward by three years to reflect relative valuation changes effective from July 2011, which had the effect of shifting the incidence of rates onto the non-residential category, which increased in value relatively more than the increase in the values for the residential category (ibid.). At the same time DCC introduced a separate targeted rate, the tourism/economic development targeted rate for all non-residential properties. This new rate was off-set by a reduction in the non-residential general rate meaning that, in practice, the non-residential category paid the same level of rates that they would pay before the introduction of the new rate (ibid.).

In 2010/11 DCC included a proposal to reduce the general rate differential for farmland properties, “in order to provide a fair reflection of the services provided to rural
properties. Consideration was given to the distance from some council services and facilities, and comparisons were made with farmland differentials in other councils” (ibid., p. 262). In the 2009/10 year, the farmland general rate was a factor of 0.9, or 90% of the residential property general rate, with the result that properties categorised as farmland received a 10% reduction on the general rate they would have otherwise paid. While this change was initially scheduled to be implemented over a nine-year period, the effects of the city’s revaluations in 2011 motivated Council to move the shift forward, as with the reduction for the non-residential category. The effect is a reduction in the differential (an increase in the discount applied) for farmland properties to 0.8 in 2015/16 from 0.9 in 2009.

The justifications offered for shifting the incidence of rates away from those in the non-residential category indicate that while there is some comfort with a capital value basis for the majority of rates revenue, the implications of this basis need to be tailored depending on ratepayer types. Under the differential system, those with relatively more valuable categories, within the different land use types, pay more than those with lower values of the same land use category. But the differential approach means that similarly valued properties across the different land use categories will pay different amounts. Assuming that the benefit from the activities funded from the general rate do not correlate to property value, DCC’s approach appears to allocate costs on an ‘ability to pay’ principle, but to tailor the subsequent rating outcomes on the basis of an aggregate (land use type) assessment of relative ‘benefit received’. Overall this indicates a perspective that DCC believes the non-residential sector, in aggregate, should contribute relatively more than they otherwise would, and the lifestyle and farmland sectors should contribute relatively less, in aggregate. The justification used for a reduction in the rates paid by the farming sector was relative ‘benefit received’.  

Dunedin City’s use of targeted rates is primarily for those activities where there is ‘private’ benefit and clearly identifiable groups of ratepayers who benefit directly from the activity funded. As mentioned earlier, these targeted rates are almost entirely set on a uniform basis. The uniform targeted rates (UTRs) are largely used where the direct beneficiaries of an activity are identifiable, and the service resembles a private good in that the council has the opportunity to charge users for the costs of that use.  

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56 The lower differential for the rates paid by the Forsyth Barr Stadium is also justified on relative benefit; however as the stadium is run by a Dunedin City holding company there is an argument that any increase in rates would be felt by the ratepayer anyway.

57 At least in terms of operating costs. Capital costs are funded across all ratepayers on each scheme.
activities, equity is achieved through excluding those ratepayers who do not receive the service (and the direct benefit of that service) from paying for those activities. In these instances rating is used as an efficient collection of a fee for service; a ‘benefit received’ approach, with a uniform rate indicating either council considers the benefit accrues relatively equally to all ratepayers, or that the administrative costs of pure ‘use based’ measures (for instance water metering) outweigh the benefits.

The Community Services Rate is a flat, UAGC type rate, set at the same level for all individual rating units. In Dunedin City, the UAGC is used to fund a portion of the Sport, Recreation and Leisure activities and the Public Health activities. A UAGC charge for these activities rather than a property value based rate appears to reflect the perception that the rates contribution to these activities accrues to all ratepayers, on an equal basis, rather than a general rate contribution. DCC’s policy is that the UAGC should only increase at the rate of Consumer Price Index (CPI) inflation, regardless of the rate of increase in overall expenditure or overall rates increase. This means any increases in rates over the CPI will be pushed onto property value based rates, presumably as a measure of ‘ability to pay’. The linkage between the UAGC and the CPI as a measure of inflation, rather than overall rates increases, is interesting as it indicates Council’s intent that regressive ‘general’ rating tools like the UAGC should be controlled by a measure of overall affordability, a clear ‘ability to pay’ selection.

In its entirety, Dunedin City Council’s approach to rating shows some alignment between rating and direct benefit, particularly in regards to ‘private good’ services where those who directly benefit are contained within an identifiable area, with a fee for service approach to rating adopted. Dunedin City relies on a differential as a tool to adjust the rates burden among the community, on the basis of land use. Adjustments to the differential appear to reflect relative benefit considerations, after consideration of the aggregate benefit received across the different ratepayer categories used (especially in the case of the reductions in the general rate contribution for farmland).

Dave Cull, Mayor of Dunedin City, underlines the complexity of the factors considered and the need to balance these factors, acknowledging that councils face difficulties in applying the blunt tools provided to them in a way that is considered equitable in all cases, and distinguishing between equity and affordability. “There are so many variables that you have to weigh up. There’s affordability, there’s equity; and they’re not the same thing. Someone might say, it’s not fair that (they) have to pay more for the same service
just because (they) have a higher income” (Dave Cull, personal communication, August 19 2011). Mayor Cull recognises the outcomes may not appear fair, but the complexity of rating and the difficulty in capturing benefit accurately in all instances are key barriers to achieving equity in all instances. Mayor Cull believes that the answer is to “accept the context that we’re working with” (ibid.). This means not trying to achieve outcomes that councils aren’t able to achieve.

Mayor Cull acknowledges the ability to use targeted rates for council services and the perspective of a lack of value that some of those in higher value properties may believe they receive for their rates money. “If you live in Middlemarch and you’ve got a valuable property: you’re paying quite a big library rate but you might argue that you can’t get to the library very often so why should you pay it”? (ibid.) However, he noted the difficulty in accurately targeting all ratepayers in an equitable manner, the rating complexity that this created, the unintended consequences in terms of expectations from those paying for the service, and use by those who were not rated, that the use of targeted rates may create. Even through use of targeted rates there are difficulties in achieving a high degree of accuracy (ibid.). Regarding the property value basis for rating, Mayor Cull is comfortable that “the value of the property tends to reflect the income and the asset base of the rate payer”, but noted that this was essentially an assumption and not the case in all instances. For instance, in the poorer areas of Dunedin rates as a percentage of income can exceed 6% (ibid.). Mayor Cull felt that some consideration of the impact of the type of activity was relevant; he considered farmland as “an odd blend of commercial and residential” with the differential used by Dunedin City reflecting this.

In general Mayor Cull stated the two broad approaches available to councils and the importance of applying these principles on a case by case basis. Using water as an example, he noted that a targeted rate based on actual water use can result in equitable outcomes for those on lower incomes, where that ratepayer has the ability to reduce the demand for the service and pay less in rates as a result. For example, a “single pensioner in a unit is not going to use any more than 800 litres a day. Why should they pay the same as someone who’s got five teenage daughters and a spa pool?” (ibid.) Using this example use based charges may be more equitable. Mayor Cull also

58 The 2007 Rates Inquiry suggested that the benchmark for rates affordability was 5% of ratepayer income. Mayor Cull is indicating that based on this measure of affordability; there are members of the community within the residential ratepayer category for whom rates are unaffordable despite what the ‘average’ for the residential category may indicate.
considered the importance of the activity provided as a factor to consider when rating. He said:

“I think you would argue that water is such a basic need that you should try and make the payment for it fair, and proportionate to people’s ability to pay… with water, and I would argue with some other things, increasingly; like fibre optic broadband, that they are going to become infrastructural necessities of life… if you’re going to interact and involve yourself in the community in any constructive way. So it should be available at an affordable rate to people” (ibid.).

Mayor Cull believed it appropriate for a property value based general rate contribution to these activities as the primary ‘ability to pay’ tool available to councils. This is both because of the nature of some of the activities local government provides and the difficulty in using rating tools to capture benefit, where use of an activity by an individual can result in community benefit. In particular, Mayor Cull believes there are a number of council activities that provide benefit to all residents, in a manner that would not be easily captured through an approach aimed solely at identifying and rating direct beneficiaries, for example libraries and sewers, which are deliver a significant ‘indirect benefit’ to the community as well as to individual ratepayers (ibid.). Mayor Cull acknowledged that the property value basis for rating is a blunt tool for capturing this indirect or community wide benefit, but believes it is the best tool currently available. “If you can argue that the city in general, benefits; roughly proportionately, then take it out of the general rate” (ibid.).

Invercargill City Council (ICC) 59
Appendix 5 also sets out the range of rating tools used by ICC. 60 In addition to the ‘general’ rating sources of the UAGC and the capital value based general rate, ICC makes significant use of targeted rating tools through both uniform targeted rates and targeted capital value based rates. In terms of incidence, ICC’s capital value based targeted rates are similar to the general rate as they are paid by all ratepayers and based on capital value. However, the use of these rates as separate targeted capital value rates has important accounting and transparency benefits for both ratepayer understanding

59 Table 2 of Appendix 2: Expenditure and revenue for Otago and Southland councils outlines that in 2012 ICC will derive around 57% of its income from rates.
60 Appendix 5: Council revenue 2012/13 shows that of Invercargill City Council’s operating income, approximately 10% is taken through general rates, the UAGC and rates penalties, 52% is sourced from targeted rates (excluding targeted rates for water supplies), and a further 17% from ‘use based’ measures: fees, charges and targeted rates for water supply.
and expenditure. Separately pooling and categorising funds that would otherwise be recovered through the general rate results in ratepayers having a better idea of the cost allocation to each activity, ‘ring-fencing’ this funding as distinct pools of money for specific purposes.

ICC’s general rate is “used to fund activities where it is not possible to clearly identify customers or users. The general rate is also used to fund activities where, for reasons of fairness and equity, consideration of the wider community good indicates that this is the most appropriate way to fund an activity” (Invercargill City Council Long Term Plan 2012/22, p. 255). As in Dunedin City Council’s case, ICC uses differentials on capital value, with the rate on capital value differentiated by land use type. The differentials apply not only to the general rate funded (capital value) portion of council expenditure but also to the Council’s property value based targeted rates. The differentials are:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Base Rate</td>
<td>100.00</td>
</tr>
<tr>
<td>Residential – Multi Units</td>
<td></td>
</tr>
<tr>
<td>- For the first unit</td>
<td>100.00</td>
</tr>
<tr>
<td>- For each additional unit</td>
<td>-25.00</td>
</tr>
<tr>
<td>Commercial Base Rate</td>
<td>100.00</td>
</tr>
<tr>
<td>Industrial Base Rate</td>
<td>100.00</td>
</tr>
<tr>
<td>Rural–Farming Base Rate</td>
<td>-20.00</td>
</tr>
</tbody>
</table>

The differentials result in rural-farming and multi use residential properties (with the first unit paying the standard rate, and consecutive units paying a discounted rate) receiving a ‘discount’ to the rates they would otherwise pay through an undifferentiated property value based rates. Multi use properties pay 75% of the property value based (both general and targeted) rates they would otherwise pay, and farming properties paying 80% of the value based rates they would otherwise pay.

The justification for the discount applied to farming properties is primarily ‘benefit received’. In 2009, the rates paid by farmers in the city’s boundaries increased by “between 15 and 800 per cent, with a 200 per cent rise the norm” (Cowlishaw, The Southland Times, 15 October 2009). These increases were the cumulative effects of the of city-wide valuation changes, under which farmland properties increased relatively more in value compared to other property types in the city. This resulted in farmland properties comprising a greater proportion of the city’s overall value, in turn increasing
the rates paid by those in the farming category. \textsuperscript{61} In the same year ICC also removed the differential that had historically applied to ratepayers categorised as owners of farmland within the city, exacerbating (and in most cases exceeding) the inflationary effects that the relatively greater increases in farm values had on farmers’ rates.

After the dramatic increases in farmers’ rates in 2009, ICC voted to reduce the differential applied to farmers’ properties again in 2010, through the 2010 Annual Plan process. The change in differential was targeted to “roughly halve the farmers’ rates bills” to address the effect of the 2009 differential changes (Harding, The Southland Times, 25 March 2010). \textsuperscript{62} Over 2011 and 2012 ICC committed to reviewing the entirety of their funding policy, increasing the use of targeted rates. Regardless, the council deemed it necessary to continue with differentials “in order to maintain an equitable rating impact and preserve the relationship which exists between residential, rural, commercial, utilities and large industrial rating units” (Invercargill City Council 2012/22 Long Term Plan, p. 255). Notably the retention of differentials is explained on the basis of preserving a relationship between ratepayer categories rather than justified on either relative ‘benefit received’ or ‘ability to pay’. Reform of funding policy for the ICC 2012/22 Long Term Plan involved a change in the differentials that had previously existed with the ‘discount’ applied to farming properties reduced, and the ‘multiplier’ differential that had previously inflated commercial and industrial ratepayers removed.

\textit{Invercargill City Council: Targeted property value based rates}

ICC’s use of targeted rates are outlined in \textbf{Appendix 5 Council revenue 2012/13}. The use of targeted rates for those activities deemed to be of more benefit to the commercial and industrial areas has effectively offset the effects that removing the multiplier differential, that had previously applied to commercial and industrial ratepayers. Comparatively for farming properties, the inflationary effect that a reduction in the ‘discount’ offered under the differential has been offset by an increase in the use of targeted rates which farming properties are not eligible for.

\textsuperscript{61} As discussed earlier, property value based rates do not increase just because a ratepayer’s property value increases; whether a ratepayer’s rates increase as a result of a revaluation depends on the relative increase of that ratepayer’s property compared to other ratepayer’s properties. For instance, if Ratepayer A’s property value increases by 10\% as a result of a city-wide revaluation, but the average increase of property values in the city is 20\%, then Ratepayer A will expect to pay less in property value based rates in the consequent rating year for property value based rates, all else being equal.

\textsuperscript{62} Unfortunately for the Council these changes to the differential had the effect of reducing the rates of farmers in the city, but not the rates of those categorised as lifestyle or residential block owners in the city’s rural area (The Southland Times, 17 March 2011), who faced inflated rates bills as a result of the revaluations that took effect in 2009, though residential/lifestylers were not subject to the inflationary effects that the reduced differential for farmland had on farmers’ rates.
In terms of principles, the justification of the adoption of the targeted rate is entirely based on ‘benefit received’, with benefit defined on the basis of land use type, or proximity, in those examples where the eligibility for a rate is based on the area in which the rated property is located. However, because there is a capital value based component to the rate, those with higher value properties pay more. In some cases, for example the business development rate paid by commercial and industrial ratepayers only, or the roading and waste rates, there is an argument that the ‘benefit received’ from the activity is related to the size of the business, and therefore a capital value based rate is an appropriate ‘benefit received’ measure. In other examples, for instance footpaths, cemeteries and transport, there is no such correlation between relative capital value and benefit, and therefore it is assumed there is some comfort that ‘ability to pay’ is an appropriate measure. In the examples of cemeteries and transport there is the potential for council to fund the costs wholly through user charges; the decision to allocate part of these costs through rates indicates an attitude that these activities contribute to a wider ‘public good’ and should be funded as such on an ‘ability to pay’ basis. The costs associated with the Bluff community board are also capital value based but payable only by those in the Bluff area, again the assumption is that costs associated with democracy for that area should be based on ‘ability to pay’.

Invercargill City Council makes significant use of the UAGC and other uniform charges. These are also outlined in Appendix 5 Council revenue 2012/13. As uniform rates, there is little justification from an ‘ability to pay’ perspective. Therefore ICC’s extensive use of uniform charges and uniform targeted rates is largely to be viewed from a ‘benefit received’ perspective. For some activities council chooses to use a uniform targeted rate rather than a capital value based rate to reflect the ‘public good’ benefit. For instance, parks and reserves and pools are funded both through the UAGC and also through a uniform rate, targeted to residential and lifestyle properties only. Use of a UAGC to reflect this portion of public benefit indicates that the benefits accrue to all ratepayers, equally. The use of a uniform targeted rate aimed only at the residential and lifestyle categories indicates the perception that users of these facilities are largely from these land use categories, presumably excluding categories (commercial, industrial and farming) judged not to use these facilities to the same extent. ICC’s use of uniform targeted rates for regional facilities and regional heritage base rates. Contrastingly, for those services where Council can identify the immediate area of benefit based on geographical area or connection to a service, with community centre and town hall rates
being an example of the former and the water base rate, sewerage base rate, drainage base rate, refuse collection rates examples of the latter.

Jackie Kruger, former Deputy Mayor of ICC\textsuperscript{63} highlights that “how best to achieve fairness and equity when delivering on our asset and activity plans, including what proportion of an activity should be user pays or exacerbator pays, and what proportion is ‘community good’” are important factors to consider in regards to setting funding policies (Jackie Kruger, personal communication, September 3 2011). In the review of funding policies for the 2012/22 Long Term Plan, these considerations “extended to what proportion is reasonable for certain sectors to pay”. The former Deputy Mayor considers that “affordability remains an important lens when setting policies, as does inter-generational equity” and that council also considers “use of policies as incentives or disincentives to achieve specific strategic goals" (ibid.). Despite a council’s best efforts, one of the difficulties Jackie Kruger considers councils face is “achieving genuine fairness”. She notes that “even with the best efforts, there is often an ‘exception’ that pops up that challenge the intent of the policies... sometimes it is a challenge to set policies that endeavour to address the big picture when (some) ratepayers seem intent on only viewing the effect from their own personal perspective” (ibid.). Overall, rates “need to be a form of wealth tax within reason for those services that are not specific, measurable services that directly benefit the householder or service user. The 'haves' need to pay a greater proportion of the community good elements of local govt activity than the 'have nots’” (ibid.).

In regard to whether rates should be set on the basis of ‘ability to pay’ or ‘benefit received’, Jackie Kruger answers that it is “definitely a combination of both” with the private and public good characteristics of an activity a key consideration “within the proportional-to-property-value revenue there needs to be consideration of what is reasonable and what level becomes ridiculous (unfair)”. The property value basis for rating isn’t a completely accurate measure of relative ability to pay as it is “a blunt instrument” that only “indicates generally a ratepayer's ability to pay”. Ratepayers who are particularly disadvantaged from property value based rates are the “elderly who continue to live in their large family home” and “farmers”, though councils can “set targeted rates for certain groups, possibly with different rating philosophies where appropriate” although this deals with issues \textit{between} the different ratepayer or land use

\textsuperscript{63} Jackie Kruger resigned from her Deputy Mayoralty with Invercargill City Council in 2012 to take up a position with local government in Tamworth, Australia.
categories but does not deal with issues arising within ratepayer categories, for example in the case of the elderly with large relative property values and very little income (ibid.).

**Southland District Council**

In addition to the ‘general’ rating sources of the UAGC and the capital value based general rate, SDC has a significant range of separate targeted rates including both uniform targeted rates and targeted capital value based rates. While targeted rates only comprise of 24% of operating revenue against 50% sourced from the ‘general’ rates take, this ‘general rating’ category incorporates the UAGC which accounts for just over 24% of the total rates take for 2012/13. In Southland District Council’s example, the UAGC is not one uniform charge, but a number of uniform targeted rates that are set on an activity basis.

