

**Subject:** Annual Plan 2010/11 Activity Report - Rates

**Prepared by:** Douglas Birt

**Meeting Date:** 5/6 May 2010

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## Report to COUNCIL for decision

### SUMMARY

15 submissions to the draft 2010/11 Annual Plan contained comments relating to Rates. Detailed officer responses and recommendations to these submissions are attached. The issues covered by these submissions were grouped into the following areas:

- Limit Council activities to only the urgent things (6)
- Rates should be kept below inflation (4)
- Distribution of Rates (i.e. "I don't want to pay for that") 4
- Doesn't like the way UAGCs are worked (1)
- We should give a greater variety of Rates Examples (1).

The following overarching issues/themes have emerged from the submissions:

- Council has priorities down to the most urgent things during the LTCCP Process. Anything non-urgent has already been postponed to a later year.
- CPI is a basket of consumer goods, like bread, meat, and rental payments. Council projects use items like road metal, tar, water pipes, commercial valuations and commercial interest rates. Council projects are therefore related to the Construction Index, not the Consumer index. It is therefore unrealistic for Council to be constrained to the consumer basket of expenditure items.
- Rates are a Property Tax, not a charge for services, when we know who the consumer of Council services is, we charge them directly at Fees and Charges. When we don't know who the consumer is, we charge a "tax" over all consumers who have access to that service, and it is not possible to make some pay and some get off without paying. So rates charge everybody on the same basis.
- Additional rating examples can easily be given, but we have limited space in the printed media we use. It is too late to provide additional examples this year, but it is quite practical for this to be done in future years.

### RECOMMENDATIONS

#### That Council

1. receives the report
2. approves all officer responses contained in Attachment 1: Rates submissions and responses
3. Recommends that there be no change to the draft Annual Plan
4. resolves to:
  - a) provide additional Rating Examples in future LTCCPs and Annual Plans by way of an additional, optional, rating supplement to the draft Annual Plan
  - b) review the Policies associated with the Heart of Gisborne rate at the time of the next LTCCP
  - c) establish policies to make Council practices in relation to the way Council cross-subsidises between various activities more transparent.

Douglas Birt  
Department Manager

## Summary and Response by Issue

For: Annual Plan 2010/11 - RATES

Issue	Submitter
<b>Rates</b>	
5	Redgrave, Lorraine Allison
<p>While there is a recession on, only URGENT things should be attended to, as rates are rising and there are many people who cannot afford to pay rates now. Cut your suit according to your cloth please. I am all for progress WHEN we can afford it.</p> <p><i>Office Response: The effect upon the lower income groups has been, and is, a major concern of Council. As a result, Council has cut from its immediate programme the bulk of the projects and works which for many years the community has been asking to be done. The major work affecting rates in the City is the Waste Water Treatment Plant. Because this project is required under Council's resource consent, it cannot be deferred. Recommendation: That there be no change to the draft Annual Plan.</i></p>	
12	Roe, Trudi
<p>Urges councillors to refuse to include anything in the plan that is over and above their regulatory responsibilities until spending on the WWTP and other projects already underway, have been taken care of. All non essential matters including Waipaoa flood scheme and any arts and culture programmes should be put on hold in interim.</p> <p><i>Officer Response: All the needed and/or desirable projects are considered every three years when the Ten Year Plan is being consulted on. At that stage, each project is given a score for parameters such as economic benefit, cultural benefit, environmental benefit, social benefit, regulatory requirement, and so on. As part of the process, the highest ranking projects are included in the Plan, and the rest put aside for a future plan. Some projects, like the Waste Water Treatment Plant, which are new projects that have to be undertaken for legislative reasons, are funded from rates or loans and cause an increase in rates for the year that they are scheduled. Other projects are merely renewals of facilities which already exist. These are funded from the depreciation reserve, and we are required to collect depreciation money whether or not we use it (now or later), so a moderate quantity of renewal projects in themselves do not cause rates to rise. Gisborne District utilises "targeted rates" to a significant degree. These are rates which are paid for in the area or within the group to which they apply. The waste water targeted rate will apply to those connected to the waste water system, which is mainly to city ratepayers. The Waipaoa River Flood protection works apply mostly to people on the Poverty Bay Flats, and so they pay the lion's share of the costs. In that way, Council is able to keep rates essentially affordable within any particular ratepayers grouping. The exception for 2010/11 is the waste water Treatment Plant, which is such an expensive undertaking in its own right, and which is required to be completed by a given date, that we do not have the luxury to defer or spread the costs. That single project does put the rates up for City ratepayers, and while they are paying a peak in rates for that project, Council does try to defer any other projects which would add to the city ratepayer's burden. Officer Recommendation: That there be no change to the draft Annual Plan.</i></p>	
14	Woolston, Peter John
<p>Concerned that rates rise above the rate of inflation. Also as an out of town ratepayer, they are concerned at having to pay rates for services they cannot and do not use, e.g. water, waste water, stormwater, landfill, WWTP etc. They have no dwelling on their land and are not allowed to put one there. Do not see value for money on their rates.</p>	

