

### 3. RECREATION AND SPORT ORGANISATIONS – RATING, GROUND CHARGES & LEASE COSTS

<b>Officer responsible</b> Leisure Manager, Financial Services Manager, Parks Manager	<b>Author</b> Alan Bywater - Team Leader, Leisure Planning and others. DDI 372-2430
Corporate Plan Output: Sports Liaison & Development, Rates Administration and Regional Parks	

The purpose of this report is to review the rating provisions, ground and lease charges for recreation and sport organisations and has been prepared at the request of the Chairman of the Strategy and Resources Committee. The report is the outcome of recent meetings of representatives from the Leisure, Parks, Property and Financial Services Units convened by the Leisure Manager. This report has also been referred to the Parks and Recreation Committee but had not been considered by that Committee at the time this agenda was being prepared. The Committee's recommendation will be tabled at the meeting.

#### INTRODUCTION

This report is in response to two different requests received recently.

In June 2000 the Strategy and Resources Committee received a report that included a request for increased rates relief from the Canterbury Bowling Club. In granting the request for a two year period the Committee also requested that the Financial Services, Leisure, Property and Parks units set up a team to work through the issues relating to the rating of sports and recreation organisations and to prepare a policy for Council consideration.

The Financial Policy Review Sub-committee reviewing the Council's Funding Policy noted that about 5 years ago rental charges for junior sports had been abolished and recommended to the Parks and Recreation Committee that consideration be given to abolishing sports ground rental charges and lease rentals for sports clubs which are not engaged in profit-making activities.

In the opinion of the officers involved it would be advisable to consider these two issues in parallel and along with a number of other issues rather than separately due to the inter relationships between them.

The Chairman of the Strategy and Resources Committee has provided a strong indication of a desire that the above reviews should be directed towards the reduction of the financial burden on sports and recreation organisations.

The Council's Recreation and Sport Policy states:

*'The Christchurch City Council is committed to making a significant and sustainable contribution to the quality of life of its residents, particularly its children and youth, by supporting a broad range of recreation and sports services, facilities and programmes'.*

Amongst the beliefs and values the policy states *'that the Council must manage its limited recreation and sport resources, including human, financial and physical assets, in a manner that ensures equity, efficiency and effectiveness'.*

Consequently in reviewing lease charges, rates and sports ground charges it is important that issues of equity, efficiency and effectiveness are considered.

#### CHARGES FOR OCCUPATION OF RESERVE LAND – PROPOSED POLICY 1998

The leasing conditions and charges for sports clubs and community groups occupying the Council's land vary widely. This is primarily a result of the various policies adopted by the Christchurch City Council's predecessor councils. Work has been going on since 1997 to establish a more equitable leasing policy.

Work to develop a more equitable policy to date has focused on:

- The need to account for parks and reserves assets in a transparent manner
- Fulfilling the Council's obligations under the Local Government Amendment Act No. 3 1996 (funding policy).
- The need to be aware that most recreation and sports organisations are reliant on voluntary labour as well as liquor sales, sponsorship and in some cases hiring of facilities to survive.
- A recognition that in many instances the recreation and sports organisations have invested in improvements in the properties and carry out the maintenance required on the sports surfaces at no cost to the Council.

- A recognition that whilst technically sports and recreation organisations that lease Council land are able to sell their facility assets, in reality the constraints imposed by the Reserves Act makes this very unlikely in most cases.
- The constraints and provisions of the Reserves Act and Local Government Act on leasing arrangements.
- Balancing recreation and sports organisations' rights to exclusive occupation under a lease and the public's right to access to parks and reserves land.
- The need for a degree of equity with similar organisations on freehold land.
- The need for a charging policy that is open and able to stand up to public scrutiny.

In 1998 the Parks and Recreation Committee approved a draft policy on lease charges (for groups occupying approximately 1 hectare or less) to be released for public consultation and the convening of a hearing panel to listen to the clubs submissions. This policy excluded organisations leasing large areas and organisations leasing Council stadia etc.

