

# Rating System, Rates and Funding Impact Statements

## 1. Introduction

Rating incidence is governed by the Council's Revenue and Financing Policy and its Rating Policies. This section outlines details of the present rating system used by the Council. It also incorporates the Funding Impact Statements in the form prescribed by the Local Government (Financial Reporting and Prudence) Regulations 2014.

At various points within this section a level of rate or charge is outlined. These are indicative figures provided to give ratepayers an estimate of what their level of rates is likely to be in the forthcoming year. They are not necessarily the actual figures as these will not be known until the Council's rating information database is finalised. Rates figures in this section are GST-inclusive unless otherwise specified.

## 2. Rating Objectives

These are the Council's rating objectives:

- to encourage growth and confidence in the city by operating a stable, easily understood method of setting rates

- to set rates in a manner that is fair and equitable as between various ratepayers and classes of ratepayer, and consistent with Council's planning objectives
- to ensure that all citizens contribute to the cost of providing city services by charging on a user-pays basis where practicable
- to foster the sense of a single community by operating a common system throughout the city.

## 3. Components of the present rating system - a summary

The Council's rating system, designed to meet these objectives, is utilised to fund the net cost of operations and programmes outlined in the 10 Year Plan and Annual Budget (Plan). It comprises the following components:

- A common system applies throughout the city.
- Targeted rates, in the form of fixed amounts (as proxy user charges) are made to cover the costs of services that are identifiable by property (water supply, wastewater

disposal, and rubbish and recycling). In addition, significant non-residential and some rural users of water are metered and some non-residential wastewater users are charged on the basis of the number of pans. A targeted rate (comprising a fixed amount and a variable amount based on capital value) is made on non-residential properties within the central city Palmy BID area.

- A Uniform Annual General Charge (UAGC) is applied as a fixed amount to every rating unit within the city. It is used as a mechanism to ensure each rating unit contributes a minimum amount of the general rate and also to moderate rates on high land-value properties.
- A General Rate, based on the land value, is applied to each rating unit, with different rates (differentials) applying to each property category.

The categories in the Council's differential rating scheme reflect differing property use and can be broadly grouped as follows:

- Single-unit residential
- Multi-unit residential
- Non-residential
- Rural and semi-serviced
- Miscellaneous.

Differential surcharges (that is, a higher rate in the dollar) are applied to multi-unit residential and non-residential properties, while lower rates are applied to single unit residential and rural/semi-serviced properties. No surcharge is applied to miscellaneous properties.

#### 4. Examples of proposed rates for 2022/23

Examples of proposed rates for 2022/23 are shown in the following table:

|                                | Old Land Value | New Land Value | Rates 2021/22 | Rates 2022/23 |
|--------------------------------|----------------|----------------|---------------|---------------|
| <b>Single unit residential</b> |                |                |               |               |
| Average                        | 243,000        | 468,000        | 2,842         | 2,973         |
| Median                         | 230,000        | 455,000        | 2,760         | 2,920         |
| Quartile 1                     | 185,000        | 360,000        | 2,474         | 2,530         |
| Quartile 3                     | 280,000        | 540,000        | 3,077         | 3,269         |
| <b>Two unit residential</b>    |                |                |               |               |
| Average                        | 273,000        | 561,000        | 4,633         | 5,109         |
| Median                         | 255,000        | 525,000        | 4,466         | 4,904         |
| Quartile 1                     | 220,000        | 450,000        | 4,141         | 4,476         |
| Quartile 3                     | 300,000        | 625,000        | 4,884         | 5,475         |
| <b>Non-residential</b>         |                |                |               |               |

