21. RATING POLICIES FOR 2006

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PURPOSE OF REPORT

1. The purpose of this report is to recommend to the Council the rating policies for inclusion in the draft Long Term Council Community Plan(LTCCP) 2006/2016.

2. Attached as Appendix 1 is a copy of the rating policies in the current CCC LTCCP. The balance of the policies is contained in Volume 3 of the LTCCP. The following additional appendices are also attached:

   Appendix 2 - Current CCC rates charged
   Appendix 3 - Land Drainage district map
   Appendix 4 - Matters that may be used to define categories of rateable land
   Appendix 5 - Criteria used to identify residential rating units excluded from Rural
   Appendix 6 - Impact on current CCC Rural rates
   Appendix 7 - Rate changes for the Peninsula Rural sector
   Appendix 8 - Map of BPDC - location of settlements for land drainage
   Appendix 9 - BPDC Maori Land Rate Remission and Postponement Policy

EXECUTIVE SUMMARY

3. There are a number of policies and statements that the Council must adopt as part of the LTCCP. Rating policy is one.

4. Officers have reviewed the current rating policy's continued applicability and operational effectiveness. The conclusion is that the current policy, which has been operating for a number of years now, should be continued, subject to some amendments.

5. Staff are recommending that:

   - The land drainage targeted rate be retained but that it reflect only the utility costs of land drainage. In addition that the area of the city currently targeted, be modified to include those areas of the city in the south-west that have seen residential expansion beyond the current defined areas which are not being targeted, but are receiving the benefits of expenditure on land drainage.
   - The business differential sector in its definition be retained, but that the rural sector differential (the discount of 25%) be abolished and the "rural sector" merge with the residential and other.
   - The policy relating to the late payment penalty, and remission be clarified to remove inconsistencies between the policy contained in the LTCCP, and delegations made to staff in December 2002.

6. We have also considered the application of the current policy and, in particular, the recommended changes on Banks Peninsula, should the abolition and inclusion poll be successful. That view is that the changes can be applied, and will work for what will be a new area of the "expanded city".

FINANCIAL AND LEGAL CONSIDERATIONS

7. The rating policy is the mechanism by which ultimately the rates and rate decimals are set by Council following the adoption of the revenue and financing policy, and finalisation of the activity analysis of the projected budget costs. This report will come to the Council in February 2006.

8. As the policies are brought together for the draft LTCCP, there may be some further minor procedural amendments for the Council to consider. These, if any, will be highlighted in future reports.

STAFF RECOMMENDATIONS

It is recommended that the draft LTCCP for 2006/16 include:

1. The current rating policies except for the following amendments:

   (a) The merging of the Rural sector with the Residential and Other and the naming of this as "Other Property". The definition of rating units contained in this sector to be "All other rating units not in the Business sector."

   (b) The retention of the Business Differential sector and its definition as contained in the current LTCCP.

   (c) The retention of the Land Drainage Targeted rate except that:

   - the area of the current city be modified to include all those areas determined to be within the developed area of the city or where there is land drainage service with the Funds and Financial Policy Manager to be granted delegated authority to make the determination annually.
   - The rate to be limited to recover the utility costs of land drainage as discussed in this report.

   (d) The amendment of the rating policies by:

   - Imposing late payment penalty two working days after the due date.
   - Amending remission 3 on page 114 of the LTCCP by deleting clause (b).
   - Defining the rate areas for rate instalment timing as being those printed on each rate assessment, not as contained in the LTCCP.

2. And if BPDC is abolished, then:

   (a) The Council continue to charge the uniform targeted rate for both the Church Bay and Governors Bay water and sewerage schemes and collect the deferred lump sums as proposed in the BPDC LTCCP.

   (b) The Land Drainage Area be defined to include the areas of the Peninsula zoned:

   - Akaroa Hillslopes
   - Boat Harbour
   - Industrial
   - Lyttelton Port
   - Papakaianga
   - Recreation Reserve
   - Residential
   - Residential Conservation
   - Small Settlement
   - Town Centre

   (c) The Land Drainage area include the existing rating units charged Land Drainage Targeted rates in Okains Bay and Purau.

   (d) Delegated authority be granted to the Funds & Financial Policy Manager to consider applications from ratepayers for exclusion from the Land Drainage Targeted rate area on the grounds that the rating unit is practically outside the land drainage catchment area.

   (e) The Maori land rate remission and postponement policy as contained in the current BPDC LTCCP be included in the Council draft LTCCP, subject to any amendments proposed and that the Funds and Financial Policy Manager be delegated authority to remit any rates under this policy.

A. BACKGROUND ON RATING POLICIES FOR 2006

9. The Council must adopt several policies and statements as part of the LTCCP to complete the revenue setting and rating process and set rates subsequent to the adoption of the Annual Plan.

10. The policy and statements include:

- establishing the activities of Council, both scope and budget (the substance of the LTCCP),
- the Revenue and Financing Policy, how the activities of Council are to be funded,
- the valuation base for rating units for rating
- the definition of the rate types, general or targeted, and whether uniform or rate in the dollar of capital value,
- the rating differential policy, the sectors, and rating unit selection criteria,
- the rate remission policy and rate postponement policy,
- the various rate administration policies,

and all these lead to an annual:

- Funding Impact Statement adopted as part of the LTCCP, (or Annual Plan), and,
- Setting of the rates by Council resolution following the adoption of the LTCCP (or Annual Plan).

11. Each requirement above will be addressed in this report, other than the Revenue and Financing Policy conclusions as they are based on an activity analysis and the budgeted costs. This will be presented as a further report to the Council prior to adopting the Draft LTCCP. That information is yet to be finalised.

