

12 SUSTAINABILITY AND AFFORDABILITY OF RATES

Concerns about the impacts of rates increases for low-income groups and other sectors of society and the economy were among the factors leading to the establishment of the Local Government Rates Inquiry. The terms of reference ask the Panel to examine the sustainability and affordability of rates and the impact of the rates rebate scheme changes in 2006, and other Government assistance packages for families. In addition, the Panel was asked to examine the impact of local authority rates remission and postponement policies. The inquiry has also investigated opportunities and constraints for private-sector affordability assistance initiatives such as home equity release schemes.

SUMMARY OF KEY POINTS

12.1 Sustainable funding is defined as funding arrangements that are affordable over time without causing intergenerational inequities. The Local Authority Funding Project largely focused on affordability for local authorities. The Panel's work has extended the analysis of affordability to include further examination of impacts on individuals and groups.

12.2 Rates affordability is having sufficient income to pay for rates expenditure without unreasonably compromising other expenditure. The inquiry considered the impact of rates on some other groups or sectors in the population, namely, low income and single-person households, ethnic groups, and the business and rural sectors.

12.3 Rates affordability is projected to decline over the period 2006 to 2016. Independent analysis by Business and Economic Research Limited (BERL) for the Panel predicts that rates per rateable property will increase by 4.45% per year over the period while median household incomes rise by 3.28% per year. This is a real increase in the average rates burden of 1.17% per year.

12.4 Affordability benchmarks for any household costs are difficult to establish with precision. Although affordability benchmarks for housing costs are much debated, 30% of gross income is a commonly accepted threshold for affordability problems. Precise definition of rates affordability benchmarks is even more difficult to achieve. Average rates paid by households in 2004 represented 2.51% of gross household income for all groups, which does not indicate an affordability problem for the average household. The Panel believes that a very approximate threshold of rates affordability is where rates exceed 5% of gross household income. Although the absolute number of households facing affordability problems is difficult to precisely quantify, it is in the order of 100,000 to 200,000 households.

12.5 There are likely to be pockets of affordability problems in all types of household size, composition, and principal income source. However, low-income groups, one-person households, single-parent households, and those whose principal income is New Zealand Superannuation illustrate particular rates affordability concerns.

12.6 The Panel also considered affordability of rates for the business and farming sectors. These sectors object to what they see as the disproportionate share of rates that they bear. The Panel considers that these concerns reflect equity rather than affordability issues.

12.7 A fundamental principle of taxation is fairness (or equity). Fairness of the rating system is achieved where the distribution of rates does not impose unsustainable financial pressures on individuals or groups, and where those who have particular needs as a result of their low income receive assistance.

12.8 Some submitters take the view that local government does not have a role in income and wealth redistribution. Although, historically, central government in New Zealand has assumed primary responsibility for income redistribution, overall responsibility for well-being has been shared between local and central government. The activities in which local government is engaged create benefits for some but not all citizens and, similarly, sometimes create costs for some but not all citizens. This may redistribute overall well-being from disadvantaged groups to advantaged groups or vice versa. Thus, we consider it unrealistic to suggest that local government does not have an influence on income and wealth redistribution.

12.9 Councils should (and should be required to) pay explicit attention to affordability issues in developing their long-term council community plans, annual plans, and revenue and financing policies. They should do this on the best information available and improve their information bases where necessary. They cannot be permitted to disregard affordability issues, which are intrinsic to the promotion of community well-being as required by the Local Government Act 2002.

12.10 The Panel considers that section 101(3)(b) of the Act should be amended to explicitly include council consideration of affordability for low-income households in the development of their revenue and financing policy.

12.11 Mechanisms to assist in rates affordability include

- central government financial assistance schemes, particularly the rates rebate scheme which has had a useful impact on the affordability of rates but can be further improved in both scale and take-up rate
- local authority rates postponement and remission policies, which need to be further improved
- optional rates postponement schemes provided by a number of local authorities and private sector schemes for home equity conversion, both of which have a role to play in improving rates affordability.

How we approached our task

12.12 The primary research for this part of the report was carried out for the Panel by Business and Economic Research Limited (BERL).¹⁴² The Panel also conducted discussions on affordability issues

¹⁴² The Panel commissioned research by Business and Economic Research Limited (BERL) on affordability definitions, a critique of the Local Authority Funding Project, the effects of rates, and an assessment of government assistance programmes. Further BERL research was completed on case studies of rates affordability impacts across eight councils and various household types. This work by BERL was peer reviewed by Charles Waldegrave of the Family Centre Social Policy Research Unit and commented on by Charles Crothers, Professor of Sociology at the Auckland University of Technology.

with a range of government departments and reviewed a range of research papers and submissions.¹⁴³ The Panel's analysis is the first serious attempt to analyse the issues. No other substantial work on rates affordability impacts for individuals and groups has been undertaken before.

12.13 First we consider the concepts of “sustainability” and “affordability” in the context of local government rates.

What is sustainability?

12.14 “Sustainable funding” is defined by the Panel 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 versa.

12.15 The sustainability of funding arrangements is also determined, in part at least, by the extent to which local government services financed by rates enable citizens to generate future income, although this is difficult to quantify.

12.16 Assessing the sustainability of rates is very difficult without reliable information about the incomes of future generations. This chapter focuses on affordability of rates over the 10 years of the 2006–16 long-term council community plans (LTCCPs).

What is affordability?

12.17 The Panel considers that “affordability of rates” means the ability to pay without serious economic difficulty. Ability to pay rates requires consideration of

- 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 expenditure¹⁴⁴
- ratepayers earning greater income as a result of council investment in infrastructure and services.

12.18 There is growing public and political concern with housing affordability, and there are linkages between housing affordability and rates affordability. A Parliamentary Commerce Committee inquiry into housing affordability in New Zealand was established on 1 March 2007 to analyse housing cost

¹⁴³ Research for the Panel by Karen Johnston was used to assess affordability assistance measures incorporated in local authorities' rates remission and postponement policies. The Panel conducted discussions on affordability issues with the Ministry of Social Development, Department of Internal Affairs, and Office of the Auditor-General. The Panel was also provided with policy analysis on the Rates Rebates Scheme by the Department of Internal Affairs. The inquiry also had access to initial work for the Department of Internal Affairs' review of the operation of the rates rebates scheme due to report in November 2007 as directed by the Cabinet Business Committee in January 2006. Other research found useful by the Panel included: Patrick Nolan (“Targeting Families' Assistance: Evaluating Family and Employment Tax Credits in New Zealand's Tax-Benefit System”, A thesis submitted to Victoria University of Wellington in fulfilment of the requirements for the degree of Doctor of Philosophy in Public Policy, School of Government, Victoria University of Wellington, 2005) Judith Davey (“Making use of home equity – comparisons between Britain and New Zealand”, *Social Policy Journal of New Zealand*, Issue 07 December 1996), Nick Johnson (*Working for Families in New Zealand: Some early lessons*, Fulbright New Zealand, 2005), The Treasury (*Affordability of housing: Concept, measurement and evidence*, New Zealand Treasury Working Paper 0603, March 2006), the Trowbridge Deloitte New Zealand Reverse Mortgage Market Study, December 2006), and a letter of 30 May 2007 to the Rates Inquiry from the Safe Home Equity Release Plans Association.

¹⁴⁴ A New Zealand Treasury definition of affordability quoted by Local Authority Funding Project, *Local Authority Funding Issues*, Report of the Joint Central Government/Local Authority Funding Project Team, Wellington, 2005, p. 10 (available at <http://www.dia.govt.nz>; referenced subsequently in this chapter as the Funding Project phase one report, 2005).

for first home buyers and examine significant shifts over time. This parliamentary inquiry is expected to address a number of issues that have implications for rates affordability, including land supply issues and local authority planning and approval processes.

12.19 Affordability can be assessed at two levels: the ratepayer (or groups of ratepayers) and the council. Previous work in 2005 by the Local Authority Funding Project concluded that most councils are successfully managing their fiscal pressures projected in their LTCCPs and these were affordable over time. However, affordability of rates at the council level is influenced by the expenditure decisions of a local authority as well as by its revenue base. These vary greatly among local authorities. This level of “local authority wealth” influences the ability to ensure rates affordability at the level of the ratepayer and, in particular, rates affordability for low- and modest-income groups.¹⁴⁵ However, even wealthy councils can impose affordability pressures on low-income households.

12.20 At the ratepayer level, ability to pay is related primarily to income in any one period, but a person’s income over their lifetime and their level of wealth is also relevant. A significant number of submissions to the Rates Inquiry have noted that affordability of rates is a particular problem for people on low or modest incomes. However, some of these who have a valuable property can be regarded as being “asset rich, cash poor”. Such a person is liable for increased rates particularly if the value of his or her property is increasing at a greater rate than the average property value. Current social policies encouraging older persons to stay in their own homes for as long as possible are creating greater numbers in this situation. Combined with the demographic trend towards an ageing population, this potentially results in an increasing rates affordability problem.

12.21 Between 2001 and 2006 the number of single-person households in which the resident was aged 65 or over increased by 6% to a total of 137,541. Assuming that the majority of households in this category are on a fixed income, the affordability problem is likely to have increased over this time. Supporting this conclusion is the research by BERL indicating that the majority of superannuitant households assumed to be paying median or upper quartile rates in a seven-council case study would have affordability issues.¹⁴⁶

12.22 Many of these households have a mortgage-free home and thus have a significant asset, which, in many cases, has increased in value significantly, especially since 2002 with the recent upward trends in property values. These household types have the opportunity to utilise home equity release schemes to provide income for rates affordability and other purposes.