|  | Old Land Value | New Land Value | Rates 2021/22 | Rates 2022/23 |
|--|----------------|----------------|---------------|---------------|
| Average  | 708,000        | 1,022,000      | 16,010        | 16,492        |
| Median   | 400,000        | 620,000        | 9,420         | 10,231        |
| Quartile 1   | 230,000        | 385,000        | 5,783         | 6,572         |
| Quartile 3   | 790,000        | 1,110,000      | 17,765        | 17,862        |
| <b>Rural &amp; semi-serviced (5ha or more)</b>         |                |                |               |               |
| Average  | 829,000        | 1,373,000      | 1,905         | 2,074         |
| Median   | 475,000        | 730,000        | 1,333         | 1,240         |
| Quartile 1   | 320,000        | 520,000        | 1,083         | 967           |
| Quartile 3   | 840,000        | 1,218,000      | 1,923         | 1,873         |
| <b>Rural &amp; semi-serviced (between 0.2 and 5ha)</b> |                |                |               |               |
| Average  | 316,000        | 549,000        | 1,714         | 1,717         |
| Median   | 315,000        | 520,000        | 1,710         | 1,642         |
| Quartile 1   | 250,000        | 435,000        | 1,474         | 1,421         |
| Quartile 3   | 365,000        | 590,000        | 1,892         | 1,824         |
| <b>Miscellaneous</b>                                   |                |                |               |               |
| Average  | 594,000        | 916,000        | 5,362         | 5,047         |
| Median   | 315,000        | 550,000        | 3,109         | 3,147         |
| Quartile 1   | 145,000        | 295,000        | 1,737         | 1,823         |
| Quartile 3   | 630,000        | 965,000        | 5,653         | 5,301         |

If all of the properties in the category of property were listed from lowest to highest land value,

then the 'median' is the value at the half way point in the list, quartile 1 is the value at the first quarter point in the list, and quartile 3 is the value at the three-quarter point in the list.

For example, if there are 1,000 properties and they are sorted from the lowest to the highest land value then quartile 1 is the 250<sup>th</sup> property from the lowest.

The three-yearly revaluation of the city for rating purposes was undertaken in 2021 and those valuations are the base for general rates set in 2022/23.

The examples should be read with regard for the following assumptions:

- the Council's total rates revenue will increase by 5.8%
- the Uniform Annual General Charge will be \$200 per rating unit (\$500 in 2021/22)
- targeted rates in the form of fixed amounts will be applied for water supply (\$348); wastewater disposal (\$284); kerbside recycling (\$129); rubbish and public recycling (\$92) (\$307, \$296, \$130 and \$66 respectively in 2021/22)
- a targeted rate for wastewater disposal will be set on non-residential properties on the basis of the number of pans, in excess of three, on the rating unit. The charge per pan will be \$284 compared with \$296 per pan in 2021/22

The examples shown for non-residential, miscellaneous and rural/semi-serviced properties do not include the charges (either fixed or metered) for water, wastewater or kerbside recycling because these vary from property to property but they do include the rubbish and public recycling rate. They do not include the proposed targeted rates to fund the Palmy BID as these will be applied to selected properties in the defined central city Palmy BID area.

## 5. Components of the Rating System – more detail

### 5.1 General Rate

The Council proposes to set a general rate based on the land value of each rating unit in the city.

The general rate will be set on a differential basis based on land use (see description in 5.4), with the differential factors as shown in the following table:

| Differential Group |  | Differential Factor (expressed as % of Group Code MS) |                      | Rate (cents in \$ of LV) |
|--------------------|--|---|----------------------|--------------------------|
| Code               | Brief Description                        | Actual 2021/22  | Proposed 2022/23     | Proposed 2022/23         |
| R1                 | Single-unit residential                  | Balance (approx. 78)                                  | Balance (approx. 79) | 0.4103                   |
| R2                 | Two unit residential                     | 115   | 110                  | 0.5710                   |
| R3                 | Three unit residential                   | 125   | 120                  | 0.6229                   |
| R4                 | Four unit residential                    | 135   | 130                  | 0.6748                   |
| R5                 | Five unit residential                    | 145   | 140                  | 0.7267                   |
| R6                 | Six unit residential                     | 155   | 150                  | 0.7787                   |
| R7                 | Seven unit residential                   | 165   | 160                  | 0.8306                   |
| R8                 | Eight or more unit residential           | 175   | 170                  | 0.8825                   |
| MS                 | Miscellaneous                            | 100   | 100                  | 0.5191                   |
| CI                 | Non-residential (Commercial/Industrial)  | 265   | 300                  | 1.5573                   |
| FL                 | Rural/Semi-serviced (5 hectares or more) | 20  | 25                   | 0.1298                   |

| Differential Group |  | Differential Factor (expressed as % of Group Code MS) |    | Rate (cents in \$ of LV) |
|--------------------|--|---|----|--------------------------|
| FS                 | Rural/Semi-serviced (0.2 hectares or less)     | 60  | 75 | 0.3893                   |
| FM                 | Rural/Semi-serviced (between 0.2 & 5 hectares) | 45  | 50 | 0.2596                   |

### 5.2 Uniform annual general charge

The Council proposes to set a uniform annual general charge of \$200 (\$500 for 2021/22) on each rating unit.

