3. EARTHQUAKE RELATED RATES RELIEF

General Manager responsible:	General Manager Corporate Services
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PURPOSE OF REPORT

1. As part of the 2011/12 Annual Report the Council adopted a range of rates remissions to provide some financial relief for the owners of property damaged by the series of Canterbury earthquakes. This policy was extended in December 2011 to provide relief for those residential ratepayers required to vacate their property due to s.124 notices being issued as a result of the risk of rock-fall or cliff collapse, unsafe access, or retaining wall issues.

2. This report is provided to:

   (a) provide details of the existing earthquake related rates remissions;

   (b) inform Council of areas where groups of ratepayers perceive the existing policy to be unfair or inequitable and to provide staff comment;

   (c) to recommend earthquake related rates relief for the 2012/13 Draft Annual Plan; and

   (d) inform Council of the current status of its request for an Order in Council that would allow the Council to reassess rates within a rating year.

EXECUTIVE SUMMARY

Rates Remissions

3. Since September 2010 the Council has considered earthquake related rates remissions policies on four occasions. The Current policy was adopted as part of the 2011/12 Annual Plan and amended in December 2012 to provide relief for properties required to be vacated under section 124 of the Building Act.

4. The current earthquake related rates remissions policy is:

   (a) 40 per cent rates remission for residential and non-rateable properties that are unable to be occupied;

   (b) 30 per cent rates remissions for business properties located within the central city cordon as at 1 July 2011 and for the period they remain within the cordon

   (c) 30 per cent rates remission for businesses outside the Central City Cordon for the period that the buildings are unable to be occupied due to dangerous adjacent buildings

   (d) 100 per cent rates remission for residential and non-rateable properties that are considered by the Council to be at risk of rock-fall, cliff collapse, unsafe access or retaining wall issues, and where the occupant has been instructed by the Council to vacate the property and issued with a notice under section 124(1)(b) of the Building Act 2004

5. To date 1,825 Business and 4,436 Residential and Other properties have qualified for remission. For quarter four of the 2011/12 rating year 3,630 properties continued to qualify for remission. In addition 525 residential properties have been granted the 100 per cent s.124 remission.

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6. Rates remissions continue to be a topic of interest for the owners of earthquake damaged property and the owners of properties in the CBD and Red, Orange and White Zones. In particular questions have been raised in relation to:

(a) Extension of the current policy beyond 30 June 2012: the existing remissions expire on 30 June 2012. With in excess of 3,000 properties still unable to be occupied it is recommended that Council extend the current remissions policy until 30 June 2013.

(b) Vacant sections, properties under construction, and vacant land with an active building consent: owners of vacant land and properties under construction in areas zoned red and white have expressed concern that they may never occupy that land but they are still required to pay rates. In February 2012 there were 823 empty sections in the Orange, White and Red zones and 210 had active consents indicating an intent to build. It is proposed that the owners of vacant land and property under construction in the Red Zone are given rates postponement until such time as central Government makes a decision about the future of that land. This will have no material financial impact on the Council as the approximately $0.194 million rates per annum will ultimately be collected once properties are sold or as some compensation becomes available to owners.

(c) Improvements that have been demolished: the Council has requested that the Government pass an Order in Council that would enable Christchurch City Council to reassess rates on properties from the date on which a property increases or decreases in value. This would enable the Council to reduce rates on a property from its date of demolition. However, until this proposed Order is adopted rates cannot be reassessed within a rating year. If the Council were to introduce a remissions policy that allowed for the remission of rates on the improvement value of a property as buildings are demolished the estimated additional cost of remissions for 2011/12 would be $2 million.

(d) Properties within the CBD: approximately 130 Residential and 1300 Business rating units remain within the CBD cordon. As a result of the speed of deconstruction of major multi-story buildings a cordon will remain in place for some time to come and property owners will continue to have limited or no property access for some time to come. It is proposed that the Council remit 100 per cent of rates for residential properties within the cordon. The cost for 2012/13 is estimated to be $0.075m.