Southland District applies uniform charges to fund the portion of the activity the council considers to be of equal benefit to all ratepayers, or of ‘per person’ benefit; a ‘benefit received’ approach to funding activities. Southland District Council’s 2012-22 Long Term Plan (LTP) outlines the justification for use of a uniform rate for these activities, by each activity. For example, the representation, and development and promotions activities are wholly funded from a uniform charge, while the strategy, policy and planning activity is part funded from a uniform charge and part funded on a capital value basis. Use of a uniform charge for these activities “reflects that the use on these services is people based - generally a rural rating unit with a family does not draw any more service than an urban rating unit with a family” (Southland District Council 2012/22 Long Term Plan, p. 275). Funding for regional heritage, regional initiative and public health service activities are similarly justified as offering ‘per person’ benefit, with the costs allocated on a uniform charge. Only a portion of the strategy, policy and planning activity is recovered through a uniform charge, with the balance of the funding provided through a rate based on capital value, “as the most equitable form of “tax” available to the Council” (ibid., p. 275). The reference to an ‘equitable form of tax’ as justification for a capital value based component to fund the activity can be read as either ‘ability to pay’ or ‘benefit received’.  

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64 Table 2 of Appendix 2: Expenditure and revenue for Otago and Southland councils outlines that in 2012 SDC will derive around 66% of its income from rates.  
65 Of SDC’s operating income, approximately 50% is taken through general rates, the UAGC and rates penalties, 24% is sourced from targeted rates (excluding targeted rates for water supplies), and a further 5% from ‘use based’ measures: fees, charges and targeted rates for water supply. See Appendix 5: Council revenue 2012/13.  
66 The reference to equity indicates an ‘ability to pay’ perspective, but at the same time benefit for a portion of this activity may be regarded as being relative to capital value, as is the case in some of the other councils considered in this chapter.
Southland District also incorporates a uniform charge for the district’s libraries. A uniform charge is applied to account for 90% of the costs of this activity to recognise “the wider benefits these services have in the District’s communities” (ibid.), with the remaining 10% of libraries’ costs recovered through user charges. The decision to use a uniform charge rather than a capital value based rate for the rates funded portion of these costs is to reflect “the ‘people’ based nature of these activities and recognises that rating unit size does not affect how much service is available” (ibid.). Similarly, council’s waste activities are divided into two components. The first component is for physical waste collection, for which a uniform charge is applied only to those who receive the service. The second component is the ‘general good’ component of SDC’s waste management function. This is funded roughly half through a rate based on capital value to reflect “the benefits that environmental protection has in preserving values and potential service demand i.e. the more developed a property is, the more refuse it will generate” (ibid.). The other half of the rates contribution to waste management is made through a uniform charge, with this charge applied to recognise “the limitations of other rating mechanisms”. Of the justification for use of uniform rates, this is the only specific mention of the need to mitigate or reduce the effects of property value. SDC’s use of uniform rates for other activities are all justified on the basis that this reflects the relative ‘benefit received’ of the particular activity funded.

Southland District Council continues the primarily ‘benefit received’ based approach to funding through the council’s targeted Roading rate. This rate is comprised of two parts; the first part is a uniform rate to recover approximately 10% of the ratepayer costs of the district’s roading to reflect the general “access to the roading network” on the basis that this general access is available for all ratepayers. The remainder of the rates cost of the Council’s roading expenses are allocated on the basis of a Roading Cost Allocation Model (RCAM). The RCAM divides each rateable property up on the basis of nine land uses; commercial, dairy, farming (non-dairy), forestry, industrial, lifestyle, mining, other and residential. The use of the district’s roading network is then modelled and allocated on a percentage basis to each of these land use categories. This results in each land use category paying the estimated proportion of that category’s use of the district’s roads. For example, in 2012 the dairy category is estimated to be responsible for approximately 34% of the district’s roads, therefore the dairy category is allocated 34% of the district’s
ratepayer funded portion of the roading costs. This category contribution is then allocated to each rateable property within that category on the basis of relative capital value.

In allocating the rates portion of the district’s roading costs the council aims to capture ‘benefit received’ through two mechanisms, firstly through the category to which a rateable property belongs and secondly by allocating relatively more of the costs within that category to those properties of relatively greater value, on the assumption that more valuable properties make greater use of the roading network. The administrative costs of developing, updating, and maintaining the model and its data are no doubt significant, but certainly more an accurate reflection of relative ‘benefit received’ from roading than a basic capital value or uniform charge approach would. The particular importance of roading to Southland District is outlined in Appendix 4: Breakdown of OPEX by Council for 2011. Southland district’s roading comprised of 46% of operating expenditure in 2011. Meanwhile the district is comprised of only 29,600 residents, a relatively small population compared to the other councils considered in this chapter. This may explain why Southland District places particular importance on accurately allocating rates costs to different sectors as a way of ensuring an equitable allocation of rates, from a ‘benefit received’ perspective.

SDC has a number of other targeted rates, all primarily targeted on the basis of relative ‘benefit received’. These include building regulation, which is funded on the basis of a combination of user charges (80%) and a rate set on the value of each property’s improvements, aimed to reflect the relative level of development on each property. A council offices and district support rate is set on the basis of capital value to fund the operation of SDC’s area offices and corporate services. Civil defence and rural fire activities are funded on the basis of land value, as an ‘exacerbator pays’ consideration as SDC considers this basis most accurately reflects the relative level of risk that each property represents.

The remainder of SDC’s rates are largely ‘area based’ rates. These include rates for sewerage and water connections, where those connected or connectable to a service

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67 In New Zealand, roading costs are partially funded by central government through road user charges, fuel taxes and other road use funding sources. District and City councils are required to fund the remaining expenditure through their own revenue sources, primarily through rates, with minor contributions from financial and development contributions.
are rated appropriately, including loan rates for specific water, sewerage and drainage schemes being funded over a period of time. SDC also uses area based targeted rates to fund local community assets; these include local halls, local pools and for the ratepayers of Te Anau, the local airport. In all of these examples the aim appears to be to capture relative benefit on the basis of proximity to the service. This may offer significant benefits for the council in regards to the allocative efficiency of the ‘benefit received’ approach as discussed in chapter two, in that local communities are asked to pay directly for services that they will primarily benefit from. Through use of targeted rates SDC can ensure that local expectations for level of service are to a large extent restrained by local willingness to pay for these levels of service.

A departure from this targeting on the basis of area for local assets or amenities was put out for consultation through SDC’s draft Long Term Plan in 2012. Council had identified that the previous policy of ensuring that local communities paid for local amenities, public toilets in particular, was creating affordability concerns for those with a lesser ‘ability to pay’ in some of the less populated rural areas, and that the benefit of these public amenities largely accrued to visitors to these various areas of the district and not specifically to those living in the area (Southland District Council 2012/22 Long Term Plan). As a result the council proposed that a portion of these local amenities would be funded from a uniform rate paid by all ratepayers. The policy, called the district funding of public conveniences, was adopted in the final Long Term Plan.

**Waitaki District Council**

WDC relies heavily on targeted rates as opposed to the ‘general’ rating sources of the general rate and the UAGC; which at 2% of total operating income is relatively low. Waitaki District does make extensive use of targeted rates in that the council’s uniform

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68 The labeling in Appendix 5 for Waitaki District Council differs as a result of that Council’s different method of reporting of operating income; see page 43 of Volume 2 of Waitaki District Council’s 2012-22 Long Term Plan.
69 Table 2 of Appendix 2: Expenditure and revenue for Otago and Southland councils outlines that in 2012 Waitaki District Council (WDC) will derive around 64% of its income from rates.
70 Appendix 5: Council revenue 2012/13 outlines that of Waitaki District Council’s operating income, approximately 2% is taken through the general rate, the UAGC and rates penalties, 61% is sourced from targeted rates (excluding targeted rates for water supplies), and a further 2% from ‘use based’ measures; fees, charges and targeted rates for water supply. It is important to distinguish that Appendix 5 considers the funding sources for operating expenditure only, and excludes capital expenditure. Pages 69 and 70 of Volume 2 of Waitaki District Council’s 2012-22 Long Term Plan show that of WDC’s total rates income, nearly 14% is derived from the General Rate.
rates are all categorised as uniform targeted rates. This means that they are uniform rates targeted to particular activities.\footnote{In the 2012 – 22 Long Term Plan, WDC categorises the UAGC as a ‘targeted rate’ rather than a ‘general rate’. In terms of rating incidence there is no distinction between a UAGC used to fund the range of activities and a range of uniform targeted rates, however in terms of intentions the aim is presumably to increase the transparency of the ‘labelling’ for each rate.}

The general rate is set on a land value basis, and used to fund part or all of the costs associated with the Waitaki community recreation centre, economic development, visitor information centres, lakes camping, public toilets, sports grounds, Oamaru airport, Oamaru harbour – port operations, emergency communications, district planning and environmental health. WDC states that the “general rate is usually used when Council determines there is a district wide benefit which is connected with land values or activity which relates to land ownership” (Waitaki District Council 2012-22 Long Term Plan, p.105). This justification has two parts: the first considers the correlation between the relative benefit of the activity and the appropriate rating basis to reflect that benefit, which council considers to be land value. The second part considers the breadth of benefit, which council considers to be district wide. The justification for use of a land value basis is an interesting component of the Council’s rating approach. The other councils in this chapter use capital value as a basis for general rating; WDC appears to indicate that they consider relative benefit accrues from these activities on a land value basis, rather than a capital value basis.

Another distinguishing feature of WDC’s funding policy is the district services rate. This rate is set on a capital value basis, compared to the General Rate which is set on a land value basis. The district services rate is “generally set when Council determines there is a District wide benefit which is connected with capital value. Council has considered that high capital value properties tend to have higher impacts on certain activities such as roading, and also represents a greater ability to pay” (ibid., p.105). The district services rate contributes to part of the costs of council, economic development, Oamaru harbour – coastal protection, rural fire, building control and environmental monitoring. As distinct from the general rate, WDC’s district services rate is used to fund the parts of activities where the council considers there is a correlation between capital value and the relative benefit of the activity. However, unlike the general rate the justification for the district services rate includes a reference to ‘ability to pay’.

\footnote{In the 2012 – 22 Long Term Plan, WDC categorises the UAGC as a ‘targeted rate’ rather than a ‘general rate’. In terms of rating incidence there is no distinction between a UAGC used to fund the range of activities and a range of uniform targeted rates, however in terms of intentions the aim is presumably to increase the transparency of the ‘labelling’ for each rate.}
Apart from roading, where it is stated that Council believes higher value properties have relatively greater impacts on the roading network and therefore capital value is a principled basis for rating, there is no further distinction between the activities WDC considers it appropriate to use ‘ability to pay’ over ‘benefit received’ when applying this rate. While they differ in terms of incidence, the capital value based district services rate and the land value based general rate are similar in terms of form, in that they are a property value based rates used to fund activities, or those parts of activities for which council deems the benefit to be across the entire district. In this way they are essentially both ‘general rates’ with different bases. For some of the activities funded from these rates there is arguably a correlation between the basis used for rating – land value or capital value - and the distribution of direct benefit. For other activities it appears at face value that the two rates are largely used to reflect either ‘ability to pay’ or a broader translation of ‘benefit received’ than that used in the other case studies considered in this chapter. In the latter case, the council may believe the wider or ‘indirect’ benefit from the community good activities funded is ‘worth’ more to those with relatively more valuable properties.

The justification of ‘district wide’ as a basis for these two activities is important in Waitaki District’s specific rating context, because a large number of WDC’s rates are set on the basis of geographical area. As outlined in Appendix 5: Council revenue 2012/13, these rates include rates set on a ward basis. These include the various ward services rates, community board rates and local amenity rates. WDC uses ward based rates “where the benefit is identifiable to the ward or where costs are generally driven by the expectations of their communities” (ibid., p.105). The decision to ‘target’ wards or areas is made on the basis that doing so will enable greater ‘allocative efficiency’ through use of targeted rating tools to align expectations with cost. WDC appears to use the same principles for the two targeted rates aimed at sourcing funding from the urban area of the district, Oamaru. The first is the Oamaru business area rate, a targeted rate for services to the Oamaru business areas, based on the capital value of each rating unit in the Oamaru business areas, excluding those properties used exclusively for residential purposes. This rate has two geographic categories used, A and B, with ratepayers in area B paying half the capital value rate of ratepayers in area A. This rate contributes to the funding for forrester gallery, libraries, North Otago museum, aquatic centre, Oamaru public gardens, Christmas decorations, Oamaru opera house, and parking enforcement. The second is the Oamaru urban area rate, a targeted capital value rate for coastal protection to the Oamaru urban area. As with the other ward and geographical based rates, the
justification for targeting the ratepayers in that area largely appears to be based on the presumption that for these activities, proximity is a large factor in regards to the ‘benefit received’ from the activity, with capital value or land value used as a measure to allocate costs on the basis of relative benefit.\footnote{Waitaki District Council also has a Roading and Civil Defence Rate, and a Lakes Camping Rate. These are capital value based rates set on a differential basis for rateable properties designated as Hydro-Electric Power Generation Installations, Mining and Mineral Extraction and Other Uses. The result is that large scale mining operations, or hydro-electric power generation, is not charged the same dollar value based rate as other rateable properties in the District.}

WDC also uses a number of uniform targeted rates, many set on a ward or area basis, effectively ‘ring-fencing’ the geographical benefit of the activities funded and then allocating the costs on a uniform basis to the eligible ratepayers in that area. These include specific uniform targeted rates for water, sewerage and hall rates, where the uniform rate is “charged to specific users who have access to a service based on either connection or proximity to the service” (Waitaki District Council 2012-22 Long Term Plan, p.105). Council also uses a UAGC, which is “generally used when Council determines there is a District wide benefit connected to individuals”. The UAGC is used to fund all or part of the costs associated with closed landfills, waste minimisation, tourism development and visitor information services, community development safety & grants, Otago museum, community housing, cemeteries, public toilets, sports grounds, building control, environmental health, environmental monitoring and hazardous substances, liquor licensing and civil defence. Many of these activities are also partially funded by the land value based general rate, for instance, sports grounds; or a targeted property value based rate, for example the public toilets which are also funded from the targeted Oamaru business area rate.

WDC allocates very close to the allowed 30% of its rates through uniform rates, either uniform targeted rates or the UAGC. In combination with the land value based general rate and the capital value based district services rate, and in conjunction with the wide range of largely geographically based targeted uniform and targeted property value based rates, this creates a complex rating picture overall, with the area or geographically based rates used as a tool to reflect benefit on the basis of proximity to services, and the district wide capital value, land value and UAGC rating tools aimed at funding those activities deemed to be of benefit to all ratepayers. For the district wide activities, the underlying sense is that council is attempting to use the tools to tailor the incidence of
rating, with a view to ensuring the overall allocation among different ratepayer categories is within some reasonable, or subjectively fair, allocation.

Central Otago District Council 73

According to the CODC Long Term Plan 2012/22, the general rate is used to fund what are essentially the activities the council does not consider appropriate to fund through targeted rates; “general rates are used to fund the costs of functions not delegated to a community board and not covered by any other rate or charge”(ibid. p. 156). 74

Largely the allocation of costs through the general rate appears to be based on the ‘ability to pay’ principle. As the general rate is used to fund ‘residual’ activities not deemed suitable for targeted rating, it appears as if CODC takes a ‘benefit received’ rating approach for activities deemed to provide direct benefit, and an ‘ability to pay’ approach for activities the council deems to provide indirect or ‘general’ benefit. A consideration of the differentials CODC applies to the land value based general rate underlines the ‘ability to pay’ approach. The differentials for each category are:

<table>
<thead>
<tr>
<th>Category</th>
<th>Cents in the $ - land value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clyde Dam - Earnscleugh, Roxburgh Dam - Roxburgh</td>
<td>5.954</td>
</tr>
<tr>
<td>Paerau Dam – Maniototo</td>
<td>5.698</td>
</tr>
<tr>
<td>Teviot Power Scheme – Roxburgh</td>
<td>11.132</td>
</tr>
<tr>
<td>All other areas</td>
<td>0.118</td>
</tr>
</tbody>
</table>

CODC’s use of differentials appears to be aimed at ensuring the dams in Central Otago pay a significantly greater contribution to the general rate than other ratepayers. The majority of properties in the District all pay a land value based general rate of 0.118 cents for every dollar of land value. Comparatively the Clyde, Roxburgh and Paerau dams pay over 50 times that rate for every dollar of land value, and the Teviot power scheme pays 94 times what it otherwise would for a land value based general rate with no differentials in place. It is difficult to assess what proportion these properties make to the overall general rate take, as this information is not included in the CODC 2012/22 Long Term Plan.

73 Appendix 5: Council revenue 2012/13 outlines that, of the Council’s operating income, approximately 22% is taken through general rates, the UAGC and rates penalties, 49% is sourced from targeted rates (excluding targeted rates for water supplies), and a further 17% from ‘use based’ measures; fees, charges and targeted rates for water supply. CODC’s general rate is land value based, with a range of differentials applied. 74 Table 2 of Appendix 2: Expenditure and revenue for Otago and Southland councils demonstrates that in 2012 Central Otago District Council (CODC) will derive around 72% of its income from rates, the highest proportion so derived of the councils considered in this chapter. The activities funded by the general rate include housing, district grants, regional identity, roading (other than the uniform charge contribution), noxious plant control, public toilets (district funded), airports and other.
Plan. However, the Clyde Dam alone will pay just over $107,000 for the general rate contribution to its annual rates bill, while the Roxburgh Dam will pay just over $98,000 (Central Otago District Council website). In the absence of any assessment on the relative reliance of these facilities on roading funded through the general rate or information on an agreement between these facilities and Central Otago District Council, whereupon the dams and the power station receive some other benefit for their general rate contribution, this appears to be largely an ‘ability to pay’ based rating decision.

CODC also has a number of targeted rates used to fund at least part of specific activities. Compared to the general rate, these targeted rates are set wholly on an assessment of relative ‘benefit received’, with the ratepayers targeted deemed to receive relatively more benefit for the activity or a particular portion of the activity, and the basis for rating, whether it is land value, capital value or a uniform rate basis, chosen to reflect the relative incidence of benefit; these rates are summarised in Appendix 5: Council revenue 2012/13. The exception to CODC’s application of the ‘benefit received’ approach to targeted rating is again the amounts contributed by the Clyde and Roxburgh Dams for particular activities. The planning and environment targeted rate, a capital value based rate paid by all ratepayers, has a differential in place that effectively doubles the capital value contribution that the Clyde and Roxburgh Dams would otherwise pay. The planning and environment rate is used to fund functions including resource management, environmental health and building, civil defence and rural fire. There may be some ‘benefit received’ basis to this, in that these dams require specific planning and environmental resources over and above what other ratepayers require.

The differential basis for the capital value based Tourism targeted rate also requires the Clyde and Roxburgh Dams to pay a slightly higher capital value based contribution than the district’s rural and residential ratepayers. However, those targeted with the higher differentials are not the dams, but the commercial and industrial ratepayer categories, and those ratepayers in the accommodation categories. As the targeted tourism rate is used to fund visitor information centres and tourism development within the district, the funding is essentially used for marketing for Central Otago as a tourist destination for which it can be assumed ratepayers in the commercial, industrial and accommodation categories receive relatively more direct benefit by selling more products, services or accommodation.
The remainder of CODC’s targeted property value based rates, and some of the targeted uniform rates, are set on a ward basis. These rates are related to CODC’s representative arrangements, where the district is divided up into smaller areas representing specific communities, known as wards. CODC has developed a number of targeted rates on a ward basis where the council has assessed that the benefits of an activity accrue on an area, or ward basis, with the rating tool CODC uses to allocate the costs within the ward chosen to reflect the relative ‘benefit received’ from the activity.75

CODC also charges a number of uniform rates on a ward basis, such as the recreation and culture rate to fund the recreation and culture costs within each ward, including pools and halls, and the libraries rate, for which those in the Maniototo ward pay a lower rate than other ratepayers in the district, and the ward services rate, a uniform targeted rate differentiated by ward, to fund the costs of services within that ward. For the ward based uniform charges the charge is set relative to the benefit that each ward receives, with ratepayers within each ward paying the same amounts as others within that ward. As with other councils, CODC applies a number of uniform rates for those connected to services, for water connections, wastewater and waste collection, with half charges for water and wastewater services that are serviceable but not connected, as well as volume based charges for water usage.