A discussion document was sent to all sports clubs and community groups affected by the proposal in 1998. In response to this 79 submissions were received on the proposal, there being an understanding that a Parks and Recreation Committee panel would hear those that wished to speak to their submissions. The submissions received were summarised in preparation for a hearing. The Parks and Recreation Committee has not received a summary of the submissions. However, informal feedback led elected members to the conclusion that the proposals were not acceptable. The rates component of the proposal in particular generated considerable opposition.

In summary the proposed policy:

- Made a distinction for charging purposes between the building footprint leased and the green space leased.
- Proposed a minimum rental charge for small areas equivalent to 80% of the administration costs associated with leasing a property.
- Proposed charging full rates on the parts of a property subject to a liquor licence with a 50% remission applied to the other areas (ie. the same rating policy as for similar groups on freehold land).
- Used the following formula to calculate the level of rent for the building footprint:

$$(A \times B \times 5\%) \times 80\%$$

Where            A is a per square metre value of reserve land (the average government valuation for a sample of reserves).  
                       B is the area of land in square metres  
                       5% is the percentage financial return on the land value.  
                       80% is applied to reflect the private benefit enjoyed by the club (20% being the general benefit provided to the public by the club).

- Used the following formula to calculate the level of rent for green space:

$$(A \times B \times 5\%) \times 20\%$$

Where:            As above with 20% applied to reflect the private benefit enjoyed by the club (80% being the general benefit to the public provided by the club).

NB: The 80%:20% split used in the above formulae was based on equivalence with work carried out by the Revenue Study Working party in relation to sports parks which also applied to grounds charging levels. The system to establish lease charges was based upon establishing equivalence between those sports clubs and community groups leasing parks and reserves land and those sports clubs and community groups paying a rental for using sports fields.

To gauge the financial effects of the proposed policy a sample of 18 properties (or 18% of the total) was sampled. This resulted in 94% of cases having to pay more in total charges (ie. combined rental and rates) and a 133% increase in total charges. This increase was not acceptable to many clubs.

#### **PROPOSED NEW LEASING CHARGES**

A transparent and robust policy for establishing lease charges for sports clubs and community groups was developed in 1998 as a result of considerable work by staff. There is potential within this proposed approach for elected members to reduce the financial impact of lease charges on sports clubs and community groups by altering the 80%:20% ratio in one or both the formulae.

This report is focused specifically on recreation and sports organisations. There are a number of community organisations (Plunket, playcentres, kindergartens, scouts etc) currently leasing Council land. It is intended to consider that the lease charging policy for these groups should be considered separately. Consequently the proposals laid out in this report exclude these groups.

## RATING

Under section 179(2) of the Rating Powers Act (1988) a mandatory 50% remission of rates is applicable on land 'owned or occupied by or in trust for any society or association of persons, whether incorporated or not, and principally used for games or sports other than horse racing, trotting, or dog racing, but not including land in respect of which a club licence under the Sale of Liquor Act 1962 is for the time being in force'. The Act also enables the Council to grant a greater remission of rates over and above the mandatory 50% should it think fit.

The Council's practice in this area is to levy full rates for those parts of the relevant recreation and sports organisations premises that are licensed, with the 50% mandatory rates remission being given on the remainder of the property used for sporting purposes.

Currently there is a significant difference between the way in which sports and recreation organisations, covered by the relevant clause in the Act, located upon Council owned and controlled land and those located on private land are treated. For those not on Council land the Council's rating policy as outlined above applies (with a few exceptions for primarily historical reasons, e.g. Wilding Park, where no rates are collected). Those recreation and sports organisations that lease Council land however are not currently required to pay rates (with a few exceptions, e.g. English Park and Rugby League Park). In most cases the lease arrangements make provision for the Council to charge rates but in practice rates have not been charged. However recreation and sports organisations on Council land are not supplied with an annual supply of rubbish bags. Any rubbish they wish to dispose of through the residential rubbish collection service provided by the Council has to be put in to bags purchased from the Council. In addition all recreation and sports organisations leasing Council land pay for water usage at the rate of 28 cents per cubic metre of water used. Charges made to each club therefore vary depending on usage.