12. This report will focus on the areas of change from the current LTCCP and secondly, as a separate section in this report, will include recommendations on the consequences of the possible abolition of BPDC.

13. Notwithstanding that caution, several recommendations can be made now for the rating period following 1 July 2006.

14. Each section of the rating process will address the issues raised at the seminars, specifically:

- who is to be rated,
- what rates they are to be charged, and
- how the calculation is made up.

B. REVENUE & FINANCING POLICY

15. It is necessary to note the requirements of the Revenue & Financing Policy as it impacts on the various rating policies of the Council.

16. The Policy is built on revenue sources of:

(a) general rates, including:

(i) choice of valuation system; and
(ii) differential rating; and
(iii) uniform annual general charges:

(b) targeted rates:
(c) fees and charges:
(d) interest and dividends from investments:
(e) borrowing:
(f) proceeds from asset sales:
(g) development contributions:
(h) financial contributions under the Resource Management Act 1991:
(i) grants and subsidies:
(j) any other source.

17. This report focuses on the rating structure and system and will recommend either confirmation of the existing structure or changes. These will be covered later in this report.

18. The revenue content of the LTCCP will emerge after the budget figures and rate requirement emerges over the next few months. For instance, user charges reviews will occur as part of the Activity Management Plan adoption process, the Development Contributions Policy is being reviewed and will be brought to Council as a separate report and the treasury policies are being reviewed and will set the context for borrowing as a financing mechanism.

C. THE VALUATION BASE FOR RATING UNITS

19. The Council must resolve on the basis of rating and express this in the Funding Impact Statement.

20. <u>A continuation of the current policy is recommended</u>. The rationale is explained below.

21. The options for general rates allocation to rating units are either:

- Capital value,
- Land value, or
- Annual rental value (a modified Capital Value system)

22. Capital value has been selected as the basis because:

- Rates are a property tax,
- Capital value represents the full investment by a ratepayer in a property, the other options only record a part of the investment.
- Relative capital values reflect use and therefore the beneficial impact of Council activity benefits:
    - The quality of services the Council delivers contributes to the benefits consumed by the community.
    - The benefits delivered and consumed have a bearing on property occupancy and use in the city and through that on to capital values.
    - It is assumed that the availability of benefits have the same value as consumption of benefits.
    - Capital value based rates do not require all properties to be the same or have the same services. The reality of real estate is that all properties are different, all have different attributes. The only common measure is the market value test – all the differences are converted to willing buyer/willing seller comparisons. The attributes include Council provided services or lack thereof; eg with or without footpaths, streetlights, location of nearest library etc.
- It more accurately reflects relative ability to pay rates by the ratepayer in that::
    - the ratepayer expresses an individual choice on the value of the property investment,
    - opportunity costs of ownership make funding irrelevant (equity or debt funding),
    - capital values vary by market and property attribute forces, not driven by the Council.
- Allows for changes to property attributes, market value and location trends, in that capital values are reset every three years, with a market test and an objection process.
- Capital values are the core of the rating valuations, all other values are a sub set of this and are therefore readily available.
- There is a long history of capital values, with supporting valuation rules and case law.
- There is general acceptance by ratepayers in that the values are credible and understood. There is an acceptance of the direct relationship between capital value and rates.

D. THE RATE TYPES TO BE USED BY COUNCIL, EITHER GENERAL OR TARGETED, UNIFORM OR RATE IN THE DOLLAR OF CAPITAL VALUE

23. The default rating structure for any council is to have General rates only, assessed to rating units by capital values. Any difference from this must be specifically related to the financing of defined activities of the Council.

24. The current rate structure of the Council is recommended to continue in the future except for changes to the Land Drainage Targeted Rate and changes to the differential rates to sectors.

25. The actual dollar amount of rates and the level of Uniform Annual General Charge will result from the Revenue & Financing Policy analysis, the topic of a later report.

26. The current rate types are:

- General rates by capital value:

    - charged to fully rateable rating units (not to non rateable rating units) and differentiated by rate sector as outlined in the following section below.
    - The General rate requirement is reduced by the quantum of any Uniform Annual General Charge or any targeted rate.

- General rates by uniform charge:

    - $115 per charge:
    - With one on each rating unit, or
    - on each separately occupied part of the rating unit.

- Targeted rates on a common decimal to rating units in the serviced area:

    - Water rate
        - includes non rateable properties
    - Sewerage rate
        - includes non rateable properties
    - Land drainage rate
        - excludes non rateable properties
    - Water Supply Fire Connection Targeted rate
        - A per connection charge
    - Excess Water Supply Targeted rate
        - Water charges on metered consumption for other than private residential

27. A table of rates charged is attached as Appendix 2.

28. Differential rating for General rates is discussed in a following section.

D1. Uniform Annual General Charge (UAGC)

29. The Council has adopted a UAGC of $115. It is not set to recover any specific operating expenditure, but is assumed to:

- Reflect a quantum of general benefits reasonably attributable to each rating unit (or separate occupancy)
- Adjust the incidence of capital value rating by assessing to all a fixed charge.

30. The financial effect of having a UAGC is that proportionately lower valued properties pay more and higher valued properties pay less than without the UAGC.

31. The Council could attach specific activity costs to be recovered by uniform charges under the Revenue & Financing Policy. This will be addressed under that later report.

32. UAGCs are subject to 30% maximum restriction under the Local Government (Rating) Act. The maximum amount that could be set is $380, to yield $59m.

33. The amount of the UAGC will be considered under the later Revenue & Financing Policy report. It is currently $115 per charge.