In addition the Council charges a Clutha management rate, which is a uniform targeted rate set at the same level for all ratepayers, to fund the costs associated with Lake Dunstan and the Clutha river, and the UAGC to fund the costs of democracy, a portion of roading costs, and other amenities controlled by council. The UAGC is set at $117.89 per rateable property and accounts for just under 6% of the total rates take for 2012/13. Overall CODC’s rating approach is related to the ward based representation system, and largely categorises benefit on the basis of the ward in which the ratepayer lives or the type of rateable property, before allocating the costs of activities on either a uniform or a property value basis, with the choice of rating base used dependent upon the council’s assessment of the extent to which benefit accrues. The exceptions are those activities funded through the general rate, and the differentials applied to the dams and power station in the district, both examples where CODC appears to have applied ‘ability to pay’ principles to their rating considerations to reduce the rates paid by other ratepayers.

75 These ward based rates include the ward based works and services rates, village caretaker and upgrade rates, and a storm water rate for the Alexander ward only, all based on land value. For the land value based ward rates the Council considers benefit accrues on a basis relative to land value, but differentiates each ratepayer’s contribution on the basis of the ward they live in.
Queenstown Lakes District Council

QLDC’s funding principles incorporate a ‘benefit received’ framework; QLDC assesses the relative benefit of a Council activity and decides what funding tools are appropriate. QLDC’s funding principles dictate that where “a private benefit exists, the cost of this should be recovered by user fees or a targeted rate” (Queenstown Lakes District Council Long Term Plan 2012/22, p. 13), a benefit received approach. For Council activities that provide public benefit, Council also reflects relative benefit by considering the relevant rating tool to apply to reflect the likely incidence of benefit. QLDC use “capital value rate used to fund ‘property’ related activities and the UAGC used to fund ‘people’ related activities” (ibid., p. 13). QLDC use a capital value rating system as a preference to land value “because Council believes that it generally provides a better surrogate for the allocation of cost for Council services” (ibid. p. 13).

At only 2% of the total rates take, the general rate is not a significant factor for QLDC’s rating approach. Instead, the major component of the council’s rating system is a number of what can best be described as ‘targeted differentials’; capital value based rates used to fund particular activities, with a differential applied to each particular rateable property on the basis of that property’s land use. The activities funded through these targeted differential rates are set out in Appendix 5: Council revenue 2012/13. In addition to the targeted differential system, the roading and storm water activities are further broken down into a geographical ward basis, with particular wards paying for the costs of these activities that are incurred in that ward. The use of targeted differentials to fund these activities, largely funded through general rating tools in other councils, explains why general rates take for QLDC only comprise 2% of the rates taken. Given the council’s funding principles, the use of targeted differentials rather than general rating mechanisms indicates that these activities largely provide private benefit to particular ratepayers and particular ratepayer categories.

76 Of the QLDC’s operating income, approximately 2% is taken through general rates, the UAGC and rates penalties, 55% is sourced through targeted rates (excluding targeted rates for water supplies), and a further 12% from user charges. See Appendix 5: Council revenue 2012/13. In addition to these operating income revenue sources, it is also worth noting that QLDC receives a substantial amount of money for its capital expenditure through development contributions when compared to the other councils considered in this chapter. Development Contributions are essentially charges applied to new development, and are used to fund activities that would otherwise generally be funded through rates. As Queenstown Lakes District is subject to large development demand, this is a particularly useful, and arguably strategic, revenue tool for the Council.

77 Table 2 of Appendix 2: Expenditure and revenue for Otago and Southland councils outlines that in 2012 Queenstown Lakes District Council (QLDC) will draw 56% of its income from rates.
For the purposes of this thesis, the methods QLDC use to arrive at the relative differential weightings for each land use category are just as important as the rating structures. In 2011, QLDC undertook a significant review of its funding policies including a lengthy consultation process, to feed into the major funding policy consultation requirements for the 2012 Long Term Plan. In the initial stages of the review, QLDC decided that the most important rating issues related to the application of the general rate and UAGC, including the justifications for when these tools were to be used. “The existing differentials for the general rate are largely historic and it was decided to analyse the costs and benefits associated with the general rate” (ibid. p. 39). The result was an extensive analysis of the activities funded in the general rate, with similar analysis undertaken for the new fixed targeted rates – recreation charge, governance charge and aquatic centre charge”, with these fixed targeted rates (or uniform charges) reviewed because of concerns that “some commercial properties are unfairly targeted with these types of rates simply because they have multiple tenancies” (ibid. p. 39).

The QLDC rates review included an assessment of both the relevance of the rates used and the categorisation of the activities based on the nature and benefits of those activities, with a view to grouping activities of a similar nature together. For instance, one of the previously existing activities, the community development activity, was split into components with community information and development incorporated into the governance activity and funded 100% from the new governance targeted differential rate. Council decided that the remaining component of the previous community development activity was “almost all events related” (ibid. p. 40). This component was incorporated into the new recreation & events targeted differential rate. Similar changes were made to the council’s community grants, parks and recreation and district planning activities.

QLDC’s process for reviewing the allocation of costs through these targeted differentials involved a significant process of assessing the relevant basis for establishing relative benefit from the activities. “The first decision required was to analyse each activity to determine if it the costs were largely people driven or property driven. Those activities which are more people driven will rely on a cost allocation which takes into account population (including visitors) whilst those that are more property driven will rely on capital values”. The analysis that resulted was that most of activities are people driven (ibid. p. 41). QLDC then had to “decide how to allocate the costs by a people related factor. Many options were modelled; including average day population, total annual population & total people/days over a year. It was decided that the fairest method is total
people/days over a year. This means that the costs are allocated on the basis of the total number of people in the district throughout the year but also takes into account their length of stay” (ibid. p. 41). Because Queenstown Lakes District relies heavily on tourism and out of district visitors, this is a material factor in the demand for council services. The council found that “there are 15.61m people/days of which just over 61% are residents & the balance visitors” (ibid. p. 41).

QLDC then had to establish what this meant to rating equity in the district, from a ‘benefit received’ perspective, by determining “which rating categories receive what proportion of the benefits of each people driven activity” (ibid. p. 41). On this basis, QLDC decided that the costs “associated with overnight visitors should be allocated to accommodation properties; the costs associated with day visitors are allocated to commercial properties and the costs associated with visitors staying with friends are allocated to residential properties (includes country dwellings and primary industry)” (ibid. p. 41). These demand factors were then broken down and applied to the separate targeted differential rates; governance, recreation and events, regulatory, roading and storm water with the basis for differentials across the different land use categories. Establishing these relative benefit factors, modelling the relative benefit and then explaining the new approach to rating was a considerable exercise for QLDC. For instance, the recalculation of the road rating differentials, which were used to allocate costs for roading before the rates review process of 2011, required updating of existing demand focussed funding models “with new inputs; the most important of these being the updated 10 year roading expenditure forecasts and the new valuation data” (ibid. p. 39). It was also necessary for the council to “evaluate the impacts of any proposed changes by recalculating the 2011/12 rates using the new proposals” (ibid. p. 39) including the effect of a district-wide revaluation of properties that occurred in 2011.

Arguably, the exercise of going to such trouble and expense to map the relative demand factors for the majority of QLDC’s rating approach was worthwhile because of Queenstown Lakes District’s specific situation—where the facilities, infrastructure and services provided by council are used by a relatively smaller resident population and a significant number of visitors who do not own properties in the district. As a result, QLDC has to look at ways of rating that allow the allocation of costs to ratepayers or ratepayer categories that receive direct benefit from visitors to the district, as the next best thing to direct charging of these visitors for their use of the district’s facilities and services. The result is that, for ratepayers in the commercial, industrial and accommodation categories,
they are rated in line with the relative benefit each ratepayer is assumed to receive, for each activity. These ratepayers can then decide whether, or how best, to allocate these costs to visitors commercially through increased accommodation fees, ticket prices or mark-ups on goods sold. The positives for other residents, particularly residential and farming ratepayers, is that these categories are not asked to contribute the same amounts for these activities that they would under an undifferentiated capital value, or general rating approach.

The basis for establishing these targeted differentials is therefore ‘benefit received’. At the same time, there remains a capital value basis for the allocation of costs within these different land use differential categories. As the differentials change the amount paid between ratepayer categories, ratepayers with relatively more valuable properties will still pay more than ratepayers with lesser valued properties within those categories. For example, a ratepayer in the accommodation category will face a differential of 5.4 for the recreation & events rate, while a residential ratepayer faces a differential of 1. This means that the accommodation ratepayer pays around 5.4 times what they would otherwise pay under a basic capital value approach. However, a property rated as accommodation, and valued at twice the amount of another accommodation property, will pay twice the amount of this targeted rate. Similarly, residential property A, which is valued at twice the capital value of residential property B, will pay twice the rate that of residential property B.

Aside from these targeted differentials that form the primary basis of QLDC’s rating policies, the council uses a capital value based general rate which is also differentiated by land use type on the basis of relative benefit to fund costs associated with the civil defence and rural fire, waste and landfill management, and forestry activities. A differential capital value based general rate is used for these activities because the council considers that the benefit from these activities is district wide and of a ‘public good’ nature, but related to property values. Additionally QLDC uses the UAGC to fund...
activities that offer district wide benefit and are of a ‘public good’ nature, and where
benefit is considered to relate more to people than property values. The UAGC is used to
fund cemeteries, community development and grants, property including housing and
Wanaka airport, and a general contribution to the promotion of the district. Additionally
QLDC uses a number of uniform targeted rates. The sports, halls and libraries annual
charge and an aquatic centre charge are both uniform targeted rates paid only by
residential ratepayers, on the basis that these activities are people based. The district's
waste management charges are set at different levels depending on the ratepayer’s land
use type, with the relative charge reflecting the demand that ratepayer category is
assumed to contribute for waste management. As with the other councils addressed in
this chapter, QLDC uses uniform targeted rates for water and sewerage, with half
charges where a property is not connected but is able to be.

**Clutha District Council**

CDC’s overall approach to rating is that where practicable “the communities, groups or
individuals who directly benefit from a council activity will fund that activity” (Clutha
District Council Long Term Plan 2012/22). CDC’s rating tools include the UAGC, which
“is used to fund all or part of activities that provide a relatively equal benefit to the whole
district” (ibid. p. 196). Clutha District Council’s UAGC is set at $458.40 per rateable unit
and accounts for around 22% of Clutha District’s total rates take in 2012/13.

A review of the activities funded by the UAGC indicates the relative importance of this
rating tool to CDC. Of the eight broad council activity categories to which rates
contribute, the UAGC is used to fund significant components of each activity, excluding
the water supply, sewerage, storm water categories which are funded between 90% to
100% from uniform targeted rates. Comparatively, the district-wide general rate, set on
a capital value basis, only contributes to 37% of the roading activity, a small contribution
to the sewerage activity, and to the resource management and building control

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80 Of CDC’s operating income, approximately 15% is taken through general rates, the UAGC and rates penalties,
61% is sourced from targeted rates (excluding targeted rates for water supplies), and a further 13% from ‘use
based’ measures; fees, charges and targeted rates for water supply. See **Appendix 5: Council revenue 2012/13**.
81 Table 2 of **Appendix 2: Expenditure and revenue for Otago and Southland councils** outlines that in 2012
Clutha District Council (CDC) will derive 47% of its income from rates.
82 Community Leadership, Roading, Water Supply, Sewerage, Storm water, Solid Waste Management,
Community Services and Regulatory and Emergency Services.
83 CDC list this as a capital value based District wide targeted rate, rather than a ‘general rate’, because these
capital value based rates are set to fund specific components of the Council’s activities. **Appendix 5** provides a
breakdown of these specific capital value based rates. Because the incidence and nature of this rate are the
same as other general rates discussed in this chapter, for the purpose of comparison these rates are referred to
as a ‘general rate’ in this chapter.
components of the regulatory and emergency services activity. Where the capital value based general rate is used to fund an activity, this is explicitly justified on an ‘ability to pay’ basis. For example, the resource management component of the regulatory and emergency service activity includes a capital value based contribution because it is “a public good and is funded by the district as a whole, based on CV reflecting the level of development and ability to pay” (ibid. p. 207). Similarly, the capital value based general rate is used to fund a portion of the building control component of the regulatory and emergency service activity “to reflect the level of likely demand for building control services and ability to pay” (ibid., p. 206). In regard to the plan as a whole, the LTP noted that “Council has spent a considerable amount of time considering fairness and equity for how it rates for its services, and considering the impact of increasing rates on ratepayers’ ability to pay” (ibid., p. 21).

The remainder of CDC’s rates are recovered from either uniform targeted rates or uniform property value based rates. These targeted rates are “used to fund all or part of activities that provide benefit to an identifiable community or group of ratepayers. These rates are targeted at those who benefit from the activity or who demand the level of service (identified by location or availability of service)” (ibid., p. 197). Largely the uniform targeted rates used are based on a geographically defined area of benefit, with the uniform contribution for council facilities coming from the immediate area the facility is deemed to service; a ‘benefit received’ approach, with the type of benefit assumed to apply to all ratepayers in that area, equally. The type of rate used for each activity appears to be similarly matched to the perceived ‘benefit received’ from each activity; for instance, the community leadership activity is wholly funded by either the UAGC, with a specific uniform targeted rate used to fund local community boards, or with the targeted rate component paid by those within the community board area. For those targeted rates (i.e. rates not paid by all ratepayers) with a property value based component, land value is used as a basis. For example, that component of the district’s roading costs not recovered through the capital value based general rate, and not related to footpath expenditure or main street upgrades, is funded on a district wide land value based rate.

Unlike those activities where the capital value based rates are used, there is little explanation within the 2012/22 LTP why land value is chosen as a basis. It may be that CDC considers land value a relevant funding tool from either a ‘benefit received’ or an ‘ability to pay’ basis. However, the LTP refers to “rural ratepayers, who pay the greatest share of roading rates” (ibid., p. 30). A land value basis for rating, compared to a capital
value basis, tends to shift the costs of an activity to those with fewer capital improvements to their properties and, as a rule, these tend to be in the rural area. At face value therefore the decision to fund 63% of the roading costs from a land value basis appears to be a decision made on the basis that those in the rural area should pay more, from a ‘benefit received’ perspective. However, in 2012, council implemented a uniform targeted rate for a portion of the roading costs “to ensure that every ratepayer makes a minimum contribution towards the cost” of the roading network (ibid., p. 31). The charge, set at $50 for each property, was designed to ensure a “more even spread of local roading rates within towns, with lower value properties paying a bit more, median value properties paying around the same share as they do now, and higher value properties paying a slightly smaller share. In the rural roading rating area, properties with lower land values (such as lifestyle blocks and properties in smaller rural townships) would pay more, while farms with high land values would receive a saving” (ibid., p. 31).

Another significant change to CDC’s rating approach was in regard to the funding for the Benhar and Tokoiti sewerage schemes. All of CDC’s other sewerage schemes are funded entirely from the communities serviced by the schemes, but in 2011 CDC became concerned at the impact that the costs of the upgrade would have on these communities, which were regarded as the economically less well-off areas of the district. CDC subsequently decided that “half the cost of the new schemes will be funded from those connected to the schemes while the other half will be funded by other ratepayers. Part of the cost (10%) will be funded by all ratepayers in the district, based on capital value, while 40% will be funded by a uniform contribution from all sewerage ratepayers” (ibid., p. 35). Council noted that this was “a deviation from council’s general principle that those who benefit from a service pay for that service”, but that community wide funding for these schemes was appropriate “to reflect the community-wide benefit of improved sewage disposal and to help reduce the significant cost to those connected to the schemes” (ibid., p. 35). This is an interesting change in that it notes that ‘ability to pay’ concerns should be addressed by the council, and widens the consideration of ‘benefit received’ to incorporate the community wide wellbeing that results from all members of that community having a minimum level of service for sewerage disposal.

**Gore District Council** 84

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84 Of GDC’s operating income, approximately 22% is taken through general rates, the UAGC and rates penalties, 46% is sourced from targeted rates (excluding targeted rates for water supplies), and a further 19% from ‘use based’ measures; fees, charges and targeted rates for water supply. See Appendix 5: Council revenue 2012/13.
GDC uses a range of rating tools including the UAGC which accounts for a significant proportion of GDC’s ‘general’ rating tools, comprising just under 29% of the District’s total rates take in 2012/13. In comparison the capital value based general rate for the district accounts for just 7% of Gore District’s total rates take in 2012/13.\textsuperscript{85} GDC’s 2012-22 Long Term Plan outlines the rates for which GDC considers these ‘general’ rating tools appropriate; principally this is “to fund public goods where it is not possible to clearly identify customers or users” (ibid., p. 193). These general rating tools are “also used to fund activities where, for reasons of fairness and equity, consideration of the wider community good indicate that this is the most appropriate way to fund an activity” (ibid. p. 193).

There are only two activities funded through the capital value based general rate. These are the regulatory and district plan activities. Because these are activities that relate to council’s resource management functions, it may be that council considers that the benefit from these activities accrues relatively more to those with higher value properties, or from an ‘exacerbation’ perspective that the council considers that higher value properties create more of a need for these areas of expenditure. The activities funded through the UAGC in 2012/13 are outlined in Appendix 5: Council revenue 2012/13; generally the UAGC appears to be used to fund activities where council considers relative benefit accrues to ratepayers on a ‘per person’ basis.

GDC also uses a number of uniform targeted rates. These differ from the UAGC in that, while the UAGC is applied to all ratepayers, GDC’s uniform targeted rates are targeted only to those judged to receive benefit from the particular activity.\textsuperscript{86} These uniform targeted rates include rates for connection to water, storm water, drainage services, with only those receiving the service subject to the rate (and half charges for those who are not connected but could be for some drainage and water schemes). There are also fixed targeted rates for the second and every additional water closet and urinal on all non-residential rating units, excluding educational institutions, and different levels of fixed charges for educational institutions, short term accommodation and non-residential ratepayers in the Waikaka area. GDC’s solid waste uniform targeted rate is a fixed targeted rate for rating units in Gore and Mataura for those receiving standard size bins, with a smaller charge for those receiving small bins, with a separate and additional uniform targeted ‘network’ charge for all those receiving the solid waste service on top of

\textsuperscript{85} Table 2 of Appendix 2: Expenditure and revenue for Otago and Southland councils outlines that in 2012 Gore District Council (GDC) will derive around 68% of its income from rates.

\textsuperscript{86} An exception is the Southland regional heritage trust uniform rate which is paid by all ratepayers.
this bin charge. Local community halls are also funded on a fixed charge, paid only by those in the community immediately neighbouring the hall. All of these are ‘benefit received’ approaches to funding activities, with benefit assumed to accrue equally to all of those receiving the service, and no benefit (and no charge) for those not receiving the service. GDC charges commercial premises in Mataura and Gore on the basis of actual water usage rather than on a uniform basis.