## Summary and Response by Issue

For: Annual Plan 2010/11 - RATES

Issue	Submitter
<p><i>Officer Response: The issue of inflation rates is a vexing one. People normally think of the measure of inflation as being the Consumer Price Index (CPI). CPI is, in fact, a measure of the price trend of a basket of consumer goods, such as bread, milk and similar foodstuffs, electricity, telephone and a few other things like mortgage interest rates or rental payments thrown in. Local Authorities are more like construction companies, and costs are more aligned to the Construction index than the CPI. If, for instance, road metal goes up by 50%, it is not reasonable to expect a Council to align its costs with the price of bread which might only increase by 1%. Councils are faced with several uncontrollable cost drivers, and are unable to keep their rates increases down at CPI levels. Regarding charges for services, Mr Woolston has fallen into the age old trap of thinking that rates are a payment for services. Rates are not a charge for services, they are a property tax, based largely on the value of the property, which are levied to support the functions which Council is obliged to carry out by relevant legislation. The rates invoice shows how much rate is owing on the property. The rates assessment on the reverse side of the invoice shows how Council uses the money to support all of its mandatory functions when it is received. The Woolston property is not charged water rates, it is charged a Regional Council rate for water resources, which is a contribution to monitoring river levels, underground aquifers, water quality and pollution. The Woolston property is not charged for waste water, it is charged \$14 per year capital rate towards the cost of installing a waste water plant that is believed will clean up the (perceived) pollution of district beaches. There are storm water services in Matawai and Motu rural towns, which properties in the surrounding areas contribute to. The Woolston property contributes \$1.73. Similarly, Pool, Library, Theatres and so on are charges for having facilities that are available for people of the district to use, they are not charges for actual use. The issue of not being allowed to put a building on the property does not appear to be a District Planning issue. If Mr Woolston can provide Council with an identified building platform, which meets access requirements, land stability and size constraints, there does not seem to be any reason why a building would not be a permitted activity. It would, however, require a variation which is a part cancellation of the consent notice.</i></p> <p><i>Officer Recommendation: That there be no change to the draft Annual Plan.</i></p>	
15	Fox, John William
Wishes to have a full draft sent in mail and opposes any plan where a rates increase will happen.	
<p><i>Officer Response: Rates increases occur for a variety of reasons that are not always within the ability of Councillors to control. For instance, we are required by legislation to collect rates to fund the "Decline in Service Potential" of Council assets (this is called depreciation in our Annual Plan) and the amount required is determined by the value of the assets in any one year. When asset values go up, so too does depreciation and rates. The rate increase due to discretionary projects has been kept to a bare minimum in this Plan. Officer Recommendation: That there be no change to the draft Annual Plan.</i></p>	
21	Tamati and Tilly Reedy
Work envisaged appears great, but at this time of recession, is this really the time to "double" the rates?	
<p><i>Officer Response: On average, the total rates collected are increasing in most parts of the district by 4.5%. In the City, the increase in rate collected is slightly higher (on average, 7.2%) because the city has to bear the brunt of the Waste Water Treatment Plant (WWTP). We don't have much option on the WWTP - our consent for our old scheme has expired, and we are required by Resource Management Plan processes to put a new Waste water scheme in. Rates have not doubled. Officer Recommendation: That there be no change to the draft Annual Plan.</i></p>	
25	Proctor, Ian George
Likes all plans that keep rate increases minimal, and deal with essential needs instead of wants.	
<p><i>Officer Response: The submitter likes plans that keep increases minimal, and does not want to see rate increases or charges beyond budget. This year's rate increase is slightly under the increase incorporated in the 2009-19 Ten Year Plan. It averages out at 4.5% for most of the district, and at 7.2% for the City, which has to cover the cost of the Waste Water Treatment Plant. Recommendation: That there be no change to draft Annual Plan.</i></p>	

