

APPENDICES

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APPENDIX 1: TERMS OF REFERENCE

LOCAL GOVERNMENT RATING INQUIRY TERMS OF REFERENCE

Purpose

1. 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.

Context

2. The Inquiry has arisen as a consequence of public concern in light of financial and rates projections outlined in Long-term Council Community Plans and confirmed in local authority rating decisions during the June–August 2006 period.
3. The Government has announced the establishment of an independent inquiry to provide the public, key stakeholders and the local government sector with a mechanism to outline issues relating to the local government rating system and suggest options to address these issues.

Objective

4. To consider issues relating to current local government rating, and to other revenue raising mechanisms, and provide recommendations to the Government for enhancing rating and other funding mechanisms for local authorities.

Tasks

5. The tasks associated with the inquiry will include:
 - a. Examine the level of rates, level of rates increases and trends in the use of rating tools nationally to fund services, as well as other sources of revenue currently available to local authorities;
 - b. Consider the phase one and phase two reports of the Local Authority Funding Project, their recommendations and implications for the future of rates;
 - c. Develop an understanding of the drivers for local authority expenditure, including, growth, the age and state of infrastructure (eg public transport, roading, water and wastewater), requirements of 'higher standards' (eg water quality) and other infrastructural demands on both capital and operating expenditure needs;
 - d. Examine the sustainability of rates as the major revenue raising tool, having regard to affordability issues for communities, groups within communities, and individuals, particularly those on fixed incomes;
 - e. Examine the impact of rates on land covered by the Te Ture Whenua Maori Act 1993;

- f. Examine the impact of the new Rates Rebate Scheme (and other government assistance packages for families) and local authority rates remission and postponement policies;
- g. Examine the impact and ongoing need for existing exemptions from liability for rates, including Crown exemptions from liability for rates; and
- h. Provide a report by 31 July 2007 on (a)-(g) above along with recommendations to enhance rating and funding mechanisms for local authorities.

Submissions

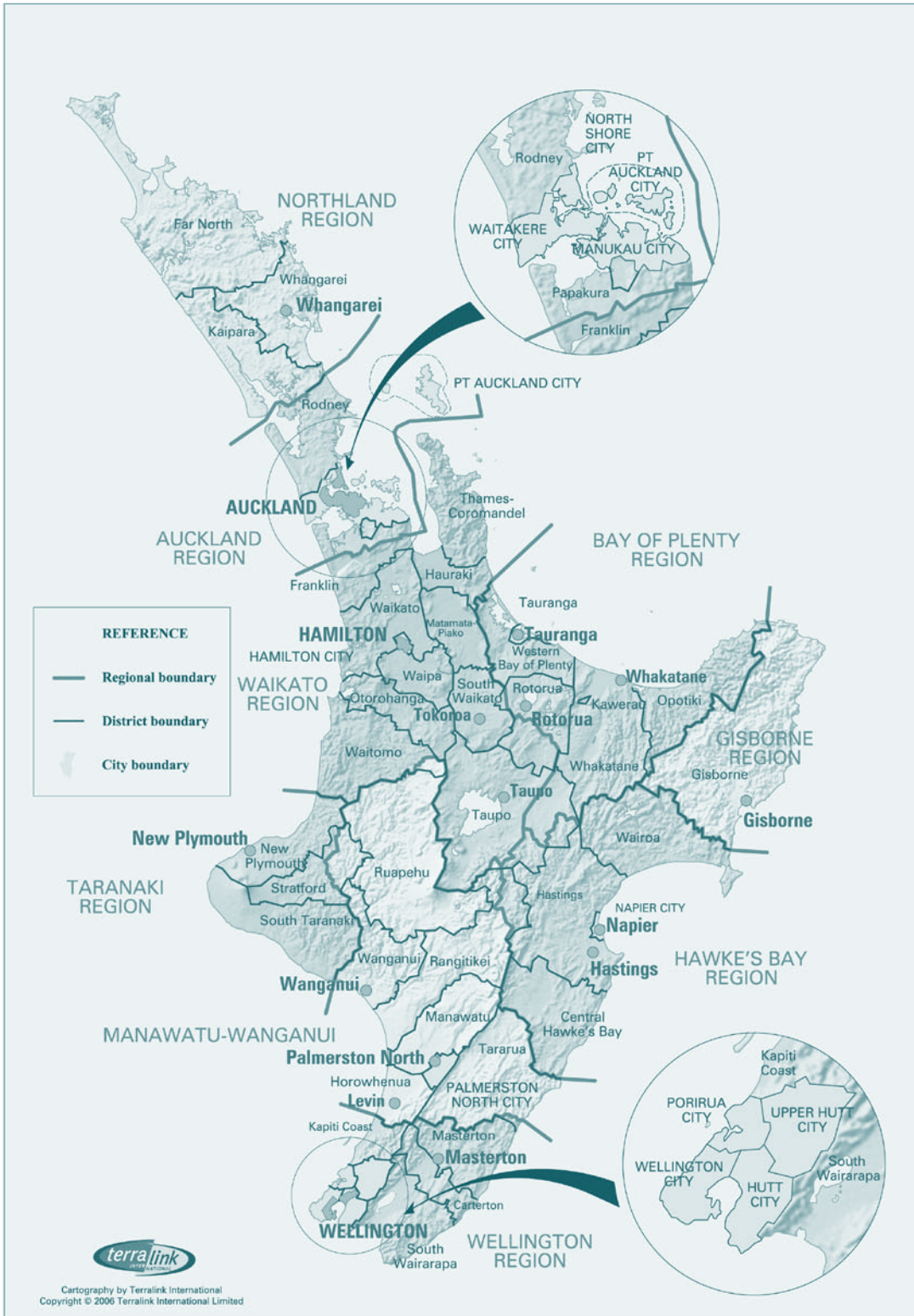
6. It is expected that the inquiry will invite written submissions on an open basis and hear oral submissions from key sector groups identified by the inquiry.