34. However, the application of the charge should be confirmed now. No change in the application is proposed as it is considered the policy is fair and in line with national best practice. In essence a UAGC is attached to each separately occupied part of a rating unit as defined in the current LTCCP. The text of the policy is included in Appendix 1, the LTCCP extract.

35. The current policy includes the remission of the additional charge where several rating units are used as one. The CCC policy goes beyond the minimum legal requirement to suppress additional charges where contiguous properties are used as one and are in common ownership.

36. Our policy effectively recognises one occupation of land is to be charged one UAGC. No change in this policy is proposed.

D2. Water Supply Targeted Rate

37. The current Water Supply Targeted rate raises $16.222m (2005/06).

38. There is no change proposed for this rate. It is based on the full net operating cost of the service excluding Development Contributions revenue.

39. The catchment for the rate is those rating units in the serviced area; that is where a water connection is available. If a connection is not made, there is a half rate charge.

40. In addition, the Council has a Excess Water Supply Targeted rate which applies to rating units other than private residential rating units (essentially commercial property). This is unchanged from that in the LTCCP.

41. There are user charges for those few that are on Rural Restricted Water Supply, but this charge is outside the rating system.

D3. Sewerage Targeted Rate

42. The current Sewerage Targeted rate raises $23.636m (2005/06).

43. There is no change proposed for this rate. The rate is based on the full net operating cost of the service, excluding Development Contributions revenue.

44. The catchment for the rate are those rating units in the serviced area, that is where a sewer connection is available.

45. There are user charges for trade waste etc. This is outside the rating system.

D4. Land Drainage Targeted Rate

46. The current Land Drainage Targeted rate raises $13.437m (2005/06).

47. Land Drainage Targeted rate is charged to fully rateable properties just as General rates are.

48. The current rate is charged on straight capital value irrespective of land use.

49. There are two issues of concern:

- The catchment area of the Land Drainage Targeted rate, and therefore the properties charged. The current catchment is less than the whole of the city therefore the Land Drainage rate is not assessed on some rating units at the west and north west margins because they are currently deemed to be outside the serviced area. This is an equity issue.
- The Council expenditure on which the rate is based should be reviewed. This will change the rate quantum. It is proposed to limit the rate to the utility costs of the Council.

50. The utility is defined as the pure infrastructural asset base of pipes, sumps, bordered drains and built structures etc.

51. The options for change are:

- Retain the targeted rate but:
  - Adjust the boundary to reflect the expanded built area of the city, and/or:
  - Change the basis of the rate to recover only the utility content of the budget, with the remaining funds requirement added to General rates,
- Cancel the Land Drainage Targeted rate, include the cost recovery within General rates,

Option 1 – Retain the Land Drainage rate

Option 1.1 – Adjust the area and the activity cost recovered

52. The area of the current Land Drainage rate for the city is outlined in the map attached as Appendix 3.

53. The boundary was set by the former Christchurch Drainage Board and has been subsequently amended to accommodate growth in the built area of the city.

54. The built area of the city has further grown and the boundary needs to be adjusted to accommodate the area serviced by the activity.

55. This option has the boundary adjusted to include the current area plus all land developed where the discharge from rating units is to a managed land drainage system.

56. The adjustment to the Land Drainage Area needs to occur on an annual basis, prior to 30 June each year. Delegated authority is sought to action this. Legal advice is being sought to clarify if the adjustments may be made by delegated authority. If not then the draft LTCCP will reflect the requirement.

Option 1.2 – Change the basis of the rate to recover only the utility content of the budget, the balance would be added to General rates

57. This option results in a much reduced Targeted rate because:

- it recovers the land drainage utility net costs only, and
- the direct benefit portion to each rated property only.

58. The waterways costs are for two main functions:

- Utility benefits, which provide for land drainage primarily. This is an engineering focused asset dominated function of Council, designed to ensure the city and private property is flood free. Of the 05/06 Land Drainage Targeted rate of $13.437m GST Inc, approximately $8.5m (GST Inc) is for utility management.
- Amenity benefits, whereby the rivers and waterways are developed and maintained for the whole community to enjoy, are similar in character and purpose to green open space and therefore should be rated as part of the General rates. The additional General rate component is $5m approximately.

59. The exact benefit split will be calculated and reported as part of the Revenue & Financing Policy considerations in a later report. However, for the purposes of this report it is assumed that:

- the utility management net cost GST incl. is $8.5m, and
- the benefit split (under the Activity Analysis) is:
  - 50% general benefit, applying to all the city properties as part of the General rates, and
  - 50% direct benefit, assessed to rating units within the serviced area.
  - This means that $4.250m (05/06) will be assessed to rating units by Capital value as a Land Drainage Targeted Rate, compared to the $13.5m current rate

60. The impact on ratepayers for this option is:

- Ratepayers outside of the land drainage area pay more General rates, many of whom are in the Rural sector.
- The net increase is $14 pa for each $100,000 of capital value.
- There is a slight decrease for all ratepayers who currently pay the Land Drainage Targeted rate of $1 to $3 (at $1m CV).
- The impact is the same for all differential sector groups as the Land Drainage Targeted rate is not differentiated.

Option 2 – Cancel the Land Drainage rate and include the cost recovery within General rates

61. Under this option, the Land Drainage rate would be cancelled and all properties out to the city boundary which are rated for General rates would be rated on the basis that:

- the benefits from managed land drainage are more general than direct, and
- general benefits should accrue to the whole city, not just those inside a boundary line as all properties are impacted by flooding.