## Summary and Response by Issue

For: Annual Plan 2010/11 - RATES

Issue	Submitter
26	Larkins, Darren Peter
<p>Likes the fact that some projects have been deferred due to economic reasons. Does not like the hike in rates when we are all in such a poor economic situation.</p> <p><i>Officer Responses:</i> In scheduling projects and works, Council always tries to respond to public requests for services and amenities. The reality is that there are always more demands on funding than Council has the resources or funding to undertake, so prioritisation of more urgent/less urgent projects always takes place. Affordability is another criterion, and it is acknowledged that greater emphasis has been placed on affordability in recent years when prioritising projects. <i>Officer Recommendation:</i> That there be no change to the draft Annual Plan.</p>	
31	Burrows, Hilary Roberta
<p>The rates burden in Gisborne is loaded onto those from lower income families who only own a residential home, not those who own rental properties or businesses who can write off rates in their taxes. The rating system is unfair. Council should have made more of an effort to obtain funding for the treatment plant as well as truly understanding the full impact of the recession on low and middle income families.</p> <p><i>Officer Response:</i> Council fully understands the plight of low and middle income families, and did its utmost to keep any rate increase to a minimum. The fundamental problem, though, is that Council does not have access to any economic data concerning the income or wealth of individual ratepayers. By legislation, rates have to be mostly levied on the value of a property, with up to 30% of the total rate collected being a fixed charge per property. Gisborne's rating system is designed to ensure that lower valued properties do pay less than higher valued properties - except for the fixed charges for services like solid waste collection, storm water, etc, which are only charged to the areas where these services are provided. The Council does not have the power to charge different levels of rates based on the GST that certain ratepayers might or might not have to pay. <i>Recommendation:</i> That there be no change to the draft Annual Plan.</p>	
41	Lorraine Still
<p>Does not support rates increase for Ngati Konohi residents of Whangara in respect of the irreparable damage done to sacred sites under the Public Works Act. The extraction of "gravel" from the island was primarily for use in roading around the wider Gisborne area. Degradation of the island continues due to the resultant exposure to the elements.</p> <p><i>Officer Response:</i> Council does not collect any rates for the extraction of gravel or sand, and Council does not itself extract any sand or gravel anywhere in the district. Sand and gravel extraction is all done by private firms. <i>Officer Recommendation:</i> That there be no change to the draft Annual Plan.</p>	
42	Radomske, Clare Andrew
<p>Disagrees with the methodology used to determine the UAGC and targeted rates. Also, objects to a 7% increase this year on top of the 10% increase of last year.</p> <p><i>Officer Response:</i> The total increase in rates collected in 2009/10 was 3.3%. The total increase in rates collected for 2010/11 is proposed to be 6.1%. On average this is an underlying increase in total rates collected of 4.5% for most of the district, but on average it will be 7.2% increase in rates collected from city residential properties because of the effect of the Waste Water Treatment Plant, which is required for Council to meet its consent requirements. The submitter's right to object to the way our UAGC is determined is respected, but it is not possible to comment on specifics as none are given. It is noted, however, that other submitters think the UAGC should be higher. <i>Officer Recommendation:</i> That there be no change to the draft Annual Plan.</p>	
44	Gisborne Chamber Of Commerce
<p>Over the last ten years the average level of household rates has been more than twice the increase of the consumer price index. This is unsustainable. Immediate effort is required to balance expectations, reduce operational costs and sell assets.</p>	