GDC has additional uniform targeted rates, called fixed targeted ward rates (FTWRs). These rates are specifically to finance the district’s parks and reserves, with these activities broken down on an area basis between the Gore, Mataura and rural areas of the district. The treatment of higher value properties differs by area. In the Gore area, all residential ratepayers pay the same rate, regardless of the property’s value. However for commercial properties the FTWR varies for a range of property valuation ‘bands’, with higher value properties paying a higher fixed rate. In the Mataura area, all residential ratepayers pay the same FTWR regardless of property value, but this rate is slightly lower than the FTWR paid by those in the Gore area, presumably to reflect that the district’s parks and reserves are located primarily in the Gore area. Comparatively the commercial ratepayers of Mataura are asked to pay similar rates as those paid within the same property value ‘bands’ in Gore. In the rural area the treatment of properties is different. There are two categories, with properties with a capital value of less than $100,000 paying a set amount, and properties with a capital value of over $100,000 paying a greater amount. The FTWR structure is therefore an intended blend of both ‘benefit received’ and ‘ability to pay’, with benefit defined on a ‘per person’ basis but different rates implemented for different bands of property value in order to reduce the impact of the rates on lower value properties and increase the amount paid by higher value properties. Notably, ratepayers categorised as Industrial are excluded from paying for these rates, presumably on the basis that no benefit accrues to industrial properties from this activity.

In addition to the capital value based general rate, GDC makes significant use of targeted property value based rates, again set on a capital value basis. As with the FTWR, these targeted property value based ward rates are targeted to each of the main rating areas (Gore, Mataura, rural) as well as a separate rate for Industrial ratepayers, with the amount paid differentiated based on the location of the ratepayer and the primary land use type of each rateable unit. These activities these rates are used to fund are set out in Appendix 5: Council revenue 2012/13. The effect of these targeted
property value based ward rates are the same as the differentials used in some of the
other case study councils outlined in this chapter, resulting in a different capital value
rate for each category of ratepayer. In the Gore and Mataura areas, the valuation based
ward rates shift the cost from residential to commercial ratepayers in the urban areas,
with residential properties paying less than what they otherwise would compared to a
‘simple’ capital value based rate. In the rural area, the capital value based rates are the
same, meaning that ratepayers in the rural area contribute in line with their relative
capital value, compared to other rural ratepayers. However, rural ratepayers are asked to
pay a slightly lower contribution per dollar of capital value, perhaps to reflect the relative
benefit rural ratepayers receive from the activities funded, compared to those in the
urban area. For industrial ratepayers, the targeted property value based ward rates serve
to shift the costs from higher value heavy industry to lower value heavy industry, with the
rate paid per dollar of capital value lowering for properties in the higher value category
bands of the Industrial ratepayer group. In the Industrial category example, the
justification may be as much council’s strategic intention to encourage Industrial
development in the area as it is a mechanism to deal with concerns with the way a basic
capital value based rate may be inequitable from either a ‘benefit received’ or ‘ability to
pay’ perspective for those in the industrial area.87

The basis for GDC’s targeted rating appears entirely related to an assessment of relative
‘benefit received’ through the targeting of both uniform and capital value based rates to
different areas of the district, and different treatment for individual types of ratepayer
categories. GDC rates on a ‘benefit received’ basis where it can identify specific groups
of ratepayers, generally on the basis of the primary use of the ratepayer’s land and
where the land is situated. Where the Council cannot identify direct benefit the attempt is
made to differentiate that proportion of each activity that accrues on a ‘per person’ basis,
and that proportion that accrues on the basis of relative property value. The majority of
capital value based rates in the district are subject to the area and land use based
differentials outlined. The use of these targeted capital value based rates indicates either
some comfort that there should be a proportion of some activities allocated on a capital
value basis as an ‘ability to pay’ measure, or that benefit accrues on a relative capital
value basis within these land use categories.

87 Gore District Council also has a policy on remission of rates, “Economic Development Rating Incentive” for
new business initiatives and for expansion of existing businesses, where rates are reduced relative to
employment opportunity and the creation of full time positions or full time equivalent positions, for up to a
period of three years provided certain criteria are met.
Tracy Hicks, Mayor of Gore District, considers the question of rating equity is a delicate balance, and one that is often difficult to achieve. Mayor Hicks considers it’s “really not a science; it’s an art... and it’s really getting to a point where you feel as though you’ve got some justice in what parts are going down and that it’s acceptable to the majority of the community”. (Tracy Hicks, personal communication, 30 August 2011). This balance extends to keeping the community happy with the allocation of rates, in addition to the principles the council uses to decide how to allocate rates. “Like it or not this is a political beast and you have to serve the interests of the majority, but in saying that you want to make sure that the interests of the minority are protected as well. So it's a juggling act” (ibid.).

Despite the complexity of juggling these different considerations, Mayor Hicks considers that “the reality of the law is that rates are a tax”. He considers that equity in setting rates “is very difficult when we can't have access, or don't have access, to a person's ability to pay”. This is because “property... doesn't necessarily reflect their ability to pay. It does reflect their ability to pay if their assets were sold up at any one point in time, but that's not what we're looking for”. If councils were seeking to achieve an equitable tax, Mayor Hicks considers that “you've got to have access to a person's ability to pay and I would be most reluctant to go down that track from a local government perspective”. Regardless, achieving a balance is difficult; “you're always going to have these inequities and perceived inequities from various sectors of the community who think they're paying too much and somebody else is paying not enough”. These shortcomings have driven Gore District Council to consider equity in the specific context of rating on the basis of each activity; “so we’ve gone down the path of trying to have as much as we can in the way of user charges, targeted rating and making use of the UAGC where we can”. Despite this overall intent, the impact of the overall rating approach on those with lesser ability to pay is something the Mayor is wary of. Mayor Hicks has concerns with “single income, low socio-economic or low decile communities” living in low value houses, who are asked to pay “exactly the same user charges and UAGC as someone who’s sitting on an income earning property that is worth $10 or $12 million” (ibid.). Mayor Hicks welcomes the Rates Rebate scheme, but is concerned that this does not deal with all concerns. He considers the council has been active in seeking “those people and see if we can get some relief for them. But there's a real reluctance in the minds of some of the older people particularly, who don't want hand outs and are really reluctant to share their personal business with the council. They never know where it's going to go, so while
there is an avenue there and it's really good for the ones that make use of it, there are quite a few that choose not”.

Overall Mayor Hicks considers that community expectations are a key barometer for measuring whether a council is doing well or not, as well as being a key driver behind some of a council’s expenditure. “Service is as good or as full as the community expects and is prepared to pay for and communities have different expectations even within councils, but certainly across a number of councils the expectations are quite different”. Mayor Hicks explains how the particular preferences of the local community can differ from those in neighbouring districts, to the effect of different expectations for services. “The expectation in Clutha compared to Gore District… is quite markedly different and higher in Gore than it is in Clutha. Consequently, there’s probably much more of an emphasis in terms of funding and time and resource goes in from our perspective in those areas than our neighbours” (ibid.).

Councils face difficulties explaining the overall value of what they do to ratepayers, unless the service is failing to meet expectations. “How we sell that message is almost beyond me”. While the Mayor and the council will continue to try and communicate as much as possible, largely because residents tend to take the provision of local government goods for granted. That said, if “for some reason or other there’s no water comes out of the tap or sewerage doesn’t work, you certainly hear about it” (ibid.). Mayor Hicks considers that there is also some difficulty getting past ideological differences around the council table, to get an objective debate on some of the issues. “What I’ve found over the years is that once you start talking about funding policies around the council table, people take a position very, very early and it's generally a protective position… it's very hard to make constructive change” (ibid.).

Otago Regional Council 88

ORC, as a regional council, covers a wider geographical area by definition the Otago region. 89 ORC’s use of rating tools includes the general rate, paid by all ratepayers

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88 As a Regional Council, Otago Regional Council (ORC) has a different range of responsibilities to the councils already outlined in this chapter, which are all city or district councils (territorial authorities). Regional council responsibilities are largely resource management orientated. The effect of this different range of responsibilities is apparent with environmental protection and planning and regulation comprising of 52% of the Otago Regional Council’s operating expenditure in 2011. See Appendix 4: Breakdown of OPEX by Council for 2011.

89 This is comprised of 12% coming from ORC’s ‘general’ rating tools; the General Rate, the UAGC and rates penalties, and 27% derived from targeted rates. Fees and charges, largely from ORC’s role as a manager of natural resources and the requirement for resource users to pay consent fees, make up 12% of total operating
excluding the Forsyth Barr stadium in Dunedin,\textsuperscript{90} and based on capital value, with a different rate in the dollar of capital value for each territorial authority in the region.\textsuperscript{91} The general rate is used for activities where council deems that the whole community benefits from the activity or from that part of the activity being funded from the general rate (Otago Regional Council 2012-22 Long Term Plan). ORC uses the general rate for activities where either the benefit is deemed to be to all ratepayers, or where the direct beneficiaries of the activity cannot be identified. As such, ‘benefit received’ is a component of the process for considering how rates are to be allocated for each activity, with the choice of basis – whether a property value basis or a uniform basis - used to reflect the incidence of benefit. The capital value based general rate is then used as a ‘default’ basis for those activities, or for the parts of those activities, where direct beneficiaries are not identifiable. As a capital value based rate, the rating incidence falls more heavily on those with higher capital values, an ‘ability to pay’ measure.

In 2012/13 ORC recovered 25\% of the general rates take as a uniform annual general charge, a policy the Council has adopted in recent years (Otago Regional Council 2012/22 Long Term Plan). In terms of both the use of the UAGC, and the way the use of the UAGC is reported, ORC regards the UAGC as a component of the general rate. This means that the UAGC appears to be used as an offset to the capital value based portion of the general rate, rather than the UAGC being used as a specific or distinct rating tool; indicating that the council believes a wholly capital value based general rate would unfairly impact on those with higher property values, or from a ‘benefit received’ perspective’ that this would not accurately reflect the relative benefit of these ‘public good’ activities. As mentioned earlier, the Forsyth Barr stadium is excluded from paying the UAGC charge.

Compared to the district and city councils addressed in this chapter, ORC has very few targeted rates. Of these, all are based on the geographical area of the rateable property, as a basis for defining relative ‘benefit received’. ORC’s approach to funding the council’s

\textsuperscript{90} The Forsyth Barr Stadium was, despite the name, largely funded by Dunedin City and Otago Regional ratepayers. In January 2012 the Stadium signaled it did not have the capacity to pay the rates it would otherwise be expected to pay on a capital value basis. (See \textit{Otago Daily Times}, 23 January 2012).

\textsuperscript{91} Of ORC’s 2012 operating income, around 39\% is from rates.
contribution to the ratepayer funded Forsyth Barr stadium is one example of this approach. As with the general rate, ORC uses both a capital value based rate and a uniform targeted rate to fund its contribution to the stadium. For both the uniform targeted rate and the capital value based rate, the contribution from each District reduces as the distance from the stadium increases, and therefore the presumed relative ‘benefit received’ reduces. This means that those ratepayers who live in Dunedin, where the stadium is situated, pay relatively more for the stadium than a property of the same value that is located in Queenstown Lakes District. At the same time, the combination of a property value based rate, and a uniform targeted rate to fund the regional council’s contribution to the stadium indicates that ORC do not believe a purely property value based rate is equitable; either in that such a rate would not reflect each ratepayer’s relative ‘benefit received’, or because the use of property value based rate would create a perceived inequity for those with higher value properties.

ORC also uses a combination of property value based rates and fixed targeted rates for the region’s numerous flood protection and control works, and drainage schemes. In some of these schemes the amount is a fixed charge per hectare, in others the amount is set on a capital value basis with the relative amount paid per dollar of capital value differing by geographical area on the basis of estimated relative benefit from these schemes. Under both approaches, the contribution from each individual ratepayer differs based on the perceived relative ‘benefit received’ from the activities. For these activities, ORC has a good basis to identify the direct beneficiaries of the activity, because these ratepayers are geographically contained. However, this has not meant that ORC have had an easy time of allocating costs through rates, either in regard to the regional contribution to specific schemes, or to the allocation of costs among the identified ratepayers within the affected area (see, for instance, Otago Daily Times, 10 May 2011, or Otago Daily Times, 8 May 2012). This underlines the complexity of using rates to reflect relative benefit received; even where the council can identify direct benefit, there is significant difficulty in firstly justifying the cost allocation based on relative benefit, and further convincing those paying the rate that the amount paid is a fair reflection of the relative benefit that ratepayer receives, in comparison to other ratepayers in the targeted rate area and the general ratepayer.

ORC’s other targeted rates are largely targeted property value based rates, again based on geographical area. This includes targeted capital value based rates paid only by those in affected areas for air quality, as a reflection of either relative ‘benefit received’ or as a
reflection of each ratepayer’s perceived relative contribution to the costs of the activity. ORC divides the costs of the council’s river management responsibilities into ‘general’ and ‘targeted’ components, with the ‘targeted river management’ component of the river management activity paid only by those in defined service areas through the ‘targeted river management’ rate, as a reflection of ‘direct benefit’, and a contribution per dollar of capital value differing based on the ratepayer’s location for the ‘general river management’ component of the activity. ORC similarly divides the costs of its public transport services into ‘general good’ and ‘private good’, with the private good component paid for through user charges from those using the services, and the general good component paid for by a capital value based rate differentiated by location and land use, only paid by those in designated areas. The use of a targeted rate to fund the public good component of these transport services means that the ‘general good’ component of the transport services are paid by the local communities, namely in Dunedin and Queenstown, reducing the impact of ‘city’ based services on the rural area and defining the ‘general good’ component of benefit on the basis of a geographical community. This presumably allows for those communities to have input into the extent to which public transport is a public good, and the proportion of costs either public transport users or ratepayers should be asked to contribute.

Environment Southland

As with ORC, ES has fewer rates than the city and district councils considered in this chapter. ES’s general rate is comprised of three different capital value based rates, and the UAGC. In 2012/13 the UAGC accounts for just under 19% of the total rates take (Environment Southland Long Term Plan 2012-22). The activities the UAGC funds are outlined in Appendix 5: Council revenue 2012/13.

Environment Southland’s revenue and financing policy sets out the criteria the Council uses when considering what rating tools are appropriate and how to allocate rates funded costs (ibid.). In regard to the capital value based general rate the criteria are:

- Able to identify that benefits are linked to capital value.
- Activity is based on resource use and may change environmental balance.

92 Like Otago Regional Council, Environment Southland (ES) is also a regional council, and this has an effect on what the Council does and how it is funded. Of the council’s operating income specifically, approximately 11% is taken through general rates, 8% from the UAGC, 33% from direct charges and council’s reserve funds, 20% from dividends and other investment income, and the remaining 28% sourced from targeted rates, including 4% sourced from a specific targeted rate paid by dairying properties in the region. See Appendix 5: Council revenue 2012/13.

93 Table 3 of Appendix 2: Expenditure and revenue for Otago and Southland councils outlines that in 2012 Environment Southland’s overall revenue is sourced 55% from rates.
- Public good/public benefit.
- Capital use has potential link to contributor status.
- Capital investment links to economic activity, typically for use based on natural resource.

These criteria for the capital value based general rate are ‘benefit received’ based. For the capital value based general rate component ES consider the benefits from that activity; whether these accrue to the identifiable ratepayers or ratepayer groups. If the benefit does not accrue to specific groups then ES considers the benefit to be ‘region wide’ in nature, and not of private good benefit. The council then considers what rating base can best match the incidence of that benefit, or the extent to which the ratepayer creates a need for the activity, that is, if capital value is an indicator of the relative extent to which a ratepayer may benefit from or create a need for the expenditure in question.

ES’s criteria for use of the UAGC is similar in that, as a ‘general’ rating tool, it is to be used where the benefit is to the entire region, and where the benefit is not of a private good nature:

- Public good (greatest good for greatest number).
- People rather than resource focus.
- Inability to identify direct beneficiary.
- Cost independent of number of users.
- Benefits widespread – whole community.

The difference between the criteria for the UAGC and the criteria for the capital value based general rate is that for the activities funded through the UAGC, ES considers the benefit accrues relatively equally to all ratepayers, whereas for the capital value based general rate, ES considers there is some correlation between the relative benefit and the ratepayer’s relative property value. The effect is that the UAGC is used to fund the activities, or the portions of activities, that ES considers offers equal benefit to all ratepayers regardless of relative property value, as above.

Environment Southland has a rate targeted specifically to one particular sector; the ‘dairy differential'; a capital value based rate paid only by dairy farms in the Southland region. Rather than being a strictly ‘benefit received' type rating approach, the dairy differential is an example of an ‘exacerbator pays’ approach to rating. The dairy differential is used for those activities and expenditure “which is required only because of the increase in dairy farming in Southland has been identified” (Environment Southland Long Term Plan 2012-22, p. 2), with the activities funded coming “from examination of projected workloads of
staff and the result of an assessment of 28 staff otherwise funded solely by general rates and of cost of the provision of information” (ibid, p. 22). As the dairy differential is an allocation of the costs that would otherwise be paid by the capital value based general rate, it is essentially a rate for activities for which Environment Southland consider the region as a whole benefit, but where particular actions from the dairy sector are creating the need for the activity.

This balance between exacerbation and benefit illustrates the complexity of the ‘benefit received’ principle as a framework for allocating costs through rates. In this example the underlying argument is that the regional benefit to ratepayers is derived only because the actions of a group of ratepayers are resulting in a need for other ratepayers to be ‘protected from’ the negative aspects of a particular activity. The differential rate has the earmarks of a negative externality tax but is not quite. As pointed out by dairy industry submitters, the rate fails to provide the incentives to individuals expected under a negative externality tax type approach because it fails to take account of the actions or inactions of particular individual dairy farmers, nor does it take into account the positive externalities that also result from the dairying activity in the Southland region (The Southland Times, 30 June 2012). Rather it is a cost recovery mechanism through rates, with a property value basis. The result is that a dairy farmer’s contribution to the differential will depend on the relative capital value of the dairying property rather than their individual investment in on-farm mitigation, an issue that was raised as a concern by submitters to the draft Environment Southland 2012/22 Long Term Plan put out for consultation (see, for example, Federated Farmers 2012). As a result of submissions outlining these and other concerns Environment Southland reduced the amount of the rate for 2012/2013.94

Environment Southland has a number of other targeted rates. These are largely on a land area, or land value basis, and are used for activities where ES considers there are identifiable beneficiaries from an activity. Largely these activities are set on a geographical basis, for instance for land drainage and flood protection works, on the basis that land value or land area as a basis for rating reflects the relative benefit from the flood protection or drainage activities. These rates are targeted to specific areas with landowner representation committees working with ES to establish works programmes. ES has a targeted land sustainability rate, set on the basis of land value, to address

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94 The dairy differential had initially been implemented in 2009; however it was proposed that this would be significantly increased in 2012.
“community needs arising from the risk that intensification of land use may result in negative effects on soils through compaction, erosion or over enrichment and on water through run-off, leaching and siltation” (Environment Southland Long Term Plan 2012-22, p. 122). Land value appears to be used as a basis for the rate because land value is the value being protected through the preservation of sustainable soils. ES’s biosecurity rate, used to fund the control of pest animal and pest plants, and TbFree New Zealand targeted rate, used to fund the eradication of tuberculosis (Tb) from wildlife in selected areas, are also set on the basis of land value. In both cases the justification appears to be relative ‘benefit received’, in that those with higher land values are presumed to benefit relatively more from the values being protected from the activities.