Recreation and sports organisations leasing Council land are therefore not charged rates per se but are required to pay for their own rubbish collection and water usage.

There is currently a lack of equity in the way the rating policy is applied to recreation and sport organisations leasing Council land as opposed to those located on private land.

Options to reduce the level of rates levied on recreation and sport organisations include:

- Applying the current rates policy to sports clubs and community groups leasing Council land
- Increasing the level of rates remission to anything between the current 50% to 100%
- Rating only for water, storm water and sewerage.
- Providing rates remission for the licensed areas of recreation and sport organisations' premises.

The financial implications of these options are outlined in the following table.

	<b>Rec &amp; Sports Organisations on CCC Land</b> \$	<b>Rec &amp; Sports Organisations not on CCC Land</b> \$	<b>Total Rates Collected</b> \$
<b>Current Position</b>			
Rates from sports areas	14 549	169 204	183 798
Rates from licensed areas	0	35 032	35 032
Total	14 594	204 236	218 830
<b>Current Rates Policy Applied to all Rec &amp; Sports Organisations</b>			
Rates from sports areas	67 249	169 204	236 453
Rates from licensed areas	41 294	35 032	76 326
Total	108 543	204 236	312 779
<b>Provide 50% Rates Remission on Licensed Areas</b>			
Rates from sports areas	67 249	169 204	236 453
Rates from licensed areas	23 272	18 671	41 943
Total	90 521	187 875	278 396

<b>Separate Rates (Water, Storm Water &amp; Sewerage) only for All Areas with 50% Remission</b>			
Rates from Sports Areas	29 319*	80 232*	109 551*
Rates from Licensed Areas	4 472*	7 407*	11 879*
Total	33 791*	87 639*	121 430*

\* Estimated.

*N.B. All figures are inclusive of GST and Environment Canterbury component of rates.*

When the Rating Powers Act was enacted in 1988 the sale of alcohol was for many recreation and sport organisations a lucrative mechanism for raising funds. With the subsequent changes in attitude towards drink driving, rising consumer expectations of levels of comfort and changing socialising patterns, bars are at best marginal fundraisers for most recreation and sport organisations that have one.

It is often commented that those recreation and sport organisations located on private land have a physical asset (land and/or buildings) which can be sold on the open market whereas those located on Council land do not (there is no realistic resale market for these facilities). On the basis of this comment, it could be argued that a different rates policy should apply to those not on Council land. However, the relative resale values of properties on the Council's land and private land are taken account of in the rating valuations and therefore the rates that are levied. To realise the value of these assets the recreation and sport organisations would have to sell them which is likely to adversely affect their ability to provide for the recreation and sport needs of the community, i.e. the opposite to the desired situation from the Council's perspective. As indicated earlier in the report there is a current inequity in the rates collection practice between those recreation and sport organisations on Council-controlled land and those on other land. In the interests of equity officers believe that whatever rates policy is decided upon it should apply to both groups equally.

It is important that the combined effect of rating and lease charges is considered for recreation and sport organisations located on Council land.

Any changes to the Council's rating policy for recreation and sports organisations that result in higher levels of rates remission are likely to lead to calls for similar levels of remission from other leisure/recreation related organisations and potentially community groups and others.

## **GROUND CHARGES**

Ground charges are made for the sports codes that make use of the Council's sports fields during the relevant sports season. The charges are normally made to the relevant sports association, which allocates grounds to individual clubs and then passes on the relevant ground charges on to the clubs.

About five years ago the Council abolished sports ground charges for juniors. This has undoubtedly been to the benefit of those junior sports using the Council's sports grounds. It has created inequities with junior indoor sport (for which full charges are made in Council facilities) and with junior outdoor sports not played on Council sports grounds. It should be noted that charges are still made for junior indoor sport in Council facilities.

Where ground charges are made, the sports organisations concerned make use of the area exclusively for relatively short periods during the week, i.e. match and training times, with the area being available to the general public at other times.

