

5. RATES RELIEF FOR OWNERS OF EARTHQUAKE DAMAGED PROPERTY

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PURPOSE OF REPORT

1. On 30 September 2010, the Council resolved to review its rates remission policy prior to 15 November 2010. The purpose of this report is to recommend to the Council several amendments to its Rates Remission Policy for those ratepayers most badly affected by the earthquake.

EXECUTIVE SUMMARY

Rates Relief

2. The 4 September 2010 Canterbury earthquake and aftershocks caused extensive damage to land and buildings in Christchurch. Earthquake Commission (EQC) information shows that as at 28 October 2010 the number of claims made in Christchurch was 83,626 (note: EQC covers residential property only). Of those claims there are approximately:
 - 9,000 for claims in excess of \$100,000 or for land damage
 - 45,000 for claims between \$10,000 and \$100,000
 - 22,000 claims less than \$10,000, and
 - 8,000 contents-only claims.
3. EQC has reported there are 856 properties within Christchurch where land must be remediated. 840 of these properties will have their buildings demolished and may be rebuilt. The remaining 16 properties cannot be rebuilt upon. A further approximately 1,200 properties will not require land remediation, but insurance firms may determine that residences are not economic to repair and the buildings will be demolished and rebuilt.
4. Historically, the Council has not waived or remitted rates payable that are damaged (eg by fire) during a rating year. This practice is based on the fact that rates are legally payable and that insurance cover provides alternative accommodation for the owners/occupiers of that property. Given the extraordinary nature of the recent earthquake it is appropriate for the Council to consider offering rates relief for the owners of properties badly affected by the earthquake. However, any consideration of rates relief must be made in the context of the potential lost revenue and the additional financial demands that will be placed on the Council as Christchurch is rebuilt.
5. Rates make up over 50 per cent of Council revenue and are used as a funding source for the majority of the Council's operating activities as well as funding the renewal and replacement of fixed assets. Specific targeted rates collect revenue for water, wastewater, waterways and land drainage, and organics and recyclables collection, while the General Rate and Uniform Annual General Charge (UAGC) fund activities such as Streets and Transport, Regulatory Services, Parks, Libraries, and Recreation and Sports Services.
6. Only a small proportion of the Council's services are delivered directly to a property. Water, wastewater, refuse collection and, to an extent, land drainage services are provided direct to properties. All other Council services are accessed by residents and ratepayers remotely from their properties and are funded via the General Rate and UAGC.
7. Additionally, both business and residential insurance policies generally provide cover which ensures that ratepayers are not paying two sets of rates, one on un-inhabitable property and a second set on the alternative accommodation being used by the ratepayer.

8. On this basis staff propose that the Council adopt policies providing rates relief only to the owners of properties who have suffered damage that is expected to take an extended period to repair (eg where land remediation is required) or where the Council services have not been delivered for a period. The recommended options and estimated costs are outlined below:

	Estimated Cost			
	2010/11	2011/12	2012/13	Total
Rates remission for residential properties on land requiring remediation	\$0.860m	\$1.147m	\$0.287m	\$2.294m
Rates remission for residential properties with significant interruption to Council services	\$0.003m			\$0.003m
Total cost of recommended remissions	\$0.863m	\$1.147m	\$0.287m	\$2.297m

9. A number of other options for rates remissions together with their estimated costs are outlined in the background to this paper. However these other options are not recommended because commercial and domestic insurance is available to cover most instances.

City-wide General Revaluation

10. At the time the 4 September 2010 earthquake struck, the Council's valuers were preparing the 2010 city-wide general revaluation. This revaluation would have had an effective date of 1 August 2010 and individual property values were due to be released to property owners in early November 2010. This revaluation would have been used to strike rates for the 2011/12 financial year.
11. Following the earthquake, Council staff proposed to the Valuer General that the revaluation be deferred to give the Council's valuers the opportunity to inspect individual properties and record the value lost as a result of the earthquake prior to recalculating property values for the entire city. The Valuer General agreed with this approach and has discussed this matter with relevant Ministers and Government agencies. He has advised that an Order in Council enabling the Council to defer its General Revaluation until December 2011 is likely to be approved by the end of November 2010. The effect of this is that the existing city-wide valuation will be used for one additional year (2011/12) and the revaluation will be done in time to strike rates for the 2012/13 financial year.
12. However, properties significantly damaged by the earthquake will be revalued by the Council's valuation service provider prior to the striking of rates on 30 June 2011 for the 2011/12 financial year. This will ensure that 2011/12 rates reflect the capital value of properties as they exist at 30 June 2011 and take into account any earthquake damage to property and subsequent reconstruction.

