

29 April 2009

## **Submission to the Rotorua District Council**

### **Proposed Changes (Version 2) to the Rating Process for Rotorua District**

The Rotorua Chamber of Commerce (RCC) would like to be heard in support of this submission.

The RCC acknowledges the work the Rotorua District Council (RDC) has undertaken as a result of the submissions received on the proposed changes version 1 (2008).

In summary, the key points of this RCC submission are:

1. That the UAGC to be defined by a list of services.
2. That the UAGC to be set at \$550 per rateable unit.
3. That a business targeted rate established with a fixed and variable component.
4. That there be no differentiation between urban and rural business (treated as a single sector).
5. That there be no differential on the fixed component of the business targeted rate
6. That the targeted rate be allocated on the ratio of the total capital value of the business, industrial and farming sectors.
7. That RDC operated tourist focused facilities be included in the allocation of the business targeted rate.
8. That the urban/rural boundary be reviewed annually to reflect growth in business and residential development.
9. That the rural and urban targeted rates be split to rating groups as defined by the urban / rural boundary.
10. That the fixed component of the roading targeted rate of \$100 apply to all rateable units.
11. That the variable component of the roading direct targeted rate be levied on land value.
12. That the general rate be calculated on land value and that the RCC preference remains for an undifferentiated capital value system
13. That a three year transition arrangement spreads the impact of the new rating system on the commercial accommodation sector.

14. That the thresholds for the various categories of the application of PARTS of the business targeted rate is 25% and 50% of designated usage of the residential property.
15. That the area of a residential property that is used for the calculation of the business use percentage for the PARTS allocation of the business targeted rate is that residential property that is designated solely for the business use.
16. That RDC carefully consider the high level of rates applied to the business sector and look progressively over time to reduce that burden.

The RCC also acknowledges that many of the features of the Rates Proposal version 2 (2009) are similar to the recommendations included in the the RCC submission on version 1 (2008).

The rationale for the above key points is outlined below.

## **The UAGC to be defined by a list of services.**

***The RCC fully supports the definition of those expenses included within the UAGC.*** This will result in the UAGC component being transparent and accountable for its expenditure. The expenses that are identified as being included within this UAGC are those that have relevance to most ratepayers but are unable to be allocated (in most instances) on a user pays basis.

- Democracy and Kaupapa Maori
- Policy and Strategic Planning
- Community Assistance
- Transport Road Safety
- Community Policy
- Rural Fire
- Civil Defence
- Community Halls
- Animal Control
- Cemeteries and Crematorium
- Waste Management/Landfill Planning Implementation (\$1.87m)
- Land Drainage
- Some District Wide reserves

## **The UAGC to be set at \$550 per rateable unit.**

***The RCC supports the level of UAGC being set at \$550.*** This level requires the removal of the locally imposed cap by the Rotorua local authority of 70% of the 30% legislated cap. We can see no current rationale for the 70% cap other than to enforce a lower level of UAGC.

There has been some debate as to whether the UAGC should be set at \$500 rather than \$550. The RCC would support the higher level.

It is our understanding that support for the lower level is based on the impact that the higher level may have on residents in some lower socio-economic suburbs. Information provided suggests that the higher level of UAGC would have a net impact of increasing rates in these suburbs by an average of approximately \$30 - \$40 per annum.

The information provided in the commentary by RDC officers in the rates presentation suggested that these lower socio-economic suburbs have the following profile:

|     |                      |
|-----|----------------------|
| 30% | Rental accommodation |
| 30% | State Housing        |
| 40% | Owner occupiers      |

For those in the rental accommodation sector, residential property rent levels are influenced more by general market conditions, rather than increases in direct costs such as rates. Evidence for this statement is supported by the band widths of property rentals as released by Tenancy New Zealand (reported in the NZ Property Investor magazine). The last three years have seen considerable fluctuations in interest rates resulting in a higher cost of borrowing. Many rental properties are financed with some level of borrowing. This has resulted in a higher interest expense which in most cases was unable to be recovered by increased rents charged.

Many landlords do re-assess rent levels and seek to make some adjustment, but these increases have a challenge keeping abreast with movements in the Consumer Price Index.

The average weekly rental for a three bedroom house in one of the identified suburbs is \$185 - \$220 dollars per week, or approximately \$10,000 per year. The projected increase of \$30 - \$40 per year in rates is unlikely, in itself, to prompt any rental increase.

