Rating farm and lifestyle properties

Discussion document

Auckland Council
Te Kaunihera o Tāmaki Makaurau

As part of the development of its Annual Plan 2016/2017 council will be considering whether it wishes to consult on a proposal to change how rates are charged to these properties. This proposal would see small farm/lifestyle properties pay a little more in rates, to fund a larger rate reduction for large farm/lifestyle properties. The purpose of this engagement is to seek the views of the rural community prior to considering whether to proceed to formally consult on the proposal. The following discussion document gives an overview of the issues that need to be considered for such a proposal.

At present properties classed as farm/lifestyle pay 80% of the general rate that is charged to urban residential properties. The council thinks this difference in rates is fair as farm/lifestyle properties have lower access to council services compared to other types of properties.

The proposal put forward would see larger farm/lifestyle properties (50 hectares or more in size) charged 60% of the urban residential rate. To fund this reduction in rates, small farm/lifestyle properties (less than 6 hectares in size) would be charged 83% of the urban residential rate. The table below shows the effect this proposal on rates for these properties.

Farm/lifestyle size category:	Small	Medium	Large
Size:	Less than 6ha	6 to 50ha	50 ha or larger
No of properties	**19,900**	5,300	**1,200**
Proposed Differential (% of urban residential general rate)	**83%**	80%	**60%**
Average rate change(%)	**+2.6%**	0%	**-21.9%**
Average rate change ($)	**+$73**	$0	**-$1,353**

This proposal only affects the rates of small and large farm/lifestyle properties. Rates for all other properties, including medium sized farm/lifestyle, would remain unchanged.

What reasons are there for charging larger farm/lifestyle less and small farm/lifestyle more?

Large properties tend to be further from council services, and have unsealed roads. Almost all large properties are farms or forestry. They create local jobs and reduce the need for people to commute to the city.

Smaller properties are mostly residential lifestyle. They tend to be located closer to urban areas, and usually have sealed roads. They also tend to be in areas with higher household incomes and are associated with urban commuting, creating demand on transport services.

Are there any reasons why farm/lifestyle rates should stay the same?

Large farms are run as businesses and have tax advantages not available to residential ratepayers. They currently pay a third of the rates charged to other rural business properties. Farms and forestry are also associated with heavy vehicle movements which contribute significantly to cost of maintaining local roads.

Rates already reflect differences in access to services and the quality of roads to an extent. This is because properties that are more remote, or have unsealed roads, have lower land values than similar properties that are close to urban areas or have sealed roads.

What do you think? Should small farm/lifestyle properties pay more so large farm/lifestyle properties can pay less?

To help you decide, the following pages sets out some of the key differences between small, medium and large farm/lifestyle properties.

Differences between small, medium and large farm/lifestyle properties at a glance

Small

- 19,900 properties
- 95% categorised as lifestyle
- Includes 25% of all rural industry (950 properties)
- Rural industry more intensive (80% market gardens and specialist livestock eg glasshouses, poultry sheds)

Medium

- 5,300 properties
- 71% lifestyle, 29% rural industry
- range from larger residential blocks, non-economic farms and large market gardens to economic farm units (generally over 20ha)

Large

- 1,200 properties
- 96% categorised as rural industry (only 53 properties are lifestyle)
- 85% stock or dairy farms, 7% forestry

Are there differences in how farm/lifestyle properties benefit from council services?

Property and census data suggest some differences in how small and large properties access and create demand for council services as shown below. (Medium sized properties fell between small and large on all measures shown.)

Distance to council facilities

Around 30% of rates spending is on council facilities such as parks, libraries, pools, event centres, community halls and attractions such as the Auckland Museum that are partially rate funded. These facilities are primarily located in urban areas, and larger rural towns.

It is difficult to assess the distance from every farm/lifestyle property to every type of council facility. However, we can do a simple analysis of the distance to the nearest council library service to give a relative indication of how close properties are to council facilities. Properties that are within 5 km of a council library are considered close; more than 20km from a library are remote.

26% of small properties
5% of large properties are close

7% of small properties
30% of large properties are remote

Small properties on average get greater benefit from council facilities than larger properties, because they tend to be closer to these services.

Local roads

Around 18% of rates fund local roads, mainly for maintenance and replacement costs. (State highways and motorways are the responsibility of NZTA and funded through fuel tax).

95% of small properties 4% of large properties have sealed road access	Sealed roads cost 4x unsealed roads to maintain

Small properties have better roads than large ones. However, costs to maintain and renew roads are related to the number of heavy vehicle movements. Rural industries, particularly dairying and forestry, are generators of heavy vehicle movements. So while small properties receive more benefits from local roads, large properties are responsible for a larger share of the costs of maintaining them

Public transport

Around 15% of rates spending is on public transport – though the share paid by rural properties is less than for urban properties.

