LAKE *ROTOITI* COMMUNITY ASSOCIATION
INCORPORATED
✦ Rotorua Lakes District · New Zealand ✦

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Copy to: Mayor Tania Tapsell and Councillors

Request for review of the current General Rate structure as it applies to rural *(lakes)* residential properties, with view to reinstating an appropriate differential.

Lake Rotoiti Community Association Inc (LRCA), along with the Rotorua Lakes Community Board and other Lakes Ratepayer/Community groups, has for over three decades continually opposed Council over its rating policy with regard to residential general rates, specifically in the application of a differential for the rural *(lakes)* residential sector. This request seeks a review of the current position based on the long-prevailing factors detailed below, with a view to reinstating an appropriate differential.

1. Summary of Request

This submission asks Council to formally review the current general rate on capital value, which since 2018 has applied a single, undifferentiated rate to every residential property in the district regardless of location — treating urban residential and rural *(lakes)* properties, most of which are some 30–90km (round-trip) from the city, with far fewer services and amenities, and no public transport, identically.

Specifically, this submission requests that Council:-

- Undertake a documented review of the benefit and service disparity between urban and rural *(lakes)* residential ratepayers, consistent with Section 101(3) of the Local Government Act 2002 (LGA) and Schedule 2 of the Local Government (Rating) Act 2002 (LGRA);
- Reinstate a general rate differential for the currently defined 'rural *(lakes)* residential' category, confirmed by Council's existing rural boundaries; and
- Consider a transparent, systematic mechanism for calibrating that differential going forward, e.g. a fixed fraction of the measured rural-over-urban residential capital value premium at each triennial revaluation (as proposed in Para 4), subject to a protective threshold tested against actual service-availability evidence.

2. Background and Legislative Context

The request is guided by Sections 13 and 14 of the LGRA which expressly permit Councils to set the general rate differentially, with categories defined by reference to matters in Schedule 2 including the use of the land, its location, and the provision or availability of Council services to it.

Council currently exercises this power for the Business category (a 1.72 relative differential) and within the Business and Economic Development targeted rate, as well as various differentials relating to other targeted rates. The removal in 2018 of any residential differential based on location and service delivery was the culmination of an incremental and long-deliberated policy choice.

Additionally, Section 101(3) of the LGA requires Councils, in funding any activity from rates, to consider who benefits from that activity, over what period, and the extent to which the actions of particular groups create the need for it. It is requested that Council apply that test properly to the rural *(lakes)* residential sector, which this submission maintains it has not done since at least 2018.

3. Grounds for the Request

3.1 A documented benefit mismatch

Rural *(lakes)* residential properties sit outside the urban rating boundary and clearly have materially less access to Council-funded infrastructure and amenity than urban residential properties, including:-

- Fewer footpaths, kerbing, and/or street lighting in most areas;
- No public transport, requiring private vehicle travel for residents to access employment, education, health, and shopping needs (a 30–90km round trip for around 85% of rural property owners);
- Significantly reduced access to Council-funded recreational, cultural, and civic facilities (libraries, museum, pools, venues, CBD retail) concentrated in the urban area.

It is contended that under LGA Section 101(3), rates funding for activities that predominantly favour and benefit the urban area should not fall equally on ratepayers who are clearly disadvantaged from accessing those activities. The current undifferentiated general rate does not reflect this distinction.

3.2 Capital value does not provide a proxy for equal benefit in this context

The general rate is levied on capital value (CV), which for rural *(lakes)* properties is substantially elevated by landscape and lake amenity rather than by proximity to Council-funded services. Council's own revaluation data shows rural *(lakes)* residential average capital values have run continuously at 50–85% higher (with *lakes* at the higher end) than average urban residential capital values in every revaluation cycle since 2007, with the premium reaching as high as 124% under the land value system that preceded it.