For those that are in State Housing the rentals are set by Housing New Zealand taking in to consideration market, economic and social factors relevant at the time. Again it is unlikely that a small \$30 - \$40 per year increase would result in any major rent change.

Owner occupiers will be directly affected by an increased cost of \$30 - \$40 per year. However, there are two mitigating factors. The 2008 valuations have seen considerable increase in property values for the suburbs in question. Anecdotal comments suggest that the advantage of increased property value counteracts the impact of the small increased cost. The decrease in interest rates on housing loans has resulted in a considerably lower family expense per year. The beneficial impact of this lower cost on family budgets outweigh any increased cost of rates. For those in this group that are financially strained to meet the full obligation of rates payment, the rates rebate scheme is available.

## **A business targeted rate established.**

In line with its submission on Rating Methodology version 1, the **RCC fully supports the concept of a business wide targeted tax** to cover the expenditure on economic development, Rotorua marketing, tourism travel and information, and Events and Venues. We also concur with the recognition of public and private good by the allocation of a percentage of the expenses being assessed as the targeted rate. We further agree with the percentages used to recognized public and private good. We agree to the allocation of this business targeted rate through utilising a fixed rate component and a variable rate component.

There are a number of aspects of the application of these two components that the RCC disagrees with and recommend changes.

The RCC disagrees with the setting of a different fixed rate for farming. The definition of the business targeted rate is that it apply to all businesses. Farming is a business just as any manufacturing, forestry and tourism activity that operates outside the urban / rural boundary. The level of benefit to any of the individual sectors is not assessed. The proposed rating system has established a precedent in charging any small home-based business the full \$200 fixed component irrespective of size, revenue, situation, or benefit. The assumption from this is that a PART business in the rural sector will pay the full fixed component, whereas a rateable unit within the farming sector will only pay \$25. There are some very large farming business units in the Rotorua region. The application of a differential on the fixed component is therefore inequitable.

***The RCC recommends that there be no differential on the fixed component of the business targeted rate.***

The box differential suggested as the method of allocating the variable component seeks to recognize the different level of economic benefit of the various sectors. The RCC recommends that the fixed component apply equally to all rateable units in all business and farming sectors.

The RCC can understand the rationale behind the development of a differential grid for the allocation of the variable component to reflect the level of private good that accrues from that activity on the different sector groups.

However we would request that further consideration and review of the differentials be undertaken. We believe that the suggested differential is weighted too much in favour of the farming, rural and industrial (with the exception of the allocation of the economic development component) sector groups. Our objection is based on the following factors:

- The level of infrastructure developed in the city is a result of the impact of the tourism industry.
- Many industrial companies are major suppliers to organisations in the tourism industry and hence benefit from the expenditure on tourism services and tourism promotion.

- Some rural businesses such as attractions are involved directly in the tourism industry.
- Many farms and rural businesses are direct or indirect suppliers of goods to the accommodation and restaurant sector. Increased activity in tourism arrivals to Rotorua increases the demand for product to the benefit of farms and rural businesses.
- Some rural businesses are directly involved in tourist activities such as farmstay, farm experiences, or adventure activities.
- Some rural businesses offer gate sales. Amongst the target market for gate sales is the passing tourist traffic.
- Some rural businesses offer service to the travelling public with cafes and home craft sales.
- A number of local resident artists have home studios in rural areas for display and sale of work.
- A number of larger rural private properties offer their gardens and amenities at a cost for weddings and social events.

Research conducted by RCC indicates that there are a surprising number of rural businesses (including farms) that gain benefit from tourism (some of these are RCC members). The following list is not inclusive of all but includes:

#### **Farm Experience / Stay, Rural Bed and Breakfast:**

Pepper Tree Farm, Apple House Farm Cottage; Tuck Inn; Clover Downs Estate, Country Oaks, Te Pohutukawa Bed and Breakfast, Lakeview Heights, Lake Okareka Bed and Breakfast, Lakehill Country Retreat, Lyons Lakestay, Pawstime, The Ferns

#### **Commercial Accommodation:**

Solitaire Lodge, Duxton Hotel, Treetops, Okataina Lodge, Blue Lake Top Ten Holiday Park, Lake Rotoiti Holiday Park, Lake Rotoma Holiday Park, Waikite Holiday Park, Moose Lodge, Lake Tarawera Lodge

#### **Tourist Attractions:**

The Agrodome, Agroventures, The Zorb, Mamaku Blue, Off Road New Zealand, Waimangu Valley, New Zealand Riverjet, Hells Gate WaiOra Spa, Waioapu, Mt Tarawera Volcanic Tours, Buried Village, Tamaki Maori Experience, Waikite Valley

It is obvious that the above lists include a number of major tourism operators.