FINANCIAL IMPLICATIONS

13. Should the Council amend its Rates Remission Policy as recommended below, the cost to the Council is estimated at \$2.3 million.

Rates Remission				
	2010/11	2011/12	2012/13	Total
	\$863,000	\$1,147,000	\$287,000	\$2,297,000

14. The administration of rates remissions as recommended would require additional staff resources within the Rates and Debt Management Team. This is estimated as 0.2 FTEs at a cost of \$16,000.
15. During discussions with the Canterbury Earthquake Recovery Commission (CERC), staff have requested government support in four main areas: economic development stimulus package, rates remissions, increased assistance for roading costs and reimbursement for temporary works required. The cost of the remissions recommended in this paper are expected to be met through this central government assistance.

Do the Recommendations of this Report Align with 2009-19 LTCCP budgets?

16. No.

LEGAL CONSIDERATIONS

17. The Council adopted a Rates Remission Policy in the 2009-19 LTCCP. Section 102(6) of the Local Government Act 2002 enables a Rates Remission Policy to be amended only as an amendment to the LTCCP. The Canterbury Earthquake (Local Government Act 2002) Order 2010 exempts the Council from this provision in certain circumstances.
18. These circumstances include a decision made by the Council that is necessary or desirable to further one or more of the purposes of the Canterbury Earthquake Response and Recovery Act 2010. The relevant purposes in respect of the proposed review of the rates remissions and rates postponement policies are:
 - (a) To facilitate the Council's response to the earthquake.
 - (b) To provide adequate statutory power to assist with the response.
 - (c) To enable the relaxation or suspension of statutory provisions that may not be reasonably capable of being complied with, or complied with fully, owing to the circumstances resulting from the earthquake.
19. Should the Council resolve to amend its Rates Remissions Policy as recommended in this report that decision would fall within the purposes of the Canterbury Earthquake Response and Recovery Act 2010. The Council is therefore entitled to rely on the exemption from compliance with section 102(6) of the Local Government Act 2002 contained in the Canterbury Earthquake (Local Government Act 2002) Order 2010.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

20. Not applicable.

ALIGNMENT WITH STRATEGIES

21. Not applicable.

CONSULTATION FULFILMENT

22. The Council adopted a new significance policy in its 2009-19 LTCCP. This requires the Council to consider undertaking a Special Consultative Procedure before making decisions that would result in changes to levels of service specified in the LTCCP.
23. The exemptions provided by the Canterbury Earthquake (Local Government Act 2002) Order 2010 enable the Council to make the decisions sought in this report without having to undertake a Special Consultative Procedure before doing so.

STAFF RECOMMENDATION

It is recommended that the Council:

- (a) Resolve to amend its Rates Remission Policy to enable the provision of rates relief to the owners of earthquake-damaged properties as follows:
 - (i) Remit 100 per cent of rates to properties required by the Earthquake Commission to be demolished for land remediation, from 1 September 2010 until the earlier of the completion of rebuilding or six months following completion of land remediation, at an estimated cost of \$860,000 in 2010/11, \$1,147,000 in 2011/12, and \$287,000 in 2012/13.
 - (ii) Remit the Sewerage Rate for three months to those properties that remain unable to connect to the reticulated wastewater network at 31 October 2010 at an estimated cost of \$3,000 in 2010/11.
- (b) Note that the Council is exempt from the requirements in section 102(6) of the Local Government Act 2002 that the policy can only be amended as an amendment to the LTCCP. This exemption is provided by the Canterbury Earthquake Response and Recovery Act 2010 and the Canterbury Earthquake (Local Government Act 2002) Order in Council 2010;
- (c) Delegate to the General Manager Corporate Services authority to finalise the wording of the amended Rates Remission Policy;
- (d) Delegate to the Team Leader Rates and Debt Management authority to approve earthquake-related rates remissions in accordance with Council policy;
- (e) Endorse staff to continue discussions with the Canterbury Earthquake Recovery Commission and central government to provide support for the following key areas:
 - Economic development stimulus package
 - Rates remissions
 - Increased assistance for roading costs, and
 - Reimbursement for temporary works required.