Under the current undifferentiated general rate, this persistent valuation premium means rural *(lakes)* ratepayers pay proportionally more in absolute rates dollars than urban ratepayers, precisely because of a value premium unrelated to service consumption, while simultaneously receiving materially less in Council-funded services and infrastructure (Para 3.1). This is not a marginal imbalance, nor can it be fairly equated to broad taxation principles. It is compounded by a significantly higher relative payment for lower relative benefit — and can be viewed as of similar structural critique made independently by the 2007 Local Government Rates Inquiry (the Shand Report), which recommended that rating should better reflect 'value in use, rather than potential sale price', specifically in relation to land where CV and service access diverge.

3.3 A rural residential differential existed for most of the amalgamated Council's history

General rating differentials for rural residential existed continuously for 40 years - from the 1978 City/Council amalgamation, and continuing beyond the 1989 Local Government reforms until it was completely removed in 2018.

Council's own rating reviews through the 1990s and early 2000s variously concluded that a non-differentiated system for urban/rural residential *'could not be made fair and workable'* and *'would be unworkable with the District's diverse demographics'* — a considered formal position gradually compromised and finally reversed in 2018 which, for the most part, seemed to lack any credible grounds or documented reassessment towards establishing that the original rationale no longer applied.

In 1990, following serious objection from rural residents, Council resolved to maintain a differential using the measured average land value premium of rural over urban residential properties at the time (51.5%) as its basis — a discount applied because rural (particularly lakeside) land was valued greater than urban land on average, and on the view that the premium reflected lake amenity and scarcity rather than equal or superior access to Council services. Under the land value system that applied until 2007, this premium grew further, reaching as much as 124% at later revaluations.

The 2007 shift to capital value moderated but did not eliminate these divergent valuations, with rural *(lakes)* average residential CV continuing to run at 50–85% higher than urban residential equivalents following every cycle since. Notwithstanding this persistent premium, the differential has been moved persistently in the opposite direction — shrinking steadily from 1990 toward full equalisation in 2018.

The differential was progressively reduced under succeeding Long-Term Plan schedules, before being raised to 1.0 (full equalisation) in 2018. Council's own 2018/28 Long-Term Plan consultation document states the rationale for this final step as:-

> *'This category is seen to receive the same or equal services as in the residential (urban) category and therefore should not receive any discount.'*
>
> *'The (urban) residential sector has had some large property value increases as a result of the revaluations and **it can be debated** whether the rural residential sector should receive a discount. **Many would argue** the rural residential sector receives benefits and has the same access to all the same services as the (urban) residential sector.'*

These statements infer that Council presented this position as disputable **('can be debated', 'many would argue')**, not as evidential findings. The decision was also contested at the time with the Strategy, Policy and Finance Committee resolution of 17 May 2018 recording that both the lakes and rural community board representatives formally requested their votes against the change be recorded.

3.4 Council's own promised review does not appear to have been completed

The 2018/28 Long-Term Plan consultation document states plainly: *'A full rating review in this term of council will address the differentials in detail and assess the benefits or not of differentials on rating sectors'.* This action was essentially prompted by a specific request from the Lakes Community Board to re-evaluate the projected removal of the urban/rural residential differential.

Council's minutes of 13 December 2018 confirm that a report titled 'Rating Review 2018 — Outcomes of the initial review phases' was duly received by full Council, which resolved four specific actions:-

- reducing the Uniform Annual General Charge over time;
- commencing enforcement of short-term accommodation rating rules alongside further sector engagement;
- commencing research and engagement on the rating of Māori freehold land; and
- development of public education material on the rating framework.

None of these actions relate to the urban/rural residential differential question the review had explicitly been intended to address. The review process created new or reconsidered differentiated rating categories for short-term accommodation, and flagged further work on Māori freehold land. The absence here of any resolution on the rural/urban residential differential is regarded as a specific, documented gap.

3.5 Independent validation: the Local Government Commission's 2006 determination

During a Representation Review, Council initially declined to establish a Lakes Community Board. That decision was appealed to the Local Government Commission (LGC), which overturned Council's decision in November 2006, with the Board taking effect from 2007. The considered evidence, following its own review process, found the rural *(lakes)* community to be a distinct community of interest, on grounds that directly reflect the case set out in this submission:-

- isolation from city and service centres;
- residents who 'would not readily relocate';
- services described as 'limited... with residents having to travel significant distances to obtain the necessities of life';
- no general public transport;
- schooling generally unavailable within the community; and
- a valuation profile reflecting 'land prices in other holiday areas throughout New Zealand' rather than aligning with Rotorua property values generally.