62. The impact on ratepayers for this option is that those who have not paid Land Drainage Targeted rates in the past, generally the outlying Rural sector, will pay $22 per $100,000 capital value and this option generates a slight reduction ($1-2) on those who currently do pay the rates.

Conclusion on Land Drainage

63. On balance it is recommended that option 1 the Land Drainage Targeted rate, being the current policy continues except that the Land Drainage rate area is redefined and the net cost for land drainage limited to the utility costs only.

64. Delegated authority is needed to reset the land drainage area annually, subject to legal advice.

E. RATE DIFFERENTIAL POLICY, THE SECTORS, AND RATING UNIT SELECTION CRITERIA

65. If rates are not applied evenly to all rating units (for other than UAGCs), the Council must adopt a differential scheme to apply the differences. This is called a rate differential.

66. The differential scheme only has relevance to justify different rates to rating units other than straight capital value allocation. It has no other purpose, and then only when used by the Revenue & Financing Policy.

67. The current differentials apply only to General rates. The service rates of Water, Sewerage, and Land Drainage are property related services and are either delivered or not, depending on the location of the property. There is no level of service distinction included in the rate. For the service rates, the benefit distribution between properties is assumed to be accommodated by relative Capital Values.

68. The current scheme for the city is:

- Business sector:

  - Capital value estimate – $8.93 billion,
  - The differential loading based on vehicle ways costs only,
  - all other activities of Council are allocated by straight capital value.

- Residential & Base sector:

  - Capital value estimate – $35.17 billion,
  - with straight capital value for other than vehicle way costs.

- Rural sector:

  - Capital value estimate – $1.18 billion,
  - With the same basis as residential except that this sector has 25% off the residential and base decimal.

E1. Why have differentials – Legal basis of differentials

69. Differentials only exist to allow a rate allocation following a benefit distribution analysis. This gives effect to s 101.3 a.ii. of the Local Government Act 2002 –*"the distribution of benefits between the community as a whole, **any identifiable part of the community**, and individuals"*.

70. In this context:

- the 'parts' of the community are expressed as differential sectors,
- where the activity benefit analysis indicates a need to distinguish parts of the community, differentials allow the distribution to exist, and
- if there is no difference between the distribution of benefits between parts of the community then there is no need for differentials and none would be used.

71. Therefore:

- The sector definitions describe which rating units may be charged.
- The activity analysis and conclusions of the Revenue & Financing Policy define how much is actually charged to each sector.

72. Theoretically it would be possible to have a differential sector but not use it for any rates because the activity analysis did not show a need to treat the sectors any differently.

73. In defining which rating units are in each differential sector, the provisions of the Local Government (Rating) Act must be met:

- The current scheme rating unit selection criteria is <u>dominated by the use to which land is put, in essence the predominant use</u>.
- The differential scheme definitions must be based on the "matters" referred to in Schedule 2 - see attached as Appendix 4.
- Where a significant and material portion of the rating unit is in two differential sectors, a rating apportionment under Section 27.5 is made. Separate values of each portion are determined.
- For clarification, if there is reference in the differential definition to 'the land use permitted under the City Plan', the term 'use' refers to the "activities" permitted (or precluded) in the City Plan, **<u>not</u>** the zoning of the land. This has been a point of confusion for some ratepayers.

74. The text definition of the current differential scheme is attached as Appendix 1.

E2. Issues with the Current Differential Scheme which Cause Concern – The Rural Sector

75. The Rural differential sector has been part of Council rating for over 15 years. Over that time there has been very little complaint from the 1760 Rural ratepayers, however there are several issues with the sector:

- The basis of the rural 25% discount is not a derived formula under the Revenue & Financing Policy, but rather an estimated appropriate amount. It has historic relevance.
- The Council has passed resolutions deferring the application of change on properties which are considered no longer to be included in the Rural sector. At least 116 rating units would be reclassified under the current scheme to Residential and other and will do so when the moratorium lapses on 30 June 2006. There were 147 rating units with deferred status. Development of some has resulted in them being changed (as permitted under the resolution).
- There have been several submissions by members of the Rural sector over recent years, the latest being 12 October. They can be summarised as follows:
  - They want the rural discount to remain and that it is reasonable for other ratepayers to pay more while they pay less,
  - They contend they miss out on services therefore should not pay the same rate as others,
  - Some contend that historic relationships between the Rural sector and the Residential sector should be locked in irrespective of the changing land use and market,
  - Some contend that all ratepayers in the outlying areas should pay less, by virtue of location, irrespective of land use, residential, commercial farming etc.,
  - They contend that rating and zoning should be linked, ie zoned Rural equates with rated Rural irrespective of use or size.
  - They want rating certainty over time, irrespective of change of use, change of market conditions, or change of Council policy.
  - The Rural Ratepayers Association has a view that the Council should:
    - Adopt more user pay charges,
    - Have more targeted rates to define expenditure recovery,
    - Not charge the targeted rates to rural properties on the grounds that they do not consume the services, and
    - Adopt land value rating, rather than capital value.

76. In response this report covers many of the issues raised. It should be noted that:

- Land value rating will generally increase rates for rural properties,
- Recent Court of Appeal decisions conclude that ratepayers benefit from all manner of Council services particularly those providing general benefits. (Telecom v Auckland City Council).

77. The current special remission to preserve the rate status of the 116 Rural properties will lapse on 30 June 2006.

E3. Options for Differentials

E3(a) Retain the current differential scheme

78. This is the current scheme.

79. The following assumes the Business sector will remain as those rating units enjoy additional Council services, specifically additional roading services. Alternatively, it is recognised that the Business sector causes the Council to incur extra costs for roading as they demand a higher standard.