BACKGROUND (THE ISSUES)

24. The 4 September 2010 Canterbury Earthquake and aftershocks have caused extensive damage to land and buildings in Christchurch. It is not yet possible to determine exactly the number of properties damaged or the financial value of that damage. Information gathered from the Earthquake Commission (EQC) shows that as at 28 October 2010 the number of claims made in Christchurch was 83,626 (note: EQC covers residential property only). Of those claims there are approximately:

- 9,000 for claims in excess of \$100,000 or for land damage
- 45,000 for claims between \$10,000 and \$100,000
- 22,000 claims less than \$10,000, and
- 8,000 contents only claims.

These numbers are based on self assessment of damage by property owners. Once insurance assessors have completed inspections the number of claims and the assessment of damage may change considerably.

25. EQC has reported there are 856 properties within Christchurch where land must be remediated. 840 of these properties will have their buildings demolished and may be rebuilt. The remaining 16 properties cannot be rebuilt upon. A further approximately 1,200 properties will not require land remediation, but insurance firms may determine that residences are not economic to repair and the buildings will be demolished and rebuilt.

26. Christchurch City Council building inspections have concentrated on buildings in the CBD and arterial routes, along with those suburbs worst affected by the earthquake. Data from those inspections (as at 22 October 2010) showed the following:

Placards	Residential	Business /Other	Total
Total	6,339	2,262	8,601
Green	5,465 (86%)	1,769 (78%)	7,234 (84%)
Yellow	669 (11%)	342 (15%)	1,011 (12%)
Red (safety)	126 (2%)	150 (7%)	276 (3%)
Red (health)	79 (1%)	1 (0%)	80 (1%)

27. A further 256 properties remain unconnected to the wastewater system and will do for some time. The majority of these properties are a subset of the 856 properties with land damage requiring remediation. These properties are currently having septic tanks installed at the Council's expense.

Liability for rates

28. The Local Government (Rating) Act 2002 requires that rates be assessed based on the value of a rating unit as at 30 June of the year prior to the commencement of a new rating year. This means that 2010/11 rates must be set based on the capital value of each property, and the services provided to that property, as it existed on 30 June 2010. There is no provision in the Act to enable or allow rates to be adjusted for any event after 30 June. Historically the Council has not waived or remitted the rates payable on properties damaged or destroyed by fire or any other reason during a rating year. This practice is based on the fact that rates are legally payable, and that insurance cover provides alternative accommodation for the owners/occupiers of that property.

29. Therefore, ratepayers affected by the earthquake are liable for the rates as advised to them in the rates assessment notices issued earlier this year, and based on historic practice Council would not remit those rates.

What rates pay for

30. Rates make up over 50 per cent of Council revenue and are used as a funding source for the majority of the Council's activities as well as funding the renewal and replacement of fixed assets. Specific targeted rates collect revenue for water, wastewater, land drainage and organics and recyclables collection, while the General Rate and Uniform Annual General Charge (UAGC) fund activities such as Streets and Transport, Regulatory Services, Parks, Libraries, and Recreation and Sports Services.
31. Only a small proportion of the Council's services are delivered to a property. Water, wastewater, refuse collection and, to an extent, land drainage services are provided direct to properties. All other Council services are accessed by residents and ratepayers remotely from their properties and paid via the General Rate and UAGC.

Capital value basis of rates

32. 87 percent of rates collected by Christchurch City Council are assessed based on the capital value of the rating unit. This high percentage of capital value based rates effectively make Christchurch rates a property-based wealth tax. In the normal course of events this is appropriate because independent research, including that carried out for the Local Government Rates Inquiry, found that the capital value of a property is a strong indicator of the ability of its owner to pay rates.