Former Chief Executive for Environment Southland, Ciaran Keogh, believes rates are a mix of both ‘ability to pay’ and ‘benefit received’ (Ciaran Keogh, personal communication, 23 May 2011). Keogh considers that each service has “a different dynamic” and that these differences should be taken into account when considering the appropriateness of the different funding approaches. Overall there is a challenge to councils to prove value; ratepayers “pay a bill and in the end you get a whole suite of services”, and a lot of these services “are fairly invisible until they disappear... a lot of things we do like planning and stuff like that that really people don’t encounter in their normal lives until something goes wrong or something happens next door to them” (ibid.). Keogh considers that the property value basis for rates is not perfect; “if you get a huge burst of investment in a certain area it distorts the whole rating base” with “capital value about the best proxy we have for participation in the economy or the full value of a property” (ibid.).

In terms of Environment Southland’s own approach to rating, Keogh acknowledges that there “are inevitably debates over where the general rate fits into things”. However, these arguments generally tend to be self interested; “that's part of the healthy dynamics of the political process we work through” (ibid). At the same time, “everybody benefits from us doing the job right... there is an argument towards an element of load sharing as well”. Adopting a ‘user pays’ type approach to regional council functions is often easier said than done; for instance shifting costs onto a user pays approach for a regional council’s compliance responsibilities can create a “perverse outcome” because staff are obliged to meet revenue projections. “That's where we have to have a debate then, is that actually in the broader industry interest, to have people getting enforcement orders and prosecutions?” (ibid.). Keogh notes that Similar complexities occur in other examples, for instance pest control, where landowners may benefit from pest control but are often subject to the costs of pests spreading from neighbouring properties (ibid.).
Conclusions – principle, pragmatism and subsidiarity

The councils considered in this chapter all use a wide range of rating tools, incorporating property value based general rates, property value based targeted rates, UAGCs and uniform targeted rates, as well as the occasional rate set on some other basis, for instance land area based rates. Despite this, property values form the basis for a significant proportion of each council’s rates. With some exceptions, rating decisions are largely justified on a ‘benefit received’ basis with benefit from council activities divided into two broad categories; the first being activities that provide ‘direct’ benefit to specific parts or members of the community, and the second being activities that provide ‘indirect’ or ‘general good’ benefit, with the rating treatment tending to differ for each. There will no doubt be disagreement over the extent to which each individual council interprets ‘direct benefit’, and whether the rating basis used to allocate the costs to those targeted is a fair reflection of relative benefit. As the interviewees outlined, these are both relatively complex and subjective areas, and each council has interpreted these factors differently. Additionally, ‘benefit received’ is not the only principle by which rating choices are justified and, as outlined by the local government decision makers interviewed, councils are also aware that rating decisions can impact on those with a lesser ‘ability to pay’.

For activities where the direct beneficiaries of an activity are identifiable, targeted rates tend to be used. For example, all of the councils included in this case study sourced the ratepayer funding for water supply and sewerage through targeted rates applied to those properties receiving the service, though some (Southland District and Clutha District) have made changes to the way costs for these activities are allocated to smaller communities on the basis of concerns around affordability. For water and sewerage services particularly, there are considerable ‘public good’ health benefits from these activities, yet they are funded generally through a ‘user charge’ based approach. In these examples, despite the public health benefits, equity may be driven as much by a consideration of those who do not receive the service as those who do; some ratepayers do not use council water and sewerage schemes and presumably fund their own water supplies and sewerage disposal systems. For other activities, particularly for the rural district councils, there is the use of ‘area based’ rates to reflect geographical benefit for the costs associated with local activities like local halls. In these instances it is arguably the ability to accurately identify the actual users, as much as it is the incidence of benefit, which is the deciding factor for use of targeted rates.
Those activities which are deemed to provide ‘indirect’ or general good benefit receive different rating treatment. Largely property values are used as a basis for allocating the costs of activities that provide general good through a property value based general rate (usually capital value based, except for Waitaki District and Central Otago District Councils). However, all of the councils use the UAGC or a similar uniform rating tool to some extent as a ‘general’ rating tool. A council’s use of UAGCs is largely either to reduce the impact of property value based rates or, more frequently, to capture the relative benefit of certain activities or portions of activities, where these activities are deemed to offer equal benefit to all ratepayers. Some of those councils reviewed, particularly Invercargill and Dunedin City Councils, use differentials to reflect a broad consideration of either relative ‘benefit received’ or to address ‘ability to pay’ concerns. In these examples the aim is generally to treat rateable properties differently based on the primary use of that property, whether this is residential, farming, commercial or industrial. However, the justification for use of UAGCs, uniform rates or differentials is generally not well explained, and often appears to be a pragmatic balancing of different perspectives and an amalgamation of concerns rather than a studied process; as much an art as it is a science. The exception is Queenstown Lakes District Council, where the differential approach includes a clear consideration of relative benefit for all of the activities funded.

For activities providing a general good or indirect benefit, the decision making process differs by council and is arguably more open to pragmatic assessments of the relative equity of rating incidence. One example of this is the changes to the Dunedin City and Invercargill City general rate differentials. In Dunedin City’s case the changes to differentials appear to be largely motivated by concerns that commercial and industrial ratepayers were paying too much, while farming ratepayers were paying out of proportion to the relative benefit they received from council activities. In Invercargill City Council’s case the move has been away from broad, general rating tools and towards a more targeted approach to rating. Whereas prior to the move towards more targeting of rates when Invercargill’s differentials were a key mechanism for allocating costs, now they appear to be largely aimed at ensuring there is a more principles based targeting of benefit for activities without changing the relative rating incidence across different ratepayer categories.
For some activities the council has divided the benefit from that activity into ‘public good’ and ‘private good’ characteristics for rating purposes, with a ‘general’ rating tool for use to fund that component of an activity deemed to provide ‘public good’, and a targeted rating tool to fund the component of an activity that is deemed to provide ‘private good’. In many cases the question will be exactly where the line should be drawn between the two; there is no rule book for the incidence of benefit for local government activities, and council decisions on this ‘benefit split’ may be as much a case of pragmatism as it is principle. In regard to rating implications this pragmatism is not necessarily a bad thing, as local government is a process that includes ratepayer perspectives on equity. Individual councils face unique pressures and demographics, and need to be able to tailor rating outcomes as appropriate to these unique circumstances. But if the principles behind a council’s cost allocation are not well understood, can members of the community fully engage in a discussion with their council about whether these principles are appropriate?

There are differences between the use of property value as a basis for a targeted rate on one hand, and the use of property value as a basis for the general rate on the other. In the act of targeting ratepayers a council has to consider the incidence of benefit, and therefore the allocation of costs on the basis of a property value based targeted rate includes consideration of whether property value is an equitable basis for the allocation of costs. For some activities councils appear to conclude that higher value properties receive relatively more benefit from a particular activity, and should therefore be asked to pay more from a ‘benefit received’ perspective. This is very likely the case in regard to some, or a majority of, instances where targeted property value based rates are used to fund an activity. In Queenstown Lakes District Council’s example, equity is achieved by ‘ring fencing’ each land use type and then using the rating tools to ensure that higher value properties within each category pay more for each activity than lower value properties do.95

Where a property value based general rate is used as the funding tool for an activity it is often difficult to establish, unless explicitly stated by the council, whether the value basis

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95 This is potentially a particularly useful approach for Queenstown Lakes District Council given they are a tourism destination, and use of land use type differentials means that tourism related costs can be passed on to those who stand to benefit most from tourism related council expenditure, particularly hotels and motels, through the differential system.
for rating is intended as an ‘ability to pay’ measure or as an approximation of relative ‘benefit received’. The relative ‘benefit received’ by ratepayers for some council activities, or for a proportion of many activities, arguably roughly accrues to those with higher property values or with a higher overall ‘ability to pay’. In the examples where benefit accrues on a property value basis, councils can clearly use the property value based tools they have available to capture this relative benefit. In these examples the use of property value based rates is justified from a ‘benefit received’ perspective. Those with higher value assets will benefit to a greater extent than other properties for the provision of certain goods, for example in flood protection or through planning functions that are related to the protection of property values. In the example councils considered, those with more valuable properties can generally expect to pay more for the costs of ‘public good’ activities like planning, and for the costs associated with a council’s parks and reserves.

For example, in all of the regions considered, roading costs are allocated using property value based rates. This is arguably justified from both a ‘benefit received’ approach and an ‘ability to pay’ approach. Those with higher property values, particularly in the commercial, industrial and farming categories, arguably benefit relatively more from the ratepayer funded portion of the local roading network. Are rates set to fund roading based on ‘ability to pay’ principles or ‘benefit received’? In both Queenstown Lakes District Council and Southland District Council the answer is explicit - roading costs are allocated on an assessment of relative benefit factors.\(^96\) Under the funding approaches used by those two councils the relative ‘benefit received’ from roading is estimated across different land use categories, with differentials used to reduce or increase the rate that property would otherwise pay under a basic capital value basis, depending on the assumed or measured use of the road by that particular ratepayer category. Actual per property road use is then allocated on the basis of capital value, so that those ratepayers with higher value properties pay more in roading rates for that activity than those with lower value property within the same land use category. For other territorial authorities the approach to funding roading may be a combination of the two principles, though Clutha District Council’s use of a uniform rate indicates that CDC has considered the

\(^{96}\) Or more accurately a ‘use basis’, which may not actually correlate to relative benefit. If a ratepayer makes no use of a road, he or she may still benefit from that road. On the other hand, commercial enterprise X may use a road to the same extent as commercial enterprise Y, yet may extract double the profit (or other form of benefit) from that same usage.
implications of roading costs and come to the conclusion that some part of the activity is of benefit to all ratepayers, equally.

As well as the ‘public good’ components of council expenditure, there are some examples where councils applied an ‘ability to pay’ consideration for activities despite the ability to target beneficiaries directly. In Clutha District Council’s example this was the decision to use general ratepayer funding for the Benhar and Tokoiti sewerage schemes. In Southland District this was the proposal to ‘harmonise’ the costs of local water and sewerage schemes across the Southland District as a whole. In both examples the justification for council’s decisions was the cost impact that a targeted rate approach would have on these communities, which were specifically identified as having ‘ability to pay’ concerns. At the same time, Southland District Council identified that one of the reasons it made the decision to ‘harmonise’ these costs was “because everyone essentially gets the same service and… people should not be penalised by having high rates for their choice to live in a small town” (Southland District Council 2012/22 Long Term Plan, p. 7). From a ‘benefit received’ perspective, activities that offer equal benefit should be funded as such regardless of the actual incidence of costs. This demonstrates the limits of the allocative efficiency arguments put forward in Chapter Three. If the community can not impact the desired level of service then what good are the allocative efficiency benefits of a ‘benefit received’ approach to rating?

In Central Otago District Council’s example, the land value based general rate is largely used as a rating tool to fund the ‘residual’ activities for which the Council do not deem it appropriate to apply a targeted rate. Considering the activities funded generally do not accrue relatively more to those with higher land values, CODC’s approach to funding activities through the general rate is an ‘ability to pay’ based approach; an assessment

97 Southland District Council also continues to exclude those who are not connected to the service from contributing to the service through rates. Ratepayers who are not connected do not pay the rate.
98 In the case of sewerage and water schemes, the cost is generally dictated by the relevant health standards that a council is obliged to meet under legislation, for instance the Health (Drinking Water) Amendment Act (2007), which generally sets the cost of the scheme. The way these costs are allocated is generally through a targeted rate approach based on connection, and the impact of these costs depends on the number of scheme connections with smaller communities paying more per connection and larger communities paying less. Presumably, those on the schemes are not arguing for a higher level of drinking water or sewerage disposal standard than required by legislation, or demanding gold pipes for the transportation of their sewerage. This means there are few ‘allocative efficiency gains from targeting users directly, though as discussed the equity in reflecting that those who are not connected to a scheme will have to fund their own water supplies or sewerage disposal is relevant.
that for those activities the ratepayer’s relative land value as a measure of relative ability to pay is an equitable basis for allocating the rate. The significant differentials applied to the dams and power station situated in Central Otago District is also an ‘ability to pay’ approach. This requires those facilities to pay significantly more for the general rate funded portion of activities than they would otherwise pay, and again a consideration of the likely benefit from these activities rules out a ‘benefit received’ justification for the general rate differentials. In the CODC example, the direct targeting of relative ‘benefit received’ for a large number of activities has to be taken into account when considering the ‘ability to pay’ approach used for activities funded through the general rate, as does CODC’s significant delegation of authority to its local wards and community boards.

For regional councils in particular there are additional considerations, particularly in regard to ‘exacerbator pays’ type approaches to rating. Environment Southland’s decision to allocate costs associated with dairying in Southland is the primary example. This targeted rating approach is in addition to the ‘direct’ targeting of those in the dairy industry who breach their resource management requirements. In this instance equity is defined as recovering the costs from the wider group of ratepayers who create a need for the activity, rather than the ratepayer base as a whole. As discussed in this particular example, the objections from the industry were that the allocation of costs failed to meet the ‘benefit received’ criteria because it did not properly account for the ‘public good’ benefit that accrues to all Southland ratepayers as a result of the regional council’s environmental obligations. This example underlines the difficulty a council faces; even after a council decides what principle to apply in allocating the costs of an activity they still have to delineate the relative incidence of these factors using only very blunt tools. They then have to sell these decisions to different components of the community. Comparatively, Otago Regional Council appears to make use of the UAGC more as a tool to mitigate the impacts of the capital value based general rate on those with higher value properties; a broad brush use of rating tools to spread the costs of general activities more equally across all ratepayers.

The difficulty in allocating costs for public goods, or the public good component of a council activity in an equitable manner, was one of the consistent underlying messages from those interviewed. All of the council decision makers interviewed recognised that the property value basis for rating and rating in general was a blunt tool, but underlined
the need to respond to specific community challenges and expectations. In particular there was a clear concern for those for whom the annual rates bill represented a challenge to pay, rather than just an inconvenience; the difference between ‘ability to pay’ and ‘willingness to pay’. Councils face difficulties in the task of keeping all ratepayers happy with their share of the cost of public goods. This is largely due to the nature of public goods; where individual benefit is by definition impossible to identify, and therefore prove, to individual ratepayers and ratepayer groups. It is also due to individual ideological perspectives on the incidence of benefit, as discussed in Chapter Three. For some, ‘benefit received’ justifies a higher contribution from those with relatively more wealth, because those with relatively more wealth benefit more from the subsequent productivity, stability and order that local government brings. For others, benefit is defined more specifically to the individual, and therefore consideration of benefit is a consideration of the specific and relative individual benefit. This is a particularly relevant consideration given the importance of community feedback to the local government decision making process. The general empowerment of local government and the provision of a range of rating tools, while useful and relevant to New Zealand’s local government context, create some difficulties for local government decision makers. There is little objective input into the way rates are allocated; as a result councils, particularly councillors, are obliged to define some ‘reasonable allocation’ of rates which serves as a balancing factor against the ‘principle first’ allocation of rates on the basis of each activity. Those interviewed also indicated that because councils are responsible for allocating these costs through rates, there is an obligation to at least consider the implications for those less well off. These considerations underline the complexity that exists when deciding what is ‘equitable’ for local government funding.

As evidenced in these example councils, a rating approach is also dependent on the specific drivers that that individual council faces; this extends to the decisions on how to allocate rates to different ratepayers, and more importantly, why these allocation decisions should be made. For example, Southland District Council has a relatively significant expanse of roading and, compared to a city council, relatively few ratepayers from which to source this funding. As shown in Appendix 4: Breakdown of OPEX by Council for 2011, Southland District’s roading comprised of 46% of operating expenditure in 2011 or nearly $27 million, versus 17% of operating expenditure or just over $12 million in neighbouring Invercargill City. While a portion of this additional expenditure will be sourced from non-rates sources, particularly central government road
use revenue, this represents a significant difference that is magnified when viewed against the populations over which these costs are spread, with Southland District comprising of only 29,600 residents versus Invercargill City’s 53,000. With more roading assets to maintain and fewer people to fund the costs of this maintenance, clearly roading, and particularly getting the basis for allocating roading costs right, is a big issue for Southland District, hence the council’s development of a roading cost allocation model for allocating costs on a sector by sector basis. Comparatively for Invercargill City Council the administrative costs of developing and updating a model may not be worthwhile simply because of it is not as significant a rating issue in the city. On the other hand, the incidence of rating costs for urban services for those in the rural area of Invercargill City has been identified as a key issue, and council has dealt with this through targeted rates on the urban area and a differential for farming properties.

The overall impact of the rates bill is also an important consideration. For smaller councils with fewer people, having to fund relatively significant infrastructure costs means there is less ratepayer money available for some of the activities that councils of more populated regions can afford. Again drawing upon the comparisons between Southland District and Invercargill City in Appendix 4: Breakdown of OPEX by Council for 2011, Invercargill spending on ‘recreation and sport’ is just over $8.5 million in 2011 versus $700,000 for Southland District. This comparison includes some caveats, particularly because, as Invercargill City is an urban hub for the wider Southland region, the Invercargill ratepayers may in fact be funding the recreation and sports facilities for their neighbouring ratepayers in the rural Gore and Southland Districts. This underlines the point that different councils will have different pressures and different community expectations to apply rates funding to. Correspondingly each council needs to develop an approach to rating that deals with the specific expectations and pressures they and their communities face.

Not every council translates the equity factors the same way, and what constitutes a ‘reasonable allocation’ of rates will differ by council. Settling upon rating equity is a process incorporating these complexities, as well as the perceptions of individual ratepayers, and this underlines the importance of consultation. From the rating changes made in Dunedin City and Invercargill City there are aspects of political pragmatism or subjective judgement at play, where the delicate balance between the relative rates
contribution from individuals and – particularly – across different land use types is used as a benchmark for deciding what an equitable allocation of rates is. This reflects the underlying need for councils to consult on their funding policies; regardless of the processes the specific council deems fit for the funding of its activities the community or communities have input into these decisions. As well as the consideration of how each activity should be funded, the ratepayer’s perception of overall value, and the size of the rates they pay compared to other ratepayers, both within a particular council and across different councils, also play a part in individuals and councils perceptions of rating equity.
CHAPTER FIVE
Conclusions

In attempting to discover the factors councils consider when setting rates, this thesis has outlined the general empowerment of local government in New Zealand, the tools and decision making frameworks provided to councils, the relevance of the ‘ability to pay’ and ‘benefit received’ principles to New Zealand’s local government context, and the way these factors are applied by specific selected councils. These factors indicate that both ‘ability to pay’ and ‘benefit received’ are applicable to local government rating decisions. In particular ‘benefit received’ appears the primary consideration in the process of developing funding policies, particularly for activities where there are specific ratepayers who benefit relatively more from council activities. In other examples, where relative benefit received reasonably approximates a ratepayer’s relative property value, then ‘benefit received’ is again an appropriate measure. On the other hand, ‘ability to pay’ appears to be a useful consideration in regard to the impacts that rating decisions can have on sections of the community, and on individual ratepayers, with the responsibility for addressing the ‘ability to pay’ concerns arising from rates sitting with both local government and central government.