## Summary and Response by Issue

For: Annual Plan 2010/11 - RATES

Issue	Submitter
<p><i>Council does not purchase a basket of consumer goods, and pay consumer rents and mortgages, which is what the CPI is based on. Council is in the construction business, (whether it be for maintenance or new works) and is governed by increases in prices for tar, road metal, water pipes, and a whole plethora of things that make up the construction index. Council's performance should be based on the Construction Index, not the CPI. Council is required by legislation to account for its asset renewal projects in the way that it currently does, and there is very little ability to simply not undertake maintenance works. Recommendation: That there be no change to the Annual Plan</i></p>	
63	Federated Farmers
<p>Recommends that Council includes a wider range of benchmark rates in the summary information provided to ratepayers. Recommends that Council continues its wide use of differentials, targeted rates and alternative funding sources. Recommends that Council continue to use targeted rates for services where there is a high level of direct identifiable benefit. Recommends that Council continue to increase the use of the UAGC until it reaches its maximum cap. In terms of roads, Federated Farmers supports the use of targeted rates which go a long way toward alleviating inequity in the rating system and ensure that the cost of Council activities is transparent to the ratepayer. Federated Farmers appreciate the consideration given to pastoral farming in the policy outlined on page 96 of the Funding Impact Statement.</p> <p><i>Officer Response: The number of benchmark rates examples published in the draft Annual Plan is always a matter of contention between the additional print space they take up versus the added benefit that would be obtained. When we were considering changing part of our rates to capital value based, we did go to the public with several dozen examples. Currently we are publishing what we can fit on one chart. These are the same properties every year, and provide a reasonably wide view of the diverse properties we have to administer in this district. Perhaps a solution might be to publish an optional "rates supplement" of an additional dozen or so rating examples to those who request the additional information. Officer Recommendation: That there be no change to the 2010/11 draft Annual Plan. That in future years a "Rates Supplement" to the Annual Plan be made available to those who request additional rating examples.</i></p>	
64	Abramowitz, Steven David
<p>The three businesses on the port side of the Customhouse Street roundabout, namely the Senator Motel, USSCo and Cafe Ruba, wish to be exempt from paying Heart of Gisborne (HoG) rates as they feel they get no benefit whatsoever from their additional rates payment. They have brought this matter to HoG and the Council previously but nothing has been done to address their joint complaint. They contend that despite complaining to HoG they have never had any effort made by HoG to include their part of town in any activities, nor is their area considered in HoG newsletters. They contend that the focus of HoG is on Gladstone Road and therefore if they are not considered as a part of the CBD they should not pay added rates. Any business promotions that may be of benefit to them, such as "shop and win", they are required to pay over and above their rates, so where is the benefit of being a member? When the three businesses asked HoG what percentage business increase has occurred due to HoG promotions they have not been given adequate responses. They contend that the CBD patrol has only been to their area once, and that most of their problems occur in the evening when the patrol is not operating. They do not have faith in HoG and have no desire to be part of the organisation. They wish to be removed from HoG and no longer be liable for any of their fees. After having taken legal advice they believe they have a strong case for a refund. Accordingly they have enclosed an invoice for the sum of \$3216.40, the amount they have paid HoG in fees. (See submission in full.) They also maintain that HoG has not delivered on some of its promises to do work that may be of benefit to their area, e.g. ensuring council undertakes to adequately signpost the walkable connections between the Inner Harbour and the CBD, ensure the improved pedestrian flow around their part of the CBD opening it up to customers and delivering equitable levels of service to all their members.</p>	