12.23 In contrast, there are other households that do not have significant home equity and are experiencing pressures from rates increases on their household budget. Research on poverty in New Zealand¹⁴⁷ has highlighted the significant economic disadvantage of sole-parent households as well as other low- and modest-income family households.

12.24 Mechanisms to assist specific groups that have affordability problems include

- central government financial assistance (for low- and modest-income households)
- local authority rates postponement and rates remission
- schemes for home equity conversion (for those with significant equity in their home).

12.25 The Panel recognises that, regardless of the level of rates and rates increases, there will be ratepayers who face financial disadvantage because of insufficient income to meet their outgoings. But

¹⁴⁵ New Zealand Institute of Economic Research, *Alternatives to Rates*, Report to the Local Government Rates Inquiry, May 2007, p. 16.

¹⁴⁶ Arcus, Mathew, Kel Sanderson, and Ganesh Nana, *Case studies of rates affordability over time*, report to the Local Government Rates Inquiry, BERL, Wellington, 2007, p. 22 (referenced subsequently in this chapter as “BERL case studies of rates affordability over time”).

¹⁴⁷ See work by Charles Waldegrave et al. at www.familycentre.org.nz.

household costs other than rates may cause financial difficulties, which also affects rates affordability. For example, residential electricity costs averaged \$1,352 per year excluding GST in 2005 (around the same level as the average household rate) and electricity unit prices rose 7.4% and 11.8% in 2003/04 and 2004/05 respectively.¹⁴⁸

Distinguishing between affordability and willingness to pay

12.26 Ratepayer concerns may often reflect unwillingness, rather than inability, to pay based on dissatisfaction with perceived value for money from rates. Research by Professor Charles Crothers¹⁴⁹ emphasises that the perception that rates are a burden is closely linked to people's satisfaction with local government services. This issue has been ongoing since the formation of local government.¹⁵⁰

12.27 Dissatisfaction with council decision making and lack of willingness to pay also appears to be linked to public dissatisfaction with consultation undertaken by local authorities. Chapter 15 outlines the Panel's findings in relation to consultation. The Panel considers that enhanced accountability through more effective, inclusive, transparent, and responsive consultation by local authorities, as well as more meaningful reporting, is likely to result in greater willingness to pay on the part of ratepayers.

12.28 The Panel also notes in Chapter 15 that many councils do not provide adequate information about the benefits of their expenditure or the bases of their rates and overall funding policies.

12.29 Lack of willingness to pay may also reflect the view that many local authority activities are often more akin to private goods rather than public goods, and some ratepayers perceive that they are paying for services that largely benefit others.

12.30 Some affordability concerns and willingness to pay may be related also to sharp and/or substantial increases in rates in any one year, rather than to the absolute amount of rates.

Determining an affordable level of rates for a residential household

12.31 Affordability benchmarks for any household costs are difficult to establish with precision. Although such affordability benchmarks are much debated, it is generally accepted that when total housing costs, including rates, exceed 25% to 30% of gross household income, they are likely to create an affordability problem for lower income groups.¹⁵¹

12.32 There are insufficient data for the Panel to establish a precise percentage of household income below which rates can be said to be unaffordable. However, based on new analysis undertaken of aggregate household income and expenditure data (using the most recent Household Economic Survey (HES) information) and new case study research, the Panel has been able to gain a much clearer understanding of affordability issues associated with rates and has identified likely income thresholds below which rates unaffordability occurs. These thresholds are to some extent influenced by individual local authority rating policies and expenditure decisions.

12.33 The 2004 HES carried out by Statistics New Zealand (adjusted to remove the data of households that are renting) indicates that on average New Zealand households spent 2.51% of household income on rates. However, in the band covering the lowest 40% of incomes, rates were

148 Table G.9, Electricity consumption by the residential sector, www.med.govt.nz/energy/info.

149 Submission from Professor Charles Crothers [S947].

150 Bush, Graham, *Local Government and Politics in New Zealand*, George Allen and Unwin, Auckland, 2nd edition, 1995, p. 19.

151 See, for example, Robinson, Mark, Grant M. Scobie, and Brian Hallinan, *Affordability of Housing: Concepts, Measurement and Evidence*, New Zealand Treasury Working Paper 06/03, Wellington, 2006, pp. 10–12.

4.3% to 5.7% of household income.¹⁵² Rates are a similar order of cost as electricity charges as noted earlier in this chapter.

12.34 In 2004, 22% of households spent more than 30% of their net income on housing costs, whereas this figure is 34% for households in the lowest 40% of incomes. It should be noted that this data shows *net* income after tax, and is not directly comparable with the 30% affordability benchmarks discussed elsewhere, which are for *gross* income. The following paragraphs present the Panel's key findings in relation to rates affordability.

12.35 The Panel concludes that rates affordability issues are significant for certain groups, and the number of households with affordability problems is likely to continue to grow over the period of the 2006–16 LTCCPs. However, different affordability issues arise as follows:

- For **low-income, asset-poor households** there is an affordability problem. To some extent this can be alleviated through rates postponement policies and to a large extent it can be alleviated through the rates rebate scheme (discussed later in this chapter).
- For **low-income, asset-rich households** there is likely to be an affordability problem if current attitudinal barriers to home equity conversion remain and if the policy settings largely preclude this as a vehicle for addressing the cash-flow problem. This impacts on older residential ratepayers on fixed incomes in high-valued property in places where rates are increasing significantly.

Recommendation

37 That further research be conducted by central government agencies on the affordability of rates for households in the two lowest income quartiles.

Rates affordability

12.36 The BERL analysis of data from the 2004 HES¹⁵³ suggests that the average household in the following groups demonstrate rates affordability concerns:

- households in the lowest 40% of incomes
- one-family households, one parent with child(ren) only
- one-person households
- households whose principal source of income is New Zealand superannuation.

12.37 In addition, the range of incomes within household groups means that there might be pockets of affordability problems in all household groups. This analysis does not take account of the revision of the rates rebate scheme in 2006 and ongoing Working for Families tax credits, both of which have a material impact on rates affordability. The analyses below are based on an averaged approach and therefore may not identify pockets of affordability problems.

12.38 Further case study research by BERL based on a sample of different types of local authorities (with different rates of growth and levels of rates) and also different types of households suggests there may be 100,000 to 200,000 households with a rates affordability problem. This assumes an affordability threshold of 5% of gross household income. At the 2006 census the total number of occupied households was 1,471,746. This suggests that around 7%–14% of residential households

152 Arcus, Mathew, Kel Sanderson, and Ganesh Nana, *The Sustainability of Rates and the Measures to Address Affordability over Time*, Revised report to the Local Government Rates Inquiry, BERL, Wellington, 2007 (available at <http://www.ratesinquiry.govt.nz>); referenced subsequently in this chapter as "BERL report to the Rates Inquiry").

153 The 2004 HES was the most recent data available at the time of this inquiry for the purpose of affordability by household types.

could have a rates affordability problem. Again, this analysis was conducted prior to the impact of the rates rebates scheme, which has provided support to around 100,000 households.¹⁵⁴

12.39 Some submitters¹⁵⁵ suggested that residential rates be made tax deductible to assist in affordability as they partially were between 1978 and 1985. The Panel does not consider that a case can be made for making residential rates tax deductible. It would fail to target assistance to households most in need and would give a significant benefit to ratepayers compared to renters. There would be administrative complexities associated with ensuring that tax deductibility was not claimed on second homes. The Panel considers that the rates rebate scheme discussed later in this chapter is a more efficient mechanism for providing rates relief to low-income ratepayers.

12.40 Many submissions also strongly advocated the removal of GST on rates on the basis that levying GST on rates amounts to “a tax on a tax”. Removing GST from rates could take two forms:

- making rates GST exempt, so rate bills would shrink by 11%
- allowing GST on rates to be kept by local authorities for their own use. This would amount to a form of general revenue sharing, which is discussed in Chapter 11.

12.41 The first option encroaches on the broad base and simplicity of the GST. As discussed earlier in this report, although rates are fundamentally a tax, they also have elements of a user charge, in which case they would appropriately attract GST. Some submissions inconsistently argued that rates should be designed so they equated with user charges, but at the same time to remove GST. Although other countries often adjust their GST or VAT rates to favour particular activities, the Panel does not support removing GST on rates. In any case this would amount to a revenue loss to central government of some \$400 million per year, which would have to be made up for in some way.

Affordability in low-income groups

12.42 Rates affordability is a potential issue for lower income groups. Chart 12-1 shows that while housing costs increase as income bands increase, the rates increase at a slower rate. The top half of the chart (the 25% to 30% and above of income range) is typically regarded as the threshold where housing costs could cause affordability level of rates payment. Notwithstanding concerns about regressivity, the Panel concludes that there is a reasonably strong linear relationship between rates and the capital value of properties.

Affordability in one-person households

12.43 Rates affordability is likely to be an issue for one-person households. This supports the Local Authority Funding Project analysis.¹⁵⁶ Chart 12-2 shows that one-person households have the highest ratio of rates to household income and that the percentage cost of rates decreases as the number of people in the household increases. BERL analysis¹⁵⁷ concludes that based on HES 2004 data there were 118,000 one-person households in New Zealand, excluding households where New Zealand superannuation is the main source of income.