There is no objective blueprint for the application of rating principles, and some complexity in the range of considerations relevant to questions of rating equity. In particular there is some difficulty for councils in regard to their use of rating tools where the benefit of an activity is to all ratepayers. Assuming a large proportion of council activities offer relatively equal benefit to all ratepayers, should a council be able to charge all ratepayers the same? Even allowing for the ability of individual ratepayers to apply for relief through mechanisms like the rates rebate scheme, such an approach, similar to a ‘poll tax’ would be inequitable even from a ‘benefit received’ perspective. It is difficult to accept that a ratepayer with a property valued at $8,000,000 does not benefit relatively more than a ratepayer with a property value of $200,000 from a proportion of a council’s activities, regardless of the bluntness of local government’s funding tools. A purely ‘benefit received’ approach for a council’s planning function would argue that the $8,000,000 property should pay more for planning than the $200,000 property. The tricky aspect is defining exactly how much more. For example, a rate set in line with relative property value would see the $8,000,000 property owner pay $4,000 for an activity that the $200,000 property owner would pay just $100. Is this fair if both properties benefit
relatively similarly from the activity? Arguably it is not, particularly across all council activities.

This underlines why the principle of subsidiarity, the need to settle on an equitable allocation of costs for each particular activity, and the need to reflect the particular preferences, needs, concerns and opinions of each community when making these funding decisions, is as important as either ‘ability to pay’ or ‘benefit received’. The implications of rating decisions differ by council, as do the outcomes that councils can and should seek when considering their funding policies and the incidence of rates. The appropriate analogy is one of a ‘rating toolbox’ with a variety of rating tools to be used when appropriate. In a rating context ‘appropriateness’ differs by the activity funded and outcome sought, and what the council and the community consider to be appropriate. The selection of either the ‘benefit received’ or the ‘ability to pay’ principle can have significant implications for the incidence of rating, and councils are responsible for both the incidence of rating as well as the principles they apply when deciding how costs should be allocated through rates. The availability of this range of rating tools is important given the wide distribution of private and public good characteristics of the goods and services that local government provides. Even then a safety net, either in terms of the rates rebate scheme or individual rates remissions policies, need to be in place to address the outliers that result from the relatively blunt tools councils have been provided with.

This ‘hybrid’ approach to rating has been consistent throughout this thesis. Chapter Two outlined the legislative requirements for councils to consider when funding activities under the Local Government Act (2002). Under S101 (3) of the LGA specifically, councils are directed to consider the factors of benefit when considering how an activity should be funded, a ‘benefit received’ approach. However, at the same time also councils also consider broader concerns around the effects of rating on those who do not have the same ‘ability to pay’. The rating tools provided to councils under the Local Government Rating Act (2002) send a similar message of the underlying intention to provide councils with a range of options rather than having to seek specific outcomes. On one hand there are property value based rates which can be used to reflect relative ‘benefit received’, but which can also be applied to approximate the ratepayer’s relative ‘ability to pay’. On the other hand there are UAGCs and other uniform charges, both where each ratepayer
pays the same, and targeted rates or differentials, both where rates can be tailored to specific types of ratepayers or to mitigate the impact of a property value based rate on sectors of the community.

Chapter Two also outlined some of the political arguments during the debate over the passing of the Local Government Act (2002) and the Rating Act (2002). Those to the left of the political spectrum were relatively comfortable with the property value basis for rating as a tax base that reflected relative ‘ability to pay’. Those on the right argued that the rating outcomes that resulted were unfair, particularly where the relative ‘benefit received’ from these activities was similar, yet relative contributions were dramatically different. One particular example provided by the Hon. David Carter, of a Marlborough farmer contributing over 33 times what an urban residential ratepayer pays for a Blenheim library, encapsulated the issues for those with higher value properties. This example also demonstrated why any discussion of equity in rating incorporates consideration of not only the contribution made by each ratepayer, but also some consideration of the relative benefit that ratepayer receives.

Chapter Three stepped back from New Zealand's particular local government context to discuss taxation in general and the two equity rating principles in particular. Among others, Musgrave (1959) highlighted that equity in taxation has been subject to a long history of debate. This debate is often ideological, including disagreement over who should pay a tax, under what circumstances and in what form. As noted by Duff (2008) the basis for taxation should be chosen depending on the goals of the tax; ‘good’ taxation requires consideration of the specific purposes of the tax in question. Chapter Three defined what the specific purposes of local government were in New Zealand: equity, efficiency, transparency and administrability. Applying these criteria to both ‘benefit received’ and ‘ability to pay’, there was no clear winner across all measures. Rather, both ‘ability to pay’ and ‘benefit received’ had positive aspects across different criteria, depending on context.

Chapter Three established the context for local government rating by looking at the division of responsibilities between central and local government in New Zealand. As equity is dependent upon the purpose of the tax or method of redistribution, the tools for
funding or allocation are subsequently dependent on that purpose. Because central government is responsible for redistribution and progressive taxation at the national level, this has an impact on the purposes of local government funding and what constitutes equity in local government funding. Compared to local government, central government has a wider range of funding tools to more accurately identify relative ‘ability to pay’ and levy tax accordingly, while local government only has property value as an imperfect measure of relative ‘ability to pay’. This in turn means that central government has the most appropriate tools to achieve vertical and horizontally equitable outcomes. This is recognised through central government’s funding of the rates rebate scheme, aimed at addressing inequities arising from local government’s relatively more blunt funding tools in a targeted way that is not available to individual councils. There are other reasons why progressive taxation and redistribution are central government roles including the potential for ‘beggar thy neighbour’ policies between territories and because the scale of concerns addressed through these efforts are at the national level.

Chapter Four indicated that while councils do consider ‘ability to pay’ considerations, they largely apply a ‘benefit received’ framework when allocating rates, at least initially, by considering the relative incidence of benefit from each activity. From the case studies it appears that benefit is largely categorised as either ‘direct’ or ‘indirect’. Direct benefit can be funded through user charges and targeted rates, while indirect or ‘community wide’ benefit can be reflected by general rate funding tools. The difficulty is, as shown in the case studies in the chapter, that delineating the incidence of direct and indirect benefit is an art, not a science. This is particularly the case given that benefit can differ based on a range of factors including geographical location, type of property and size of property. Relative benefit, in terms of the value that a council activity can offer to individuals, is also troublesomely subjective. However, it is important to note that in some examples the incidence of benefit was regarded to accrue relatively more to those with higher property values. This shows that use of property values to allocate costs through rates does not in itself indicate an ‘ability to pay’ approach to rating; the councils examined in Chapter Four use property value as the best approximation they have of relative benefit. Again, the difficulty is in deciding for what activities this will be the case, and then using what are relatively blunt tools to capture relative benefit.
Chapter Four also outlined how some councils used the broader range of rating tools to deal with these concerns around rating incidence. While the rates rebate scheme is available to residential ratepayers, councils also have to consider the impact that cost allocation may have on other property types. The use of differentials as a means of addressing issues between different ratepayer categories was one example of this. In Invercargill City and Dunedin City Council’s examples in particular, differentials appear to have been justified on the basis of a mix of the relative contribution made by ratepayer categories, and relative benefit received from the overall contribution to rates. In the Queenstown Lakes District Council example differentials were applied after a robust assessment of relative benefit and a consultation process used to assess whether this assessment of benefit was accurate. This appears to be a particularly useful approach, in that there is both a differentiation based on benefit between each ratepayer category, and a differentiation within these ratepayer categories on the basis of property value. This incorporates a handy combination of ‘benefit received’ in a way that attempts to ameliorate some of the differences between different land use types, and an ‘ability to pay’ mechanism in that the costs within each land use type are allocated on a property value basis.

Because of the number of different factors at play, rating decisions may be as much a political balancing act for councils as they are a principle based assessment of where a council’s costs should fall. The local government decision makers interviewed in Chapter Four indicated that keeping the general public happy was often difficult, and there were generally no easy decisions on the allocation of costs to ratepayers. This is because of the nature of the goods local government provides, particularly the public good components, and because of the importance of community feedback to the decision making process. Councils are required to filter community feedback on ‘willingness to pay’ as well as consider ‘ability to pay’ and/or ‘benefit received’. These factors underline why councils can not just concern themselves with the process of allocating rates but must also consider the implications. Despite the relevance of ‘benefit received’, councils can and should use the available tools to seek an overall allocation of the rating burden that remains within broad boundaries of a ‘reasonable allocation’ of rating costs.

Local government, by providing important infrastructure and enabling operational and functional societies, arguably does offer more benefit to those with higher value
properties, so it is equitable that those with higher value properties pay more, even from a ‘benefit received’ perspective. The difficult questions for councils are: how much more? And in what instances? Simply relying on property value based rates to fund all activities does not lead to equitable outcomes. While property value based rates are an important and appropriate tool the extent to which rates should be allocated on the basis of property value differs by activity and by council, and the perception of whether these decisions are equitable differs by individual. As with taxation in general, there is - and will likely to continue to be - disagreement over what is a fair, equitable or efficient allocation of rates. This disagreement, when viewed as a process incorporating reasonable arguments for and against different rating approaches, is a useful dynamic for local government; it is through balancing the perspectives and arguments in this process that appropriate methods for dealing with the ambiguity and complexity of rating can be arrived at, to find solutions that are relevant to each specific council.

While political science in New Zealand has extensively debated equity in the broader sense, the question of rating equity in the local government context largely remains untouched. Political science has an important part to play in an important discussion that is becoming increasingly more relevant, particularly given the complexity of the subject, and the multi-disciplinary nature of the questions posed. Regardless, the debate over what constitutes equity in rating is one that occurs to some extent in every council chamber in New Zealand. Local government decision makers have the responsibility of making decisions on rating equity and representing the concerns and challenges of the local community. The political science discipline has a role to play in assisting this discussion and decision making by distinguishing and analysing the ideological aspects of the debate and separating these from the principles discussed, to inform and provide some objective basis to the debate.

This thesis serves more as an overview of the range of the considerations relevant to the debate over rating equity and how these may be considered to interact. As a result the contribution this thesis makes to the specific of the debate is limited. Nonetheless this research provides a link between the extensive work that better political scientists have put into considering the structure and representative functions of local government, and demonstrates how these areas are linked to the question of funding. Further research on the subject could include a deeper assessment of how different structural and
representative arrangements impact on funding, or vice versa, how specific councils and communities are able to meet the costs they are faced with, and whether transfers from central government to local government are sufficient. These are important and timely considerations given the recent changes to the purpose of local government through the Local Government Act 2002 Amendment Act 2012. One of the notable exclusions from this research were the complex funding questions surrounding rating of Maori land. Another is a comparison of local government funding in New Zealand, compared and contrasted to local government funding approaches in other countries. Additionally, there is significant scope for further consideration of potential alternative funding tools for local government.
Bibliography


Federated Farmers of New Zealand (2010a). The Farmers’ Manifesto – Local Elections 2010, Retrieved from:


APPENDIX 1

2007 Rates Inquiry recommendations on use of rating tools

In its final report “Funding Local Government - Report of the Local Government Rates Inquiry” (Rates Inquiry, 2007b), the Inquiry panel made 96 recommendations. Of these, eleven were specifically made on use of rating tools (ibid., pp19-20). These were:

- That the power to set uniform annual general charges be removed from the Local Government (Rating) Act 2002.
- That the 30% cap on uniform charges be removed from the Local Government (Rating) Act 2002.
- That local authorities be encouraged to charge for waste-water disposal by volumetric charging.
- That rating differentials be removed from the Local Government (Rating) Act 2002 from an operative date of 1 July 2012.
- That a common rating system based on capital value be promoted across the country for general rates.
- That councils indicate in their rates remission and postponement policies a policy for postponement of rating of rural property based on reassessed productive values.
- That councils be encouraged to make more use of their powers for flexibility in rating so that the rating burden better reflects value in use.
- That the previous model of a central government valuation authority be re-established to increase the level of professional resources applied to rating valuations.
- As an alternative to recommendation 12, that the resources of the Valuer-General’s office be increased to facilitate better quality control of valuations and encouragement for councils to better maintain the valuation roll and databases.
- That the rates assessment notice make it clear that the rating valuation currently represents a means of distributing the rating burden rather than a likely realisable sale price.
That councils develop explicit standards for valuation covering such issues as the proportion of properties to be physically viewed between each calculation cycle and the inspection of all improvements to properties arising from a building consent.
APPENDIX 2

Expenditure and revenue for Otago and Southland Councils

Appendix 2 outlines the expenditure and revenue for Otago and Southland councils. This appendix contains two tables, one for city/district councils and one for the two regional councils, outlining operating expenditure per capita, rates reliance and rates per capita.

Table 2: Expenditure and revenue for Otago and Southland Councils - City and District councils

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invercargill City</td>
<td>53,000</td>
<td>75,317</td>
<td>44,596</td>
<td>57%</td>
<td>1,421.08</td>
<td>$841.43</td>
</tr>
<tr>
<td>Southland District</td>
<td>29,600</td>
<td>66,716</td>
<td>38,504</td>
<td>66%</td>
<td>2,253.92</td>
<td>$1,300.81</td>
</tr>
<tr>
<td>Gore District</td>
<td>12,300</td>
<td>18,484</td>
<td>12,565</td>
<td>68%</td>
<td>1,502.76</td>
<td>$1,021.54</td>
</tr>
<tr>
<td>Dunedin City</td>
<td>126,000</td>
<td>203,089</td>
<td>116,649</td>
<td>58%</td>
<td>1,611.82</td>
<td>$925.79</td>
</tr>
<tr>
<td>Queenstown Lakes District</td>
<td>28,700</td>
<td>82,008</td>
<td>56,108</td>
<td>56%</td>
<td>2,857.42</td>
<td>$1,954.98</td>
</tr>
<tr>
<td>Central Otago District</td>
<td>18,400</td>
<td>23,398</td>
<td>21,516</td>
<td>72%</td>
<td>1,271.63</td>
<td>$1,169.35</td>
</tr>
<tr>
<td>Clutha District</td>
<td>17,550</td>
<td>36,540</td>
<td>16,420</td>
<td>47%</td>
<td>2,082.05</td>
<td>$935.61</td>
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<tr>
<td>Waitaki District</td>
<td>20,900</td>
<td>41,754</td>
<td>27,443</td>
<td>64%</td>
<td>1,997.80</td>
<td>$1,313.06</td>
</tr>
</tbody>
</table>

Population figures are sourced from “Subnational population estimates at 30 June 2011: regional council and territorial authority areas” Statistics New Zealand (2011). Total Expenditure, Rates and Other Income figures are sourced from the specific council’s 2012/22 draft Long Term Plans. Expenditure per ratepayer and rates per ratepayer calculations are additional information extrapolated from these figures.
Table 3: Expenditure and revenue for Otago and Southland Councils - Regional councils

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Southland Regional</td>
<td>94,900</td>
<td>26,745</td>
<td>12,537</td>
<td>55%</td>
<td>281.82</td>
<td>$132.11</td>
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<tr>
<td>Otago Regional</td>
<td>209,900</td>
<td>33,876</td>
<td>15,809</td>
<td>39%</td>
<td>161.39</td>
<td>$75.32</td>
</tr>
</tbody>
</table>

Population figures are sourced from “Subnational population estimates at 30 June 2011: regional council and territorial authority areas” (Statistics New Zealand 2011). Total Expenditure, Rates and Other Income figures are sourced from the specific Council’s 2012/22 draft Long Term Plans. Expenditure per ratepayer and rates per ratepayer calculations are additional information extrapolated from these figures.
APPENDIX 3

Debt measures by council

This appendix offers a breakdown of use of debt, per capita. While the debt is projected out to 2022, population adjustments are 2011 based and remain constant, therefore assuming no changes in population over this time.\textsuperscript{99}

Table 4: Debt - city and district councils

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invercargill City Council</td>
<td>53,000</td>
<td>53,529</td>
<td>57,730</td>
<td>$1,009.98</td>
<td>$1,009.98</td>
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<tr>
<td>Southland District Council</td>
<td>29,600</td>
<td>10,876</td>
<td>15,639</td>
<td>$367.43</td>
<td>$528.34</td>
</tr>
<tr>
<td>Gore District Council</td>
<td>12,300</td>
<td>11,314</td>
<td>13,466</td>
<td>$919.84</td>
<td>$1,094.80</td>
</tr>
<tr>
<td>Dunedin City Council</td>
<td>123,700</td>
<td>270,373</td>
<td>199,895</td>
<td>$2,185.72</td>
<td>$1,615.97</td>
</tr>
<tr>
<td>Queenstown Lakes District Council</td>
<td>28,700</td>
<td>128,420</td>
<td>170,284</td>
<td>$4,475</td>
<td>$5,933.24</td>
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<tr>
<td>Central Otago District Council</td>
<td>18,400</td>
<td>4,239</td>
<td>2,252</td>
<td>$230.38</td>
<td>$122.39</td>
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<tr>
<td>Clutha District Council</td>
<td>17,550</td>
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<td>$0</td>
<td>$0</td>
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<tr>
<td>Waitaki District Council</td>
<td>20,900</td>
<td>6</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
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Debt figures are sourced from each council’s 2012/22 draft Long Term Plans. Population figures are constant for 2021/22 debt per capita measures. Otago Regional Council and Environment Southland are carrying minimal or no debt over this period, and are not included in this comparison.

\textsuperscript{99} This is to show the effect that council decisions would have on the current ratepayer base over the ten year life of each Long Term Plan. For Districts where population growth is expected to be relatively high (particularly Queenstown Lakes District) this approach will significantly overestimate the per capita effects of spending and debt in later years.
APPENDIX 4

Breakdown of OPEX by council for 2011

This appendix outlines where each council spends its operating expenditure, to provide a broad overview of expenditure by type.  

