25. RATING VALUATIONS AND RATE SETTING FOR THE 2011/12 YEAR

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PURPOSE OF REPORT

1. (a) to recommend a modified process for:

   (i) maintaining the Council's rating valuation system; and

   (ii) setting rates for the 2011/12 rating year.

   (b) to seek the Council's support for Orders in Council that would validate the recommended process.

EXECUTIVE SUMMARY

2. Rates assessed by Christchurch City Council are calculated based on the values set down in the City's District Valuation Roll (DVR) at 30 June each year. This roll is intended to be updated on a three-yearly basis as part of the city-wide General Revaluation. The last General Revaluation took place in 2007.

3. At the time the 4 September 2010 earthquake struck, Christchurch City Council's valuers were preparing the 2010 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.

4. Following the September earthquake Council staff proposed to the Valuer-General that the revaluation be deferred to give 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. An Order in Council was made enabling the Council to defer its General Revaluation until 1 December 2011.

5. The scale of property damage caused by the February earthquake is greater than that caused by the September earthquake. Initial assessments carried out by Earthquake Commission (EQC) staff suggest that within the Canterbury region 20,000 residential properties are severely damaged and will cost at least $100,000 each to fix. A further 40,000 are moderately damaged, and 120,000 have minor damage. As there are approximately 142,000 residential properties within Christchurch (plus 13,000 Business and 3,000 Rural) the EQC figures suggest that all, or nearly all, properties within Christchurch will have suffered some degree of damage.

6. The widespread nature of this damage would mean that, in order to maintain our DVR and reflect earthquake damage in the property values used to set rates for the 2011/12 year, Council's valuers would be required to inspect all properties in the City. The same difficulty would arise in attempting to carry out a General Revaluation by December 2011. It may well be logistically impossible and would involve a large and costly exercise to value those properties still in a damaged state and yet to be repaired.

7. In addition to logistical problems, there are a number of other impediments to completing a General Revaluation by December this year:

   a) It is likely that the property market within Christchurch will still be unsettled by December 2011 as the shape of the planned recovery will still be developing. Without sufficient sales evidence to substantiate new property values, errors and anomalies would result leading to an increased number of contentious objections.

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b) It is possible that some areas of the city may not be rebuilt although the number and location of the properties that will be affected by this restriction is currently unknown. This uncertainty could substantially affect values, but the quantum of this effect cannot yet be calculated.

c) It is also possible (but yet to be determined) that the permitted form of development in the central business district may differ from the pre-earthquake period. This could affect the value of property within that area.

d) The amount of repair and rebuilding work to be carried out is such that it will take some years to complete. It is probable that only a small proportion of that work will be completed by 1 December 2011.

8. Council relies on rates for approximately 55 per cent of its income. However, the disruptions caused by the Canterbury earthquakes currently prevent Council, along with Waimakariri District Council and Environment Canterbury, from complying with the valuation and rating law necessary to set and assess rates. Staff have therefore been working with other local authorities, Land Information New Zealand (LINZ), the Valuer-General and the Department of Internal Affairs (DIA) to identify a practical basis for setting and assessing rates, at least for the 2011/12 financial year and possibly for longer. The intention is to have a modified valuation and rating system that will:
   - depart from the present system as little as possible;
   - modify the existing system in such a way that facilitates a return to the standard system as easily as possible; and
   - not divert resources from expediting recovery from the earthquakes.

9. A number of possible systems have been considered and discussed. The preferred option is to limit the situations in which roll maintenance (changes to the District Valuation Roll) can take place to those where:
   - rating units are created or abolished, or the boundaries between rating units are adjusted (i.e. subdivisions);
   - new work or building takes place which increases the value of improvements beyond that currently on the DVR for that rating unit;
   - errors exist that pre-date 4 September 2010, or omissions;
   - individual buildings on a rating unit have been totally demolished or total demolition has been ordered by an appropriate authority – the local authority, CERA, or the National Civil Defence Controller during the state of national emergency;
   - changes have occurred in the provisions of an operative district plan; or
   - administrative alterations (e.g. changing the name of a ratepayer as a result of a property sale).

10. Effectively this means that property valuations would not reflect the value reduction caused by earthquake damage nor any value from an EQC or insurance settlement on a property. The only changes to property values would be to reflect subdivisions, new buildings or improvements, demolitions, zoning changes, or error corrections. A recommendation to this effect and draft Order in Council is currently being drafted by DIA.

11. In addition to the rating valuation Order in Council mentioned above, staff propose that Council seek a further Order in Council that will modify s.34 of the Local Government (Rating) Act and enable the Council to assess rates on properties which have an increase or decrease in capital value during the year at the time that the increase in capital value is entered on to the District Valuation Roll.