154 BERL case studies of rates affordability over time, p. 22.

155 See for example, Councillor Gordon Cruden [S053] and New Zealand Business Roundtable [S623].

156 Funding Project phase one report, 2005, p. 35.

157 BERL case studies of rates affordability over time, p. 22.

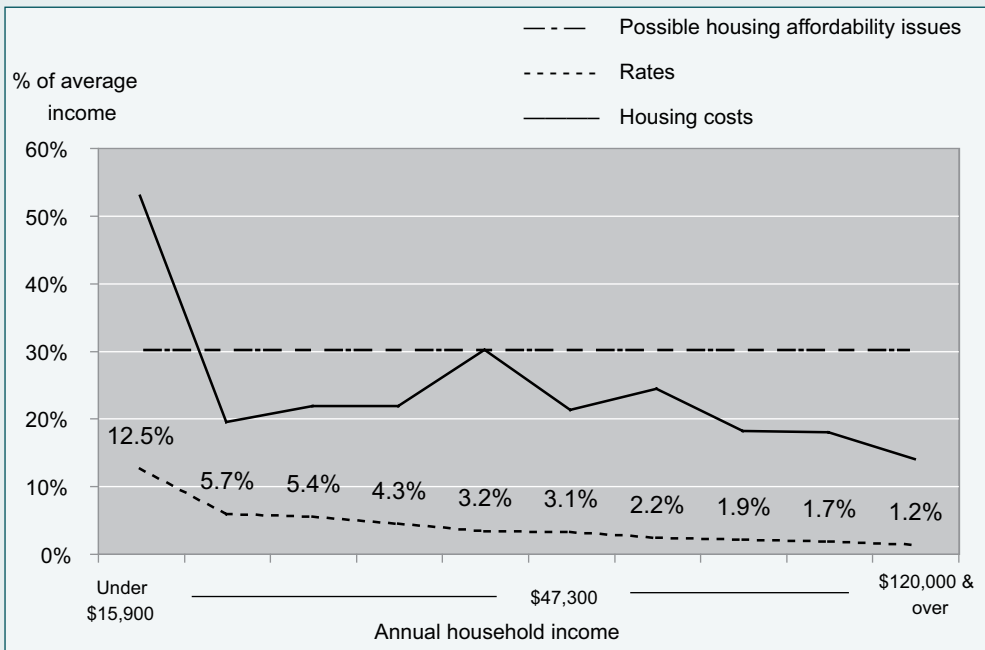


Chart 12-1 Rates and housing costs as percentage of household average household income

Source: BERL report to the Rates Inquiry, 2007; based on Statistics New Zealand 2004 Household Economic Survey data.

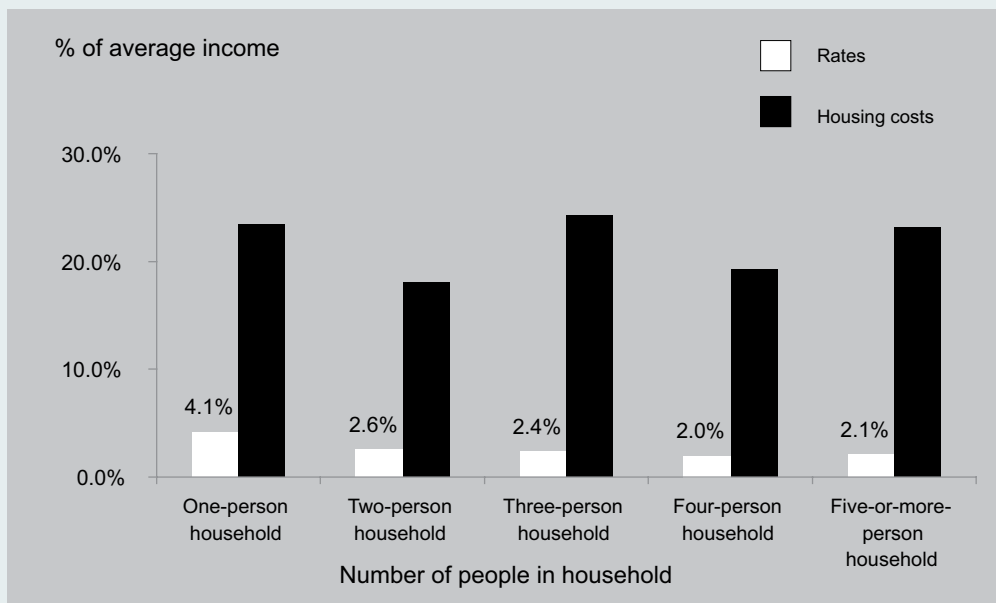
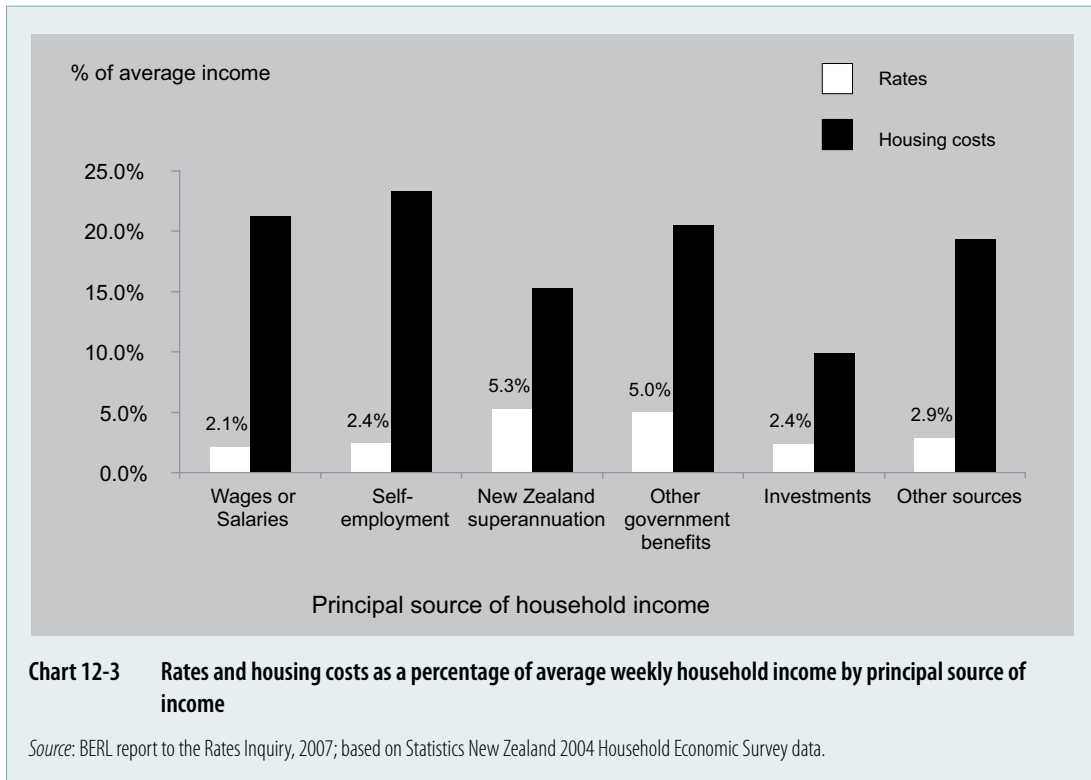


Chart 12-2 Rates and housing costs as a percentage of average weekly household income by number of persons in household

Source: BERL report to the Rates Inquiry, 2007; based on Statistics New Zealand 2004 Household Economic Survey data.

Affordability by principal source of household income

12.44 Chart 12-3 shows analysis of HES 2004 data by principal source of household income (wages or salaries, self-employment, New Zealand Superannuation, other Government benefits, investments, and other sources). Single and married persons households receiving New Zealand Superannuation totalled 195,000. Households reliant on New Zealand Superannuation, on average, were most likely in 2004 to have experienced rates affordability problems. For this group rates



represented 5.3% of average household income. For example, rates would represent 5.7% of total income for a single superannuitant, receiving no other income and paying median rates in Tauranga City of \$1,500.¹⁵⁸

Projected rates affordability to 2016

12.45 BERL modelling indicates that median household incomes are projected to rise on average across all household types by 3.28% per year over the period 2006/07 to 2015/16. National projections of rates per rateable property over the same period are projected to increase by 4.45% per year. This is a real increase in the rates burden of 1.17% per year over the period.¹⁵⁹ However, the Panel is aware that aggregate data such as this must be used with caution because of the diversity within local government.

12.46 To obtain a more detailed understanding of the impact of the projected rates increases for different types of local authority, some further analysis was conducted of a sample of seven territorial authorities. This sample was purposefully selected to include the different types of council and different population and expenditure trends. Although the sample is not intended to be a statistically representative sample from which generalisations can be made across the whole local government sector, it does offer a better understanding of trends. The sample comprised three metropolitan councils, three provincial councils, and one rural council. Regional rates were included. The data assumes the same median rate (including both residential and non-residential rates) across all household types within each local authority. Case study analysis by BERL, discussed further below, explored affordability impacts at a range of rate levels.

12.47 Table 12-1 shows that in 2006/07 across all the seven local authorities in the case study the household groups most likely to show affordability concerns were one person and one parent with child(ren). The smaller local authorities had the greatest affordability issues.

¹⁵⁸ BERL case studies of rates affordability over time, p. 9.

¹⁵⁹ BERL report to the Rates Inquiry, p. 35.