Assumptions

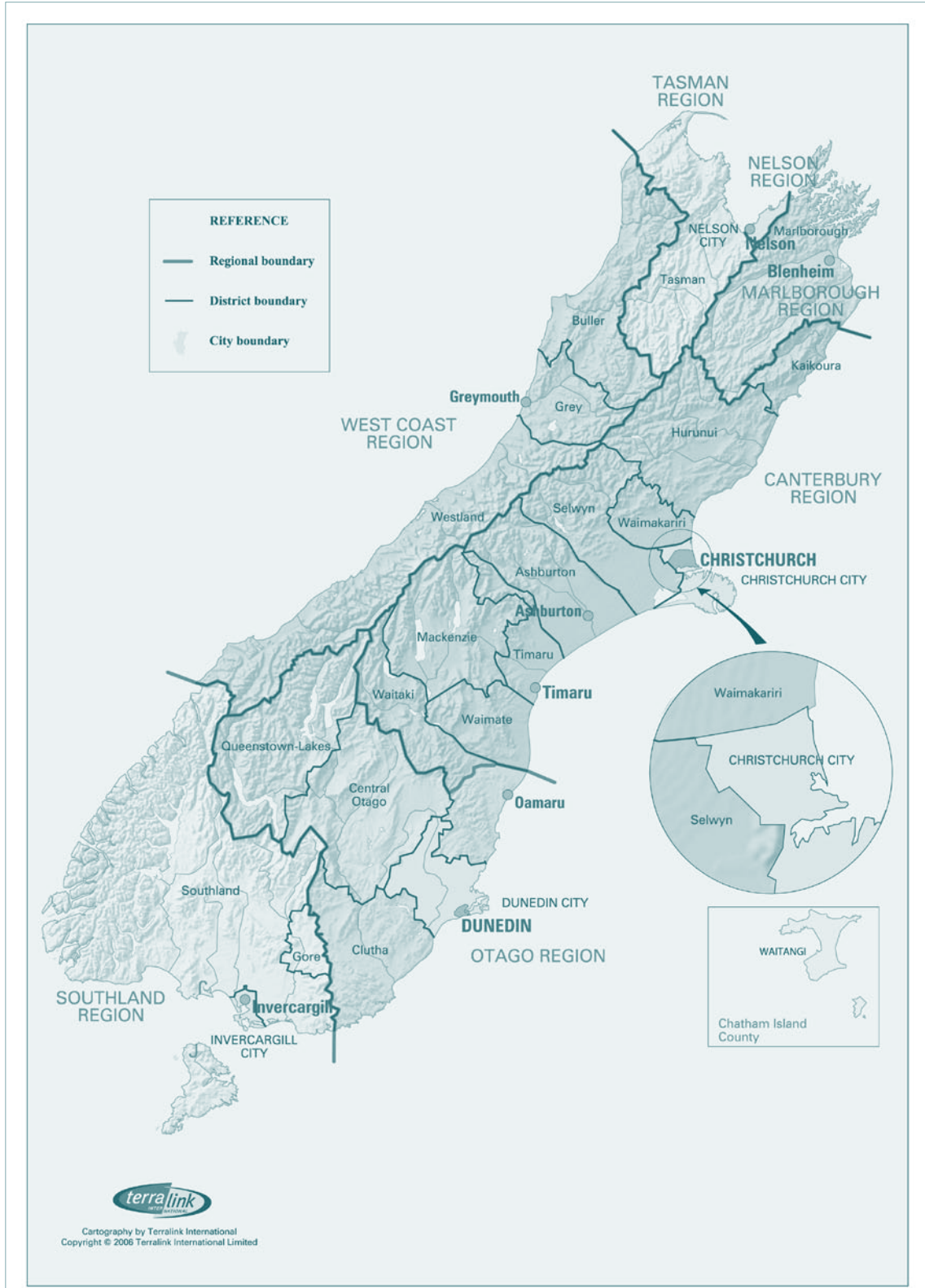
7. The inquiry is not a review of the system of local government per se, and in particular of:
 - the purpose, autonomy, or structure of local government; or
 - the principles of democracy, transparency, equity and accountability that local government operates under.