The RCC in its initial submission on rates recommended that representatives of business groups be convened to a workshop to further consider this differential allocation. This did not occur

Considering the examples of rural businesses above, the RCC does not see any rationale for a differentiation between rural and urban businesses.

***The RCC recommends that there be no differentiation between urban and rural business (treated as a single sector).***

Farming receives a considerable differentiation on rates with a negative differential on the general rate (< 1.0) and on the proposed combination of the rural and urban roading targeted tax.

Farming is big business, the contribution to Rotorua's GDP is substantial. There is economic advantage gained by these farming businesses from the domestic (local) demand for their produce. Some farming businesses are directly involved in the tourism industry either as a primary provider of services or as a secondary provider of goods to primary providers.

Under the proposed grid the total business targeted tax paid by farming (fixed and variable component) is \$139 which is less than the fixed rate of \$200 paid by all other business ratepayers. The RCC believes that this is inequitable and unacceptable.

***The RCC therefore recommends that the variable targeted rate be allocated on the ratio of the capital value of the business, industrial and farming sectors.***

This would result in an average business targeted tax of \$1,226 per business ratepayer compared with the different sector averages of Rural Business \$1,951; Urban Business \$3,713; Industrial \$669 and Farming \$139

The RDC is arguably the largest commercial operator in the Rotorua tourism environment. The Rotorua Airport Company (100% owned by RDC), the Rotorua Convention Centre, The Energy Events Centre, The International Stadium, The Tourist Information Centre, The Museum and the Aquatic Centre are all directly involved in the visitor / tourism industry. On the basis of identification of user pays and benefit accrued from activities funded by the business targeted rate, the above organisations should be included in the allocation of the business targeted rate.

***The RCC suggests that RDC operated tourist focused facilities also be included in the allocation of the business targeted rate***

## **An urban/rural boundary be established.**

Under a capital value rating model, the RCC considers that an urban fence / boundary was unnecessary. The increased allocation on the business sector was achieved through increased investment in capital improvements. We continue to advocate for this approach. However the RCC can accept the need under a land value based system to establishment an urban boundary and the recognition of the particular circumstances of some residential and business areas outside the urban area. The allocation of targeted and general rates can effectively be achieved by the establishment of this urban / rural boundary. However, the RCC would not wish

to see this boundary become an established line. As new residential areas are developed and / or services are extended, then review of the boundary should be undertaken.

***The RCC recommends that the urban/rural boundary be reviewed annually to reflect growth in business and residential development.***

## **A rural roading targeted rate established and an urban roading targeted rate established.**

The RCC fully supports the concept of a roading targeted tax. The move within the rating methodology to identify components of expenditure that have particular user benefit is applauded.

The establishment of a rural / urban boundary clearly geographically differentiates urban ratepayers (and road users) from rural ratepayers (and road users). The good that is received from expenditure on rural roads is, primarily, for the benefit of the rural community.

The 2006 Census statistics as shown in the table below suggests that a considerable percentage of the residential population of Rotorua have made a reasoned and recent decision to locate to their current residential location.

| <b>Years at Usual Residence 2006</b>   |         |           |           |             |             |                  |                        |                                |
|--|---------|-----------|-----------|-------------|-------------|------------------|------------------------|--------------------------------|
| Yrs at Usual Residence   | 0 Years | 1-4 Years | 5-9 Years | 10-14 Years | 15-29 Years | 30 Years or More | Not Elsewhere Included | Total Years at Usual Residence |
| Rotorua District   | 16,566  | 19,056    | 10,179    | 5,643       | 6,708       | 2,703            | 5,040                  | 65,901                         |
| Rotorua District %   | 25.00%  | 29.00%    | 15.00%    | 9.00%       | 10.00%      | 4.00%            | 8.00%                  | 100.00%                        |
| <i>Definition: 'Years at usual residence' is the length of time up to the 2006 Census, expressed in completed elapsed years (including short-term absences, but excluding long-term absences), that a respondent has lived at their usual residence.</i> |         |           |           |             |             |                  |                        |                                |

Although this relates to the whole of population, it is a reasonable assumption that this would be a characteristic of both rural and urban sectors. Thus would apply to those that classify themselves as Lakes residents and fall within the rural area as defined by the urban / rural boundary. Amongst the reasons suggested for this location decision are the values of lake views, environment and lifestyle. Many would have done so in full consideration of the amenity and infrastructure limitations balanced with a proximity to the services provided by urban area. It is unreasonable that urban ratepayers should subsidise the lifestyle choices of rural ratepayers. It is therefore also reasonable that as a community, the rural ratepayers should contribute a fair share to the rural infrastructural developments such as roading that are of direct benefit.