12.48 Tables 12-2 and 12-3 illustrate the situation in the forecast period. The model indicates a general worsening of affordability over the 10 years to 2015/16. Only one local authority (Hastings) indicates an improvement in affordability. The larger local authorities, Waitakere and Tauranga, indicate the largest increases in affordability problems.

12.49 Among the seven territorial authorities in the case study research, affordability concerns appear to be related, at least in part, to the choice of funding tools. In 2007, Far North district demonstrates the highest levels of rates unaffordability as indicated by rates as a percentage of household income. It also demonstrates a relatively regressive choice of funding arrangements such as a high uniform annual general charges (UAGCs) and other uniform charges where lower-income households bear a higher rates burden in proportion to their total income.

12.50 The case study sample does not indicate that the valuation basis used (land value, capital value, or annual value) has an impact on affordability. Although use of business and rural differentials would be expected to improve affordability for residential ratepayers, there is no clear impact in the eight case studies.

12.51 Only four of the seven councils have rates postponement policies for reasons of extreme financial hardship and only one council (Far North) has an optional rates postponement policy. Of the two councils ranking highest in terms of annual rates as a percentage of household income, Rangitikei has no postponement policy at all, and Far North has an optional rates postponement policy.

Rates affordability for specific groups in the population

12.52 In addition to the research and analysis described above, the Panel has considered information on affordability issues in submissions. As well as individual submissions, submissions were received from a number of organisations representing groups in the population. Of particular note were submissions from groups representing older persons¹⁶⁰ and groups from the rural sector.¹⁶¹ The terms of reference for the Rates Inquiry included a specific focus on the impact of Te Ture Whenua Maori Act 1993. Māori submitters raised substantial concerns about the affordability of rates. To some extent their concerns and those of farmers are similar because members of both groups have experienced rapid increases in property values (particularly where land is near the coast) and the economic return from the land may not reflect the property valuation. The Panel recognises that affordability issues are concentrated in certain groups in the population.

Rates affordability issues for different ethnic groups

12.53 Poverty research indicates that low incomes are not evenly distributed across ethnic groups. Māori, Pasifika, and other non-New Zealand European households are more likely to experience poverty as a result of their employment status, income, and family size.

12.54 The Panel acknowledges that rates affordability problems arising from having high outgoings relative to income are more likely to occur in certain ethnic groups. This is particularly a concern because these groups are more likely to be socially excluded and therefore hard to reach by agencies such as local authorities and central government agencies that can offer assistance. In addition, these groups are likely to live in lower-valued property and have less prospect of using equity in their homes for income through home equity conversion.

160 For example, Age Concern [S594], Grey Power [S555], [S706], [S740], [S741].

161 Federated Farmers of New Zealand (Inc) [S577], Rural Women of New Zealand [S475].

Table 12-1 Annual median rates as a percentage of household income, 2006/07

Annual rates as % of household income - 2006/07	NZ	Waitakere	Dunedin	Tauranga	Hastings	Far North	Tasman	Rangitikei
<i>Couple only with/without other</i>	3.6	3.8	3.2	3.8	3.7	4.1	4.0	3.9
<i>Couple with child(ren) with/without other</i>	2.7	3.2	2.4	2.8	2.9	3.2	3.0	3.1
<i>One parent with child(ren) w/out other</i>	6.4	6.8	5.6	6.3	6.5	7.0	6.6	6.8
<i>Other family household</i>	2.8	3.1	1.8	2.4	2.1	4.9	2.1	2.6
Total family household	3.4	3.7	3.0	3.5	3.5	4.1	3.6	3.7
Other multi-person household	3.7	3.9	4.6	3.5	4.3	5.3	4.0	3.8
One-person household	9.6	10.6	8.8	9.9	10.2	10.1	10.0	10.0
Total	4.2	4.4	4.0	4.4	4.5	5.1	4.5	4.7
<i>Annual rates per rateable property \$</i>	2,160	2,578	1,742	2,013	2,059	1,888	1,948	1,918

Source: BERL report to the Rates Inquiry, 2007. Note: Annual rates and rateable properties both include residential and non-residential data. This may result in over-estimation of rates at the household level.

Table 12-2 Annual median rates as a percentage of household income, 2015/16

Annual rates as % of household income - 2015/16	NZ	Waitakere	Dunedin	Tauranga	Hastings	Far North	Tasman	Rangitikei
<i>Couple only with/without other</i>	3.9	4.9	3.4	4.4	3.6	4.2	4.5	4.0
<i>Couple with child(ren) with/without other</i>	3.0	4.1	2.5	3.1	2.8	3.3	3.4	3.2
<i>One parent with child(ren) w/out other</i>	7.2	8.8	5.9	7.2	6.3	7.1	7.4	7.0
<i>Other family household</i>	3.1	4.0	1.9	2.7	2.0	5.0	2.3	2.7
Total family household	3.7	4.8	3.1	4.0	3.4	4.1	4.1	3.8
Other multi-person household	4.1	5.1	4.9	4.0	4.2	5.4	4.5	3.9
One-person household	10.7	13.6	9.4	11.3	9.9	10.3	11.2	10.3
Total	4.7	5.6	4.3	5.0	4.4	5.3	5.1	4.9
<i>Annual rates per rateable property \$</i>	3,197	4,517	2,512	3,064	2,664	2,658	3,097	2,764

Source: BERL report to the Rates Inquiry, 2007. Note: Annual rates and rateable properties both include residential and non-residential data. This may result in over-estimation of rates at the household level.

Table 12-3 Annual median rates as a percentage of household income, change 2006/07 to 2015/16

Annual rates as % of household income - change	National	Waitakere	Dunedin	Tauranga	Hastings	Far North	Tasman	Rangitikei
<i>Couple only with/without other</i>	0.4	1.1	0.2	0.5	-0.1	0.1	0.5	0.1
<i>Couple with child(ren) with/without other</i>	0.3	0.9	0.1	0.4	-0.1	0.1	0.4	0.1
<i>One parent with child(ren) w/out other</i>	0.7	2.0	0.4	0.9	-0.2	0.1	0.8	0.2
<i>Other family household</i>	0.3	0.9	0.1	0.3	-0.1	0.1	0.3	0.1
Total family household	0.3	1.0	0.2	0.5	-0.1	0.1	0.4	0.1
Other multi-person household	0.4	1.1	0.3	0.5	-0.2	0.1	0.5	0.1
One-person household	1.1	3.0	0.6	1.5	-0.3	0.2	1.3	0.3
Total	0.4	1.2	0.3	0.6	-0.1	0.2	0.6	0.2
<i>Annual rates per rateable property \$</i>	1,037	1,940	770	1,051	605	771	1,149	846

Source: BERL report to the Rates Inquiry, 2007. Note: Annual rates and rateable properties both include residential and non-residential data. This may result in over-estimation of rates at the household level.

Recommendation

- 38 That data be collected on the ethnicity of applicants for rates rebates applicants so that impacts and take-up issues can be monitored.**

Rates affordability issues for farmers

12.55 As is the case with business submissions discussed in Chapter 9, in discussing business differentials, farming sector submissions tend to argue against the inequity of the distribution of the rating burden rather than the fact the farm businesses cannot afford to pay. Federated Farmers in its submission¹⁶² listed rates as one of the top 10 farm working expenses, ahead of fuel and electricity in some cases.

12.56 Research by the Panel based on Ministry of Agriculture and Forestry (MAF) national sheep and beef farm budgets,¹⁶³ as an example, indicates that rates have increased in both absolute terms and also as a share of total cash outgoings from 3.65% in 2002/03 to 4.13% in 2006/07. Analysis of MAF long-term statistics further indicates that over the period 1970 to 2007 rates as a percentage of sheep and beef national average farm cash expenditure (this excludes depreciation) have existed in a narrow band between 3.2% and 4.5%. Sheep and beef farm rates burdens peaked in the late 1980s and early 1990s, then trended downward to the year 2001 before trending up again to 2006.

12.57 Rates as a percentage of national average dairy farm cash expenditure in nominal terms have increased by approximately 13% over six years, while gross farm revenues have increased 81% over the same period. Rates as a percentage of the national average dairy farm cash expenses have therefore declined from 3.70% in 1999/00 to 2.1% in 2005/06.¹⁶⁴

12.58 Affordability issues appear to arise where there has been a large increase in the value of the farm, which is not directly related to the extra earning capacity of the farm. This would include coastal farms and farms near coastal areas or those that have the potential to be subdivided or converted into lifestyle blocks. However, the Panel's view is that this is in fact less of an affordability problem than an issue of the equity of rates, which can be adjusted by the local authority using rates remission and other policies such as valuation of farmland based on value in use, as discussed in Chapter 9.

Rates affordability issues for business

12.59 Nearly 50 submissions were received from business sector organisations. A third of these were from the tourism sector (33%) and the remainder from a mixture of business and manufacturing representative bodies (25%), commercial property owners and retailers (20%), infrastructure companies or organisations (12%), and forestry and farming representative organisations (10%).

12.60 Business New Zealand [S572] and the New Zealand Retailers Association [S481] claimed that business currently funds 50% of total rate revenues in New Zealand. These claims appear to be based on an extreme example, as noted in Chapter 9. The average proportion of rates paid by business is somewhat less than 50%. Nevertheless, the Panel has concerns about the application of business differentials where they are used, as discussed in Chapter 9.