### 5.3 Targeted rates

For the purposes of the targeted rates proposed below the term 'residential' is defined as "having a predominant or exclusive residential use and on which one or more residential units is erected."

For the purposes of the targeted rates proposed below, a 'separately used or inhabited part (SUIP) of a rating unit' is defined as:

"Any part of the rating unit that is, or is able to be, separately used or inhabited by the ratepayer, or any other person who has the right to use or inhabit that part by virtue of a tenancy, lease, licence or other agreement.

This definition includes separately used parts, whether or not actually occupied at any particular time, which are provided by the owner for rental (or other form of occupation) on an occasional or long-term basis by someone other than the owner.

For the purposes of the definition, vacant land and vacant premises offered or intended for use or habitation by a person other than the owner and usually used as such are defined as 'used'.

For the avoidance of doubt, a rating unit that has a single use or occupation is treated as having one SUIP.

For a residential property a SUIP will have a separate entrance, kitchen facilities (including sink or cooking facilities), living facilities and toilet/bathroom facilities.

By way of example the following would be considered to have separately used or inhabited parts of a rating unit:

- A single dwelling with flat attached
- Two or more houses, flats or apartments on one certificate of title."

The Council does not have a lump sum contribution policy and lump sum contributions will not be invited for any targeted rate.

### 5.3.1 Water supply

The Council proposes to set targeted rates for water supply. For residential rating units it shall be on the basis of a fixed amount per separately used or inhabited part, and for all other properties a fixed amount per rating unit. The charge will be set on a differential basis based on the availability of the service (either 'connected' or 'serviceable'). Connected means the rating unit is connected to a Council-operated waterworks while serviceable means the rating unit is not connected to a Council-operated waterworks but is within 100m of such waterworks and Council would allow a connection. The serviceable rate will be 50% of the connected rate.

Rating units that are not connected to the scheme and are not serviceable will not be liable

for this rate. The estimated rates for the 2022/23 year are:

|              |       |
|--------------|-------|
| Connected:   | \$348 |
| Serviceable: | \$174 |

There are situations where the Council will require water to be supplied on a metered basis. Where this occurs, the Council proposes instead of the above to set metered water targeted rates that comprise a fixed amount (estimated at \$210 per metered connection for connections of 25mm or less and \$450 for connections greater than 25mm) and a variable amount (estimated at \$1.53065 per cubic metre) based on the volume of water supplied.

### 5.3.2 Wastewater disposal

The Council proposes to set a targeted rate for wastewater disposal. For residential rating units, it shall be set on the basis of a fixed charge per separately used or inhabited part, and for all other properties a fixed charge per rating unit. The charge will be set on a differential basis based on the availability of the service (either 'connected' or 'serviceable'). Connected means the rating unit is connected to a public wastewater drain, while serviceable means the rating unit is not connected to a public wastewater drain but is within 30m of such a drain, and Council would allow a connection.

The serviceable rate will be 50% of the connected rate.

Rating units that are not connected to the scheme, and which are not serviceable will not be liable for this rate.

The estimated rates for the 2022/23 year are:

|              |       |
|--------------|-------|
| Connected:   | \$284 |
| Serviceable: | \$142 |

In addition, for the 2022/23 year the Council proposes to set a targeted rate for connected non-residential rating units of \$284 per pan (water closet or urinal) for each pan in excess of three.

### 5.3.3 Rubbish and recycling

#### 5.3.3.1 Kerbside recycling

The Council proposes to set a targeted rate for kerbside recycling on the basis of:

- a fixed amount per separately used or inhabited part of a rating unit for residential properties receiving the Council's kerbside collection service
- a fixed amount per rating unit for non-residential and rural/semi-serviced properties receiving the Council's kerbside collection service

Where ratepayers elect, and the Council agrees, additional levels of service may be provided. These additional services could be providing more recycling bins or more frequent service. Each additional level of service will be charged at a rate of \$129. This may include charges to non-rateable rating units where the service is provided. Rating units for which the Council is not prepared to provide the service will not be liable for these rates.