The good that is received from expenditure on urban roads is primarily for the benefit of the urban community. It is appropriate that the urban community contributes to the maintenance of the urban road network.

Adopting a user / benefactor philosophy (encouraged by targeted rates) the rural and urban roads expenditure should therefore be split and targeted to the beneficial communities. Advice from RDC officers is that the rural / urban split of roading expenditure is approximately \$4.2 million on rural roads and \$3.0 million on urban roads.

The 2006 Rotorua Changing Communities identifies the following area units as rural – Hamurana, Tikitere, Kaingaroa Forest, Tarawera, Golden Springs, Reporoa, Ngakuru, Arahiwi, Waiwhero, Mamaku. The population in these area units was recorded was 12,129 from an overall population of 65,892. Rural population accounts for 18.4% of the total population.

As the following chart shows there is a considerable subsidy by the urban population of the development of the infrastructure for the direct benefit of the rural community. This does not include the expenditure either urban or rural on roads designated as highways.

Expenditure to population comparison shows the following:

|               | Rural      | Urban      | Total      |
|---------------|------------|------------|------------|
| Population    | 12,129     | 53,763     | 65,892     |
| Population %  | 18.4%      | 81.6%      | 100%       |
| Roading Exp   | \$4.2 mill | \$3.0 mill | \$7.2 mill |
| Expenditure % | 58.3%      | 41.7%      | 100%       |

***The RCC recommends that the rural and urban targeted rates be split to rating groups as defined by the urban / rural boundary.***

***The RCC supports the application of a fixed component of \$100 on all rateable units.***

However, the RCC recommends the allocation of the variable component of this rate on a land value rather than capital value. The supporting comment made at the RDC presentation of the proposed rating system in December 2008 suggested that some rateable units such as commercial accommodation houses (particularly hotels) have a higher client usage of the roads and hence there should be a greater allocation of the targeted roading rate calculated by applying the allocation of the variable rate by using capital value. The RCC does not agree with a general statement of this nature. As an example, many of the hospitality operations are situated on or very close to the designated highways in the city. Te Ngae Road, Fenton Street, Amohau Street, Old Taupo Road, Fairy Springs Road and Tauranga Direct Road. The maintenance on these highways is the responsibility of Transit NZ. The majority of tourist travel kilometers is along these highways and not on the urban road network. Hence the rationale for increased allocation of the targeted rate on the basis of capital value is unfounded.

From a residential property consideration the application of capital value for the basis of allocation is also questionable. Two adjacent residential properties of similar land size, both occupied by a family with two cars, would have similar road usage. However, the property that has a higher degree of improvement and has a high capital value, would pay more in roading targeted rate than the unimproved property. The comparison of land values would be a closer reflection of a user pays allocation of the roading rate.

***The RCC recommends that the variable component of the roading direct targeted rate be levied on land value.***

## **The general rate assessed on land value.**

The RCC still supports straight capital value (non-differentiated) as the method for allocation of the general rate. It acknowledges the introduction of the two targeted rates and the higher level of UAGC has considerably reduced the revenue that is generated by the general rate. Although supporting the concept of capital value as a rating methodology, the RCC recognizes that the reaction to a differentiated capital value system as recommended in version 1 (2008), has established a strong community opinion against capital value. We acknowledge that the RDC has made a pragmatic decision to retain land value as the basis for allocation. Although we continue to prefer capital value, we can accept the RDC decision on this methodology.

We also acknowledge the need to introduce a differential on land values to address historical rates collection from the different sector groups (residential, business, farming) within the community. The lesser fund allocated by the general rate will result in the impact of the differential not being as great an influence as it has been in the past.