12.61 Rates affordability was not specifically addressed in relation to businesses except in the case of businesses that had experienced rises of between 80% and 100% as a result of Manukau City's change in its rating basis from land values to annual values in 2006/07. In relation to Manukau City's increases, one commercial property owner advised that such big increases would be passed on

162 Submission from Federated Farmers of New Zealand (Inc) [S577], p. 7.

163 Rates Inquiry analysis of Ministry of Agriculture and Forestry data for 1971/72 to 2006/07.

164 Ministry of Agriculture and Forestry data for 1971/72 to 2006/07.

to, and have an impact on, the small retailers occupying his commercial property. The Covec report to the Rates Inquiry noted that a recent study of a large metropolitan council showed that business rates, on average, were equivalent to less than 0.5% of operating revenues, whereas residential rates were around 2% to 5% of disposable incomes.¹⁶⁵

12.62 Although submitters expressed concern about the impact of rates as a cost on business, the Panel considers that the concerns about affordability generally are in fact more appropriately regarded as a concern about the distribution of rates between different classes of ratepayers. The use of differentials and targeted rates was discussed earlier in Chapter 9.

12.63 Many of the submissions from the business sector expressed concern about the quality of consultation by local authorities. As noted in Chapter 15, the Panel considers that meaningful consultation with the business and other sectors is vital.

Recommendation

39 That central government statistics and monitoring include assessment of rates impacts on both residential and non-residential sectors.

Impact of choice of rating tools on affordability

12.64 As noted above, affordability is influenced by the overall distribution of rates. Chapter 9 of this report discusses the generally regressive nature of the rating system in relation to incomes. Table 12-4 summarises funding tools in terms of their regressive and progressive effects on household affordability. Funding tools that have a proportionally greater impact on ratepayer income as income decreases are regressive. Progressive funding tools impose costs that increase as a proportion of total income. Of the rating tools commonly used in New Zealand, UAGCs and fixed charges by way of targeted rates are more regressive than general rates. The statutory 30% cap on UAGCs and fixed charges other than for water and sewerage is designed to limit these regressive impacts.

12.65 In Chapter 9 the Panel recommends a number of changes to the rating system:

- ✦ *Removal of rates differentials.* Overall this would likely increase the proportion of rates paid by residential ratepayers; but the extent of this would depend on the extent to which targeted rates on business would replace them. The extent to which this would reduce affordability of rates to certain classes of ratepayers, would depend on each council's own revenue and financing policy.
- ✦ *Removal of UAGCS.* This could improve the progressiveness of the rating system and improve affordability of rates, particularly for households with low income and low property values. Households with low income and high property values could, however, experience worsened affordability. However, it is possible that UAGCs could be replaced by targeted uniform rates, having the same impacts as the prior use of UAGCs.

12.66 Chapter 10 recommends cost recovery by way of volumetric user charges for water supply and waste-water services. Overall, this would be regressive in its impact, although much more analysis is required to determine the exact impacts. Thus the changes proposed by the Panel would have a mixed impact on the regressiveness of the rating system and rates affordability. Chapter 11 also recommends a 2 cents per litre increase in the local authority petroleum tax, which overall would be regressive.

165 Covec, *Trends in the Use of Rating Tools Nationally to Fund Services*, Report to the Rates Inquiry, Covec Ltd, Wellington, 2007, p. 40 (available at <http://www.ratesinquiry.govt.nz>).

12.67 The Panel supports the goal of progressive rating systems as a key tool to assist rates affordability. While fairness and equity, which underpin the progressivity of a rating system, are key considerations, there must also be consistency with other good taxation principles such as transparency. The latter underpins the use of environmental taxes or user charges such as volumetric pricing for waste water to ensure that environmental costs are borne by those who generate them.

Local Authority Funding Project's conclusions on sustainability and affordability

12.68 The Panel's terms of reference require it to review the findings of the joint central/local government Local Authority Funding Project led by the Department of Internal Affairs (DIA). As noted earlier in this chapter, the Local Authority Funding Project approached affordability issues largely from a local authority perspective. This led it to conclude that most local authorities are managing their fiscal pressures but that there was a small group that may be approaching the limits of their revenue capacity to meet projected expenditure.¹⁶⁶ The project's 2006 report concluded there were few indications of local authority-wide sustainability issues in six of the seven local authorities investigated in a case study and said, "Affordability issues, where they exist, are more likely to be at the level of individuals and ratepayer groups."¹⁶⁷

12.69 The Local Authority Funding Project's conclusion that overall rates were sustainable for communities as a whole contrasts with comments in many submissions to the Rates Inquiry.

12.70 BERL provided the following assessment of the Local Authority Funding Project's analysis of affordability:¹⁶⁸

- The project based its conclusions primarily on aggregated data for New Zealand as a whole rather than data disaggregated by local authority and did not analyse data for different population groups and their incomes to address the affordability issues of individual ratepayers. The reports find that affordability is probably an issue in pockets of the country but do not explore the nature and extent of these pockets.
- The project reflects a local government perspective in its particular concern with the fiscal pressures on local authorities and their communities. There is a similar focus in recent Australian reports.¹⁶⁹
- A key concern is the use of the number of households in the calculation of average rates impacts as this does not include properties such as businesses, rural properties with no occupied dwellings and holiday homes. Taking total rates and dividing by the number of households is likely to give a figure that is overstated. A suggested alternative might be the number of rateable properties.

12.71 As discussed earlier in this chapter, the Panel believes that affordability impacts on individuals and groups should be given greater attention by local authorities, and central government should improve the data on and the monitoring of these impacts.

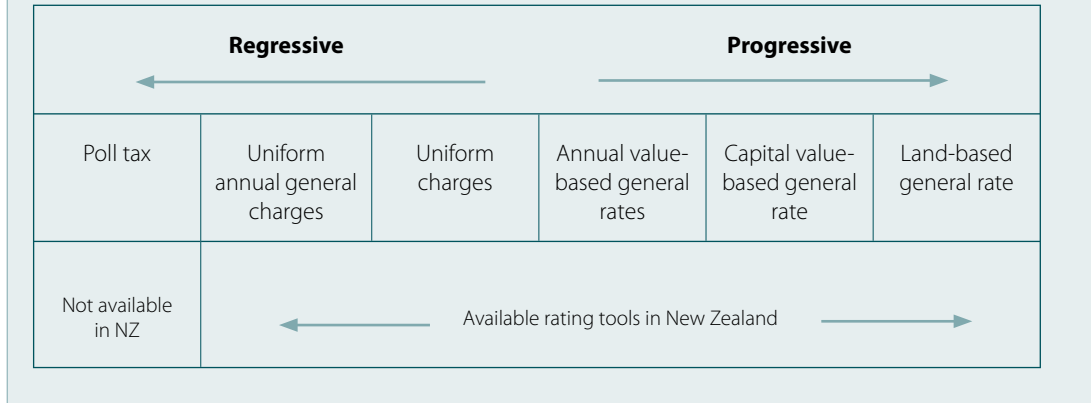
¹⁶⁶ Funding Project phase one report, 2005, pp. 3–4.

¹⁶⁷ Local Authority Funding Project, *Local Government Funding Issues: An Update*, Second report of the Local Authority Funding Project, Wellington, 2006, p. 5.

¹⁶⁸ BERL report to the Rates Inquiry.

¹⁶⁹ For example, Financial Sustainability Review Board, *Rising to the Challenge: Towards Financially Sustainable Local Government in South Australia*, final report, Local Government Finances Independent Inquiry, Local Government Association of South Australia, Adelaide, 2005; Independent Inquiry into the Financial Sustainability of NSW Local Government, *Are Councils Sustainable? Final report: findings and recommendations*, Local Government and Shires Associations of NSW, [Sydney], 2006.

Table 12-4 Continuum of regressive–progressive rating tools



Rates rebate scheme

12.72 Regardless of the average level of rates and the rating system adopted, there are households for which the cost of rates is a financial burden because of the low income of the ratepayer. For this reason the Panel emphasises that the existence of a rates rebate scheme per se does not constitute acknowledgment that local authority rates are unacceptably high. Rather it recognises that pockets of affordability problems will inevitably exist as a result of low income and high housing costs.

12.73 A rates rebate scheme was introduced in 1973 to assist low-income and/or older ratepayers facing affordability pressures who wished to stay in their own homes. Initially the scheme had no maximum, but from 1979 the maximum allowable rebate was set at \$200 with an income threshold of \$7,400. The assistance levels were not subsequently revised and the number of rebates fell from 102,000 in 1977 to under 4,000 in 2004.

12.74 The current Government introduced significant changes to the rates rebate scheme with effect from 1 July 2006. The maximum rebate payment was increased from \$200 to \$500. The income threshold before abatement of rebate payments begins was increased from \$7,400 to \$20,000. The income allowance for each dependent was also increased from \$156 to \$500. Ratepayers may be eligible for a rates rebate if they

- are single ratepayers, live alone, and have a low income
- have a total household income less than \$20,000
- have a total household income that is greater than \$20,000, depending on the number of dependents and the amount of rates.

12.75 Under the scheme ratepayers must contribute \$160 towards their rates. The rates rebate is two-thirds of the residual amount. The rebate abates by \$1 for every \$8 of income over \$20,000. For example, a married couple who receive New Zealand Superannuation of \$24,456 and who are paying annual rates of \$1,746 or more are still entitled to the maximum rebate of \$500 because of the level of their rates. Rates rebate claimants must reside at the property and must be the ratepayer for the property. The property must not be used principally for commercial, industrial, farming, or business purposes.