## Summary and Response by Issue

For: Annual Plan 2010/11 - RATES

Issue	Submitter
<p><i>Officer Response: This is a serious problem and Council has had discussions with Heart of Gisborne about possible solutions, which Heart of Gisborne are addressing at the moment. On another level, it is not much different from the dozens of people every year who say "I don't use the Library, so you can take the Library amount off my Rates Invoice". The answer to the latter argument is that Rates are a tax - everyone contributes, and it is only by everyone contributing that the activity becomes "affordable". Secondly, the service is available to everyone (or in this case, everyone in the targeted rating area) so they have a certain obligation to actively participate and make it work for them. The two things that must be present to make a rate legal are 1) The correct process in making the rate must have been followed, and 2) the rate must be reasonable. There is a lot of case law concerning reasonableness, and in lay language it basically comes down to the notion that a decision would be unreasonable if a group of reasonable people would not have made such a decision. A recent rating example of an unreasonable decision occurred when a Council changed to capital value rating, and a very high capital value power station in the district ended up being billed a very large proportion of the total district rate. This decision was deemed to be unreasonable, because the amount being rated from the power station did not bear any normal relationship to the services being enjoyed by the power station. The same argument, but to a lesser degree, can be applied to the Library non-user, and the Heart of Gisborne rate. What would a group of "reasonable people" expect? Heart of Gisborne has been asked to come up with a proposal to address this problem. Their fundamental objective is to promote the Central Business District to stimulate vibrancy and activity in the area. Possible solutions are 1) To introduce a two tiered levy, a higher one for the main street - which because of the retail nature of its businesses, does potentially derive a greater benefit from Heart of Gisborne promotions - and the other, is a lower levy to the surrounding areas of the CBD. 2) To direct at least some of its activities into promoting the surrounding CBD businesses. This would include other businesses, such as legal offices, accounting offices, real estate firms and the like, which do not benefit in the same immediate way that retail businesses do. (The sobering question is that if there is no benefit to such businesses in CBD promotions, why is it that they locate themselves in the CBD in the first place?) The Heart of Gisborne rate was properly made. It was consulted with the "interested parties" in the CBD at its early inception stage, it was then consulted with the general public as part of the Annual Plan process, it was included in Council's Revenue and Finance Policy which is published in the LTCCP, and it was properly included in the Rate Setting Resolution. Heart of Gisborne has been told that any proposed changes to the rate have to be made in conjunction with a Policy change at the time of the next LTCCP - which will be drafted next year. The organisation and Council are working on that timetable towards a revision of the rate. Officer Recommendation: That there be no change to the draft Annual Plan. That in preparing the draft 2012/22 Ten Year Plan next year, a complete revision of the Heart of Gisborne rate, and associated policies, be included. That the rate contribution of the three businesses not be refunded, as it has not been shown that the intention of the rate (in promoting the CBD) has not been achieved.</i></p>	
65	Thorpe, Margaret Ann

Concerned that Councils rating policy of "good for the whole district", whereby certain areas subsidise others in terms of their rates, is not being clearly communicated to the public. Contends that this practice began with roading and has been extended into other activities. The topic of subsidy needs to be opened up and made more understandable. It is time the public had the "good of the district" practice explained. Recommends that the next issue of Town and Country explain these practices to the ratepayers, so that in this election year they can decide if this is a fair policy (see full submission).

## Summary and Response by Issue

For: Annual Plan 2010/11 - RATES

Issue	Submitter
<p><i>Officer Response: The example of the Roothing Rate is a good rate to consider. The Roothing Network is available to all - even to people who cycle or walk - whether they live in this district, or are just visitors. If we tried to rate people for the cost of the bit of road in their particular area, we would end up with the ridiculous situation that urban properties would pay a minuscule amount for their rooding rate (because there is only a small amount of road outside each residential house), and rural roads would fall into disrepair because no single land owner could afford the maintenance on farm frontage areas or access roads. It is only when roads are considered as a network that a sensible contributions policy emerges. One of the drivers of Local Authority Amalgamation in 1989 was to make services affordable by spreading the cost over a wide area. The cost of, say, a water reticulation scheme is virtually unaffordable to small communities, but by spreading this cost over a large number of ratepayers, Council has the ability to provide the service in one particular area one year, then a couple of years later to another area, and so on at an affordable rate until all areas that require the service are served. That is why we have one district now rather than the four or five counties, plus pest destruction boards and harbour boards that we had prior to 1989. Ms Thorpe is right in one respect, though. Gisborne District Council does cross subsidise on an activity by activity basis, and we have no specific policies which support this - only wide-spread traditional practices. We cannot use Town and Country matters to explain policies which don't exist. Officer Recommendation: That there be no change to the draft Annual Plan. That Council work to establish viable policies which legitimise the traditional practices of cross-subsidisation which were predicated by the 1989 amalgamation.</i></p>	
71	Skuse, Rochelle

Does not like rates rises. Ridiculously high.

*Officer Responses: Each year Council is prey to increases in costs, over which it has little or no control. In addition, the community requests of council new or improved facilities and infrastructure. This year, in trying to control rate increases, we have cut the new rate-payer funded projects down to an absolute minimum - the ones we are carrying on with are largely funded by others. There is one exception - we must comply with our resource consent and build a new Waste Water Treatment Plant. That results in a fairly large increase for those who will be connected to it - mostly Gisborne City ratepayers. Officer Recommendation: That there be no change to the draft Annual Plan.*