Appendix One – In scope information

Excerpt from briefing *27th Central-Local Government Forum: Building the foundations for the future (25 February 2021).*

Provided to the Minister of Local Government

Excerpt start

Supporting local government to reduce land banking

1. The term 'land banking' covers a wide range of scenarios. The concern for the Government is when people hold off making land available for development because they expect to make greater capital gains in the future.
2. Data from 2018 estimated that between 5% and 20% of land zoned for residential development in larger cities is not developed. This land is either vacant or has very limited existing development on it.
3. This is not an estimate of land banking as we do not have information on why landowners have not developed the land, as it is difficult to identify why people are not making it available. Some are holding on to land for legitimate reasons (e.g. accumulating pieces of land over time for a larger development).
4. Speculative behaviour is often a symptom of bigger problems, such as:
   - a fundamental shortage of housing supply
   - planning rules that limit how much, and the extent to which, land can be developed
   - a lack of the infrastructure needed for development
   - the cost of holding the land is so low there is a lack of incentive to develop it

Amending how existing rates are calculated

5. DIA prepared advice on changing to a land value basis only for rates. DIA consider that a change to land value rating only would be unlikely to act as a significant discouragement to land banking and have undesirable consequences.
6. DIA present several considerations that support this view:
   - The Productivity Commission has noted that capital value rates create a disincentive at the margin to owners to invest in property improvements and put land to its highest value use. The disincentive is because the improvements will increase the amount of taxes payable by the owners. However, other factors especially income tax settings, may outweigh any incentive the rating system provides to develop land (e.g. if income made from land acquired with the intention to dispose of it is taxable).

- We cannot easily project what effect a shift to land value rating might have on the holding costs for vacant residential land.
- All ratepayers would be affected by the change, not just the owners of residential development property. There are some ratepayers that have capital value but no land value. These are utility companies with the right to locate in or on roads. The Courts have ruled that these utilities are rateable. Limiting local authorities to land value only rating would therefore narrow their rating base.
- Land value rating reduces the incentives for local authorities to support new construction - under a capital value rating system new construction increases council income without councils having to increase their tax rates – it is the equivalent of the fiscal drag benefits the Crown gets as income tax payers move into higher income tax brackets. Most councils are very conscious of this effect. Land value rating would greatly reduce this effect, reducing local authority incentives to support new development (other than subdivision).
- 9(2)(g)(i) [redacted]

Excerpt end