(e) Difference between s.124 remissions and remissions for properties that are unable to be occupied: some ratepayers who are unable to occupy their residences and are receiving the 40 per cent remission have asked why the owners of s.124 properties are receiving a 100 per cent remission. In adopting the 100 per cent remission for s.124 properties the Council considered them to be different because the Council's role in issuing the section 124 notices and enforcing the zero access to properties, its ongoing work in rock-fall mitigation clearly distinguishes the two categories of ratepayers and makes the 100 per cent remission appropriate. The cost of increasing all residential remissions to 100 per cent is approximately $3.5 million per annum.

(f) Business properties that are unable to be occupied: no remissions are currently provided for a business property that cannot be occupied because of damage to the property itself. Based on the number of Business properties assessed as R1 or R2 and outside the CBD cordon the estimated cost to the Council of providing a 30 per cent remission for Business properties that are unable to be occupied on is $0.520 million for 2012/13.

(g) Residential properties that are unable to be tenanted: there are an unknown number of residential properties which are unable to be tenanted because the building is unsafe, badly damaged, or tenants are unwilling to be located in worst affected suburbs. Owners of these properties have argued that no services are being provided to these properties by the Council and therefore rates should not be charged. The cost of any remission for these properties is unknown.

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(h) Property owners paying rates on two properties but only using one: residents who are receiving a 40 per cent discount because their homes are unable to be occupied are also paying rates on the houses they currently reside in. Similarly, business property owners using alternate accommodation because their property is within the CBD cordon or is unsafe will be paying full or part rates on two properties. If the Council were to decide to address this concern it would need to increase the current remission available to residential and business ratepayers to 100 per cent and offer remissions to business properties outside the cordon that are unable to be occupied. The cost of this is estimated to be an additional $7 million per annum, split approximately 50/50 between Residential and Business Ratepayers.

(i) Insurance: domestic insurance policies which provide funding for alternative accommodation are generally time limited to twelve months or a fixed sum. Now, more than one year after the February 2011 earthquake the cover available to property owners has expired. This means that these property owners are paying two sets of rates while only using one property. Commercial insurance policies are generally taken by prudent investors for 24 months, with some extending the indemnity period to 3 years. It is not possible to estimate the cost of providing remissions to property owners whose insurance payments for alternative accommodation has expired.

(j) Business land in the Red Zone: the Crown's offer to purchase property in the Red Zone only applies to insured residential properties. It is not available to properties used for commercial or industrial activities. 100 per cent Land Value remissions for the 107 Business properties in the Red Zone is estimated to cost $0.078 million.

(k) Properties in areas with significantly damaged amenities: some residents living in areas with major footpath, road, sewer and/or water reconstruction works have expressed the opinion that their daily hardships, or their diminished enjoyment of Council utilities, should be reflected in a rates reduction.

(l) Properties where land value rates would be higher than current rates with the earthquake remission: the Land Value of some properties within the city is a very high percentage of that property's Capital Value. This means that as improvements are demolished and a property is rated at Land Value, some properties will be liable for more rates as the earthquake remission is removed.

(m) Properties where the capital value is likely to have changed (particularly the CBD): some property owners, particularly those represented by City Owners Rebuild Entity (CORE), have argued that commercial property should be revalued to reflect changed circumstances following the earthquakes. There is no provision in legislation for one segment of the City to be revalued independently of other property. Revaluing commercial property in advance of residential and rural property could result in greater inequalities than currently exist. Also, there is insufficient sales data to support any revaluation in the CBD.

7. Each of these issues discussed in more detail in the body of this report and recommendations made in relation to amending the current earthquake related rates remissions.

Rates Order in Council

8. The Council has sought an Order in Council to enable it to reassess rates on those properties which have an increase or decrease in capital value during the year. The former Minister of Local Government had recently written to the Council seeking clarification of some questions in relation to the request before he decided whether to support the request through to Cabinet level. The Mayor has responded on behalf of the Council and staff are awaiting an update on the status of the request.