***The RCC supports the general rate calculated on Land value although registers its preference for an undifferentiated capital value system***

## **A three year transition arrangement for the commercial accommodation sector.**

The RCC continues to be concerned with the impact on the accommodation sector and supports the concern voiced by the Rotorua Hotel Council and The Rotorua Motels Group. The commercial accommodation sub-sector under the proposed version 2 experiences an overall REDUCTION in the rates generated. However, within that sub-sector, about 20 per cent of motels and most of the hotels experience an increase in rates.

The unique characteristic of the commercial accommodation sector is that it works in a global marketplace that establishes wholesale room rates three years out from stay date. It is impossible for operators to change room rates immediately to the wholesale sector to cope with the increased cost of rates. The current softness of the global economy is anticipated to have considerable affect on international tourist arrivals to New Zealand. The projected down turn on the upper market motels and the hotel sector in general is being projected to be as high as forty per cent. This

9

will mean that the international market place for tourist destinations will become more competitive. This would not be the time to impose considerable increase costs on this important sector of the Rotorua economy.

Currently the commercial accommodation sub-sector will, as a group, be paying less in rates. The impact of a transition agreement will have the effect of reducing this reduction over the three years and will result in:

Most motels paying slightly more than the new model projects but still paying less than they are currently paying. They will receive a progressive reduction in rates benefit over the three years.

The upper market motels and most hotels that under version 2 will be paying more under the proposed version 2 would have the projected increase spread over the three years of transition. They are therefore more able to absorb the increase.

The lessening of the proposed benefit of reduced rates to the commercial accommodation sub sector will see a corresponding benefit of reduced rates across all other rating sectors.

Other local authorities have used transition arrangements as a method for lessening the impact of rates increases on sub-sector groups. An example is the transition extended to aged persons accommodation adopted by Tauranga Council in the move to capital value rating.

***The RCC recommends that RDC consider a three year transition arrangement that spreads the impact of the new rating system on the commercial accommodation sector.***

## **No recognition of SUIPS**

The RCC recommends that a mechanism for SUIPS is not introduced. Many of the ratepayers that would come under the consideration for additional UAGC charging as a result of SUIPS consideration are in the business category. As previously identified in RDC information releases on rating methodology, there are challenges with the administration and equity of the application of any such policy. The business sector is already taking a higher burden of the rates by the imposition of a business differential.

## **Recognition of PARTS**

Although the RCC recommends that a mechanism for PARTS is not introduced it acknowledges that there is a considerable lobby from within the business community for the inclusion of some home based businesses with the rates levied on business.

The RCC position on no recognition of parts is based on equity of application to all home-based businesses. It is very difficult to identify ALL ratepayers that have

multiple use of individual rateable property. There are a considerable number of home businesses that are not recorded or identified. If it is not possible to identify ALL then it is inequitable to apply the rate to some.

In our previous submission on the CV rating system in 2008, the RCC suggested the application of a license fee for home business. The proposed application of a fixed component of the business targeted rate on small businesses (without the application of a variable component) replicates the intent of a license fee, and in that regard RCC supports that proposal.

The definition of a small business for the application of the fixed component only is determined as being less than 15% of the overall area of the residence. The RCC considers that this may result in some small lifestyle businesses with small residential properties moving to the next category 16% to 50%. The RCC agrees with the intent of RDC that this registration is to be self assessed and that the objective of the application of this rate is to encourage all businesses to make a contribution to the economic and tourism promotional activity.

Accordingly RCC recommends that the thresholds for the various categories of the application of PARTS of the business targeted rate is 25% and 50% of designated usage of the residential property.

The LTCCP does not identify how the percentage use of a residential property for commercial purposes will apply. The RCC would strongly recommend against setting an arbitrary figure for family and general areas of the residence. There is too great a variance in any usage of such areas from property to property. One ratio or calculation would not fit all cases or types of business entities.

***The RCC strongly recommends that the area of a residential property that is used for the calculation of the business use percentage for the PARTS allocation of the business targeted rate is that residential property that is designated solely for the business use.***

## **Consideration of the overall rates burden on business**

***The RCC would urge RDC to carefully consider the level of rates applied to the business sector.*** There is concern at the low level of annual growth of Rotorua. The RCC considers application of a differential, both on a business targeted rate and the general rate, and the application of other direct business costs such as the development contribution levy are inhibitors to business growth in the city. The forecasted soft business environment is going to be a considerable challenge for Rotorua's key business sectors. Increasing the pressure on these sectors could have a negative impact on the employment and social environment of the city.

Yours sincerely

Roger Gordon  
Chief Executive Officer

Michele Pleydell  
President