Table 5: Invercargill City Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
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</thead>
<tbody>
<tr>
<td>Roading</td>
<td>12,324</td>
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<tr>
<td>Transportation</td>
<td>2,730</td>
</tr>
<tr>
<td>Water supply</td>
<td>5,894</td>
</tr>
<tr>
<td>Wastewater</td>
<td>7,615</td>
</tr>
<tr>
<td>Solid waste/refuse</td>
<td>4,330</td>
</tr>
<tr>
<td>Culture</td>
<td>8,410</td>
</tr>
<tr>
<td>Recreation and sport</td>
<td>8,584</td>
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<tr>
<td>Property</td>
<td>3,197</td>
</tr>
<tr>
<td>Emergency management</td>
<td>363</td>
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<tr>
<td>Planning and regulation</td>
<td>4,400</td>
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<tr>
<td>Community development</td>
<td>677</td>
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<tr>
<td>Economic development</td>
<td>3,142</td>
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<td>Governance</td>
<td>2,225</td>
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<tr>
<td>Council support services</td>
<td>7,051</td>
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<tr>
<td>Other activities</td>
<td>634</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>71,576</strong></td>
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100 Expenditure data are sourced from Statistics New Zealand’s Local Authority Financial Statistics: year ended June 2011. Operating expenditure only is used because of the irregularity of capital expenditure.
Figure 2: Invercargill City Council – Breakdown by OPEX 2011 as graph

Invercargill CC OPEX 2011

- Roading 17%
- Transportation 4%
- Water supply 8%
- Wastewater 11%
- Solid waste/refuse 6%
- Culture 12%
- Recreation and sport 12%
- Property 4%
- Emergency management 1%
- Planning and regulation 6%
- Community development 1%
- Economic development 4%
- Governance 3%
- Council support services 10%
- Other activities 1%
Table 6: Southland District Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
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<tbody>
<tr>
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<td>Water supply</td>
<td>2,735</td>
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<td>Wastewater</td>
<td>3,499</td>
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<td>Solid waste/refuse</td>
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<tr>
<td>Culture</td>
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<tr>
<td>Recreation and sport</td>
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<td>Property</td>
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<td>239</td>
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<td>Planning and regulation</td>
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<td>Community development</td>
<td>2,760</td>
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<td>Governance</td>
<td>2,309</td>
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<td>Council support services</td>
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<tr>
<td>Other activities</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>58,933</strong></td>
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Figure 3: Southland District Council - Breakdown by OPEX 2011 as graph
Table 7: Gore District Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
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<tbody>
<tr>
<td>Roading</td>
<td>4,000</td>
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<td>Water supply</td>
<td>1,646</td>
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<td>Wastewater</td>
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<td>Solid waste/refuse</td>
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<td>Culture</td>
<td>859</td>
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<td>Property</td>
<td>794</td>
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<td>Emergency management</td>
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<td>Planning and regulation</td>
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<td>Community development</td>
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<tr>
<td>Economic development</td>
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<td>Governance</td>
<td>361</td>
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<tr>
<td>Council support services</td>
<td>2,082</td>
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<td>Other activities</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>17,405</strong></td>
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</table>

Figure 4: Gore District Council - Breakdown by OPEX 2011 as graph
Table 8: Dunedin City Council - Breakdown by OPEX 2011 as graph

<table>
<thead>
<tr>
<th>Activity</th>
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<tbody>
<tr>
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<tr>
<td>Water supply</td>
<td>20,771</td>
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<td>Wastewater</td>
<td>28,098</td>
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<td>Solid waste/refuse</td>
<td>8,427</td>
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<td>Culture</td>
<td>15,035</td>
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<td>Recreation and sport</td>
<td>23,784</td>
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<tr>
<td>Property</td>
<td>20,671</td>
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<td>Emergency management</td>
<td>1,468</td>
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<tr>
<td>Planning and regulation</td>
<td>8,893</td>
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<td>Community development</td>
<td>6,601</td>
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<td>Economic development</td>
<td>5,481</td>
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<td>Governance</td>
<td>2,392</td>
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<td>Council support services</td>
<td>16,736</td>
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<tr>
<td>Other activities</td>
<td>625</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>197,506</strong></td>
</tr>
</tbody>
</table>

Figure 5: Dunedin City Council - Breakdown by OPEX 2011 as graph

Dunedin CC OPEX 2011
- Roading 18%
- Transportation 2%
- Water supply 11%
- Wastewater 14%
- Solid waste/refuse 4%
- Culture 8%
- Recreation and sport 12%
- Property 10%
- Emergency management 1%
- Planning and regulation 5%
- Community development 3%
- Economic development 3%
- Governance 1%
- Council support services 8%
- Other activities 0%
Table 9: Queenstown Lakes District Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roading</td>
<td>15,038</td>
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<tr>
<td>Transportation</td>
<td>537</td>
</tr>
<tr>
<td>Water supply</td>
<td>7,749</td>
</tr>
<tr>
<td>Wastewater</td>
<td>10,551</td>
</tr>
<tr>
<td>Solid waste/refuse</td>
<td>6,071</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>150</td>
</tr>
<tr>
<td>Culture</td>
<td>1,831</td>
</tr>
<tr>
<td>Recreation and sport</td>
<td>5,739</td>
</tr>
<tr>
<td>Property</td>
<td>11,136</td>
</tr>
<tr>
<td>Emergency management</td>
<td>450</td>
</tr>
<tr>
<td>Planning and regulation</td>
<td>6,163</td>
</tr>
<tr>
<td>Community development</td>
<td>827</td>
</tr>
<tr>
<td>Economic development</td>
<td>3,808</td>
</tr>
<tr>
<td>Governance</td>
<td>486</td>
</tr>
<tr>
<td>Council support services</td>
<td>5,870</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76,406</strong></td>
</tr>
</tbody>
</table>

Figure 6: Queenstown Lakes District Council - Breakdown by OPEX 2011 as graph

**Queenstown Lakes DC OPEX 2011**

- Roading 20%
- Transportation 1%
- Water supply 10%
- Wastewater 14%
- Solid waste/refuse 8%
- Environmental protection 0%
- Culture 2%
- Recreation and sport 7%
- Property 14%
- Emergency management 1%
- Planning and regulation 8%
- Community development 1%
- Economic development 5%
- Governance 1%
- Council support services 8%
Table 10: Central Otago District Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roading</td>
<td>7,659</td>
</tr>
<tr>
<td>Transportation</td>
<td>35</td>
</tr>
<tr>
<td>Water supply</td>
<td>3,393</td>
</tr>
<tr>
<td>Wastewater</td>
<td>2,903</td>
</tr>
<tr>
<td>Solid waste/refuse</td>
<td>2,556</td>
</tr>
<tr>
<td>Culture</td>
<td>882</td>
</tr>
<tr>
<td>Recreation and sport</td>
<td>4,112</td>
</tr>
<tr>
<td>Property</td>
<td>1,881</td>
</tr>
<tr>
<td>Emergency management</td>
<td>278</td>
</tr>
<tr>
<td>Planning and regulation</td>
<td>2,109</td>
</tr>
<tr>
<td>Community development</td>
<td>550</td>
</tr>
<tr>
<td>Economic development</td>
<td>1,832</td>
</tr>
<tr>
<td>Governance</td>
<td>892</td>
</tr>
<tr>
<td>Council support services</td>
<td>1,715</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30,797</strong></td>
</tr>
</tbody>
</table>

Figure 7: Central Otago District Council - Breakdown by OPEX 2011 as graph

Central Otago DC OPEX 2011

- Roading 25%
- Transportation 0%
- Water supply 11%
- Wastewater 9%
- Solid waste/refuse 8%
- Culture 3%
- Recreation and sport 13%
- Property 6%
- Emergency management 1%
- Planning and regulation 7%
- Community development 2%
- Economic development 6%
- Governance 3%
- Council support services 6%
Table 11: Clutha District Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roading</td>
<td>18,685</td>
</tr>
<tr>
<td>Water supply</td>
<td>5,110</td>
</tr>
<tr>
<td>Wastewater</td>
<td>1,794</td>
</tr>
<tr>
<td>Solid waste/refuse</td>
<td>1,291</td>
</tr>
<tr>
<td>Culture</td>
<td>548</td>
</tr>
<tr>
<td>Recreation and sport</td>
<td>1,250</td>
</tr>
<tr>
<td>Property</td>
<td>968</td>
</tr>
<tr>
<td>Emergency management</td>
<td>312</td>
</tr>
<tr>
<td>Planning and regulation</td>
<td>1,057</td>
</tr>
<tr>
<td>Economic development</td>
<td>100</td>
</tr>
<tr>
<td>Governance</td>
<td>957</td>
</tr>
<tr>
<td>Council support services</td>
<td>2,732</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34,804</strong></td>
</tr>
</tbody>
</table>

Figure 8: Clutha District Council - Breakdown by OPEX 2011 as graph
Table 12: Waitaki District Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roading</td>
<td>11,669</td>
</tr>
<tr>
<td>Transportation</td>
<td>180</td>
</tr>
<tr>
<td>Water supply</td>
<td>5,843</td>
</tr>
<tr>
<td>Wastewater</td>
<td>3,309</td>
</tr>
<tr>
<td>Solid waste/refuse</td>
<td>1,689</td>
</tr>
<tr>
<td>Culture</td>
<td>1,325</td>
</tr>
<tr>
<td>Recreation and sport</td>
<td>3,588</td>
</tr>
<tr>
<td>Property</td>
<td>4,005</td>
</tr>
<tr>
<td>Emergency management</td>
<td>592</td>
</tr>
<tr>
<td>Planning and regulation</td>
<td>1,638</td>
</tr>
<tr>
<td>Community development</td>
<td>753</td>
</tr>
<tr>
<td>Economic development</td>
<td>904</td>
</tr>
<tr>
<td>Governance</td>
<td>666</td>
</tr>
<tr>
<td>Council support services</td>
<td>4,108</td>
</tr>
<tr>
<td>Other activities</td>
<td>1,071</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41,340</strong></td>
</tr>
</tbody>
</table>

Figure 9: Waitaki District Council - Breakdown by OPEX 2011 as graph
Table 13: Environment Southland - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental protection</td>
<td>9,785</td>
</tr>
<tr>
<td>Property</td>
<td>886</td>
</tr>
<tr>
<td>Emergency management</td>
<td>436</td>
</tr>
<tr>
<td>Planning and regulation</td>
<td>3,827</td>
</tr>
<tr>
<td>Governance</td>
<td>1,288</td>
</tr>
<tr>
<td>Council support services</td>
<td>3,750</td>
</tr>
<tr>
<td>Other activities</td>
<td>199</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20,171</strong></td>
</tr>
</tbody>
</table>

Figure 10: Environment Southland - Breakdown by OPEX 2011 as graph
Table 14: Otago Regional Council - Breakdown by OPEX 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 $(000)s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>7,953</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>11,211</td>
</tr>
<tr>
<td>Planning and regulation</td>
<td>3,291</td>
</tr>
<tr>
<td>Governance</td>
<td>1,388</td>
</tr>
<tr>
<td>Council support services</td>
<td>370</td>
</tr>
<tr>
<td>Other activities</td>
<td>3,674</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27,887</strong></td>
</tr>
</tbody>
</table>

Figure 11: Otago Regional Council - Breakdown by OPEX 2011 as graph
APPENDIX 5
Council revenue 2012/13

This appendix gives a breakdown of the type of rates each council uses (general rates, property value based targeted rates, UAGC and flat targeted rates) as well as an overall picture of each council’s sources of operating income and relative reliance on rates. Only operating income is compared because of the irregularity of capital income.

**Invercargill City Council - Rates by type and operating revenue**

*Property value based general rate*
Paid by all ratepayers, based on capital value – 0.8 differential on farming properties

*Targeted property value based rates*
Resource Management Base Rate - capital value
Roading Base Rate - capital value
Cemeteries Base Rate - capital value
General Waste Management Rate - capital value
Business Development Rate - capital value (paid by commercial ratepayers only)
Economic Development Base Rate - capital value (paid by commercial and industrial ratepayers only)
Vibrant Invercargill Base Rate - capital value (paid by commercial and industrial ratepayers only)
Footpaths Base Rate - capital value for 85% of costs (paid by those receiving the service)
Street Lighting Base Rate - capital value for 85% of costs (paid by those receiving the service)
Transport Base Rate - capital value paid by those within the Invercargill City area only
Community Board – Bluff Rate - capital value paid by those within the Bluff area only

*UAGC and other uniform charges*
Uniform Annual General Charge on all ratepayers levied for both the Parks and Reserves Activity and the Pools Activity.
Parks and Reserves Rate to fund provision of Parks and Reserves in the District from a targeted rate on residential and lifestyle properties only.
Pools Rate to fund provision of Aquatic Facilities in the District from a targeted rate on residential and lifestyle properties only.

Libraries Base Rate - uniform targeted rate paid by all ratepayers

Regional Heritage Base Rate - uniform targeted rate paid by all ratepayers

Regional Facilities Base Rate - uniform targeted rate paid by all ratepayers

Targeted drainage rate - uniform targeted rate paid by those in the affected area only

Community Centre and town hall rates - uniform targeted rate paid by those in the affected area only

Water Base Rate, Sewerage Base Rate, Drainage Base Rate, Refuse Collection Rate - uniform targeted rates paid by those receiving the service only

Figure 12: Invercargill City Council operating income 2012
Southland District Council - Rates by type and operating revenue

Property value based general rate
Paid by all ratepayers, based on capital value

Targeted property value based rates
Strategy, Policy and Planning – capital value based rate paid by all ratepayers (part)
Waste Management – capital value based rate paid by all ratepayers (part)
Roading - allocates a percentage share of costs within each land use sector by a targeted rate based on capital value, with land use classifications are used to determine which roading rate type is charged to a rating unit. Differentials applied and adjusted based on land use.
Council Offices and District Support - capital value based rate paid by all ratepayers
Building Regulation - 80% of the costs of this service recovered through users through building and other consent fees, remainder funded through improvements value rate.
Civil Defence and Rural Fire - rate based on land value to reflect relative likelihood of risk; paid by all ratepayers.
Separate targeted rates for Meridian Energy

UAGC and other uniform charges
Revenue from rates set on a uniform basis is 24.2%.
Representation - uniform targeted rate paid by all ratepayers
Strategy, Policy and Planning - uniform targeted rate paid by all ratepayers (part)
Waste Management - uniform targeted rate paid by all ratepayers (part)
Development and Promotions - uniform targeted rate paid by all ratepayers
Regional Heritage, Regional Initiative and Library - uniform targeted rate paid by all ratepayers
Roading – uniform rate paid by all ratepayers in conjunction with roading cost allocation model.
Rubbish collection - uniform targeted rate paid by those receiving the service only
Public Health Service - uniform targeted rate paid by all ratepayers
District Funding of Public Conveniences - uniform targeted rate paid by all ratepayers
**Ward or area based rates**

In addition to the rates above, Southland District uses a number of local rates to fund the following activities of Council: Community Centres, District Support, Library Service, Other Local Services, Parks and Reserves, Representation and Advocacy, Storm water and Transport in the named locality.

Some of these rates are differentiated based on use, e.g. urban, farmland, commercial, accommodation and residential. Some take the form of either a uniform rate or a land or capital value based rate, differentiated by ward or area. These rates include:

- **Hall and Community Centre rates** fund Community Centres in the named locality.
- **Pool rates** - are used to fund the swimming pools in the named locality.
- **Airport rate** - is used to fund the Te Anau Airports activity in the Te Anau Ward including Te Anau and Manapouri.
- **Loan rates (Edendale/Wyndham, Oban, Tuatapere, Otautau, Wallacetown and Gorge Road)** - are used to fund sewerage and/or water capital contributions for the named scheme.
- **Loan rates (Lumsden and Lumsden/Balfour)** - are used to fund internal loans taken out for the deep bore project within the Water Supply activity of Council.
- **Loan rates (Sandy Brown)** - is used to fund the extension of the sewerage scheme into the Sandy Brown locality. All rating units are charged within this boundary.
- **Rural Water Rates** - are used to fund the costs of providing water services under the Water Supply activity.
- **Sewerage Rates (Balfour, Browns, Lumsden, Manapouri, Monowai, Nightcaps, Ohai, Otautau, Riversdale, Riverton, Te Anau, Tokanui and Winton)** - are used to fund the costs of providing sewerage services through the Sewerage Activity of Council.
- **Sewerage Rates (Edendale/Wyndham, Gorge Road, Oban, Tuatapere and Wallacetown)** - fund the costs of providing sewerage services through the Sewerage activity of Council.
- **Stewart Island Waste Management rate** - is used to fund waste disposal on Stewart Island.
- **Urban Water rates** - are used to fund the costs of providing water services.
Southland District Council - Rates by type and operating revenue cont…

Woodlands Septic Tank Cleaning Rate - is used to fund the septic tank cleaning service in Woodlands.

Wyndham Storm water rate - is used to fund the storm water scheme in Wyndham. Charged to rating units which use the storm water system but are not included within the Wyndham township.

Figure 13: Southland District Council operating income 2012

![Southland DC Operating income 2012](chart)
Gore District Council - Rates by type and operating revenue

Property value based general rate
Paid by all ratepayers, based on capital value. Used to fund Regulatory and District Plan activities.

Targeted property value based rates
Valuation based ward rates – GDC has a number of ward rates targeted to each of the main rating areas (Gore, Mataura, Rural, Industrial) based on the location of the facility or service funded. These rates are used to fund:

- Roading
- 70% Public toilets
- Property
- Civil Defence
- 48.55% of District pools
- 48.55% of District Libraries
- 48.55% of MLT Event Centre

GDC’s valuation based ward rates shift the cost from residential to commercial ratepayers in the urban areas (compared to a straight capital value based rate), and from higher value heavy industry to lower value heavy industry. Ratepayers in the rural ward contribute in line with their relative capital value.

UAGC and other uniform charges
Uniform Annual General Charge (28.96% of total rates take in 2012/13), is used to fund costs associated with the following activities:

Southland Regional Heritage Trust rate - uniform targeted rate paid by all ratepayers

Fixed Targeted Ward Rate - used to finance Parks and Reserves, with these activities broken down on a ward basis. The FTWR varies for a range of property valuation ‘bands’, with higher value properties paying a higher level of fixed rate, and commercial operations in the urban areas paying a higher rate than a residential ratepayer of similar value would.

Water, Storm water, Drainage, and Solid Waste - costs of these services targeted to each area (Gore, Mataura, Pukerau, and Waikaka) based on the location of the facility/service provided.

Gore and Mataura water scheme and drainage rates – fixed targeted rate for those connected, half charges for those who are not connected but could be.

Pukerau and Waikaka drainage scheme rates - fixed targeted rate for those connected.

Water Closets – fixed targeted rate for the second and every additional water closet and urinal on all non-residential rating units, excluding educational institutions. Different fixed charges for educational institutions, short term accommodation and non-residential ratepayers in Waikaka.

Solid Waste – fixed targeted rate for rating units in Gore and Mataura for those receiving standard size bins, smaller charge for those receiving small bins.

Otama Water Scheme – fixed charge per water unit and separate fixed charge per connection.

Solid waste network charge – fixed charge in addition to the Solid Waste charge above.

Community halls - funded on a fixed charge, paid only by those in the neighbouring community.

**Use based charges**

Water Supply Charges - All commercial premises in Mataura and Gore, as well as all users of the Otama Water scheme are invoiced separately for actual water usage.
Gore District Council - Rates by type and operating revenue cont...

Figure 14: Gore District Council operating income 2012

Gore DC operating income 2012

- Interest & dividends 1%
- Assets vested in Council 0%
- General rates, uniform annual general charges 22%
- Targeted rates (excluding targeted rates for water supply) 46%
- Fees, charges & targeted rates for water supply 19%
- Subsidies & grants 12%
- Development & financial contributions 0%
Dunedin City Council - Rates by type and operating revenue

Property value based general rate
Paid by all ratepayers, based on capital value. Differentiated on the basis of land use as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>1.00</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>0.95</td>
</tr>
<tr>
<td>Non-residential</td>
<td>2.59</td>
</tr>
<tr>
<td>Non-residential Strath Taieri</td>
<td>1.40</td>
</tr>
<tr>
<td>Farmland</td>
<td>0.84</td>
</tr>
<tr>
<td>Residential Heritage B&amp;Bs</td>
<td>1.72</td>
</tr>
<tr>
<td>Forsyth Barr Stadium</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Targeted property value based rates
Non-residential Drainage - a capital value-based targeted rate for drainage on a differential basis based on land use and the provision of services (the categories being “connected” and “serviceable”), applies to only some areas.

Targeted Rate – Fire Protection - capital value based fire protection rate for those in the Non-Residential, Residential Institutions categories and the Forsyth Barr Stadium.

Non-residential Tourism/Economic Development – capital value based rate for commercial and industrial properties only, to fund part of the Economic Development and Tourism budgets.

UAGC and other uniform charges
Community Services Rate – UAGC paid by all ratepayers.
Kerbside Recycling Collection – Uniform targeted rate for all ratepayers receiving the service

Drainage - set on the provision of service (with the categories being “connected” and “serviceable” with serviceable categories receiving a half charge).

Water – uniform targeted rate for properties either connected, or for which connection is available, to receive an ‘ordinary supply of water’ excepting some properties, set on a “connected” or “serviceable” basis with half charges for the latter. Only connected or serviceable properties charged.
Fire Protection – uniform rate for ratepayers in the Residential, Residential Heritage B&Bs, Lifestyle and Farmland categories.