Ground charges are currently recovered on the basis of 20% of the additional cost of providing the sports area (ie. over and above the costs of providing a piece of open park land). Consequently the costs are already significantly subsidised and the costs charged have a relationship to the level of additional maintenance required (so the charge for a cricket wicket is higher than for a rugby pitch).

The current scale of charges is as follows:

<b>Sports Code</b>	<b>Current Charge Per Ground Per Season</b>
Rugby and Rugby League	\$512
Soccer, Hockey (Grass)	\$512
Cricket	\$1335

In total the Council has budgeted to receive \$92 800 through grounds charges in 2000/1. In general grounds charges make up a small proportion of the costs faced by sports and recreation organisations.

Given the administration and costs involved in collecting grounds charges any further reduction in charges that does not abolish them completely is likely to mean that the revenue received will be exceeded by the costs to collect it. The only real option that exists therefore to reduce grounds charges further is their complete abolition.

There are a total of 102 cricket wickets located upon parks under the control of the Council, 15 of which are artificial. Presently the Council charges the associations a base rental of \$402 per wicket, plus a charge of a further \$933 to maintain the wicket if it is not maintained by a club. This charge is offset against the actual cost of maintaining the wicket, the current average cost being \$2500. The Council currently prepares 32 wickets; clubs preparing the remaining 55 wickets.

Part of the reason that some of the clubs prepare their own wickets, is that the wickets are prepared to a higher standard than the Council-prepared wickets. It is unlikely, if all charges for the hiring and maintenance of the wickets are removed, that many clubs would ask the Council to prepare wickets that they are presently preparing. However, if all clubs did, a further \$137,000 would need to be found with which to undertake this work. This would require further money to be allocated from the Council, the money not being able to be found within existing budgets.

The Council prepares other grass playing surfaces, where a specific charge is not made for the maintenance costs. e.g. rugby and soccer fields, so it could be argued that this should also apply to cricket wickets. The Council does mow and maintain the outfields of the cricket wickets, but the provision, and maintenance of cricket wickets to a good standard, requires specialised - knowledge, being labour intensive, hence the cost. Grass cricket wickets are the only specialist turf surfaces the Council is involved in preparing, all other specialist sport turf surfaces upon parks, bowling, croquet greens, and tennis courts are prepared by clubs. Officers therefore recommend that the charge for the preparation and maintenance of cricket wickets remain, even if sports ground rentals are removed.

Abolishing ground charges will mean that the differential between outdoor and indoor sports is increased, i.e. it will apply at a junior and senior level. If the Council wished to abolish charges for the hire of dry, indoor stadia for sport at its current level, the cost is estimated at around \$200 000 per annum. This figure excludes the costs of extending the policy to aquatic clubs' use of water space and the hire of squash courts. A policy to abolish charges for indoor sport is likely to increase the demand for Council indoor stadia amongst sports groups (and consequently the cost to the Council) at the expense of other venues.

In addition the differential between those outdoor sports for which the Council maintains the grounds, e.g. rugby, soccer and those sports codes that lease land and maintain the grounds themselves, e.g. tennis, bowls, croquet increases. However, this latter group has the advantage of exclusive use of the areas concerned.

#### **PROPOSED POLICIES AND FINANCIAL IMPACT**

To respond to the resolutions of Council committees and achieve the outcomes indicated by the Chairperson of the Strategy and Resources Committee officers propose the following:

- Use the standard approach to establishing lease charges previously proposed, i.e. based on a standard minimum charge and the two formulae detailed earlier in the report.
- For recreation and sports organisations leasing Council land to retain the existing practice of not charging rates but the organisations paying for rubbish collection and water usage.
- Charge water, sewerage and storm water rates only to recreation and sports organisations on private land for both sports areas and licensed areas to reduce the inequity between them and those on Council land.
- Abolish grounds charges for sports fields.
- In the case of cricket wickets to abolish the base rental of \$402 but retain the charge for maintaining the wicket, i.e the \$933.