APPENDIX 2: LOCAL AUTHORITIES OF NEW ZEALAND

The following two maps²³⁶ show the boundaries of New Zealand's local authorities.



236 Source: Terralink International Ltd.



APPENDIX 3:

INQUIRY PROCESS, MEETINGS, AND CONSULTANCY REPORTS

This appendix details the papers published, meetings held and consultancy reports commissioned by the Panel.

Background papers

A paper, Background information for interested parties, was published in February 2007. This paper provided information on the operation of local government, as well as a summary of major issues including a set of prompt questions to assist submitters' responses.

Another information document, Background paper for consultation on the impact of rates on Māori land, was published in March 2007.

Local authority and public meetings

Fourteen local authority meetings and 14 public meetings were held at locations from Whangarei to Invercargill from February to May 2007. These meetings provided an opportunity for oral comment. Various interest groups and members of the public took this opportunity such as Greypower, Federated Farmers of New Zealand, and a variety of residents associations and Chambers of Commerce. Public meeting attendance ranged from 15 to 60, with an average attendance of 32.

List of local authority and public meetings

Meeting	Date, 2007	Notes
Hamilton	26 Feb	Local authority meeting am, public meeting pm
Auckland	27 Feb	Local authority meeting am, public meeting pm
Wellington	5 March	Local authority meeting am, public meeting pm
Napier	8 March	Local authority meeting am, public meeting pm
Palmerston North	9 March	Local authority meeting am, public meeting pm
Nelson	12 March	Local authority meeting am, public meeting pm
Christchurch	22 March	Local authority meeting am, public meeting pm
Dunedin	23 March	Local authority meeting am, public meeting pm
Rotorua	16 April	Local authority meeting am, public meeting pm
Gisborne	17 April	Combined local authority meeting and public meeting
North Shore	18 April	Public meeting only
Auckland	18 April	Local authority meeting am, public meeting pm
Whangarei	20 April	Local authority meeting am, public meeting pm
Invercargill	14 May	Local authority meeting am, public meeting pm
Stratford	17 May	Local authority meeting am

Hui

Twelve hui were held around New Zealand. Attendees at the hui included spokespersons for Māori incorporated trusts, hapū, iwi, and family-owned land.