80. It assumes the Revenue & Financing Policy activity analysis distribution of benefits, based on the current sectors, demonstrates a significant distribution to the current rating unit sectors, including Rural.

81. The current scheme has, for the Rural sector, a fixed relationship of 75% of the General rate decimal that applies to the Residential and Base Sector. This is subject to the Revenue Policy analysis outcome.

82. This lower general rate for Rural (as compared to Residential) is based on the following assumptions as outlined in the LTCCP:

- A lower standard of services generally is provided to outlying rural properties.
- The greater distance from Council provided services causes a reduced use of those amenities by ratepayers (no footpaths, lack of adjacent parks etc).
- The value and impact of services provided by the Council to the property may not result in property values (farm land may not be enhanced by community services).
- It is assumed the rating unit, to be Rural, must be located outside the sewered area. This defines the serviced urban fence of the city where properties have no distance issues that warrant lower rate treatment.

Principally Residential issue

83. This appears to be a significant issue for some rural ratepayers under the current scheme. The scheme wording provides that the Rural sector excludes properties that are used principally residential.

84. If the property includes a dwelling, it **may** be "principally residential".

85. Meaning of the term: "…is used principally for residential purposes…"

86. A practical 'reasonable person' approach is taken in assessing the principal use. Note - exact measurements are not taken.

87. Aerial photos and observation from the entrance and or road generally provides the basis of an assessment of use and if required a proportion estimate is made.

88. A restricted codified definition is not necessary as it will cause anomalies and may be impossible to implement. Ratepayers have the capacity to adjust property attributes to qualify for all manner of benefits, rating would be no exception. Codification will just encourage this.

89. Officer judgement is necessary and in any event the ratepayer has rights to appeal any officer decision.

90. The variety of rural land use does not fit neatly into city wide standards and so one exclusion criteria has been applied – 'principally residential use'.

91. Staff use selection criteria to exclude from 'Rural' rating units which include a dwelling. The criteria used is detailed in Appendix 5

E3(b) No differentials – use straight capital value for all activities

92. In this case the distribution of activity benefits, from the activity analysis of the Revenue & Financing Policy, is such that there is no material difference between the 'parts of the community' ie all consume relatively the same benefits proportional to the Capital Value. The only solution is no differentials, that is, straight capital value rating. This is the default rate base which is implied as part of the selection of capital values as the rate basis.

93. Note – having no differentials also means removal of the Business Sector. This is not recommended as those rating units enjoy additional Council services, specifically additional roading services. The impact of this would be that residential rates would significantly increase and business rates would significantly decrease.

E3(c) Cancel the Rural sector – resulting in two sectors 'Business' and 'All Other Property'

94. Under this option the differential loading, based on roading costs, on the Business sector will remain.

95. For all other activities of the Council, the costs should be recovered on a straight capital value basis without differential because:

- The same General Rates should be assessed to rating units no matter where they are situated in the city.
  - General rates fund the general benefits of Council activities.
  - These are General benefits identified in the Revenue Policy Activity analysis, or
  - They are an activity deficit of direct benefits after any user charges. These deficits have to be funded, the net cost of which is added to the general benefits.
- The city is relatively small in that access barriers by distance do not exist.
  - No property in the city is so far distant that service delivery is diminished (for other than roading). Some residential property in Sumner is as far from services as rural property.
  - Roading and refuse collection are the only significant General rate funded activities associated with the rating unit as a property, all other services are delivered off the property,
  - For other than roading, ratepayers have equal access to services.
  - Land holding size does not influence the value of benefits. Land held as one large block or held as smaller parcels, as say empty sections, enjoy the same amenity use.
- The built services in an urban areas such as roads & neighbourhood parks were (generally) initially provided by subdividers, not the Council (meaning the rest of the community):
  - The Council did not fund or create them, but it does maintains them.
  - The development costs for each urban lot will range up from $30,000. This includes the provision of the capital stock of services and the provision of parks transferred to the Council. It may include Development Contributions charged to the developer.
  - Development costs are included in the sale price of land for new lot buyers and therefore all subsequent sales. It is the land owner, not the Council, that provides the services.
  - Properties without adjoining amenities are generally worth less, those with are worth more. There is a consequential rate impact based on relative capital value.
  - <u>Giving a discount in addition would mean double counting</u>.
- Relative capital values, and the market value of land that underpin them, include all the adjustments for the differences of each rating unit. <u>There is no need to make further adjustments and allowances.</u>
  - Relative capital values include all land use options, access to amenities etc and so rates by capital values are equitable.
  - Distance from the central city generally relates to land value.
  - The property market determines the rates payable by setting relative capital values.
  - The lower perceived amenity value, the lower the capital value and therefore lower rates.
  - Indicative land values demonstrate that distance is adjusted for within land values. For example sample land values include:
    - CBD - $2,000 to $7,000 per m^2
    - Fendalton - $800 per m^2
    - Yaldhurst residential - $200 per m^2
    - Yaldhurst rural - $12 per m^2
    - Kirwee rural - $5 per m^2
    - Darfield rural - $4 per m^2

96. There has been an unintended emphasis on the meaning of the term ‘Rural’ in the differential sector definition. It is used only for the purposes of defining rating units for rating and no other purpose. There is no town planning connotation in the use of this term.

Impact on rates if the Rural Sector is cancelled

97. The impact of Option C, cancel the Rural Sector, has been assessed on the basis of:

- CCC rural ratepayers only,
- cancel the Rural sector, and
- merge with the Residential sector.
- The analysis includes continuing with the Land Drainage Rate.