The estimated rates for the 2022/23 year are:

|                    |       |
|--------------------|-------|
| Kerbside recycling | \$129 |
|--------------------|-------|

#### 5.3.3.2 Rubbish and public recycling

The Council proposes to set a targeted rate for rubbish and public recycling on the basis of a fixed amount per separately used or inhabited part of each residential rating unit and a fixed amount per rating unit for all other rating units. Rating units that are vacant land will not be liable for these rates.

The estimated rates for the 2022/23 year are:

|                              |      |
|------------------------------|------|
| Rubbish and public recycling | \$92 |
|------------------------------|------|

#### 5.3.4 Warm Palmerston North

The Council proposes to set a targeted rate on properties that have benefited from the installation of insulation through the Warm

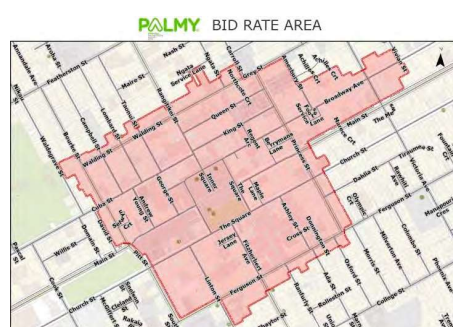
Palmy Home Insulation Scheme. The rate is calculated as a percentage of the service amount (the cost of the installation) until the service amount and costs of servicing the service amount are recovered. For 2022/23 the rate is proposed to be 16%.

#### 5.3.5 Palmy BID

The Council proposes to set targeted rates on those properties within the central city Palmy BID area as shown on the following map that are categorised as non-residential for the Council's general rate. The rate will fund a grant to the Palmy BID group.

The targeted rates will comprise:

- A fixed amount of \$343 per rating unit; and
- A variable amount of 0.0128 cents in the \$ of the capital value of the rating unit.



## 5.4 Differential Matters and Categories

### 5.4.1 Objectives of Differentials for General Rate

The Council believes that a uniform general rate based on land value would not produce a fair and equitable allocation of rates. For this reason, it operates a system of differentials based on land use. Descriptions of the land use categories are shown in 5.4.2.

The Council describes the relationship between the rates charged to each group in terms of a factor expressed as a percentage of the rate that would apply if there were no differential rating in place – that is, the group described as Miscellaneous (MS). Each year, the Council reviews the differential factors applied to each land use category. The factors proposed for

2022/23 are outlined in 5.1 as are the actual for 2021/22. The changes are being proposed to moderate the impacts of the 2021 city revaluation on rates incidence especially for residential properties.

The factors have been developed to address the following matters:

- rating units containing more than one residential unit will place an increasing demand on Council services as the number of units increase
- the land value for non-residential property is often driven by different influences from the land value for residential or rural land and therefore is not directly comparable as a rating base
- the Council's Revenue and Financing Policy identifies a number of activities where it believes non-residential users gain a greater benefit than other users and should bear a greater share of the cost
- for large rural rating units a pure land value system would produce rates charges that would be unsustainable
- rural and semi-serviced rating units generally have limited or, in some cases, no access to some Council activities funded through the general rate

### 5.4.2 Differentials based on land use

The Council proposes to differentiate the general rate primarily on the basis of land use. Properties with more than one use will be placed in a category that the Council considers reflects the primary use.

The Council will consider partitioning the property into parts and allocate each part to the most appropriate category in situations such as the following:

- where there are discreet parts of the property used for different purposes such as a retail shop and a residence
- for manager's residences associated with motel complexes
- where part of the property is used for not-for-profit or other community purposes and the remainder is used for other purposes
- where the property is not serviced and is used for commercial, industrial or business purposes but a significant part is used for farming or horticultural purposes
- where a property has a rural zoning but is serviced and has one or more residential units then the first 2ha will be classified as group code R1 and the balance as FM or FL depending on its size
- where a property that is greater than 5ha (and residential use is a permitted activity under the city's District Plan) becomes

- serviced the first 5ha (or the area of the actual sub-divisional development if larger than this) will be categorised in group code R1 and the remainder will continue to be treated as not serviced for rating purposes
- where a property that is less than 5ha becomes serviced and features of the land or District Plan requirements impede subdivision the part that reflects the extent of the impediment will continue to be treated as not serviced for rating purposes

Note that, subject to the rights of objection to the rating information database set out in sections 29 and 39 of the Local Government (Rating) Act 2002, the Council is the sole determiner of the categories.