List of hui

Hui	Date, 2007
Napier	8 March
Nelson	12 March
Christchurch	22 March
Wanganui	12 April
Rotorua	16 April
Gisborne	17 April
Auckland	18 April
Whangarei	19 April
Wellington	7 May
Invercargill	14 May
Mangere	16 May
Hamilton	17 May

Government agencies and judiciary*List of meetings between the Panel and government agencies and officials*

Auditor-General
 Department of Conservation
 Department of Internal Affairs
 Government Urban and Economic Development Office
 Land Transport New Zealand
 Local Government Commission
 Māori Land Court
 Ministry for the Environment
 Ministry of Economic Development
 Ministry of Health
 Ministry of Tourism
 Ministry of Transport
 Parliamentary Commissioner for the Environment
 Reserve Bank
 Te Puni Kōkiri
 Treasury
 Valuer-General

Interest groups

Meetings were held with specific interest groups academics and individuals, as listed below:

Auckland City Council
 Auckland Regional Transport Authority
 Consortium of Councils & National Stakeholders (included representatives from Porirua City Council, Greypower, Masterton District Council, Far North District Council, Local Government New Zealand)
 Federated Farmers of New Zealand
 Federation of Maori Authorities
 Local Government Forum
 Local Government New Zealand
 Motu Economic & Public Policy Research
 New Zealand Water and Wastes Association
 Porirua City Steering Group

Professor Claudia Scott – Victoria University
Professor Srikanta Chatterjee, Dept of Applied and International Economics, Massey University
Property Council
Regional council chairs
Society of Local Government Managers
Teleconference meeting of interested groups from Marlborough, organised by MP Colin King
Wellington City Council

Written submissions

Written submissions were invited to the end of May 2007, and a total of 926 submissions were received (excluding duplicates and withdrawals). The issues raised in submissions are summarised in a separate report (*Funding Local Government: Analysis of Submissions, July 2007*). The complete submission texts are posted on the Rates Inquiry website (<http://www.ratesinquiry.govt.nz/>). Most submissions came from individuals (651), followed by local government (93), community groups (54), Māori (56), business groups (51), and farmers (17). Submissions were received from throughout the country with particular concentrations in Auckland, Nelson, and (relative to their population) in Greymouth and Kerikeri. Submissions from national organisations totalled 35.

Consultancy advice

Consultancy advice was commissioned from nine independent parties on technical issues as follows

Rates levels

Thomas, Malcolm, *Trends in the Level of Local Government Funding and Expenditure*, Thomas Consulting Limited, 2007.

Identification of the factors driving rates increases

Davin, Tim, *Report on the Drivers of Local Government Expenditure*, GHD Limited, Wellington, 2007.

Trends in the use of rating tools

Colegrave, Fraser, *Trends in the Use of Rating Tools Nationally to Fund Services*, Covec Limited, Auckland, 2007.

Identification of currently available non-rates sources of revenue

Small, John, *Non-rates Funding Options Available to Local Authorities*, Covec Limited, Auckland, 2007.

Affordability and sustainability of rates and affordability assistance packages

Arcus, Mathew, Kel Sanderson, Ganesh Nana, *The Sustainability of Rates and the Measures to Address Affordability Over Time*, Final Report to the Local Government Rates Inquiry, Business and Economic Research Limited (BERL), Wellington, 2007.

Arcus, Mathew, David Norman, Kel Sanderson, *Case Studies of Rates Affordability Over Time*, Final Report to the Local Government Rates Inquiry, BERL, Wellington, 2007.

Remissions policies

Johnston, Karen, *Council Policies on Rates Remissions and Postponements and Māori Freehold Land*, Karen Johnston Strategic & Project Planning, April 2007.

Māori land

Dewes, Whaimutu and Tony Walzl, *Issues Paper on the Impact of Rates on Māori Land*, a report prepared for the Local Government Rates Inquiry, 2007.