Insurance

33. Residential insurance policies generally provide six to twelve months accommodation or a lump sum payment to home-owners when the insured property is uninhabitable. Therefore, for the period covered, if ratepayers are obliged by the Council to continue paying rates on an uninhabitable property they will be paying rates on one property only (the one they own rather than the one they are temporarily residing in).
34. Commercial business interruption insurance generally provides for the loss of profit based on the business' historic revenue and gross profit percentage and therefore indirectly funds businesses and/or commercial ratepayers for their rates payments while they are unable to continue with their normal business operation due to damage to property. There are also a number of policy extensions available that do not require damage to the insured's premises directly including "Prevention of Access", "Damage to Customer Premises" and "Closure by Authorities". These latter forms of insurance are less often used by the market than standard business interruption insurance.

ASSESSMENT OF OPTIONS**Options for earthquake-related rates relief**

35. There are a number of possible approaches to offering rates relief to ratepayers whose property has been damaged by the earthquake, and the more realistic options are set out below. It should be noted that these estimates are based on the best information currently available and may change.

Rates remission for properties on land requiring remediation

36. As mentioned above EQC have advised that 856 properties have land damage that must be remediated. Of these properties 16 will not be remediated because it is uneconomic to do so, and the remaining 840 properties will have the houses demolished, the land remediated, after which houses may be rebuilt.

37. If the Council were to remit 100 per cent of rates on properties required by the Earthquake Commission to be demolished for land remediation, from 1 September 2010 until the earlier of the completion of rebuilding or six months following completion of land remediation, the average remission per ratepayer and total cost is estimated to be:

Rates Remission				
	2010/11	2011/12	2012/13	Total
average remission	1,005	1,340	335	
Total Cost	\$860,000	\$1,147,000	\$287,000	\$2,294,000

Rates remission for properties with significant interruption to Council services

38. While most Council services were restored within days after the 4 September 2010 earthquake, significant damage to the wastewater system has meant that 256 properties remain unconnected to the reticulated wastewater system (the Council is in the process of installing septic tanks for these properties so that inhabitants are no longer required to use portaloos). The cost of remitting three months Sewerage Rate to those properties, to recognise the interruption in Council service, is estimated to be \$3,000 in 2010/11. This figure is low because the majority of these properties will qualify for a full remission of rates under a remission for properties on land requiring remediation. The average refund per property would be \$47.

Rates remission for business properties classified as R, R1 or R2

39. Council data indicate that 118 business properties, housing 277 separately used parts, have buildings classified as R (unsafe), R1 (significant damage repairs strengthening possible) and R2 (severe damage demolition likely). These properties cannot be occupied or used until buildings are demolished or significant strengthening work is completed.
40. These properties have a combined Capital Value of \$117 million, which is broken down into Land Value of \$82 million and Improvement Value of \$35 million. Should the Council choose to remit all rates relating to the Improvement Value of these properties (effectively treating them as bare land) from 1 September 2010 the cost is estimated to be \$161,000 in 2010/11. No remission of rates would be required in future years because each property will be valued as at 30 June 2011 and 2011/12 rates will reflect the state of the property at that date.
41. Should the Council choose to remit all rates on these properties from 1 September 2010 the estimated cost is \$467,000 for 2010/11.
42. However as mentioned above, business interruption insurance is available for commercial ratepayers in this situation. Therefore, staff do not recommend that the Council remit rates for business properties classified as R, R1 or R2.

Rates remission for business properties classified as R3

43. Council data indicate that 11 business properties, housing 24 separately used parts, have buildings classified as R3 (unsafe due to adjacent property). These properties cannot be occupied or used until adjoining buildings are demolished or significantly strengthened.
44. Should the Council chose to remit six months of rates on business properties with buildings that have been classified as R3 the estimated cost is \$24,000 in 2010/11. Staff do not recommend this option because commercial insurance cover is available to cover this situation.