The LGC's independent determination on representation grounds recognised the Rotorua lakes communities as sufficiently distinct, isolated, and under-served to warrant its own elected board. Council's general rate structure has seemingly overlooked any reconciliation with that finding.

3.6 Social and Cultural wellbeing considerations

There has often been an assumption that rural *(lakes)* ratepayers are uniformly well-placed to absorb an undifferentiated rates bill. Lakes communities, particularly around Rotomā, Rotoehu, and Rotoiti, comprise significant numbers of lower-middle socio-economic families, including tangata whenua and long-established owners who have lived in these areas across generations. A number of these own lakeside property that has experienced remarkable increases as a result of the 2023 revaluations. Furthermore, the significant gap in general rating between property owners with extreme lakeside land valuations and the majority of others has compounded the inequities beyond broad taxation principles.

A rating structure that seemingly takes no evidential account of these dimensions works against the equity objectives of Section 101(3) of the LGA which requires Council to have regard to 'the overall impact of any allocation of liability for revenue needs on the community'.

3.7 Lakeside Sewerage funding structure does not offset the case for a differential

Council has tempted to treat the funding arrangements for lakeside sewerage schemes as sufficient in themselves to answer the case made in this submission. This view is not supported by actual evidence.

The equalisation of wastewater operational and maintenance charges across the whole district was explicitly justified by Council as recognition of past contributions (100 percent via general rates) by rural *(lakes)* ratepayers made for over a decade toward urban sewerage operations (including the major $11m loan for the 1991 treatment plant upgrade) before the implementation of any lakeside scheme. Rather than a gesture of goodwill toward new scheme beneficiaries, this was considered as partial acknowledgement of a historical cross-subsidy.

Secondly, the capital cost impositions on connected lakeside property owners — approximately 34% of total scheme costs, with individual upfront contributions ranging from $4,180 to $22,486, and $36,600 for the still-incomplete Tarawera scheme — is a very substantial private cost that not only undercuts suggestions that these owners have been treated generously, but should be regarded as representing a comparative share of the collective costs towards restoration of our degraded lakes.

These schemes were promoted and funded primarily as one of a number of **water quality interventions of district, regional, and national significance**. Protecting the lakes is recognised as a widely-supported public good benefiting tourism, environmental outcomes, public health, and Rotorua's identity as a whole.

In essence, the implementation of lakeside sewerage schemes do not simply represent a private benefit or amenity exclusive to the connected properties. The capital contributions of Individual property owners are seen to include adequate proportionate equity in terms of meeting these determined strategic outcomes. It is maintained that lakeside sewerage funding structures should not be regarded as offsetting towards the general rate differential sought in this request.

4. Proposed Outcome and Mechanism

This submission proposes that Rotorua Lakes Council:

- Restore a defined 'rural *(lakes)* residential' general rate differential category, established under the LGRA Sections 13–14 and Schedule 2 (location, and provision/availability of service), and set initially by reference to a documented section 101(3) funding needs analysis of actual service and benefit disparity between urban and rural *(lakes)* residential ratepayers.

Pending Council's consideration of a workable option, we would respectfully suggest the following proposal as a starting point for discussion:

- An ongoing calibration mechanism for the differential's size, set as a fixed fraction of the measured rural-over-urban capital value premium and recalculated at each triennial revaluation. Because this premium has been perpetually and directionally stable throughout the available record — as described in Para 3.3 — such a formula would not only maintain proportionate sharing of the cost burden, but also guard against the kind of erosion that occurred between 1990 and 2018.

  As specified in Para 1, this should be concurrently paired with a floor that can only be lowered following a documented finding that service and distance disparity has narrowed in relative terms, consistent with the direct service and benefit evidence in Paras 3.1 and 3.5.