Rates exemptions

Philipson, Ross, *Exemptions from Liability for Rates*, report to the Local Government Rates Inquiry, Ross Philipson Consulting Limited, 2007

Alternative funding mechanisms

Clough, Peter and Patrick Nolan, *Alternatives to Rates: Review of Revenue Mechanisms to Supplement Local Authority Rates*, Report to the Local Government Rates Inquiry, NZIER, Wellington, July 2007.

APPENDIX 4: GLOSSARY OF TERMS

Accrual accounting	In accrual accounting transactions are counted when an order is made, an is delivered, or services occur, regardless of when payment is made or received.
Affordability of rates	<p>The ability to pay without serious economic difficulty. Ability to pay rates requires consideration of</p> <ul style="list-style-type: none">- the cost of rates relative to income and also relative to wealth, to the extent that wealth can be converted into income- having sufficient income to pay for rates without crowding out other critical expenditure- ratepayers earning greater income as a result of council investment in infrastructure and services.
Annual plan	An annual plan must be prepared by a council annually, and it must be adopted before the commencement of the year in which it operates. Annual plans set out a local authority's budget for the year, and the sources of funding for the year.
Annual report	An annual report must be prepared annually for each financial year. The purpose of the annual report is to compare activities performed (both financial and non-financial) with those intended in the annual plan.
Annual value	A local council may use annual value as a basis for levying rates. Annual value is the greater value of either the estimated gross annual rental (if rented on the open market) less 20% (or 10% if there are no buildings on the land) or 5% of the property's capital value as at date of last revaluation.
Capital expenditure	Capital expenditure (CAPEX or capex) is expenditure creating future benefits. Capex is used to acquire or upgrade physical assets such as equipment, property, or industrial buildings.
Capital value	This is defined by the Rating Valuations Act 1998 as, "subject to sections 20 and 21, the sum that the owner's estate or interest in the land, if unencumbered by any mortgage or other charge, might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to require". Capital value does not include chattels, stock, plant, or machinery that may be normally included in the sales of properties.
Cash accounting	In cash accounting, income is not counted until payment is actually received, and expenses are not counted until they are actually paid.
Coastal occupation charges	<p>Coastal occupation charges are a "rental" for structures such as jetties and wharves that provide private benefit while taking up public space. They recompense the public for their loss of access because the money collected must be spent within the coastal marine area.</p> <p>Under the Resource Management Act regional councils are required to decide whether to charge for the occupation of public space in the "coastal marine area". There is no obligation to charge. Each regional council is required to make its own decision.</p>
Community boards	<p>Community boards are established under section 49 of the Local Government Act in order that a community with a distinct character, needs, and aspirations is recognised by the local council and provided with the opportunity for a voice in local council decision making. Section 52 of the Local Government Act 2002 specifies the role of the community boards, which includes,</p> <ul style="list-style-type: none">- representing, and acting as an advocate for, the interests of its community