In the context of the general rate, 'serviced' means the property is either connected or serviceable for wastewater disposal. Connected means the rating unit is connected to a public wastewater drain, while serviceable means the rating unit is not connected to a public wastewater drain but is within 30m of such a drain, and Council would allow a connection.

The following differential categories will be used:

#### Single-unit residential (R1)

Every serviced rating unit not otherwise classified:

- having a predominant or exclusive residential use (excluding home occupations) and on which is erected one residential unit; or
- being vacant property where residential use is a permitted activity under the city's District Plan.

#### Multi-unit residential (R2 - R8)

Every serviced rating unit not otherwise classified on which is erected:

- two residential units (R2); or
- three residential units (R3); or
- four residential units (R4); or
- five residential units (R5); or
- six residential units (R6); or
- seven residential units (R7); or
- eight or more residential units (R8).

In determining what is a residential unit, the Council will apply the same criteria as defined for a SUIP, as shown in 5.3.

#### Miscellaneous (MS)

Every rating unit not otherwise classified of the following types:

- property used primarily for not-for-profit or other community purposes, excluding retail shops

- property owned by the Council that is used by it for parking that is available for public use
- property where the ratepayer conducts or permits to be conducted a business (a Home Occupation, as defined in the city's District Plan), which would otherwise qualify for inclusion in group code R1
- vacant serviced property where non-residential use is a permitted activity under the city's District Plan
- property that is not serviced and would otherwise qualify for inclusion in group code FL, FS or FM but is used for predominantly commercial, industrial or business purposes (excluding farming and horticulture).
- property not specifically categorised in any of the other group codes.

#### Non-residential (CI)

Every serviced rating unit, not otherwise classified, used for commercial, industrial or business purposes including licensed hotel, serviced apartments or residential institution including a guesthouse, rooming house, boarding house, private hotel, motel, residential club or hostel.

#### Rural and semi-serviced (FL, FS and FM)

FL – Every rating unit not otherwise classified that is not serviced and has either

- an area of 5ha or more; or
- an area less than 5ha but on which there is no residential dwelling or non-residential improvements.

When the rating unit becomes serviced, as defined above (and provided it is zoned to permit subdivision), the property will be reclassified to the higher rated differential category in the immediately following year.

**FS** – Every rating unit not otherwise classified that is not serviced and has an area of 0.2ha or less and on which there is a residential dwelling.

**FM** – Every rating unit not otherwise classified that is not serviced and has an area greater than 0.2ha and less than 5ha and on which there is either residential dwellings or non-residential improvements.

## 6. Early payment of rates

Sections 55 and 56 of the Local Government (Rating) Act 2002 empowers councils to accept early payment of rates.

The Council will accept any payment of rates for either the current or future years in advance of the due date.

## 7. Rates payable by instalment and due dates

The Council provides for rates to be paid in four equal instalments. For the 2022/23 year the due dates (that is, final dates for payment without incurring penalty charges) will be:

|               |                  |
|---------------|------------------|
| Instalment 1: | 26 August 2022   |
| Instalment 2: | 25 November 2022 |
| Instalment 3: | 24 February 2023 |
| Instalment 4: | 26 May 2023      |

Ratepayers may elect to pay on a more regular basis if they choose. They may also elect to pay the full year's rates in one lump sum prior to the due date for instalment 2 without incurring penalty charges on instalment 1.

Rates may be paid using any one of a number of payment methods acceptable to the Council, including direct debit, cash or Eftpos at Council's office, direct credit and other bank transfer methods. Payment by credit card can be made using the Internet or at Council's office, subject to the payment of a fee to cover costs.