4.1 Illustrative fiscal impact, based on Council's 2023 revaluation data

To demonstrate that the mechanism proposed above is fiscally modest and workable, this has been modelled using Council's November 2023 revaluation data for improved residential land. While this submission specifically advocates for rural lakeside settlements, it is emphasised that the basic case for a differential extends to the whole rural residential sector. 4,317 rural residential properties carry a total capital value of $4.38 billion (average $1,013,705 per property) — 64.8% higher than the average across 19,072 urban residential properties with a total capital value of $11.73 billion ($614,985 per property).

Commissioned modelling below holds the total residential general rate as revenue-neutral, consistent with how Council actually sets the rate in the dollar each year, and uses the current 2026/27 Base rate of $0.0037369643 per dollar of capital value as the starting point. For each illustrative differential — set at a fraction of the confirmed 64.8% rural-over-urban capital value premium — the table shows the resulting differential and multiplier, the average dollar impact on both rural and urban property, and the increase to the base rate in the dollar required to keep total revenue unchanged:

Rotorua Lakes Council — General Rate Differential Redistribution Modelling

Inputs (from Council's supplied data)		
Urban Residential — number of properties (Valuation No. 1110)	19,072	*Source: RLC November 2023 revaluation data, improved residential land*
Urban Residential — total capital value ($)	$11,728,986,000	*Source: RLC November 2023 revaluation data*
Rural Residential — number of properties (Valuation No. 1210)	4,317	*Source: RLC November 2023 revaluation data (whole rural residential sector, incl. lakes)*
Rural Residential — total capital value ($)	$4,376,163,300	*Source: RLC November 2023 revaluation data*
Current general rate multiplier ($ per $1 of CV)	0.0037369643	*Current 2026/27 general rate (Base) multiplier*

Derived figures				
Total residential CV (Val No 1110; 1210)	$16,105,149,300			
Urban average CV per property	**$614,985**			
Rural average CV per property	**$1,013,705**			
Rural-over-urban CV premium (%)	**64.8%**			
Total residential GR revenue ($), @ current rate	$60,184,368			

Scenario modelling — differential set as a fraction of the rural-over-urban CV premium

Fraction of 64.8% gap	Differential	New gen rate multiplier	Base rate change	Avg rural bill: current → new	Avg urban bill: current → new	Total redistributed
30%	0.805	0.0039455	+5.58%	$3,788 → **$3,222** (minus $566 / 15%)	$2,298 → **$2,426** (plus $128 / 5.6%)	$2.44m
40%	0.741	0.0040203	+7.58%	$3,788 → **$3,018** (minus $770 / 20.3%)	$2,298 → **$2,472** (plus $174 / 7.6%)	$3.32m
50%	0.676	0.0040979	+9.66%	$3,788 → **$2,807** (minus $981 / 26%)	$2,298 → **$2,520** (plus $222 / 9.7%)	$4.23m

Notes:

1. Modelling holds total residential general rate revenue constant (revenue-neutral), consistent with how Council actually sets the rate in the dollar each year.

2. The 'Resulting differential' is applied to Rural Residential properties; Urban Residential remains as the Base category and absorbs the corresponding increase in the base rate.

The modelling shows a marked asymmetry enabling it to inform Council's consideration of this proposal. Reallocation of the considerably smaller discounted rural CV pool is redistributed across the large urban base so that even our favoured 50% of the measured valuation gap produces only a moderate increase per year to the average urban general rate bill while delivering a fairer and more equitable average rural bill.

Noting that rural ratepayers would still be making higher relative payment overall due to value premiums, this modelling is offered to demonstrate that such meaningful correction is achievable without a disproportionate impact on urban ratepayers, and to provide a solid, data-grounded starting point for analysis which would ensure an enduring and objective methodology into the future.

5. Anticipated Council Responses, and our considered Position

This submission anticipates several responses Council may raise, and seeks to address them directly:

- That the 2007 Shand Report recommended abolishing differential rating powers altogether.