Drainage and rural water rates – uniform charges for those receiving the service.

Targeted Rate – Private Street Lighting - uniform charges for those receiving the service.

*Use based charges*

Targeted Rate – Water (Volume of Water) – volume charge for major water users.

**Figure 15: Dunedin City Council operating income 2012**

<table>
<thead>
<tr>
<th>Dunedin CC operating income 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Authorities fuel tax, fines, infringement fees, other receipts 2%</td>
</tr>
<tr>
<td>General rates, uniform annual general charges, rates penalties 30%</td>
</tr>
<tr>
<td>Targeted rates (excluding targeted rate for water supply) 30%</td>
</tr>
<tr>
<td>Subsidies &amp; grants for operating purposes 4%</td>
</tr>
<tr>
<td>Fees, charges &amp; targeted rates for water supply 26%</td>
</tr>
<tr>
<td>Interest and Dividends from Investments 8%</td>
</tr>
</tbody>
</table>
Queenstown Lakes District Council - Rates by type and operating revenue

**Property value based general rate**

Paid by all ratepayers, based on capital value differentiated by land use type, with different rates paid by different land use types. Used to fund:

- Provision of emergency management (civil defence & rural fire).
- Waste management including landfill establishment.
- Forestry including wilding pine control

**Targeted property value based rates**

Governance Rate – a capital value based rate, differentiated by land use type, with lower rates paid by those in the primary industry and hydro electric power categories.

Recreation & Events Rate - a capital value based rate, differentiated by land use type, with different rates paid by different land use types.

Regulatory Rate - a capital value based rate, differentiated by land use type, with different rates paid by different land use types.

Roading rates ward based – capital value based rates set on a ward basis with costs targeted and ring fenced by ward. Rates are differentiated by land use type, with different rates paid by different land use types.

Storm water rates ward based - capital value based rates set on a ward basis with costs targeted and ring fenced by ward. Rates are differentiated by land use type, with different rates paid by different land use types.

Tourism rates ward based - capital value based rates set on a ward basis with costs targeted and ring fenced by ward. Rates are differentiated by land use type, with different rates paid by different land use types.

Water supply rates ward based - capital value based rates set on a ward basis with costs targeted and ring fenced by ward. Rates are differentiated by land use type, with different rates paid by different land use types.
**UAGC and other uniform charges**

Uniform annual general charge paid by all ratepayers to fund Cemeteries, Community development and grants, Property including housing and Wanaka airport and a general contribution to the promotion of the district.

Sports, Halls and Libraries Annual Charge – fixed targeted rate paid only by those ratepayer categories with a residential component in the district (excluding commercial, etc.).

Waste Management charges – uniform targeted rates differentiated by land use type

Aquatic Centre Charge – fixed targeted rate paid only by those in the urban wards, and only those with a residential component

Water supply – fixed targeted rates paid by all connected or serviceable ratepayers in defined areas receiving the service

Other water supplies – fixed targeted rates paid by those receiving the corresponding supply, with half charges for those properties that are serviceable but not connected

Water scheme loan rates – fixed targeted rates for those on the scheme

Sewerage scheme loan rates – fixed targeted rates for those on the scheme

Sewerage rates – fixed targeted rates paid by those receiving the corresponding supply, with half charges for those properties that are serviceable but not connected. Further charges for additional pans.
Figure 16: Queenstown Lakes District Council operating income 2012
Central Otago District Council - Rates by type and operating revenue

**Property value based general rate**
Paid by all ratepayers, based on land value, set on a differential basis

**Targeted property value based rates**
Works and Services – land value based ward rates to recover the costs of roading, housing and property, grants, recreation reserve committees, ward funded public toilets and other works. Set at a different level per $ of land value based on the costs within each ward
Village caretakers – a land value based ward rate to fund the costs of village caretakers
Upgrade rates – land value based ward rates to fund the costs of upgrades in a ward
Alexandra storm water rate – land value based ward rate for storm water related expenses. Properties of 2 hectares or more are excluded as they are outside the targeted ward area.
Promotion – a capital value based targeted rate set at a different level per $ of capital value for each ward, and at a different level per $ of capital value for different land use types
Loan rates – land value based ward rates to recover the costs of historical work
Planning and Environment – capital value based rate paid by all ratepayers but differentiated by land use type, with the Clyde and Roxburgh dams paying double the capital value rate than other land use types
Economic Development – capital value based rate paid by all ratepayers but differentiated by land use type, with the Clyde and Roxburgh dams paying double the capital value rate than other land use types
Tourism – capital value based rate paid by all ratepayers but differentiated by land use type, with the commercial, industrial and accommodation land use types facing a capital value rate roughly six times that of residential or rural ratepayers, the Clyde and Roxburgh dams paying slightly more than residential and rural ratepayers, and small dams paying around three times the capital value rate of residential and rural ratepayers.

**UAGC and other uniform charges**
Uniform Annual General Charge – paid by all ratepayers, used to fund democracy, a portion of roading costs, and other amenities controlled by council
Water rates - fixed targeted rates paid by those receiving the corresponding supply, with half charges for those properties that are serviceable but not connected. Rates differentiated by area.

Waste Management – fixed targeted rates for waste collection with charges for additional bins, and a lower charge for those not receiving the service

Wastewater charges - fixed targeted rates for wastewater connections with charges for additional connections and half charges for those who are serviceable but not connected. Different charges for different schemes.

Recreation and culture - fixed targeted rates set at different levels for each ward, to fund the recreation and culture costs within that ward, including pools and halls

Libraries – a two tiered fixed targeted rate, with those in the Maniototo ward paying less than the rest of the District

Clutha Management – a uniform targeted rate set at the same level for all ratepayers, to fund the costs associated with Lake Dunstan and the Clutha River

Ward services – uniform targeted rate differentiated by ward, to fund the costs of services within that ward

Use based charges

Targeted Rate – Water (Volume of Water) – volume charge water users

Figure 17: Central Otago District Council operating income 2012

<table>
<thead>
<tr>
<th>Central Otago DC operating income 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local authorities fuel tax, fines, infringement fees, other 6%</td>
</tr>
<tr>
<td>General rates, uniform annual general charges, rates penalties 22%</td>
</tr>
<tr>
<td>Targeted rates (excluding targeted rates for water supply) 49%</td>
</tr>
<tr>
<td>Subsidies &amp; grants for operating purposes 6%</td>
</tr>
<tr>
<td>Fees, charges &amp; targeted rates for water supply 17%</td>
</tr>
</tbody>
</table>
Clutha District Council - Rates by type and operating revenue

**Property value based general rate**
Paid by all ratepayers, based on capital value

**Targeted property value based rates**
District roading rate – capital value based rate paid by all ratepayers
Community Sewerage Upgrade Support rate – capital value based rate paid by all ratepayers
Planning/Regulatory rate – capital value based rate paid by all ratepayers
Local Roading Rate – land value based targeted rate set on a differential basis by area for the construction and maintenance of roads and footpaths within a locality/rating area (in conjunction with a uniform targeted rate).
Community Services rate – land value based rate paid by all rating units in the district to fund Swimming Pools, Town Halls, Community Centres, Camping Grounds, Parks and Reserves, Berms, Sports Grounds, and in the rural area; Rural Storm water and Rural Fire. Set on a differential basis based on area with urban areas paying significantly more than rural areas.

**UAGC and other uniform charges**
UAGC set at $458.40 on each separately used or inhabited part of a rating unit (SUIP) in the district for 2012/13
Local Roading Rate – fixed targeted rate differentiated by area for the construction and maintenance of roads and footpaths within a locality/rating area, in conjunction with a land value based rate
New Footpath Rate – fixed targeted area rate to fund repayment of loans taken out for Council’s new footpath programme; only paid by those in the affected areas.
Urban Water Supply rates – fixed uniform charges differentiated by the scheme to which the ratepayer is connected. Only those connected to the scheme pay the fixed rate for that scheme. Two levels of charge, ‘connected’ and ‘serviceable’ with the latter receiving a half charge.
Rural Water scheme rates - a fixed charge for each unit (one cubic metre of water per day) of water supplied, with rate differentiated by scheme supply costs.
Sewerage rates – fixed uniform charges differentiated by the scheme to which the ratepayer is connected. Only those connected to the scheme pay the fixed rate for that scheme. Two levels of charge, ‘connected’ and ‘serviceable’ with the latter receiving a half charge.

Sewerage Loan rates – to repay loans taken out for the capital costs of new schemes. Only those connected to the scheme pay the fixed rate for that scheme. Two levels of charge, ‘connected’ and ‘serviceable’ with the latter receiving a half charge. Benhar and Tokoiti schemes have areas A and B with slightly lower costs for area B.

Storm water - fixed uniform charges differentiated by the scheme to which the ratepayer is connected. Only those connected to the scheme pay the fixed rate for that scheme. Some schemes have two levels of charge, with unconnected but ‘serviceable’ properties receiving a half charge.

Solid Waste Management – uniform charge to fund the solid waste collection and disposal services, only those receiving the service pay the rate.

Cross Recreation Centre rate - to fund repayment of loans taken out for the construction of the Cross Recreation Centre in Balclutha, set as a fixed charge set differentially by location (electoral ward) according to the proximity of the ward to the facility.

Community Board rates - fund the cost of community boards and local projects within the community board areas, set as a fixed targeted rate.

Figure 18: Clutha District Council operating income 2012

Clutha DC operating income 2012

- Interest & dividends from investments 2%
- General rates, UAGC’s, rates penalties 15%
- Targeted rates (other than a targeted rate for water supply) 61%
- Subsidies & grants for operating purposes 9%
- Fees, charges and targeted rates for water supply 13%
Waitaki District Council - Rates by type and operating revenue

Property value based general rate

Targeted property value based rates
District Services – a capital value based rate that contributes to part of the costs of Council, Economic Development, Oamaru Harbour – Coastal Protection, Rural Fire, Roading, Building Control and Environmental Monitoring.
Ahuriri Ward Services Rate - targeted rate for Ahuriri Ward Services, based on capital value, only paid by ratepayers in the Ahuriri Ward; funds Community Boards, Open Space, Beautification, Playgrounds, and Township Works in the ward.
Ahuriri Ward Community Board Rate - based on land value, only paid by ratepayers in the Ahuriri Ward; to fund 60% of the costs of the Ahuriri Community Board.
Corriedale Ward Services Rate - targeted rate for Corriedale Ward Services, based on capital value, only paid by ratepayers in the Corriedale Ward; funds some of the costs associated with Open Space, Beautification, Playgrounds and Township Works in the ward.
Oamaru Ward Services Rate - targeted rate for Oamaru Ward Services, based on capital value, only paid by ratepayers in the Oamaru Ward; funds some of the costs associated with Open Space, Beautification, Playgrounds, and Township Works.
Waihemo Ward Services Rate - targeted rate for Waihemo Ward Services, based on capital value, only paid by ratepayers in the Waihemo Ward; funds some of the costs associated with Community Boards, Waihemo Service Centre, Open Space, Beautification, Playgrounds, and Township Works.
Waihemo Ward Community Board Rate - based on land value, only paid by ratepayers in the Waihemo Ward; to fund 60% of the Waihemo Community Board and Waihemo Service Centre.
Oamaru Business Area Rates - targeted rate for services to the Oamaru Business Areas, based on the capital value of each rating unit in the Oamaru Business Areas that is not used exclusively for residential purposes. Two geographical categories used, A and B, with B paying half the $ per capital.
value of A. Contributes to the funding for Forrester Gallery, Libraries, North Otago Museum, Aquatic Centre, Oamaru Public Gardens, Christmas Decorations, Oamaru Opera House, and Parking Enforcement.

Oamaru Urban Area Rate - targeted capital value rate for coastal protection to the Oamaru Urban Area.

Roading and Civil Defence Rate, and Lakes Camping Rate – capital value based rates set on a differential basis for activities categorised as Hydro-Electric Power Generation Installations, Mining and Mineral Extraction and Other Uses.

Local Amenity Rates – set on a land value basis for each township that has agreed to establish a local amenity rate.

**UAGC and other uniform charges**

Uniform Annual General Charge - contributes to the funding for Community Planning and Consultation, Council and Community Boards, Community Development and Grants, Cemeteries, Sports Grounds, Oamaru Airport, Civil Defence, Building Control, District Planning, Environmental Health, Solid Waste Disposal. Public Toilets and Visitor Information and Tourism.

Ahuriri Ward Services Charge - uniform targeted rate paid only by those in the ward, contributes to the funding for Forrester Gallery, Libraries, North Otago Museum, Aquatic Centre, Oamaru Public Gardens, and Oamaru Opera House.

Corriedale Ward Services Charge - uniform targeted rate paid only by those in the ward, contributes to the funding for Forrester Gallery, Libraries, North Otago Museum, Aquatic Centre, Oamaru Public Gardens and Oamaru Opera House.

Oamaru Ward Services Charge - uniform targeted rate paid only by those in the ward, contributes to the funding for the Forrester Gallery, Libraries, North Otago Museum, Aquatic Centre, Oamaru Public Gardens, Oamaru Harbour – Port Operations, and Oamaru Opera House.

Waihemo Ward Services Charge - uniform targeted rate paid only by those in the ward, contributes to the funding for Forrester Gallery, Libraries, North Otago Museum, Aquatic Centre, Oamaru Public Gardens, and Oamaru Opera House.
Waitaki District Council - Rates by type and operating revenue cont...

Public Hall rates - uniform targeted rates set to fund local halls, payable only by those in the immediate proximity.

Sewerage Rates - fixed uniform charges differentiated by the scheme to which the ratepayer is connected. Only those connected to the scheme pay the fixed rate for that scheme. Two levels of charge, ‘connected’ and ‘serviceable’ with the latter receiving a half charge.

Water Rates Urban - for water supply to urban areas based on a uniform charge per rating unit. Urban areas may have multiple rates to fund different aspects of water supply. Two levels of charge, ‘connected’ and ‘serviceable’ with the latter receiving a half charge.

Water Rates Rural – uniform charge per rating unit for a specified volume of water supplied.

Construction ward rates - targeted rates for significant capital upgrades to sewerage and water schemes per serviced rating unit within a defined boundary.

Use based charges

Water volume - separate rates for water supply in each township that is based on the volume of water supplied. The metered water rates will be set on all rating units serviced by meter.

The Kakanui Rural Water Scheme rate is differentiated by volume of water supplied using the categories of property type and potential use.

Figure 19: Waitaki District Council operating income 2012

<table>
<thead>
<tr>
<th>Waitaki DC operating income 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>General rates 2%</td>
</tr>
<tr>
<td>Targeted rates 61%</td>
</tr>
<tr>
<td>Operating subsidies &amp; grants 30%</td>
</tr>
<tr>
<td>Fees &amp; charges 2%</td>
</tr>
<tr>
<td>Other receipts (fines, infringements, fuel tax, other) 5%</td>
</tr>
<tr>
<td>Internal recoveries including internal interest income 0%</td>
</tr>
</tbody>
</table>
Otago Regional Council - Rates by type and operating revenue

Property value based general rate
Paid by all ratepayers excluding Forsyth Barr Stadium, based on capital value

Targeted property value based rates
Forsyth Barr Stadium – capital value based rate with those closest to the Stadium paying a higher amount per $ of capital value
Air Quality – targeted capital value based rates paid only by those in affected areas
Flood Protection and Control Works, Drainage schemes – capital value based rates paid only by those receiving the service, with $ per capital value contribution differing based on relative level of service received
General river management – capital value based rates with $ per capital value contribution differing by ratepayer location
Targeted River management – capital value based rates paid only by those in affected areas
Dunedin Transport – capital value based rate differentiated by location and land use, only paid by those in designated areas
Queenstown Transport – capital value based rate differentiated by location and land use, only paid by those in designated areas

UAGC and other uniform charges
Uniform Annual General Charge - paid by all ratepayers excluding Otago Stadium
Forsyth Barr Stadium – fixed targeted rate for the purpose of funding the Otago Stadium, with those closest to the Stadium paying a higher uniform charge
Flood Protection and Control Works, Drainage schemes – fixed targeted rates paid only by those receiving the service, with fixed rate contribution differing based on relative level of service received.
Otago Regional Council - Rates by type and operating revenue

Figure 20: Otago Regional Council operating income 2012

Otago RC operating income 2012

- Fines, infringement fees & other 4%
- General rates, UAGC & rate penalties 12%
- Targeted rates 27%
- Subsidies & grants 14%
- Fees & charges 12%
- Interest & dividends from investments 31%
Environment Southland - Rates by type and operating revenue

**Property value based general rate**
General rate - based on capital value
General rate - dairy differential
General rate - capital value rate on dairy properties

**Targeted land value based rates**
Catchment Targeted Rates
- Mix of land value and land area rates
- Targeted based on catchment expenditure (benefits received)
Land Sustainability Targeted Rates
- Land value
Biosecurity Targeted Rates
- Land value
Pest Animal and Plant Targeted Rates
- Land value
Tb free New Zealand
- Land value

**UAGC and other uniform charges**
UAGC (18.86% of total rates take)
Environment Southland - Rates by type and operating revenue cont…

Figure 21: Environment Southland operating income 2012

Environment Southland operating income 2012

- General rates (including general rates from dairy) 11%
- UAGC 8%
- General rate dairy differential 4%
- Targeted rates 24%
- Direct charges and reserves 33%
- Dividends 12%
- Other investment income 8%
APPENDIX 6:
Benchmarking use of rating tools – local authorities:

Covec (2007b) assessed the use of rates in 2006/07, dividing the available tools into three categories: the General rate, value based Targeted rates and Uniform rates. The report compared use of these tools in 2002/03 and 2006/07 to identify any trends, as well as giving a national overview of the extent to which these tools are used.

![Diagram showing the breakdown of rating tools used in 2002/03 and 2006/07](image)

Figure 22: National snapshot of rating tools used, comparing 2002/03 with 2006/07


**General Rate** - In 2006/07, on average 47% of rates were recovered on a property value based general rate. Comparatively, 53% of the 2002/03 rates take was from a general rate.

**Value Based Targeted rates** - In 2006/07, on average 21% of rates were recovered on a property value based targeted rate. Comparatively, 53% of the 2002/03 rates take was from a value based targeted rate.

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101 For the purpose of this comparison, the General Rate was treated as any property value based rate that was not a targeted rate (either a property value based targeted rate or a fixed targeted rate) or a UAGC. The report’s comparison also excluded differentials.

102 As discussed in Chapter Three, these are rates that rely on property value, in that the higher a ratepayer’s relative property value, the more that ratepayer pays; but the rates are targeted in some manner, either to the primary land use of the property (for instance, residential, rural or commercial), by access to service (for instance, water supplies, sewerage or waste collection), or by geographical location.

103 This category includes both UAGC and flat targeted rates; in both instances all properties (or in the case of the UAGC, all rating units) that are eligible for the charge pay the same amount.
Uniform Charges or Uniform rates - In 2006/07, on average 32% of rates were recovered through either a Uniform Targeted Rate or UAGC. Comparatively, 27% of the 2002/03 rates take was through either a Uniform Targeted Rate or UAGC.

The findings indicated that, as a trend over this time, councils were moving away from the property value based general rate and towards targeted rates and in particular flat or uniform charges. The report noted concern at this move given the regressive nature of the UAGC and Uniform Targeted Rates in particular (Covec, 2007b). It is worth noting that the requirements for councils to consider relative benefit specified under S (101) (3) of the Local Government Act may have driven this shift after the legislation was passed in 2002.