98. There are 1,762 rating units in the current rural sector.

99. 116 rating units should change to residential sector under the current definition. Several have already changed due to zoning and subdivision development.

100. 147 have changed rate status from postponements, objections or other changes of use.

101. Recasting the 2005/06 CCC rates under the ‘cancel the Rural sector option’ results in rural sector rates changing:

- 23 rating units increase over 30% and up to 32%,
- 926 increase between 25% and 30%,
- 553 increase between 15% and 25%.

102. Note – the result would not be a straight 25% change as the rating units pay more than General rates, including targeted rates and UAGC. The change is limited to General rate by capital values.

103. Attached as Appendix 6 is a table of rate changes for rural properties. It shows the impact of general rate changes – the only change. The quantum of change is the same and applies for properties irrespective of them paying the targeted rates of water, sewerage, or land drainage. The impact of this change on the residential sector is that 127,000 ratepayers have reduced rates by $5 at the average and $21 for $1m capital value. Business rates will be unchanged.

The recommended future treatment of Rural Differential

104. The current policy should be amended to delete reference to Rural and these properties be added to Residential and other. There no longer is justification to maintain the sector as the relative capital values make all the adjustments necessary of land use and location.

105. The Council provided amenity values are included within capital values.

106. The underlying logic of the current CCC rates system indicates a double counting of the factors that justify lower rates for the rural sector when granting a 25% discount under the differential scheme.

107. The conclusion is that the separate Rural sector should <u>not</u> continue.

108. Rather than attempt to debate and conclude on a revised wording of the sector to accommodate historic anomalies, the preferred outcome is that the sector be cancelled and the rating units included in the ‘Residential and other” and be renamed as ‘Other Properties’.

109. However should the Council decide to retain the Rural sector, the professional advice is that the Council does not change the sector definition. There is a high risk of introducing anomalies and confusion. The recommendation is made in the interests of all ratepayers, not just those in the current sector.

F. RATE REMISSION POLICY AND RATE POSTPONEMENT POLICY AND RATE SYSTEM ADMINISTRATION POLICIES

110. The current policies and practices are recommended to continue except where detailed below.

111. Some are contained in the current LTCCP, others are as a result of delegations made to staff as part of the December 2002 report to the Strategy and Finance Committee.

112. Changes recommended include:

- late payment penalty will be imposed after two working days – there are inconsistent statements in the LTCCP.
- Remission 3 on page 114 of the LTCCP should be amended by deleting clause (b). This means that missing instalment one will incur a late payment penalty. That penalty will be automatically waived if the whole of the years rates are paid by instalment two due date.
- The rate areas for rate instalment timing are those printed on each rate assessment, not as contained in the LTCCP. This merely takes specific reference out of the LTCCP but does not change the area makeup (other than minor boundary adjustments)

G. RATING FOR THE FORMER BANKS PENINSULA DISTRICT COUNCIL AREA FOLLOWING ABOLITION

113. It is proposed that the rates for the (then) former Banks Peninsula District Council (BPDC) area will align with the current City Council rating processes from 1 July 2006.

114. Up to 30 June 2006 the current rate structure for the Peninsula will apply; that is the rates as defined and assessed by BPDC will continue until 30 June 2006.

115. All of this is dependent on a positive poll result on 19 November.

116. It is recommended that there be no substantive change to the policies and processes of CCC on the abolition of BPDC other than those listed below (and those detailed in the earlier sections of this report).

117. Some changes will occur as a consequence of abolition in any event, and there will as a consequence be impacts on individual rating units:

- The Council rating structure will apply and as such the rate types and differentials will change to the city structure.
- A single Revenue & Financing Policy will cover the whole city and produce one outcome.
- The single set of rate administration policies will apply to the whole city.

118. Ratepayers are able to enquire about the impacts and an estimated response can be supplied based on assumptions of capital value movements and anticipating Council decisions for the next LTCCP.

119. The specific changes which impact the Peninsula include:

- The valuation base for rating units will be capital values for the expanded city. The Peninsula will be revalued to 1 August 2004 to reflect a common value base. This is required under the Rating Valuation Act.

- The rate types and rate structure of the city will apply to the Peninsula and in particular the current rate types and rate structure of the BPDC will cease in total, and for each ratepayer and the single city rates structure applies covering:

    - Differentiated General rates,
    - UAGC,
    - Targeted rates for each of:

        - Water,
        - Sewerage, and
        - Land Drainage.

- Rate remission policy and administration policies including Maori Land rating

120. The changes consequent to the abolition will be discussed below.

G1. Valuation Base Revaluation

121. There is a legal requirement and a requirement of the Valuer General that the BPDC portion of the expanded city will be revalued to bring the values into line with the city, as at 1 August 2004.

122. There is no provision for an alternative approach under the legislation. A single valuation base is expected as the previous references to equalised rating has been repealed.

123. Arrangements will be made for the revaluation to occur, subject to the positive vote on 19 November.

124. The revised values will be first used for rating from 1 July 2006. The Revenue Policy will use the new values in the draft LTCCP.

125. For reference, the legislation requiring the revaluation is:

- Rating Valuation Act 1998 - section 7.3 - Territorial authorities to prepare and maintain district valuation rolls
- Office of the Valuer General Rules – clause 6 - Alterations During the Currency of the District Valuation Roll

G2. Impact on Ratepayers Generally following Abolition

126. The impending abolition of BPDC will cause rates to slightly increase for the current City Council ratepayers.

127. The increases are small based on a recast 2005/06 rate requirement, and are estimated to be $7 for a $200,000 rating unit and $33 for a $1m rating unit.