12.76 What is not well understood is that claimants with an income of more than \$20,000 may still receive a rebate. The \$20,000 threshold is an abatement threshold and not, as some believe, an income limit. Where income exceeds \$20,000 the rebate is reduced by \$1 for every \$8 the income exceeds the threshold.

12.77 A further review of the scheme's thresholds and entitlements is due to be completed by November 2007 by DIA.

12.78 Table 12-5 shows the rebate available across four example household types. For example, a couple receiving New Zealand Superannuation of \$25,278 (2006/07 entitlement) as their only source of income, with no dependents, could receive rebates from rates levels of \$1,150 to a rebate cap of \$500 at rates of \$1,900. If rates for this couple's property were at the national average rates of around \$1,500, the rebate would be \$234. Rates before the rebate would make up 6% of the couple's income. The rebate would reduce this to 5%, representing a 16% rates reduction and a 1% boost to total income.

Rates rebate scheme take-up

12.79 The total amount paid in rebates from 1 July 2006 to 30 June 2007 was \$49.1 million to 109,022 applicants. The average rebate was \$448 as at March 2007 compared with an average rebate of \$165 in the previous year. The largest applicant group was superannuitants, making up 64% of applicants.

12.80 The 2005/06 Budget provided \$50 million for the scheme on the assumption of a 40% take-up rate on 300,000 eligible applicants, or approximately 118,000 ratepayers. These estimates were based on 2001 Household Economic Survey data. Subsequently, DIA produced estimates based on the 2001 census that indicated only 246,000 households were eligible. Based on 2006 census data, the numbers eligible are more likely to be lower than estimated at around 200,000 households. Take-up rates in 2006/07 have been higher than estimated at near to 55% (based on the 2006 census estimates). Estimation of eligible households and take-up rates continues to be a challenge, as might be expected with such a new scheme. Some \$70 million has been budgeted for payments in 2007/08.

12.81 Local authority submitters, and some participants at public meetings, commented on the low take-up. In some areas, take-up was at 30% of the potential level. Reasons appear to include lack of publicity, unwillingness to accept the stigma of receiving government income support, and the amount of effort required to make the application relative to the amount potentially received. From advice provided by the Ministry of Social Development, the Panel understands that take-up rates for central government social assistance such as the accommodation supplement is around 40–50%. The ministry acknowledges there are difficulties ensuring eligible groups receive their entitlement because they are not easily contacted by the ministry or reached through publicity. There is a higher take-up of accommodation supplements because the eligible groups are clients of the ministry's Work and Income Service and can be advised and guided to apply for assistance for which they are eligible.

12.82 Current DIA information on take-up across councils is only available against eligibility as estimated against 2001 census data. The average take-up of eligible recipients is 46% with the highest take-up of 69% at Waimakariri District and the lowest of 21% at Queenstown Lakes District. The unevenness of take-up suggests that there are other factors at the local level that are influencing take-up.

12.83 In its analysis of the rates rebate scheme, BERL identified the following factors that might explain the variation:

- better advertising of rates rebates by some councils
- some areas experiencing lower affordability issues than others.

Table 12-5 Rates rebate scheme payments under various income scenarios

	Single superannuation	Single superannuation + 10% other source of income	Married superannuation	Married superannuation + 10% other source of income
Rates	Income \$16,646	Income \$18,310	Income \$25,278	Income \$27,805
\$800	\$426	\$426	\$0	\$0
\$1000	\$500	\$500	\$0	\$0
\$1200	\$500	\$500	\$34	\$0
\$1500	\$500	\$500	\$234	\$0
\$2000	\$500	\$500	\$500	\$251

Source: <http://www.ratesrebates.govt.nz> accessed 16 July 2007.

12.84 In addition, there are other factors influencing take-up generally:

- ♦ the perception that the rebate is a handout
- ♦ the requirements that need to be met in order to make a successful application.

12.85 The effectiveness of publicity about the revised rates rebate scheme is unclear. DIA produced a brochure and website. Local authorities have also produced their own publicity, but the adequacy of these campaigns appears to be variable between local authorities.

12.86 The Panel believes that the rates rebate scheme should be more widely promoted by appropriate central government agencies. These include the Department of Internal Affairs and the Work and Income Service of the Ministry of Social Development, working in close association with relevant organisations in the community and voluntary sector – for example, Age Concern, Grey Power, Maori Women’s Welfare League, New Zealand Federation of Family Budgeting Services, New Zealand Council of Social Services, and the New Zealand Federation of Voluntary Welfare Organisations.

12.87 The rates rebate scheme is an important mechanism for ensuring that the incidence of rates does not cause hardship for low-income ratepayers. The Panel regards the scheme as a vital component of the rating system and its impact on affordability of rates needs to be monitored and regularly reviewed.

Recommendations

- 40 That the rates rebate scheme be more widely promoted by appropriate central government agencies in close association with community organisations.**
- 41 That the Department of Internal Affairs and Ministry of Social Development develop an ongoing programme of monitoring the impact of the rates rebate scheme and other financial assistance for low-income families (including households whose sole income is a benefit).**
- 42 That a robust evaluation be conducted to ascertain the level of understanding among target populations about the rates rebate scheme and the benefits of applying.**

- 43 That the Ministry of Social Development provide adequate information about the rates rebate scheme to community services card holders and as part of its advertising about the accommodation supplement. In addition, central government (either the Ministry of Social Development or Department of Internal Affairs) should fund promotional activities by community and voluntary sector organisations to improve take-up by non-beneficiary groups.

Success of the rates rebate scheme in addressing affordability problems for ratepayers

12.88 The Panel has examined the impact of the rates rebate scheme on individuals, groups, and communities, and in particular, the impact on households with a large number of children, Māori households, and households where the ratepayer is in an older age group. Given the difficulties of accessing reliable statistics on these types of groups, the Panel has prepared a number of case study examples¹⁷⁰ of household types including

- single superannuitant, for whom New Zealand Superannuation is the sole income and having 100% home equity – comparison of lower, median, and upper quartile rates
- single superannuitant as above with income 30% above New Zealand Superannuation
- married superannuitant couple with no other income – lower, median, and upper quartile rates
- married superannuitant couple as above with income 30% above New Zealand Superannuation
- single working person – median wage, and lower, median, and upper quartile rates, and having 50% home equity
- single adult, two children – median wage, lower, median, and upper quartile rates, and with 50% home equity
- couple, two children – median wage, lower, median, and upper quartile rates, and 50% home equity.

12.89 The case studies indicated that the rates rebate scheme reduces rates as a percentage of gross income by around 2.6% to 2.8% for households that qualify for the full rates rebate scheme. In most cases only superannuitants qualified for the scheme, except in districts with low incomes and relatively high rates among single adults. In some instances (particularly Hastings and Dunedin), the rates rebate scheme has the effect of lowering the level of rates to below the assumed affordability threshold of 5% of gross household income.

Management of the rates rebate scheme

12.90 Local authorities act as the front desk for the scheme with further back office processing by DIA, which transfers funds back to the local authority to credit against the successful applicants' rates accounts. A key issue raised in public meetings, in meetings with the local government sector, and in submissions was the appropriateness of requiring applications to be made to the territorial authority. Submissions from territorial authorities generally supported the rates rebate scheme with some indicating that they were happy to continue to administer the scheme. However, a majority of councils, as well as submitters, considered that the Ministry of Social Development's Work and Income Service should administer the scheme because that agency holds personal and household

¹⁷⁰ The households for the case studies were drawn from Waitakere, Tauranga, Dunedin, and Hastings city councils, and Far North, Tasman, and Rangitikei district councils.

income data. In addition, it was felt that the confidentiality of the applicant's income data was more likely to be protected through that or a similar central government agency. An alternative agency suggested by some submitters was the Inland Revenue Department. This could better present the scheme as a rebate designed to adjust the incidence of tax rather than a form of social welfare payment.

12.91 Some councils indicated they did not object to administering the scheme, recognising the importance of this revenue stream for ratepayers. Nevertheless, a number commented on the extra cost to them involved in their administering the scheme. For smaller local authorities, the extra work was proportionately greater than it was for larger authorities.

Recommendation

- 44 That consideration be given to administration of rates rebates through the Inland Revenue Department in a similar way to rebates for charitable donations.**

Indexing of the thresholds

12.92 A significant concern raised by a large number of submitters was the lack of indexation of the thresholds and the levels of assistance to changes in recipients' average incomes. Annual adjustments to the rebate and the thresholds need to be scheduled to reflect changes in the average level of rates, to ensure that the scheme has the desired impact on affordability and does not become eroded by increases in the Consumers Price Index.

Recommendation

- 45 That there be annual indexation of the rates rebate and income thresholds to the average rates increase.**

Design of the rates rebate scheme: criteria for eligibility

12.93 The current parameters of the rates rebate scheme result in a number of exclusions and eligibility gaps that the Panel considers require review. In particular, the exclusion of residents in retirement villages who have a licence to occupy their property was frequently highlighted by submitters. As they are not the ratepayers, the residents with a licence to occupy are not eligible for any rebate; yet they are required to pay the cost of rates for their unit to the owner of the retirement village.

Recommendation

- 46 That occupants of retirement homes be eligible for the rates rebate scheme.**

12.94 A similar "eligibility gap" occurs in the case of owners of papakāinga, who are required to pay rates but cannot apply for a rates rebate because of the multiple occupation of communally owned land. The Panel considers that owners of papakāinga housing should be regarded as ratepayers in the same way that family trusts are and should be eligible for a rebate for the costs of any rates or UAGC.