	<ul style="list-style-type: none"> - considering and reporting on all matters referred to it by the territorial authority, or any matter of interest or concern to the community board.
Consumers Price Index	A measure of the price change of goods and services purchased by private New Zealand households.
Council-controlled organisation	Any organisation in which one or more local authorities owns or controls 50% or more of the voting rights or has the right to appoint 50% or more of the directors, trustees etc.
Council-controlled trading organisations	Council-controlled trading organisations are council-controlled organisations that operate a trading undertaking for the purpose of making a profit.
Depreciation	<p>Depreciation is a term used in accounting, economics, and finance and refers to the fact that assets with finite lives lose value over time. In accounting, depreciation is a term used to describe any method of attributing the historical or purchase cost of an asset across its useful life, approximately corresponding to normal wear and tear.</p> <p>In local government, funding of depreciation was introduced in 1996 with changes to local government legislation as part of a package of measures designed to improve how local authorities manage and account for infrastructure. Along with asset management plans, depreciation ensures local authorities keep track of their assets' condition and maintain them to deliver on service levels agreed with the community. Recognising depreciation acknowledges an asset's use and that funding is needed for its future use</p>
Developer contributions	New subdivisions and more intensive developments in existing areas can impose significant new costs on existing ratepayers. Councils can decide that developers and their clients should bear the costs of new infrastructure, such as reserves, roads, water and waste-water infrastructure, and community facilities.
Differentials	<p>General rates can be set on a differential basis, where the council can take into account property value, location, area, use, and activities allowed for under the Resource Management Act. Differentials can be based on –</p> <ul style="list-style-type: none"> - property value - location - area - use - activities allowed for under the Resource Management Act.
District plan	A council's district plan sets out the objectives and policies in relation to managing the effects of activities on the environment. Although it has a specific statutory status it is only one of a number of council planning documents.
Drinking Water Assistance Programme	The Drinking Water Assistance Programme is administered by the Ministry of Health and includes technical and capital assistance programmes for small community drinking-water supplies.
Economic deadweight cost	Deadweight cost measures the extent to which taxes distort the incentives across the economy to work, save, and invest.
Financial assistance rate	The financial assistance rate (FAR) is Transfund New Zealand's policy for funding territorial local authorities for road maintenance and construction. Developed in the 1980s, it takes account of the cost of each local authority's annual road maintenance programme and rateable land value.
Flat tax	Flat tax is a system of taxation where one tax rate is applied (to income or consumption) with no exceptions.
Funding impact statement	In terms of the Local Government (Rating) Act 2002 and the Local Government Act 2002, councils are required to prepare a funding impact statement disclosing the revenue and financing mechanisms they intend to use.
General rates	General rates are where the community as a whole meets costs of a particular function or functions. These taxes are rated on property value, according to a

	“cents in the dollar” formula set annually by the council. The amount ratepayers pay varies according to their property value. Each council decides if the rates will be assessed on the land value, the capital value or the annual value of the property.
Green taxes	Taxes intended to promote ecologically sustainable activities via economic incentives. Such taxes can complement or avert the need for regulatory approaches. For example, specific levies on environmentally detrimental products or point of sale charges that contribute to effective recycling of items.
Gross domestic product	Gross domestic product (GDP) represents the country’s income earned from production in New Zealand. It includes income from production carried out by New Zealanders and by foreign firms operating within New Zealand.
Horizontal equity	A principle used to judge the fairness of taxes, which holds that taxpayers who have the same income should pay the same amount in taxes.
Hypothecation	In modern usage, hypothecation refers to a tax where a certain portion goes to a specific, usually popular, cause. Theoretically, people will be willing to pay more for taxes if they believe a certain amount is going towards a cause they believe in.
Intergenerational equity	Intergenerational equity refers to a fair balance in the relative contributions of current and future generations to the cost of funding local government expenditure.
Land value	This is defined by the Rating Valuations Act 1998 as: “Land value”, in relation to any land, and subject to sections 20 and 21, means the sum that the owner’s estate or interest in the land, if unencumbered by any mortgage or other charge, might be expected to realise at the time of valuation if, (a) Offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to impose; and (b) No improvements have been made on the land.
Local authority	A local authority is a regional or territorial authority, according to the Local Government Act 2002.
Local Authority Funding Project	In December 2003 the Government and Local Government New Zealand agreed to establish a joint project team to collate accurate statistics on local authority rating levels and determine the extent and nature of any affordability problems. The project has prepared three reports as listed below (available on the Department of Internal Affairs’ website (www.dia.govt.nz): <ul style="list-style-type: none"> - Local Authority Funding Issues – Report of the Joint Central Government/ Local Authority Funding Project Team, July 2005 - Local Government Funding Issues – An Update Second Report of the Local Authority Funding Project Team, December 2006 - Alternative Tax Bases for Local Government – Third Report of the Local Authority Funding Project Team, December 2006.
Local authority petroleum tax	A tax on petrol (0.66 cents per litre) and diesel (0.33 cents per litre), which is treated as a general source of income for local authorities.
Long-term council community plan	This document, required under the Local Government Act 2002 to be in place at all times, sets out a local authority’s priorities in the medium to long term.
Māori customary land	Māori customary land is land held by Māori in accordance with tikanga Māori. It has not been transferred into freehold title by the Māori Land Court, nor ceded to the Crown. Before 1840, all land was Māori customary land. The exact amount is unknown but is believed to be extremely small.
Māori freehold land	Māori freehold land” is land which, with very few exceptions, has not been out of Māori ownership. The Māori Land Court determines whether land is Māori freehold land.
Meshblock	The meshblock is the smallest geographic unit for which statistical data is collected and processed by Statistics New Zealand. A meshblock is a defined

geographic area, varying in size from part of a city block to large areas of rural land. Each meshblock abuts against another to form a network covering all of New Zealand including coasts and inlets, and extending out to the two hundred mile economic zone. Meshblocks are added together to “build up” larger geographic areas such as area units and urban areas. They are also the principal unit used to draw up and define electoral district and local authority boundaries