Rates remission for residential properties that are uneconomic to repair and will be demolished

45. EQC have advised that approximately 1200 residential properties are on land that does not require remediation but which will be uneconomic to repair. It is expected that insurance companies will require the houses to be demolished and rebuilt.
46. These houses remain habitable, and the occupants will only be required to move to temporary accommodation once the demolition and rebuilding process commences. If the owners of these properties are insured, the cost of alternative accommodation, and the cost of rates on that accommodation, will be provided by the insurer. The occupants of these properties will therefore continue to receive full Council services, regardless of their location, and will only be liable for the rates on one property. For this reason rates remission for these 1200 properties is not recommended.
47. Should the Council consider it is appropriate to provide three months rates relief to these properties, reflecting the approximate length of time for demolition and rebuilding, the estimated cost would be:

Rates Remission				
	2010/11	2011/12	2012/13	Total
Average remission	335	-	-	
Total Cost	\$402,000	-	-	\$402,000

Rates remission for business properties classified as Y, Y1, or Y2

48. Council data indicate that 275 business properties have buildings with yellow placards and classified as Y (restricted use), Y1 (short term entry) or Y2 (no entry to parts until secured or demolished). These properties are able either to be used, or entered for the purpose of transferring the occupying businesses to new premises. Additionally, repair work on these buildings is able to commence.
49. Y classified properties have an estimated capital value of \$310 million, broken down into \$164 million of improvements and \$77 million of land value. Should the Council choose to remit all rates relating to the Improvement Value of these properties (effectively treating them as bare land) for three months the cost is estimated to be \$233,000 in 2010/11.
50. Should the Council choose to remit all rates on these properties for three months the estimated cost is \$340,000 for 2010/11.

Financial hardship

51. The Council's Rates Postponement Policy currently allows ratepayers, particularly the elderly, to postpone their payment of rates where the payment of those rates would cause financial hardship. Additional support for ratepayers suffering financial hardship is available through the New Zealand Red Cross Canterbury Earthquake Appeal.

52. Summary of options

Option	Estimated Cost				Recommendation
	2010/11	2011/12	2012/13	Total	
Rates remission for residential properties on land requiring remediation	\$0.860m	\$1.147m	\$0.287m	\$2.294m	Preferred
Rates remission for residential properties with significant interruption to Council services	\$0.003m			\$0.003m	Preferred
Rates remission for business properties classified as R, R1 or R2 – remission on Improvement Value	\$0.161m			\$0.161m	Not preferred
Rates remission for business properties classified as R, R1 or R2 – remission on Capital Value	\$0.467m			\$0.467m	Not preferred
Rates remission for business properties classified as R3	\$0.024m			\$0.024m	Not preferred
Rates remission for residential properties that are uneconomic to repair and will be demolished	\$0.402m			\$0.402m	Not preferred
Rates remission for business properties classified as Y, Y1, or Y2 – remission on Improvement Value	\$0.233m			\$0.233m	Not preferred
Rates remission for business properties classified as Y, Y1, or Y2 – remission on Capital Value	\$0.340m			\$0.340m	Not preferred
Total cost of preferred remissions	\$0.863m	\$1.147m	\$0.287m	\$2.297m	

53. Rates remissions policies being considered by, or adopted by, other authorities affected by the earthquake are:

Waimakariri District Council

Waimakariri District Council has resolved to:

- Remit all rates from 1 September 2010 to all properties that are uninhabitable due to the September earthquake and associated aftershocks until the property is able to become available for use
- Remit the Sewer rate to inhabited properties that have had no reticulated sewer systems for a period of more than one month due to the Earthquakes, until the sewer service is available for use
- Remit the Central Business Area rate for all properties within the Kaiapoi Central Business Area for the 2,3,4 instalments.

Remission of rates is to be provided in response to an application by the affected ratepayer, and Waimakariri District Council will also consider deferral of the payment of rates, under its existing Rates Postponement Policy, in cases of financial hardship.

Selwyn District Council

Because of the low number of significantly damaged properties in the District the Selwyn Council has not adopted a new rates remission policy following the earthquake. Discussions with officers have indicated that, if considered necessary, Selwyn is likely to adopt a policy similar to that adopted by Christchurch or Waimakariri.

Environment Canterbury

Commissioners meet in-committee on Thursday 28 October and one of the agenda items discussed was rates relief. As yet they have not made an announcement regarding rates relief.