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9. When Council originally requested the authority to reassess rates during the year it was hoped that an Order could be made in the first quarter of the 2011/12 year. On that basis the Council requested that the power be retrospective, so that increases or decreases in Capital Value prior to the making of the Order could be reflected in rates from the date of the value change. Given that the Order has not yet been made it is no longer appropriate for it to contain retrospective powers. It would not be fair for the Council to have the ability to retrospectively adjust the rates liability of property owners more than nine months after they were assessed and advised to the ratepayer.

10. Because it will not be able to retrospectively reassess rates for those properties that have been demolished the Council could consider making a grant to ratepayers that would have the effect of remitting rates for 2011/12. The cost to the Council would be $2 million.

FINANCIAL IMPLICATIONS

11. The budgeted cost of the existing remissions policy formed part of the estimated $73.8 million in operating deficits the Council resolved to fund by way of an additional special earthquake charge of 1.76 per cent for five years.

12. The Recommended Draft Annual Plan budget for 2012/13 allows for the earthquake related rates remissions and postponements recommended in this paper at an estimated cost of $2.968 million.

13. This cost is offset by an estimated increase in rates for within year assessments of $2.007 million, giving an estimated net cost of $0.961 million. This allows for adjustment to the capital value or remissions to 6,025 residential buildings and 500 commercial buildings (over and above those buildings already demolished as at 1 July 2013.

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

14. No.

LEGAL CONSIDERATIONS

15. The Council has previously amended its Rates Remission Policy using powers in the Canterbury Earthquake (Local Government Act 2002) Order 2010. This Order has now expired. However, the Council's Rates Remission Policy, adopted as part of the 2009-19 Long Term Council Community Plan, allows the Council to remit any rate or rates penalty by specific resolution where it considers it to be just and equitable to do so. The Council can resolve that it is just and equitable to remit rates on earthquake effected properties.

16. Section 102 of the Local Government Act 2002 provides that the Council may adopt a Rates Postponement Policy and must use the special consultative procedure in adopting that policy. The Council has an existing Rates Postponement Policy that allows for the postponement of rates on residential properties that are being occupied by the owner and where payment of rates would cause financial hardship. The Council can amend that policy as part of the special consultative procedure being undertaken for the 2012/13 Annual Plan.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

17. Not applicable.

Do the recommendations of this report support a level of service or project in the 2009-19 LTCCP?

18. No.

ALIGNMENT WITH STRATEGIES

19. Not applicable.

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CONSULTATION FULFILMENT

20. Consultation requirements will be met as part of the Special Consultative Procedure.

STAFF RECOMMENDATION

It is recommended that the Council:

(a) Resolve that it is just and equitable to remit 2011/12 and 2012/13 rates for earthquake-affected properties as set out below:

(i) 40 per cent rates remission for residential and non-rateable properties that are unable to be occupied.

(ii) 30 per cent rates remissions for business properties located within the central city cordon as at 1 July 2012 and for the period they remain within the cordon.

(iii) 30 per cent rates remission for businesses outside the Central City Cordon for the period that the buildings are unable to be occupied due to dangerous adjacent buildings.

(iv) 100 per cent rates remission for residential and non-rateable properties that are considered by the Council to be at risk of rock-fall, cliff collapse, unsafe access or retaining wall issues, and where the occupant has been instructed by the Council to vacate the property and issued with a notice under section 124(1)(b) of the Building Act 2004. Qualifying properties are eligible for the remission from the date on which the section 124(1)(b) notice was issued until the earlier of 30 June 2013 or the date on which the notice is withdrawn.

(v) 100 per cent rates remission for properties rated as Residential within the CBD cordon at an additional cost of $0.106 million in 2011/12 and $0.075 million in 2012/13.