12. Under existing rating legislation the Council is required to assess rates based on the state of a property as it exists on 1 July each year. This means that rates charged for properties demolished or constructed during the year remain unchanged until the following rating year. The proposed Order in Council would allow the Council to reduce the rates on a demolished building with effect from the date of demolition. Similarly, it would allow Council to begin rating a new building from the date of completion.

13. In addition to improving the equity of the rating system, such a change would have two significant implications for Council:

- any rates remissions policy would not need to reflect demolitions carried out during the year; and
- as the rebuild of Christchurch proceeds, Council's rating base will expand during the year, helping to defray the impact on existing ratepayers of the capital value lost as a result of the Canterbury earthquakes (in 2011/12, with demolitions likely to exceed new building completions, this represents a $1.7 million cost to the Council; in 2012/13, as new subdivisions and rebuilds outstrip demolitions, the net revenue gain to Council would be $2 million).

14. The main difficulty with the proposals above is that where properties have been severely damaged but not demolished, rates will still be assessed on pre-earthquake values which some people will perceive as unfair. While this may not be the most desirable outcome, no better option has been identified, and the Council can address some of the inequalities that arise through rates remissions adopted as part of the annual plan process.

15. It is also proposed that the date by which a General Revaluation is to be carried out is extended to 1 December 2013. This deferral does not disadvantage individual ratepayers as long as the relativity between residential, commercial and rural rating sectors remains unchanged. It is intended that the General Revaluation be carried out as soon as is reasonably practical. The determination of this timing will need to balance any changes in relativity between rating sectors with the progress of repairing and rebuilding properties, and the loss in capital value that an early General Revaluation would cause.

16. It is recommended that the Council supports the making of an Order in Council to effect the proposal. Council staff, LINZ, the Valuer-General, Waimakariri District Council, Selwyn District Council, Environment Canterbury, the Canterbury Earthquake Recovery Authority and DIA officials all understand the problem and accept that a pragmatic solution is needed.

FINANCIAL IMPLICATIONS

17. Staff have made an initial assessment of the impact of the proposed valuation approach on the city's capital value and rates take. In a normal year, Council budgets for $800 million of growth in capital value, which increases the total rates collected by approximately $3 million. This has the effect of reducing the rates increase to existing ratepayers by just over 1 per cent. However, the impact of the demolitions, which would be factored into the city's capital valuation for rating purposes, would reduce the total capital value by $800 million. In addition, current data suggests that growth in rates in 2010/11 is only around half of what we would expect in a normal year. The combined effect of these factors is estimated to lower the total rates take by $4.2 million in 2011/12.

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

18. No.

LEGAL CONSIDERATIONS

19. Section 7 of the Rating Valuations Act 1998 requires local authorities to prepare and maintain DVRs. They are also required to keep and maintain a Rating Information Database (RID) (section 27 of the Local Government (Rating) Act 2002). This must include all information relating to each rating unit contained in the DVR.

20. Rates are assessed using the information in the RID as at the end of the financial year immediately prior to the year for which the rates are set. Rates for the 2011/12 year are to be set on the basis of the information in the RID at 30 June 2011.

21. The extent of the damage caused by the Canterbury earthquakes means that it is not possible for the Council to re-assess the value of the affected properties by 30 June 2011. Following the 4 September event, an extension of time to 1 December 2011 was granted by the Canterbury Earthquake (Rating Valuations Act) Order 2010. A further extension to 1 December 2013 will be sought.

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22. The conclusion reached is that an Order in Council is the only way to deal with this matter. Central Government officials are in the process of preparing advice for the relevant Ministers.

23. Section 71 of the Canterbury Earthquake Recovery Act 2011 states that Orders in Council may be made to grant exemptions from, modify, or extend any provisions of any statute for all or any of the purposes stated in the Act. One of those purposes is to provide appropriate measures to ensure that the Council and its community respond to, and recover from, the impacts of the Canterbury earthquakes.

24. A decision by the Council to adopt the recommendations set out in this report would fall within the purposes of the Act.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

25. N/A.

ALIGNMENT WITH STRATEGIES

26. N/A.

CONSULTATION FULFILMENT

27. Staff from Christchurch City Council, LINZ, the Valuer-General's office, Waimakariri District Council, Selwyn District Council, Environment Canterbury, the Canterbury Earthquake Recovery Authority and DIA have been in discussions with regard to this matter.

STAFF RECOMMENDATION

It is recommended that:

(a) the Council seek Orders in Council under section 71(2) of the Canterbury Earthquake Recovery Act 2011 to modify the relevant provisions of the Rating Valuations Act 1988 and the Rating Valuations Rules 2008 as follows:

    (i) as the Council will be unable to complete a General Revaluation by 30 June 2011, the 2007 General Revaluation will continue to be used to set rates;

    (ii) maintenance of the District Valuation Roll only be allowed in the circumstances outlined in the bullet points of Para 9;

    (iii) Council be permitted to reduce the rates on a demolished building with effect from the date of demolition and to begin rating a new building from the date of completion.