The Preferred Option

54. The preferred earthquake related-rates remissions are:

- (a) Remit 100 per cent of rates to properties required by the Earthquake Commission to be demolished for land remediation, from 1 September 2010 until the earlier of the completion of rebuilding or six months following completion of land remediation, at an estimated cost of \$860,000 in 2010/11, \$1,147,000 in 2011/12, and \$287,000 in 2012/13.
- (b) Remit three months Sewerage Rate to those properties that remain unable to connect to the reticulated wastewater network at 30 October 2010 at an estimated cost of \$3,000 in 2010/11.

	Benefits (current and future)	Costs (current and future)
Social	None Identified	Nil
Cultural	None Identified	Nil
Environmental	None Identified	Nil
Economic	Provides financial relief to those residential and commercial ratepayers who are extremely adversely affected by the earthquake.	\$2.297 million over three years.
<p>Extent to which community outcomes are achieved:</p> <p>The preferred option contributes to the following community outcomes:</p> <ul style="list-style-type: none"> • A Prosperous City Providing rates relief to the worst affected of Christchurch's ratepayers will assist them during current financial difficulties and help enable their future prosperity. • A City of Inclusive and Diverse Communities Providing rates relief for those people worst affected by a natural disaster will continue the post-earthquake support that has brought our community closer together. <p>Impact on the Council's capacity and responsibilities: The financial cost of providing rates relief must be met from other sources. Staff are in discussions with central government to meet the cost of the required rates remissions.</p> <p>Effects on Maori: None identified.</p> <p>Consistency with existing Council policies: The preferred option would extend the eligibility criteria of Council's existing Rates Remissions Policy to allow for rates relief for those ratepayers extremely adversely affected by the 4 September earthquake and aftershocks.</p> <p>Views and preferences of persons affected or likely to have an interest: It is possible that a large number of ratepayers will consider that they are entitled to rates relief because of minor or moderate damage to their properties or temporary interruptions to Council services. This view must be balanced against the widely-held view that rates and rates increases must be kept to a minimum. Consideration of rates relief must, therefore, balance a desire to assist ratepayers affected by the earthquake with the need to pay for that assistance.</p> <p>Other relevant matters: None identified.</p>		

Application of rates relief policies

55. It is proposed that where the Council is able to identify ratepayers that qualify for remissions that remission will be automatically provided to the ratepayer. Only where the Council is unable to identify qualifying ratepayers will they need to apply for a remission. It is also proposed that the Team Leader Rates and Debt Management be delegated authority to approve earthquake-related rates remissions.
56. In general the remissions proposed above are for periods of three, six, or nine months. This is to simplify the process of calculating and administering remissions by aligning the remissions to rates quarterly instalments.
57. The administration of rates remissions as recommended would require additional staff resources within the Rates and Debt Management Team. This is estimated as 0.2 FTEs at a cost of \$16,000.

CITY-WIDE GENERAL REVALUATION

58. At the time the 4 September 2010 earthquake struck, the Council's valuers were preparing the 2010 city-wide general revaluation. This revaluation would have had an effective date of 1 August 2010 and individual property values were due to be released to property owners in early November 2010. This revaluation would have been used to strike rates for the 2011/12 financial year.
59. Following the earthquake Council staff proposed to the Valuer General that the revaluation be deferred to give the Council's valuers the opportunity to inspect individual properties and record the value lost as a result of the earthquake prior to recalculating property values for the entire City. The Valuer General agreed with this approach and has discussed this matter with relevant Ministers and Government agencies. He has advised that an Order in Council enabling the Council to defer its General Revaluation until December 2011 is likely to be approved by the end of November. The effect of this is that the existing city-wide valuation will be used for one additional year (2011/12) and the revaluation will be done in time to strike rates for the 2012/13 financial year.
60. However, properties significantly damaged by the earthquake will be revalued by the Council's valuation service provider prior to the striking of rates on 30 June 2011 for the 2011/12 financial year. This will ensure that 2011/12 rates reflect the capital value of properties as they exist at 30 June 2011 and take into account any earthquake damage to property and subsequent reconstruction.