The due date for metered water targeted rates will be the 20th of the month following the invoice date as follows:

| Monthly Invoicing |                   |
|-------------------|-------------------|
| Instalment        | Due date          |
| 1                 | 20 July 2022      |
| 2                 | 20 August 2022    |
| 3                 | 20 September 2022 |
| 4                 | 20 October 2022   |
| 5                 | 20 November 2022  |
| 6                 | 20 December 2022  |
| 7                 | 20 January 2023   |
| 8                 | 20 February 2023  |
| 9                 | 20 March 2023     |
| 10                | 20 April 2023     |
| 11                | 20 May 2023       |
| 12                | 20 June 2023      |

| Two-monthly invoicing       |                   |   |                  |
|-----------------------------|-------------------|---|------------------|
| Linton, East & North Rounds |                   | Ashhurst, South West, PNCC & Central Rounds |                  |
| Instal #                    | Due date          | Instal #                                    | Due date         |
| 1                           | 20 July 2022      | 1   | 20 August 2022   |
| 2                           | 20 September 2022 | 2   | 20 October 2022  |
| 3                           | 20 November 2022  | 3   | 20 December 2022 |
| 4                           | 20 January 2023   | 4   | 20 February 2023 |
| 5                           | 20 March 2023     | 5   | 20 April 2023    |
| 6                           | 20 May 2023       | 6   | 20 June 2023     |



## 8. Rates penalties

To provide an incentive for rates to be paid by the due date, penalties will be imposed when rates are not paid on time. A penalty of 10% will be added to any portion of an instalment remaining unpaid after the due date for payment, as outlined in clause 7 above.

A penalty charge of 10% will be added to any outstanding rates (including penalties) assessed in previous years and remaining outstanding at 4 July 2022 and again on 4 January 2023.

Penalty charges will not be applied to the metered water targeted rate.

## 9. Rating base information

The following are projected as at 30 June 2022:

|  |                  |
|--|------------------|
| Number of rating units:                  | 34,000           |
| Total capital value of all rating units: | \$20,082,000,000 |
| Total land value of all rating units:    | \$10,167,000,000 |

## 10. Rates Summary

|  | Basis of rates  | 10YP<br>2021/22<br>\$000 | 10YP<br>2022/23<br>\$000 | AB<br>2022/23<br>\$000 |
|--|---|--------------------------|--------------------------|------------------------|
| <b>General rates</b>                       |   |                          |                          |                        |
| General rates                              | rate in \$ of LV (differentiated by use)  | 67,511                   | 71,845                   | 80,500                 |
| UAGC                                       | fixed charge p rating unit  | 14,252                   | 14,670                   | 5,776                  |
| <b>Targeted rates</b>                      |   |                          |                          |                        |
| Water                                      |   |                          |                          |                        |
| - connected                                | fixed charge p SUIP (residential) or p rating unit (non-residential)  | 8,088                    | 9,976                    | 9,296                  |
| - serviceable                              | fixed charge p SUIP (residential) or p rating unit (non-residential)  | 99                       | 121                      | 102                    |
| - metered                                  | \$ p m3 plus fixed charge   | 2,750                    | 2,800                    | 2,800                  |
| Wastewater                                 |   |                          |                          |                        |
| - connected                                | fixed charge p SUIP (residential) or p rating unit (non-residential)  | 8,177                    | 9,507                    | 7,962                  |
| - serviceable                              | fixed charge p SUIP (residential) or p rating unit (non-residential)  | 93                       | 94                       | 84                     |
| - pans                                     | fixed charge p pan  | 2,319                    | 2,659                    | 2,247                  |
| Rubbish & recycling                        |   |                          |                          |                        |
| -kerbside recycling                        | fixed charge p SUIP   | 3,574                    | 3,421                    | 3,581                  |
| -rubbish & public recycling                | fixed charge p SUIP   | 1,946                    | 2,536                    | 2,772                  |
| Palmy BID                                  |   |                          |                          |                        |
|  | Fixed charge p rating unit & rate in \$ of CV for commercially rated properties in Palmy BID area of central city | 125                      | 128                      | 125                    |
|  |   | 125                      | 129                      | 125                    |
| <b>Total Rates Revenue (GST Exclusive)</b> |   | <b>109,059</b>           | <b>117,887</b>           | <b>115,370</b>         |