To gauge the effect of the proposed rental policy it has been applied to the vast majority of recreation and sports organisations leasing Council land. The effect of this policy on rentals is to reduce the overall amount paid in rent by those on Council land from \$45,306 to \$28,158, i.e. a reduction of \$17 148. The policy will increase the rent for 51 organisations, reduce the rent for 95 organisation and rent will stay the same for two organisations. Attached is a spreadsheet providing more details of the effects of the proposed rental policy.

By adopting the proposals, rates for recreation and sports organisations from this source will reduce from the current level of \$218,830 to \$87,639 (inclusive of the Environment Canterbury component) a reduction of \$131,191.

The proposals do not completely remove the different way in which recreation and sport organisations on private land are treated for rating purposes compared to those on private land. The proposals do however go some way to reducing the level of inequity between the two groups.

The proposed rating policy, if adopted, will mean that organisations such as the Templeton Country Club, the Christchurch Speedway Association and Canterbury Car Club (Ruapuna Raceway), which are all located on Council land, would no longer be required to pay rates.

Those sports clubs located on privately owned land, such as the Russley Golf Club, Waitikiri Golf Club, etc, would only pay 50% of the separate rates which are levied. This would also apply to those organisations that hold a liquor licence. The proposed policy will also mean that those organisations that are located on privately owned land, and which are currently not paying any rates, would pay 50% of any separate rates that are levied. Canterbury Tennis (Wilding Park) is a good example of an organisation which is in this category.

This report only refers to City Council rates and not Environment Canterbury rates. Environment Canterbury would need to be advised of this Council's decision, as it affects clubs on privately owned land, and it would be required to resolve whether or not to remit their share of rates in respect of those clubs

The proposed abolition of grounds charges will result in a drop in the Council's revenue budgeted at \$92 800 to just under \$24 000 (revenue from charging for the preparation of cricket wickets).

The details above have outlined the financial implications of the proposed policies when applied to the current situation. It is more difficult to predict the changes to the behaviour of recreation and sports clubs as a result of the implementation of the proposed policies that could have further financial impacts on the Council budget. As well as a possible switch by some clubs to Council prepared wickets, there may be some switching of clubs currently using sports grounds not provided by the Council, e.g at schools or educational establishments to Council grounds, because of the policy of not charging for grounds usage.

#### **ALIGNMENT TO A STRATEGIC DIRECTION**

To maintain strong sports and recreation clubs it is important that the Council assists them to be as effective as possible in meeting the needs of Christchurch residents. Sports and recreation clubs are facing a number of challenges, which are to a large degree related to societal trends and legal changes. It is important that these organisations are encouraged to adapt to the changes taking place.

In many instances there is real pressure on the financial resources of voluntary sports and recreation organisations. However, reducing the Council's already subsidised charges further without encouraging adaptation to the current and future situation will provide only short lived relief.

Work is currently under way to develop a Recreation and Sport Strategy for the city. The intention is to try to establish a common strategic direction amongst the major organisations in the sector and to identify how they can work together in a more coordinated manner to better meet the recreation and sporting needs of the city. In many respects the Council has a pivotal role to play in terms of providing leadership to the sector, having some influence over most or all of the other organisations. The Council has adopted a leadership role in the development of the Recreation and Sport Strategy and will need to be seen to be leading its implementation by ensuring its actions are consistent with it.

The Council has a number of means by which it could encourage alignment to the strategic directions once established in the Recreation and Sport Strategy. Rates policy, lease charging and ground charges all represent potential means to encourage alignment.

It is recommended that the implementation of these new policies (which will be more favourable to most recreation and sports clubs) be used to spell out the Council's expectations in terms of alignment to the Recreation and Sport Strategy and to actively encourage that alignment to take place. The Recreation and Sport Strategy is aimed at encouraging and assisting all the organisations involved to provide more effectively for the needs of the Christchurch public in the long-term.