  This recommendation was never adopted into legislation, and Council itself has continued to actively use differential rating. It is noted that the Panel's substantive objection was to differentials being set 'arbitrarily without explicit justification in terms of the services to be funded'. This submission proposes a transparent, evidenced approach, as opposed to the unexamined differential the Panel criticised, and which paradoxically appears to have been epitomised in Council deliberations.

- That rates are a tax on value, and value differences between sectors are not, on their own, a valid basis for a differential.

  It is agreed that value alone is insufficient justification, and this submission bases its request primarily in direct, documented service and benefit disparity (Paras 3.1 and 3.5). It notes that Schedule 2 of the LGRA expressly permits differentials based on location and on the provision or availability of a service, i.e. benefit-related grounds distinct from raw capital value. Legislated rating framework clearly contemplates benefit-based exceptions to pure value-proportional rating.

  The 1990 precedent used the rural/urban value premium as acceptance of an amenity-driven valuation divergence disconnected from service benefit. The value-based formula proposed for calibrating the size of a differential (Para 4) is proffered on the same basis, as an administrative mechanism once the underlying benefit-based justification is independently established

- That rural areas may cost more to service for some activities, such as roading.

  It is accepted that this may be true for specific activities but must be considered against overall levels of service and application of the capital investment programme. As noted previously, our communities do not seek high levels of infrastructure with most needs generally revolving around maintenance and upgrades to our limited public facilities, i.e. reserves, footpaths, playgrounds, toilet blocks, boat-ramps and jetties. Long Term Plan funding schedules show that the returns in terms of enhancements and asset maintenance remain minimal when compared to overall planned expenditure across the district, while investment in lakeside sewerage schemes has been specifically dealt with in Para 3.7.

  Any higher cost of servicing rural infrastructure should be weighed against those imbalances rather than a reason to treat the general rate, which funds predominantly urban-centred amenity, as requiring no differentiation at all.

- That the urban/rural boundary is difficult to define and maintain and that development over time has impaired the validity of the existing boundary.

  There is little evidence to support this view with the level of services to rural residents and their accessibility to city facilities largely unchanged over several decades. There have previously been (misleading) attempts to match Ngongotahā with Ōkareka (the closest lakes community) which have few similarities, one being a virtually self-contained satellite town and the other a smaller rural community with relatively little in the way of commercial services or public facilities and amenities, less overall infrastructure, and no public transport, necessitating private travel to the city for most essential requirements.

- That lakeside property owners have chosen their location and can generally afford the associated rates and capital charges.

  The submission addresses this directly in Para 3.6. A significant proportion of affected ratepayers are long-established tangata whenua and families, many in the lower-middle socio-economic class, or elderly absentee owners reliant on fixed income. In any event affordability and equity are distinct tests under LGA Section 101(3) — that a charge can be paid does not establish that it is fair.

6. Conclusion and Request

This submission asks Council to recognise that the preordained removal of the rural (*lakes*) residential general rate differential in 2018 was not supported by Council's own concurrent record with a rigorous or transparent assessment of benefit disparity, and that reviews leading to that decision appear to have disregarded the requirements of LGA Section 101(3).

This position is further reinforced by the Local Government Commission's own independent 2006 determination which recognised the rural lakes community, in particular, as a distinct, isolated, and under-served community of interest.

Given the scale of documented disparity in services received, and the overall characteristics of rural and lakes communities, which have less commercial services, less public infrastructure, and more limited access to urban amenities due to distance and transport constraints — illustrated in detail across the commentary in Para 3 — this submission respectfully requests that Council commission a proper review of the current general rate structure as it applies to the rural *(lakes)* residential sector, with a genuine option of reinstating an appropriate differential.

We would welcome an opportunity to be heard in support of this submission and are available to speak to it at a mutually convened hearing.

Sincerely

P Browning

Peter Browning
Chairperson

J Stanton

Jim Stanton
Facilitator – Rates Matters

cc: Chair, Rotorua Lakes Community Board
Chair, Rotorua Rural Community Board