G3. Impact of Changes to the Rate Types and Rate Structure

128. The application of the CCC rate types and rate structure will impact on individual ratepayers.

129. Each rate type and differential sector is discussed below.

G3(a) General rates – Business Sector

130. The BPDC separate Industrial differential sector and Commercial sector will merge into the Business sector.

G3(b) General rates – Residential and Other Sector

131. There will be no shift in sector for those already in this sector. More rating units will be added.

G3(c) General rates Rural Sector

132. The 2010 Rural sector rating units will merge into the Residential sector if the recommendation to cancel the Rural sector is adopted.

133. An argument has been raised that larger and remote land parcels in the Peninsula rural area deserve special treatment.

134. The rationale for relative capital values (CV) to be the driver of rates allocation is as relevant on the Peninsula as it is in the current CCC area.

135. Several additional issues are raised with Peninsula farming properties:

- Remote farm properties will have a lower CV compared to those close to amenities (other attributes being equal). There is no need to have adjusting differentials based on distance/remoteness. The CVs allow for all relativities.
- CVs based on farm productive capacity, as compared to value driven by proximity to the built up city area is no different in character to CVs for commercial property which are determined by capitalised rental income yield. This does not, however, justify special rate treatment. It merely explains how the CV was determined. There is no need to have adjusting differentials based on size of land within a rating unit to attempt to distinguish productive farms from small lifestyle holdings.
- The rating unit size should not be a determinant of differential rates. This reasoning is true for large and small business rating units, large and small residential holdings, and large and small farms. Generally smaller rating units have a premium value based on the flexibility factor. They can be sold off individually without further subdivision etc. CV's adjust for all factors.
- Some remote rating units have lower quality road access. Any adverse factor including distance and access quality is allowed for in the CV. A discount (or loading on rates as is the current BPDC policy) double counts the impacts.

136. If the current CCC rates differentials continue, there are 460 current Rural properties out of the total 2,010 which, on the recorded attributes and in the absence of an inspection, are likely to be rated as Residential. They are under 1 Ha and have a dwelling, boathouse etc.

137. Substantial work will be required to classify these properties.

138. The impact on the Peninsula Rural rating units is the same as that on the current CCC Rural rating Units, after assuming the changes to rates consequent to abolition.

139. Under the cancel Rural option, of the 2010 rural ratepayers on the peninsula:

- 1,115 rural ratepayers will have a reduction in rates
- only 375 would have an increase in rates
  - with most having an increase under $100 pa
  - of the 375, 98 have an increase between $100 and $150 and
  - three are greater than $150.

140. See Appendix 7 for a table of rate impacts.

G3(d) Uniform annual general charge

141. BPDC does not have a Uniform Annual General Charge. Instead, it has a significant number of uniform targeted rates raising 47% or $4.527m of the total rates of $9.617m.

142. Each catchment area in the BPDC has a different set of uniform charges.

143. The city currently has a single UAGC of $115 which raises 9% or $15.81m.

144. This difference in uniform charges causes the major shift in the incidence of rates for each rating unit, generally lower valued properties will go down and some few high valued may go up. All is dependent on the capital values.

G3(e) Targeted rates for water supply and targeted rates for sewerage

145. Along with the balance of Council areas, the Peninsula will be charged the same rates, that is:

- Water Supply targeted rate – where the rating unit is connected to a Council water supply, a full rate.
- Half rate where a connection is available but not made.
- Excess water charges will be made on the same basis as for the rest of the city, and be billed as a rate.

- Water Supply Fire Connection targeted rate – at the same rate as the balance of the city.
- Rural restricted supply will continue and be charged on a user charge basis, with the charge to be reviewed and reported to Council as part of the Draft LTCCP.
- Sewerage Targeted rate – where the rating unit has a sewer connection available.

146. The Water Supply Targeted rate and Sewerage Targeted rate are based on a common decimal across the city by capital value as compared to BPDC uniform charges based on catchments or supply areas.

147. The underlying assumption is that all who receive a service pay the same irrespective of location or level of service. Levels of service issues are Activity Management Plan and Asset Management Plan issues not rating issues and should be resolved in that context.

G3(f) Lump sum schemes still operating

148. There are two residual lump sum scheme areas that need consideration, Church Bay water & sewerage scheme and secondly Governors Bay water & sewerage schemes. BPDC reconsidered the charge to the Governors Bay scheme in the 2005/06 Annual Plan and charged the scheme members paying a uniform charge interest costs only, not principal repayment. This was in anticipation of abolition of the Council and a possible future review of the scheme. The Transition Committee may have a view on this scheme.

149. BPDC installed local schemes for water and/or sewerage, and funded these generally from the consuming community. In general the attributes of the schemes were:

- Ratepayers had a choice to pay a lump sum or a uniform annual charge over a number or years.
- The Council raised loan funds to finance the scheme for those who opted for deferred payment by uniform charge.
- The Council costs which justify the uniform targeted rate are loan servicing costs.

150. However there is an equity issue to be resolved:

- The lump sum option was in the nature of a Development Contribution for an expanded service to new properties.
- I am informed that four ratepayers in the Church Bay scheme have opted for deferred lump sum payment, with the charge secured by a statutory land charge.
- There was an understanding that if the ratepayer opted for the uniform annual charge option, it would be continued for a number of years until the loan is paid off.
- If the loans are repaid, there are no servicing costs and therefore no justification for the uniform charge.
- There is an equity issue between ratepayers in the scheme and between all other ratepayers of Council and members of this scheme.

OPTIONS TO CONSIDER

Option 1 – Cancel the continuing uniform charge and the four outstanding lump sum obligations.