40% of small properties are in areas with public transport use above the rural average	10% of large properties are in areas with public transport use above the rural average

Small properties are more likely to be in areas with higher levels of urban commuting than large properties. Rural industry creates local employment, reducing the need for residents to commute. Small properties generate more commuter trips than large ones. However the overall level of commuting is still low, with only 8% of private vehicle and 7% public transport commuter trips originating in rural areas.

Do these differences support charging different rates for small, medium and large farm/lifestyle properties?

Small properties tend to benefit more from council services than large properties. This doesn't mean that small properties should pay higher rates however.

Not all small properties receive a higher level of benefit than all large properties. Some large properties will be close to council services, and have sealed roads. Some small properties are remote, and there are almost as many small properties on unsealed roads as large ones.

The level of benefit a property receives from council services largely depends on how close it is to urban centres, and whether it has sealed road access. These factors are reflected in land values. On average, land close to council facilities is worth twice as much as similar land in remote areas. Road sealing increases land values around 20 per cent.

This means that council rates already reflect differences in the level of services available to properties to some extent. On average, a large farm/lifestyle property close to urban areas will pay 2.3 times the rates per hectare than a large property in remote areas. Small properties close to urban areas pay twice as much rates per hectare than remote ones.

Large properties still pay a greater proportion of farm/lifestyle rates compared to small ones. They make up 5% of farm/lifestyle properties but pay 10% of the rates collected from these properties. This is because larger properties have higher valuations than small ones. Under the proposal, the share of farm/lifestyle rates paid by large properties drops to 7.3%.

Do some groups of farm/lifestyle properties find it easier to pay rates?

Nearly 70 per cent of lifestyle properties are located in areas that recorded average household incomes above $80,000 in the 2013 census. This compares with 40% of residential properties.

Farms and other rural industries are run as businesses. They have tax advantages that residential properties do not. They can treat rates as an expense and claim back GST. This sees a farm effectively paying two-thirds the rates of a same value lifestyle property. A farm also pays one third of the rates paid by a rural business with the same valuation. This is because properties classed as rural business (such as shops in rural areas) are charged a higher rates differential.

Why use size? Why not apply differentials based on land use?

A size based differential has the advantage of being an objective measure that is easily assessed. The proposed categories broadly differentiate between the predominately small residential lifestyle properties and predominately large economic rural industry properties.

The disadvantage is that the size categories are arbitrary. There will be no difference in level of council services for two adjacent same use properties, one 5.9 hectares and one 6.1 hectares. It also does not differentiate between residential properties and rural industry – a small market garden would be rated the same as small lifestyle property.

Auckland Council's general rate

Properties are charged a general rate based on the total value of the property (capital value or CV). The general rate (along with the fixed general charge) pays for those council services that are considered to benefit the community generally.

Rating category	General Rates differential
Urban Business	276%
Urban Residential	100%
Rural Business	248%
Rural Residential	90%
Farm/lifestyle	80%

In deciding how to charge ratepayers the council considers whether some groups of ratepayers benefit more from council services or find it easier to pay rates. The council applies differentials to the general rate so some groups of ratepayers pay more, and other less. This table shows how much groups of ratepayers pay, compared to an urban residential property.

Business properties are charged more than urban residential ratepayers. This is because businesses place greater demand on some council services, such as roading and stormwater. They can also treat rates as a business expense and claim back GST, so will pay less than a residential property charged the same amount.

Rural properties are charged less than urban properties because they have less access to or place less demand on council services such as public transport and stormwater. They are also further from the council's urban based facilities.

Rural residential properties are charged more than farm/lifestyle properties because they are generally located in towns and often have a higher level of council services, such as footpaths, and stormwater services. Larger towns may have facilities like libraries and swimming pools.

How do Auckland Council rates for farms compare with other councils?

An Auckland farm with a capital value of $3,000,000 and land value of $2,000,000 would pay $6,420. The same property would pay the following rates in these council areas:

Far North	$12,350	Taupo	$9,803	South Wairarapa	$5,990
Kaipara	$10,210	New Plymouth	$6,530	Tasman	$8,170
Waikato	$8,990	Horowhenua	$6,950	Waimate	$6,070

(Rates include district and regional rates. Excludes water, wastewater, and rubbish/recycling rates.)

What do you think?

Should all farm/lifestyle properties be rated the same?

Or is it fair to charge small farm/lifestyle properties more and large farm/lifestyle less?

Do you have any other comments on how Auckland Council rates rural properties?

Send us your feedback:

Online:	**shapeauckland.co.nz/consultations/rural-rates-2015**
Email:	**RuralRates@aucklandcouncil.govt.nz**
In writing:	**Rural rates review**
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