Recommendation

- 47 That occupiers of papakāinga be eligible for the rates rebate scheme.**

12.95 Information provided by DIA indicates that over 154,000 (approximately one in six) households in New Zealand occupied by owners rather than rented out are held in family trusts. Some confusion surrounds the eligibility of these ratepayers. Local authorities generally interpret the legislation as meaning such properties are not eligible for the rebate. A small number of submissions, largely from councils, noted eligibility issues for persons in retirement homes and houses owned by trusts. However, DIA considers the intention, and correct interpretation, of the legislation is that such properties are eligible.

Recommendation

48 That it be clarified that homes subject to a family trust are eligible for the rates rebate scheme.

12.96 The Tauranga City Council submission¹⁷¹ refers to some confusion in the community about whether war pensions should be included in annual income disclosures because they are not required to be disclosed in tax returns to the Inland Revenue Department, the tax having been deducted at source.

Recommendations

49 That much clearer information be available on the Internet and in print with regard to the treatment of war pensions in assessment of eligibility for rates rebates.

50 That a review be undertaken to ascertain whether there is consistency in assessment of applications for rates rebates from recipients of war pensions.

12.97 Separate water and waste-water charges are currently not treated as rates under the scheme. However, nearly 20% of the population live in local authorities that have separate charging. In effect, such charges are a substitute for rates. Local authorities also may offer a rates rebate. Auckland City Council [S574] tops up the rates rebate scheme by reimbursing ratepayers, based on the government's eligibility criteria, for these separate water charges. The Panel's view is that such charges should be treated as rates for the purpose of rates rebate calculations.

Recommendation

51 That water supply and waste-water charges levied by a territorial authority or a council-controlled organisation be eligible expenditure for which a rates rebate may be claimed.

Impact of other government assistance packages

12.98 Working For Families (WFF) is central government's primary vehicle for assisting low- and modest-income working families. This package comprises the accommodation supplement and tax credits for low-income working families.

Accommodation supplement

12.99 The accommodation supplement is a non-taxable, means-tested benefit designed to help people with their accommodation costs. The subsidy is 70% of accommodation costs above the

¹⁷¹ Submission from Tauranga City Council [S578], paragraph 3.

Table 12-6 Accommodation supplement income thresholds

Benefit type	Gross weekly income threshold
Non-beneficiary, single without children	\$329.00
Non-beneficiary, single with child(ren)	\$436.00
Non-beneficiary, married, with and without children	\$495.00

Source: BERL report to the Rates Inquiry, 2007.

Table 12-7 Accommodation supplement recipients by tenure and average weekly accommodation supplement, year to June 2004

Tenure	Rent	Board	Own	Not recorded	All clients
Number	142,974	55,418	38,293	10	236,695
Percentage	60%	23%	16%	0%	100%
Average weekly accommodation supplement	\$63.47	\$23.59	\$54.93		

Source: BERL report to the Rates Inquiry, 2007.

entry threshold up to a maximum amount, which varies by family size and region. It is available to beneficiaries and non-beneficiaries who rent, board, or own their own homes. A non-beneficiary's accommodation supplement is reduced by 25 cents for every dollar of additional income over the relevant income threshold. The non-beneficiary income thresholds are laid out in the Table 12-6.

12.100 In annual income terms, this means a single person without children can earn up to \$17,108 per annum before abatement begins.

12.101 If someone is a homeowner, they can claim as accommodation costs essential repairs and maintenance costs and a number of other expenses including mortgage repayments, retirement village fees, body corporate fees, rates (including local authority rates and water rates) and house insurance premiums.

12.102 Table 12-7 shows the housing situation of accommodation supplement recipients.

12.103 The available data does not indicate whether recipients who own their own home specifically have difficulties meeting their rates, but it is possible to conclude that assistance in the form of the accommodation supplement may be available to those who have affordability problems with rates. Accommodation supplement payments count as income for the calculation of rates rebates. In its assessment for the Rates Inquiry, BERL noted,

Our partial assessment is that those who received the Accommodation Supplement (and owned their home) are likely to have a lower income and a mortgage to repay. In these circumstances it is likely they would also be facing a rates affordability issue. For these people the Accommodation Supplement would be helping to improve the affordability of housing costs and rates.¹⁷²

¹⁷² BERL report to the Rates Inquiry.

Working for Families tax credits

12.104 The broader WFF package has been gradually rolled out since the 2004 Budget. WFF includes substantial additional family income, housing, and childcare assistance, offset by a reduction in hardship support (special benefit). Although WFF was not designed to directly address rates or housing affordability issues, it can be assumed that the increased family income will assist with meeting a range of family expenditure costs, including all aspects of housing. The philosophy underpinning WFF, being based on tax credits, is that households should have choices over how they spend their income. Therefore, assistance is not linked to particular areas of expenditure. The rates rebate scheme, by contrast, is the only form of assistance that is specifically linked to an area of household expenditure. Overall, the Panel concludes that Working For Families will have a positive impact on the incomes of a significant number of working families that own their homes and therefore pay rates. However, there are some families that own their own homes and are not assisted by this package and which are likely to experience growing difficulties meeting rates increases. Relevant central government agencies should carry out ongoing data collection and analysis on rates increases for different household types and income groups that builds on the baseline data gathered as part of the Rates Inquiry, and monitoring of the affordability of rates.

12.105 A case study analysis by BERL of household types earlier in this report indicates that WFF has a positive impact on rates affordability for households with children. WFF has a greater impact on single adult with two children households because of their lower median income. WFF support was equivalent to \$199 (before tax) per week of extra income for these households. In a number of case studies WFF resulted in a reduction of rates to below the affordability threshold of 5% of rates to gross household income. Far North District showed the greatest reduction, where WFF reduces the proportion of total income spent on rates by up to 3.7%.

Local authority rates remission and postponement policies

12.106 Assistance with payment of rates is also available through local authorities' rates remission and postponement policies. Rates remission occurs when a local authority agrees to reduce or eliminate the amount of rates payable on a property. Rates postponement occurs when a local authority agrees to delay the due date of rates payment until a specified time or a specific event occurs, such as the sale of the property. Under section 102(5) of the Local Government Act 2002, local authorities may develop a rates remission policy and/or a rates postponement policy, but this is not a requirement. However, a local authority is required to have a policy on the remission and postponement of rates on Māori freehold land.¹⁷³ Postponement of rates is implemented under section 87 of the Local Government (Rating) Act 2002. The Local Authority Funding Project concluded that remissions and postponement shift the incidence of rates amongst ratepayers. Although this may be true of remissions policies, the Panel's view is that a postponement policy with appropriate interest rates and charges can address affordability issues while remaining cost neutral for the community. The project also concluded that remission and postponement policies do not necessarily fit well with the income support policies operated by central government.

Rates postponement policies

12.107 Rates postponement can be helpful for those who are asset rich and cash poor. However, the Local Authority Funding Project reported that the level of rates remitted or postponed by local authorities was usually very small, at between 0.3% and 0.7% of total rates revenue.

12.108 The use of postponement policies varies across local authorities as noted in Table 12-8.

¹⁷³ Local Government Act 2002, section 102(4)(f).

Table 12-8 Percentage of local authorities with particular types of rates postponement policy provisions

Type of rates postponement provision	Number of local authorities	% of local authorities
1. Extreme financial circumstances. Applying to any ratepayer experiencing extreme financial hardship "subject to the full cost of the postponement being met by the ratepayer and the local authority being satisfied that the risk of loss in any case is minimal." ¹	55	65
2. Optional rates postponements. Used most commonly to assist ratepayers over 65 years old who have sufficient equity in their own homes and is for an indefinite period. Where local authorities offer it to people younger than 65 years, it has a finite time period.	16	19
3. Farmland where the farm value reflects other uses. Designed to address situations where the surrounding property values have increased causing an increase in rateable value for the farmer. ²	15	18
4. Economic development	7	8
5. Land affected by natural disaster	5	6

Source: Johnston, K., *Council Policies on Rates Remissions and Postponements and Māori Freehold Land*, Report to the Local Government Rates Inquiry, 2007 (available at <http://www.ratesinquiry.govt.nz>). Note that some local authorities utilise more than one type of provision, some use none, and some utilise provisions other than the five listed above. The percentages therefore do not sum to 100.

12.109 To ensure that effective rates postponement policies are in place in local authorities throughout the country and to ensure consistency, the Panel recommends that a template be developed for a standard rates postponement policy. Local authorities may adapt this to address local needs but may not offer less coverage. The template must include policies for rate postponement for extreme financial circumstances and clear information about the policy must be included in newsletters or other communications to ratepayers. Any administrative fee must be fair and reasonable in the circumstances.

Recommendation

52 That local authorities be required to have a rates postponement policy based on a standard template developed by the Department of Internal Affairs in conjunction with key stakeholders. The policy should include provisions for extreme financial hardship and be updated regularly to reflect good practice.

Optional rates postponement scheme offered by a consortium of local authorities

12.110 A consortium of 13 territorial authorities and one regional council operates a common rates postponement scheme.¹⁷⁴ Scheme applicants must meet age and residency criteria and have sufficient equity in their property. Postponement for ratepayers over 65 years is indefinite while ratepayers younger than 65 years can apply for a maximum 15-year term. Postponement is granted to a level where modelled postponed rates accumulate to no more than 80% of the ratepayer's equity. Scheme fees and interest charges vary between local authorities.