151. This is based on the assumption that:

- The abolition of BPDC changes the rate structure generally to a common rate base and impacts all ratepayers to a greater or lesser extent, this is but one impact.
- When the loans are repaid corporately out of the investments of BPDC there are no loan servicing costs to recover therefore there can be no rate.
- There are precedents in that the Council has not always insisted on continuing the obligations of targeted rate ratepayers (where they are the funders of a local scheme) and have had their rates cancelled:
  - New Brighton Mall Separate/special rate cancelled and the loans retired,
  - Riccarton Borough Council Separate/special rate for Riccarton Road amenity upgrades.

- The Council has waived the obligations of ratepayers to pay their legal obligations to upgrade/maintain private rights-of-ways, and instead have the whole rate paying community pay the costs eg Hollis Avenue ROW upgrade costs - $250,000 approx not recovered.
- The city has extended the water and sewerage network to Brooklands and Stewarts Gully, areas previously unserviced. It did not seek a recovery from the lot owners. They did have to pay for their on site connections.

Option 2 – Continue with the Uniform charges in addition to the ordinary Water Supply and Sewerage targeted rate, and collect the deferred lump sums.

152. The option assumed the scheme loans will not be repaid corporately but will continue to be serviced.

153. The underlying rationale is that the ratepayers have entered into an obligation with the Council and that should continue not withstanding abolition. The amounts concerned are:

- Church Bay Water/Sewerage scheme
  - 165 properties,
  - 43 on Uniform charges for loan servicing charges,
  - 118 have paid lump sums,
  - 4 are deferred, and secured by statutory land charges,
  - The uniform charges are:
    - Water – $496 * 43 ratepayers = $18,965 net GST per annum,
    - Sewerage – $1,107 * 43 = $42,345 net GST per annum,
    - The charges to run for a further 3 years (out of 5),
    - Loan balance is assumed to be $209,476 as at 30 June 06.
- Governors Bay Water/Sewerage scheme
  - 2 schemes,
  - 138 uniform charges for water,
  - 143 uniform for sewerage,
    - The uniform charges are:
      - Water – $155 * 138 ratepayers = $19,794 net GST per annum,
      - Sewerage – $223 * 143 = $27,396 net GST per annum,
      - The charges to run for a further 10 years (out of 25),
      - Loan balance is assumed to be $460,000 as at 30 June 06,
      - BPDC modified the scheme payments for 2005/06 to interest only pending abolition.

154. There are equity issues and no doubt legal issues to work through. There is argument for either approach. Some BPDC staff advocate retention and collection others have advised cancellation.

155. On balance the recommendation is to preserve the status quo and continue the charge in addition to the normal valuation driven Water & Sewerage rates.

G4 Targeted Rates for Land Drainage

156. If the option chosen for the current city was to cancel this targeted rate and include the whole cost recovery within General rate, there is no additional issue for the Peninsula.

157. If however the option chosen is Option 1 as recommended, with or without limiting the targeted rate to utility costs only, a land drainage area has to be selected on the Peninsula. This would define which properties will pay the rate.

158. The options and issues are similar to the current CCC land drainage area. The area options are:

- No properties on the Peninsula benefit from land drainage, only those in the current CCC area should pay. This is clearly not sustainable as there are several managed drainage systems.
- The whole of the BPDC area. This would be unreasonable because:
  - Significant areas are outside of the managed waterways area – the outlying rural areas do not get any direct expenditure, nor direct benefits. They do get general benefits, as do all properties
  - This would not align with the land drainage district of the current CCC, which is less than the whole CCC TLA area
- Selected parts of the Peninsula based on a selection criteria:
  - Include only the urban and developed areas as being in the land drainage catchment
  - Some other, wider selection of property, based on the criteria that "a rating unit is selected if it drains into a managed waterway".

159. The urban and developed land area option is preferred.

160. Based on discussions with BPDC engineering staff and CCC Waterways staff it is concluded that the properties that should be within the land drainage district on the peninsula are those with a District Plan zoning of:

- Akaroa Hillslopes
- Boat Harbour
- Industrial
- Lyttelton Port
- Papakaianga
- Recreation Reserve
- Residential
- Residential Conservation
- Small Settlement
- Town Centre

161. These properties benefit directly from the managed land drainage systems and most discharge to side channels.

162. There are two areas, in Okains Bay and Purau charged with current land drainage rates. These should continue to be charged, although further officer advice is require to substantiate this.

163. See the maps attached as Appendix 8 for the location of these settlements.

164. There is a general issues of budgeting and revenue. It is assumed that should expenditure be necessary outside of the defined Land Drainage area, say for storm damage works, that will be funded from General rate, not the targeted rate.

165. Because this is a new geographic area for CCC rate policy staff to consider, it is appropriate that delegated authority be granted to the Funds & Financial Policy Manager to consider applications from ratepayers for exclusion from the land Drainage Targeted rate area on the grounds that the rating unit is practically outside the catchment area .

G5 Maori Land Rate Remission Policy

166. It is proposed that the current BPDC Maori Land Rate Remission and Postponement Policy continue, generally unamended. The text for this is attached as Appendix 9.

167. The Council must (by law) adopt a policy on remission and postponement of Maori Freehold land. The current CCC policy is that there is no special treatment for the one rating unit in this category.

168. With the abolition of BPDC, several parcels described as Maori Freehold land will then be included on the CCC Rating Information Database.

169. Further review is needed to ensure the text is appropriate. However, for the purposes of this report it can be assumed to stand unamended.

170. The policy will be reviewed and reported to the Council along with the results of the Revenue & Financing Policy.