(b) Resolve to adopt a Rates Postponement Policy, for land that was vacant and residential properties under construction at 22 February 2011 in the Red Zone, which postpones rates until 30 June 2013 or the Crown makes a decision on the fate of these titles.

(c) Note that its request for an Order in Council that would allow the Council to reassess rates within a rating year is currently being considered by the Minister of Local Government.

BACKGROUND (THE ISSUES)

History of remissions policies

21. The Council has adopted earthquake related rates remissions policies following the September 2010 earthquake, the February 2011 earthquake, and as part of the 2011/12 Annual Plan.

Post-September 2010

22. The post September policy reflected Earthquake Commission and central Government intentions at the time to remediate large areas of earthquake damaged land. At that time the Council expected that some residents would face extended periods when they were absent from their property while large scale land remediation was undertaken, while others would face short to medium term absences while their properties were being repaired or demolished and rebuilt. The remissions granted by the Council on 18 November 2010 were to:

    (i) Remit 40 per cent of rates for residential properties on land identified by EQC requiring remediation, from 1 September 2010 until the earlier of the completion of rebuilding or six months following completion of land remediation if building has not commenced.

    (ii) Remit 40 per cent of rates for residential properties which are uneconomic to repair for the period which the house is unable to be occupied.

    (iii) Remit the Sewerage Rate for three months to those properties that remain unable to connect to the reticulated wastewater network at 31 October 2010.

    (iv) Remit 30 per cent of rates for business properties classified by Council as R1 (significant damage, repairs strengthening possible) and R2 (severe damage, demolition likely) from 1 September 2010 until the property is either rebuilt, strengthened and reoccupied, or revalued to reflect condition.

    (v) Remit 30 per cent of rates for business properties classified by Council as R3 (unsafe due to adjacent property) for three months from 1 September 2010.

    (vi) Remit 30 per cent of rates remission for business properties immediately adjacent to R3 properties where the occupant business has been significantly adversely affected for three months from 1 September 2010.

Post-February 2011

23. On 28 April 2011 the Council adopted a new earthquake related rates remissions policy that reflected a change in the Government and Earthquake Commissions plans to retreat from, rather than remediate, earthquake damaged land. Under this policy the Council required that when a house remains occupied, whether earthquake damaged or not, the occupants should pay rates. under this policy the following rates relief was available:

    (a) 40 per cent rates remission for residential and non-rateable (liable for Water and Sewerage Rates) properties that are unable to be occupied

    (b) 30 per cent rates remission for business properties demolished or classified by Council as R1 (significant damage, repairs strengthening possible) and R2 (severe damage, demolition likely)

    (c) 30 per cent rates remission for business properties classified by Council as R3 (unsafe due to adjacent property)

    (d) 30 per cent rates remission for business properties located within the Red Zone as at 28 April 2011.

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2011/12 Annual Plan

24. The post September and post February policies both lapsed at 30 June 2011. During its Annual Plan deliberations the Council adopted a policy for 2011/12 which closely mirrored the post February policy, but which removed remission for business properties that were classified as R1 or R2 (on the basis that if a commercial property is accessible the owner should be encouraged to either repair the buildings and return it to economic use or demolish it). The full policy is:

    a) 40 per cent rates remission for residential and non-rateable properties that are unable to be occupied

    b) 30 per cent rates remissions for business properties located within the central city cordon as at 1 July 2011 and for the period they remain within the cordon

    c) 30 per cent rates remission for businesses outside the Central City Cordon for the period that the buildings are unable to be occupied due to dangerous adjacent buildings.

Port Hills s.124 Properties

25. In December 2011 the Council adopted a further rates remission policy to provide 100 per cent rates remission for residential and non-rateable properties that are considered by the Council to be at risk of rock-fall, cliff collapse, unsafe access or retaining wall issues, and where the occupant has been instructed by the Council to vacate the property and issued with a notice under section 124(1)(b) of the Building Act 2004. Qualifying properties are eligible for the remission from the date on which the section 124(1)(b) notice was issued until the earlier of 30 June 2012 or the date on which the notice is withdrawn.

