

6. INDEPENDENT MARKET VALUATIONS OF RESERVE CONTRIBUTION

RR 10844

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Corporate Plan Output: Parks Management and Reserve Contribution	

The purpose of this report is to inform the Committee of the results of a trial period of reserve fund valuations undertaken by Quotable Value New Zealand and to seek approval to continue using independent market valuations.

Developers applying for subdivision consent are required to provide a reserve contribution calculated at 7.5% of the sale value of vacant residential properties, or 10% of the sale value of vacant industrial properties. Traditionally, subdivision applicants have provided valuation figures for the Subdivisions Team to analyse, or Council staff have had to check properties and assess their values. In some cases Subdivisions staff have challenged the values provided by applicants, but in the majority of cases, the developers' figures have been accepted as correct.

A number of problems have been identified with this internal system of determining reserve contribution:

- Staff assessing the subdivision applications do not specialise in valuation and are not necessarily trained, professional valuers,
- Resources and information available for valuation are limited,
- Several different staff are involved in assessing values which results in inconsistencies,
- The Council receives less reserve contribution than the maximum formula allows,
- Developers whose figures are undervalued gain an advantage over those whose reserve contribution has been based on more precise information,
- Staff are often engaged in disputes regarding values but have no professional back up.

In July 1999, Quotable Value New Zealand (QV) began a two month trial period for providing desktop reserve fund valuations. The trial period has been very successful and feedback from the Subdivisions Team administering the contribution process has been very positive. Financial, equity, time, resource, and independence factors have all shown substantial improvement compared to previous practices.

FINANCIAL BENEFITS

A total of 95 properties were assessed by QV during the trial period, 67 of which gave an assessment of value in the subdivision application. From these 67 assessments we have analysed the following statistics.

Number of properties within 5% of the QV assessment:	25 (37%)
Number of properties 5-10% higher when assessed by QV:	11 (16%)
Number of properties 10-30% higher when assessed by QV:	16 (24%)
Number of properties more than 30% higher when assessed by QV:	15 (22%)

The total difference in value assessed over the 67 properties was approximately \$2,500,000. Assuming 25% of properties would have been challenged and increased by the Subdivisions Team, this leaves a difference of \$1,875,000.

Approximately 74% of the sites in the sample were new sites, with reserve credit available for all the existing titles.

Using the above assumptions we calculate a conservative revenue gain for the two months trial period as follows:

Difference in value assessed	\$ 2,500,000
Excludes properties that would have been altered by CCC	x 75 %
New sites only, excludes reserve credit	x 74 %
Residential rate only ignoring industrial premium	x <u>7.5 %</u>
Revenue gain	= \$ 104,000
Cost for completing 2 months valuation work	- \$ <u>6,450</u>
Net gain for two months	= \$ <u>97,000</u>

This equates to a gross revenue gain of \$624 000 per year at an estimated cost of \$38,700, resulting in a possible net revenue gain of \$582 000 per annum.

EQUITY ISSUES

Using independent market value assessments ensures that valuations are fair across all subdivisions and that subdivision applicants who undervalue their properties are not gaining an advantage. Valuations are standardised and consistent.

TIME AND RESOURCE SAVINGS

Using independent market value for subdivision valuations frees up Council staff and resources that would otherwise be needed for checking properties. There have also been fewer inquiries made of the Subdivisions Team over values now that an independent assessment is given.

INDEPENDENT ASSESSMENT

Quotable Value provides an independent assessment and does not have any conflicts of interest when carrying out an assessment. During the trial period, Quotable Value received two requests for further information on values. The information was supplied promptly and no further discussion was required. Discussion over value previously encountered by the Subdivisions Team has been minimised.

These factors indicate an acceptance of the new system and its fairness.

SOURCE OF FUNDS

It is intended to over expend the Parks Unit Professional Fees budget to accommodate the valuation costs. While total costs can only be estimated at this stage, it is possible the \$80 000 budget may need to be increased by \$40,000 to \$120,000. This is balanced against the additional income of \$582,000 on the reserves contribution budget.

The Director of Finance comments:

“In view of the additional revenue accruing as a result of the increased valuation costs it is reasonable to accept this over-expenditure.”

SUMMARY

The new process for assessing the values for reserve funds has been very successful. The financial benefits and savings to the Council are substantial. The new system is significantly more equitable and therefore fairer to all subdividers and ratepayers. The independent assessments of value are cost effective and have been accepted by all subdivision stakeholders.

Recommendation: That the possible over expenditure of the Parks Unit’s Professional Fees budget by approximately \$40 000 per annum, to continue with independent market valuations of new sections for subdivision reserve contribution revenue purposes, be recommended to the Strategy and Resources Committee for approval.

Chairman’s Recommendation: That the above recommendation be adopted.