National Land Transport Fund	A dedicated land transport fund within the Government’s accounts.
Nga Whenua Rahui	A contestable fund established in 1990 to negotiate the voluntary protection of native forest and other indigenous ecosystems on Māori land.
Non-rateable	These rate types are rated at 0% of the rate charge. Non-rateable properties include Crown-owned, (Government-owned) schools and hospitals, and non-Crown-owned land such as non-profit child-care centres, cemeteries, and universities.
Operating expenditure	Operating expenditure is that which pays for the day-to-day operations and services. Operating expenditure also includes depreciation (that is, the wearing out, consumption, or loss of value of an asset).
Papakāinga	The term papakāinga is often used to describe a cluster of homes provided on Māori land. However, in a broader sense, papakāinga may include any buildings, facilities or structures that enable Māori to live sustainably on their land and could be anything from one house to a piece of land to a small settlement, including kaumātua housing, kōhanga reo or cottage industries, recreational facilities, places of worship, or urupā.
Postponement of rates	In cases of hardship, councils will consider applications to help ratepayers who are in financial difficulty and cannot afford to pay their rates. Postponing, or delaying, rates payments can be granted in certain circumstances. If the council is satisfied that financial hardship exists (or would exist if the rates or part of the rates were not postponed) the council can postpone part or all of the rates. Postponed rates are registered as a statutory land charge on the title of the property. This means when the property is sold, the rates must be paid out of the proceeds before any other debts are settled. Postponements (and remissions) can be on any property, to any extent, and for any reason – provided the local authority has adopted policies following consultation
Progressive tax	A progressive tax is a tax imposed so that the tax rate increases as the amount to which the rate is applied increases. The term “progressive tax” can be applied to any type of tax. It is frequently applied in reference to income taxes, where people with more disposable income pay a higher percentage of that income in tax than do those with less income. The term progressive refers to the way the rate progresses from low to high. The opposite of a progressive tax is a regressive tax, where the tax rate decreases as the amount to which the rate is applied increases. In between is a proportional tax, where the tax rate is fixed as the amount to which the rate is applied increases. Progressive taxes reduce the tax incidence of people with smaller incomes, as they shift the incidence disproportionately to those with higher incomes.
Power of general competence	This means that councils may make any decisions they like provided they act in good faith and in what they view as the best interests of the community and do not break any other laws.
Rates rebate scheme	The rates rebate scheme subsidises rates for low-income homeowners and ratepayers based on their rates cost. This has been extended to provide rebates of up to \$500 annually for ratepayer incomes less than \$20,000. Ratepayers must apply to their council for a rates rebate.
Rating tools	The Local Government (Rating) Act 2002 expanded the range of rating tools available to local authorities. Tools currently available include general rates, uniform annual general charges, and targeted rates. Councils are obliged to develop policies on rates as part of their annual plan and long-term council

community plan. They must also pass a resolution on rates when adopting their annual plan and complete a funding impact statement that explains how they propose to fund their expenditure. Rates resolutions set out how the different rating tools will be used. Councils here take into account affordability, benefits received, and other equity issues in deciding which rating tools to use.

Regional council A regional council is one type of local authority. Regional councils' responsibilities include:

- sustainable regional well-being
- managing the effects of using freshwater, land, air, and coastal waters
- developing regional policy statements and the issuing of consents
- managing rivers, mitigating soil erosion, and flood control
- regional emergency management and civil defence preparedness
- regional land transport planning and contracting passenger services
- harbour navigation and safety, oil spills, and other marine pollution.