Remissions granted to date

26. To date 1,825 Business and 4,436 Residential and Other properties have qualified for remission. For quarter four of the 2011/12 rating year 3,630 properties continued to qualify for remission. In addition 525 residential properties have been granted the 100 per cent s.124 remission.

27. The 2011/12 Annual Plan budget includes $1.687 million for earthquake related rates remissions plus $1.700 million for rates revenue expected to be lost on demolished buildings (see below for information regarding the Council's request for an Order in Council that would permit it 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). From a financial management perspective staff have considered these budgets to be effectively interchangeable because as an unsafe building is demolished it will transition from qualifying for rates remission to qualifying for land value based rates. The date of transition will determine the eventual split between rates remissions and reduced rates revenue. The total 2011/12 budget for both these items is $3.387 million.

28. Over the 2011/12 financial year the $3.387 million budget for rates remissions and lost rates revenue on demolished buildings is expected to be overspent by $3.6 million. This is partly due to an under estimation of the number of residential properties that would qualify for remission (3,575 budgeted and 4,436 actual). However, $2 million of the variance relates to anticipated increases in rates revenue on new builds and subdivisions within the year which cannot now be collected.

29. The budgeted cost of the existing remissions policy formed part of the estimated $73.8 million in operating deficits the Council resolved to fund by way of an additional special earthquake charge of 1.76 per cent for five years.

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Options for Future Remissions

30. The existing remissions expire on 30 June 2012. With in excess of 3,000 properties still unable to be occupied it is recommended that Council extend the current remissions policy until 30 June 2013. This is forecast to cost $2.968 million.

31. Possible changes to current earthquake related rates remissions are set out in the following table and discussed in more detail in the Issues Raise by Ratepayers section below:

	Estimated Cost	
	to 30 Jun 12	2012/13
100% remission for vacant sections and properties under construction • Red Zone vacant land • Orange Red and White vacant land • Orange Red and White vacant land with an active consent • All vacant land • All vacant land with an active consent	$0.275m $1.097m $0.280m $9.659m $2.547m	$0.194m $0.823m $0.210m $7.177m $1.910m
Postponement of rates on vacant sections and residential properties under construction in the Red Zone as at 22 February 2011	nil	nil
Improvements demolished within the year but which are still being fully rated	$2.000m	
100% remission for Residential properties within the CBD	$0.106m	$0.075m
100% remission for Business properties within the CBD	$3.117m	$2.200m
100% remission for properties unable to be occupied	$9.917m	$7.000m
30% remission for Business properties outside the CBD that are unable to be occupied	$0.775m	$0.520m
40% remission for Residential properties that are unable to be tenanted	unknown	unknown
100% remission for property owners paying rates on two properties	$9.917m	$7.000m
100% remission for uninsured Business land in the Red Zone.	$0.098m	$0.078m

Issues Raised by Ratepayers

32. Feedback to Elected Members and staff has identified the following areas where ratepayers perceive inequity in the current rating policy:

Vacant sections and properties under construction

33. Rates remissions have not been granted for vacant sections where the series of earthquakes has not made them unable to be occupied but which are unable to be occupied because they were undeveloped. Owners of vacant land in areas zoned red and white have expressed concern that they may never occupy that land but they are still required to pay rates. Land owners in other zones may be prevented from building by inability to get insurance.

34. In February 2012 there were in excess of 7,000 vacant residential sections in the city and 1,910 of those had active building consents:

	Count	Active Consent
Green	6354	1700
Orange	41	4
Red	194	53
White	588	153
Total	7177	1910

35. There were 823 empty sections in the Orange, White and Red zones, and if it is assumed that an active consent indicates the owners had an intent to build then 210 owners had been either planning to build or were in the process of building before earthquakes stopped them.