It is not possible to identify exactly what will be required of sports clubs and community groups in terms of alignment to the Recreation and Sport Strategy until it is completed or the mechanism to make this happen. These are areas upon which officers can work further whilst consultation takes place on the policies for lease rentals, rates and grounds charges.

The current timeline for the development of the Recreation and Sport Strategy sees its completion in July 2001. As the process involves achieving buy in and support from a wide range of recreation and sports organisations it is important that its pace facilitates that involvement. At times it is more important to move slowly to arrive at the most successful conclusion. Consequently this timeline cannot be absolutely relied upon.

## CONSULTATION ON THE PROPOSAL

Consultation has taken place with recreation and sports organisations leasing Council land on the rental and rates policy proposed in 1998. Many of the groups have made written submissions and expected to be able to present their views to a hearings panel. The policies proposed in this report for the affected groups differ significantly to those proposed in 1998 in the rates area.

It is important that consultation on the policies proposed in this report is carried out:

- Through the Financial Plan process as reducing the rates and rental revenues from recreation and sport organisations means that other rates payers will be required to pay more.
- With the groups directly affected, including details of how it will affect each of them.
- In a way that is sensitive to the expectations raised with the affected groups by the work carried out in 1998.
- Without creating unnecessary administration or cost.

It is proposed that details of the proposed policies be included in the Draft Financial Plan and submissions invited on them through that mechanism. In addition details of the proposed policies be communicated to the affected groups along with a copy of the submissions the groups made in 1998. Many groups may not fully remember the policies proposed in 1998 nor the content of their submissions. It is recommended that affected groups be invited to make written submissions through the Financial Plan process. Furthermore that the commitment to have the opportunity to be heard by Councillors be honoured by inviting those groups wishing to do so to attend one of the Financial Plan hearings.

## SUMMARY

Issues surrounding the rates policy for sports and recreation organisations, ground charges and lease charges are closely related. There is currently a range of inequities in these areas. Reviewing each of these aspects in isolation is likely to lead to further inequities and result in the Council being unable to consider the overall effect of its decisions on recreation and sports organisations.

In line with committee resolutions and the request from the Chairman of the Strategy and Resources Committee, officers have identified options to reduce the level of charging through lease charges, rates and grounds charges.

The Council is currently leading the process to develop a Recreation and Sport Strategy for the City. It will be important that the Council's future actions in the area encourage alignment with the Strategy. Lease charges, rates and grounds charges all provide avenues to encourage alignment to the Recreation and Sport Strategy by sports clubs and community groups. It is recommended that the implementation of the proposed changes to the level of charging through leases, rates and grounds charges be linked to a clear expression of the Council's expectations of the sports clubs and recreation groups in terms of alignment to the Recreation and Sport Strategy.

It is proposed that officers explore the best mechanism to link the implementation of the proposed policies on leases charges, rates and grounds charges whilst consultation on them is carried out.

- Recommendation:**
1. That charges to the Regional Sports Associations for sports grounds be abolished, except for the maintenance component for Council-prepared cricket wickets.
  2. That not for profit organisations occupying Council land for the purposes of games and sports (other than horse racing, trotting or dog racing) be subject to a 100% remission from rates and be charged only for water consumption.
  3. That not for profit organisations occupying private land for the purposes of games and sports (other than horse racing, trotting or dog racing) be rated only for water, sewerage and storm water, subject to a 50% remission, and that the standard charges for excess water be payable.
  4. That lease charges for not for profit recreation and sports organisations leasing approximately 1 hectare or less, be based on the formulae set out in this report subject to a minimum charge of \$112.50.

5. That consultation on the proposed policies for lease charges, rates and grounds charges be carried out through the 2001/2 Financial Plan process and directly with recreation and sports organisations in the manner outlined in this report.
6. That implementation of the proposed policies be linked with recreation and sports organisations aligning with the directions indicated in the Recreation and Sport Strategy.
7. That officers report further on the mechanisms to encourage alignment to the Recreation and Sport Strategy through implementation of the proposed policy.
8. That policies on lease charges and rating for early childhood and community groups on Council land be considered separately.