Some district and city councils also have the powers of regional councils; these are referred to as unitary authorities.

Remission of rates If the council is satisfied there is extreme financial hardship, or that extreme financial hardship would be caused by requiring payment of the whole of the rates, then part or all of the rates can be remitted. If the council decides to remit part of the rates, the balance can be postponed. Any remission does not apply to future years.

Remissions (and postponements) can be on any property, to any extent, and for any reason, provided the local authority has adopted policies following consultation. A rates remission policy, under the LGA, must state the objectives to be achieved and the conditions and criteria for remissions.

Regressive tax A regressive tax is a tax imposed so that the tax rate decreases as the amount to which the rate is applied increases. The term "regressive tax" can be applied to any type of tax. It is frequently applied in reference to fixed taxes, where every person has to pay the same amount of money, such as a poll tax. The term regressive refers to the way the rate progresses from high to low. The opposite of a regressive tax is a progressive tax, where the tax rate increases as the amount to which the rate is applied increases. In between is a proportional tax, where the tax rate is fixed as the amount to which the rate is applied increases. Regressive taxes reduce the tax incidence of people with higher incomes because they shift the incidence disproportionately to those with smaller incomes.

Reverse mortgage (home equity release) A reverse mortgage is a type of home loan that lets a homeowner convert the equity in his or her home into cash. Unlike a traditional home equity loan or second mortgage, with a reverse mortgage repayment is not required until the borrowers no longer use the home as their principal residence.

Sanitary Works Subsidy Scheme A Government subsidy available to eligible communities with populations between 100 and 10,000 people who want to build or upgrade existing sewerage systems or sewage treatment plants. As well as improved sewage treatment, the scheme also covers new works for adding fluoride to drinking-water supplies.

Scalar A scalar value is a single component that can assume one of a range of values. With reference to annual value rating, the 5% scalar refers to the proportion of capital value to which annual rental value is limited.

Sustainability of rates Sustainability of rates is defined by this inquiry as funding arrangements that are affordable over time without causing intergenerational inequities or compromising the needs of and options available to future generations. To maintain intergenerational equity means that ratepayers today do not bear a disproportionate share of expenditure that benefits future generations and vice

	<p>versa. Targeted rates Targeted rates are designed to fund a function or group of functions. Factors that can be used for calculating targeted rates are land value, improvement value, capital value, annual value, total land area, area of land paved, sealed or built on, area of land protected, area of floor space of buildings, number of connections, number of water closets and urinals, number of separately used/inhabited parts, and extent of provision of services. There is special provision for targeted rates for water supply base on metered consumption.</p>
Territorial authority	<p>This is a type of local authority. Territorial authorities are either city or district councils, and there are no differences in the way that they operate. Territorial authorities' responsibilities include sustainable district well-being, the provision of local infrastructure, including water, sewerage, storm water, roads, environmental safety and health, district emergency management and civil defence preparedness, building control, public health inspections and other environmental health matters, controlling the effects of land use (including hazardous substances, natural hazards and indigenous biodiversity), noise, and the effects of activities on the surface of lakes and rivers.</p>
Three waters	<p>Refers to the development and management of integrated water resources (water, stormwater and waste water).</p>
Unfunded mandates	<p>A requirement imposed by central government on local government with no or insufficient) funding to pay for it.</p>
Uniform annual general charge	<p>A uniform annual general charge (UAGC) is a flat rate levied on a property regardless of value. UAGCs are charged per rating unit (with some exceptions). UAGCs fund a core level of service that does not reflect the value of a particular property but is shared equally by ratepayers.</p>
Unitary authority	<p>A unitary authority is a territorial authority that has the responsibilities, duties, and powers of a regional council conferred on it, either by the provisions of any Act, or by an Order in Council giving effect to a reorganisation scheme.</p>
Urupā	<p>Māori cemetery, ancestral burial grounds, burial site, tomb.</p>
Vertical equity	<p>Vertical equity is the principle that people with a greater ability to pay should pay more than those with a lesser ability to pay.</p>
Volumetric water charging	<p>A system of charging based on the volume of water used.</p>