¹⁷⁴ Far North, Rodney, Thames-Coromandel, Western Bay of Plenty, Gisborne District and Waikato Regional Council, Ashburton, Kapiti Coast, Marlborough, Masterton, Nelson, Queenstown-Lakes, Rotorua, and South Wairarapa councils.

12.111 The submission from a group of local authorities and stakeholders representing many of the optional rates postponement scheme consortium members¹⁷⁵ noted that attitudes of older people towards using equity in homes are changing and that rates postponement mechanisms should form one of the potential mechanisms to help older people stay in their homes.

12.112 The Auditor-General reported on the optional rates postponement scheme in 2006.¹⁷⁶ The report concluded that local authorities' rates postponement policies are generally well designed and administered in the interests of their communities but noted that these policies are used primarily for debt management purposes and do not address affordability issues. The report identified enhancements that local authorities could make to their rates postponement policies and procedures, for example, that applicants be encouraged to seek independent financial advice.

12.113 The Auditor-General noted various risks associated with optional rates postponement schemes including that reduced cash flow for local authorities could become a problem if the number of ratepayers postponing their rates increases substantially.

12.114 The Panel understands that the rates postponement consortium has accepted the recommendations in the Auditor-General's report.

12.115 BERL, in its independent analysis for the Panel, pointed out that the option offered by the consortium of councils is, in effect, a reverse equity scheme limited to rates. BERL noted a lack of information on the uptake of these optional postponement schemes but concluded that it provides a mechanism for addressing rates affordability for a group of ratepayers – primarily homeowners who have repaid their mortgages, have retired, and are on a fixed income. The scheme works on top of other central government assistance and provides ratepayers with the option to address rates affordability without having to sell their homes.

12.116 The Panel recognises that rates postponement and, in particular, the optional scheme may benefit some ratepayers. However, it is clear that these mechanisms cannot address the needs of all ratepayers who experience difficulties in paying their rates.

Recommendations

- 53 That the Auditor-General be requested to carry out regular reviews of local authority optional rates postponement schemes.**
- 54 That the Department of Internal Affairs, with advice and input from local government stakeholders, the Ministry of Consumer Affairs, and the Office for Senior Citizens, develop material about optional rates postponement schemes for the purpose of public education and consumer advice.**

Local authority rates remission policies

12.117 As explained earlier, local authorities are required to have a remissions policy for Māori land, but a rates remission policy for other land is not mandatory. Table 12-9 shows that remissions policies are not focused on addressing financial affordability problems faced by lower-income residential groups. Local authorities typically consider this to be a central government concern to be addressed through the tax and benefit systems. In addition, the Local Authority Funding Project

¹⁷⁵ "Submission prepared by a group comprised of local authorities and stakeholder interests" [S541] lists the 20 parties to the group in an appendix. Nine of the rates postponement consortium members are represented by this submission.

¹⁷⁶ Office of the Auditor-General, *Residential Rates Postponement*, Performance audit report, Wellington, 2006; available at <http://www.oag.govt.nz>, last accessed 23 June 2007.

Table 12-9 Type of rates remission provision

Type of rates remission provision	Number of local authorities	% of local authorities
1. Penalty remission	84	99%
2. Community, sporting, and recreation organisations	67	79%
3. Land protected for natural, historic, or cultural conservation purposes	57	67%
4. Multiple properties	55	65%
5. Natural disaster	32	38%
6. Sewerage charges (mainly for schools)	30	35%
7. New subdivisions (prior to sale of sections)	21	25%
8. Water charges for excess use	19	22%
9. Residential units in commercial or industrial zones	17	20%
10. Economic development	17	20%
11. Extreme financial hardship	16	19%
12. Very low property values	14	16%
13. Other	36	42%

Source: Johnston, K., Council Policies on Rates Remissions and Postponements and Māori Freehold Land, 2007, p.8 (available at <http://www.ratesinquiry.govt.nz>).

noted that many local authorities do not have access to the detailed income information to operate what is effectively an income redistribution mechanism.

12.118 The most common remission policy provisions deal with the waiver of penalties rather than responding to affordability concerns. Policies relating to extreme financial hardship have been developed by only 19% of local authorities. Policies dealing with affordability for residential ratepayers are most commonly dealt with by postponement policies, for which 65% of local authorities have a provision for extreme financial hardship, as discussed earlier.

12.119 Analysis by the Local Authority Funding Project of a representative sample of 43 policies also showed that remissions policies are used for simplifying the day-to-day administration of the rating system and that few local authorities had remission policies that target affordability issues directly.

Recommendation

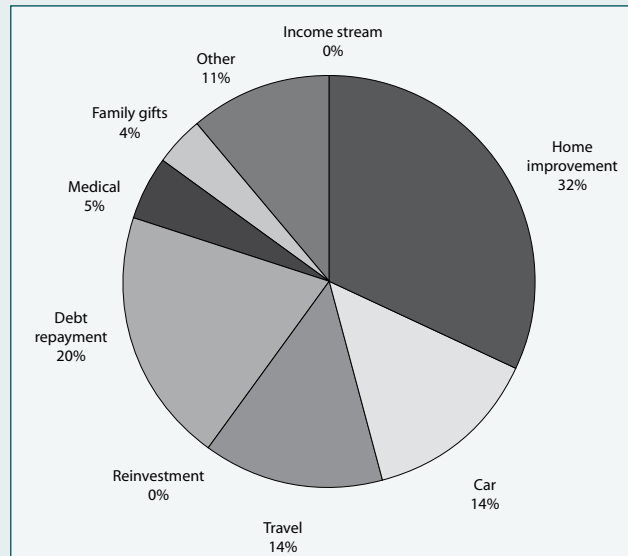
55 That local authorities be required to have a rates remission policy based on a standard template developed by the Department of Internal Affairs in conjunction with key stakeholders. The template should be updated regularly to reflect good practice.

Assessment of home equity release schemes

12.120 The previous discussion concerned measures by local and central government in the form of the rates rebate scheme, other forms of government income support, rates postponement, and

Chart 12-4
Use of proceeds of New Zealand reverse mortgages, settlements in 2006

Source: BERL report to the Rates Inquiry, 2007.



rates remission. The main private sector measures available to assist rates affordability, among other household costs, are home equity release or reverse mortgage schemes. A reverse mortgage is a loan that enables homeowners (usually older homeowners) to convert part of their home equity into income without having to sell their home. The loan becomes due when the last borrower(s) permanently leaves the home. The mortgage principal, interest charges, and service fees are paid from sale of the house or other assets of the estate.

12.121 A recent report by Trowbridge Deloitte found that the New Zealand market at 31 December 2006 consisted of more than 4,500 loans with a total book value of almost \$227 million¹⁷⁷ and an average outstanding loan size of \$49,900. The market doubled over the previous year and the authors expect a further doubling during 2007. Couples make up more than half of all borrowers. The 70–79 years age bracket has the largest number of reverse mortgages. The average age is 73, but the 60–70 years age group is also growing.

12.122 Chart 12-4 shows there has been negligible take-up so far of reverse annuity or income stream reverse mortgages of a type that might be expected to be focused on the funding of regular household expenses such as rates. Most loans are for home improvements and debt repayment, although proposed and actual use of the loans may differ.

12.123 Reverse mortgages are relatively new in New Zealand and it will likely take some time for them to become a more widespread option. The Safe Home Equity Release Plans Association (SHERPA), which represents organisations that provide home equity release, forecasts 200,000 New Zealand seniors taking out such a loan in the next 15 years.¹⁷⁸ Overseas there appears to be more usage of the income streams from reverse mortgages to fund ongoing retirement costs.¹⁷⁹ In his submission to the Panel, the Governor of the Reserve Bank supports the use of residential mortgage credit as a tool that could assist in managing inflation.

12.124 In its letter to the Panel SHERPA comments that ratepayers qualifying for the rates rebate scheme or other local authority remission or postponement schemes are among those most likely to benefit from access to private-sector home equity release loan products. However, it noted significant

¹⁷⁷ Source: Trowbridge Deloitte, "Reverse Mortgage Study", press release, 26 April 2007. A full copy of the Trowbridge Deloitte New Zealand Reverse Mortgage Study is unavailable, because the report is confidential to the survey participants.

¹⁷⁸ Letter from Safe Home Equity Release Plans Association (SHERPA), 30 May 2007.

¹⁷⁹ Davey, Judith, "Making use of home equity: comparisons between Britain and New Zealand", *Social Policy Journal of New Zealand*, Vol. 7, December 1996, pp. 128–142.

barriers to the development of these schemes, particularly with respect to forms of annuity payments, which are most likely to assist rates affordability:

- Withdrawal of housing equity in the form of either lump sum or regular annuity payments can breach asset or income thresholds for access to state benefits.
- Local authority postponement schemes are not classified as income with respect to state benefits, whereas payments through private sector schemes are regarded as income.
- Taxation of annuities disadvantages recipients.

12.125 The Panel believes these private sector mechanisms could play a role in rates affordability, particularly if annuity-based plans become a material part of the market. However, there needs to be further clarity about the treatment of income streams by the Ministry of Social Development because this may have an impact on people's eligibility for the accommodation supplement and rates rebates.

Recommendations

- 56 That the Ministry of Social Development be asked to undertake work to clarify the relationship between reverse mortgages and central government benefits and the relationship between reverse mortgages and tax treatments.**
- 57 That further analysis, including international comparisons, be carried out by the Treasury, Ministry of Social Development, and Department of Internal Affairs to explore the potential for home equity release to meet the housing cost needs (including rates) of ratepayers aged 60 and over.**