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36. The average value of vacant section is $257,000, so the rates on the average lot would be approximately $1,000 per annum. Based on this the costs of 100 per cent remissions would be:

- Red Zone vacant land or property under construction $0.194 million per annum or $0.275 million for the period from February 2011 to June 2012
- Orange Red and White vacant land $0.823 million per annum or $1.097 million for the period from February 2011 to June 2012
- Orange Red and White vacant land with an active consent $0.210 million per annum or $0.280 million for the period February 2011 to June 2012
- All vacant land $7.177 million per annum or $9.569 million for the period from February 2011 to June 2012
- All vacant land with an active consent $1.910 million per annum or $2.547 million for the period from February 2011 to June 2012

37. Should the Council decide to remit rates on vacant sections there are a number of questions needing consideration:

(i) Should the Council distinguish between all vacant sections and those with active consents? It could be argued that if no consent exists then the earthquakes and land decisions have not prevented the owner from enjoying the land because it was not being used. However, many owners could argue that they had planned to apply for consent but did not because of the earthquakes and land decisions.

(ii) Should the Council distinguish between Red, White and Orange and Green land zones? Where an owner cannot build because of the Crown's land decisions is this any different to the owner who cannot build because they cannot acquire insurance cover?

(iii) Are remissions appropriate in the context of Council's earlier decision to remit 40 per cent of residential rates as this equates to the cost of Council services delivered to a property? We do charge targeted rates for water and sewer on vacant land, but since improvement value is approximately 55 per cent of capital value for residential properties, it can be argued that the 40 per cent remission is equivalent to bare land rates.

38. Although unrelated to the Council, an additional problem faced by the owners of vacant land is that land cannot be insured unless there is a structure on it, and without insurance there is no EQC cover. Therefore, the owners of vacant land in the Red zone are currently not eligible for any compensation from the Crown.

39. Because of this ongoing uncertainty it is proposed that the owners of vacant land and property under construction in the Red Zone are provided with a rates postponement from 1 July 2012 until the Crown makes a decision on the fate of these titles. These ratepayers cannot now or in the future make use of their properties and are currently ineligible for compensation for their loss. This situation is clearly worse than those in other zones that are temporarily unable to make use of their land. This will have no material financial impact on the Council as the approximately $0.194 million rates postponed per annum will ultimately be collected.

Improvements that are demolished within the year but which are still being fully rated

40. 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.

41. The Council has requested that the Government pass an Order in Council that would enable Christchurch City Council to reassess rates on properties from the date on which a property increases or decreases in value. This would enable the Council to reduce rates on a property from its date of demolition. However, until this proposed Order is adopted rates cannot be reassessed within a rating year. Also, given the length of time that has passed since the Council requested the Order (nine months) the request to be able to backdate the reassessment of rates has been withdrawn.

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42. It is possible under current legislation for the Council to adopt a rates remissions policy which remits rates on properties from the date of demolition. However, current legislation does not allow the Council to increase rates on properties as they are subdivided or when construction is complete. So the Council can choose to effectively reduce rates within the year, but it cannot offset this lost rates revenue with increased rates on new properties as they are occupied.

43. If the Council were to introduce a remissions policy that allowed for the remission of rates on the improvement value of a property as buildings are demolished the estimated additional cost of remissions for 2011/12 would be $2 million.

Properties within the CBD

44. Approximately 130 Residential and 1300 Business rating units remain within the CBD cordon. As a result of the speed of deconstruction of major multi-story buildings a cordon will remain in place for some time to come and property owners will continue to have limited or no property access for some time to come. These ratepayers are in a similar position to the owners of s.124 sections, in that they are being prevented from accessing or using their properties. The difference is that the Council is directly involved in enforcing the s.124 notices, whereas the enforcement of the cordon is the responsibility of CERA.

45. Should the Council decide to remit 100 per cent of rates for residential properties within the cordon the additional annual cost would be approximately $0.075m. Should the Council choose to remit rates on commercial properties within the cordon the additional cost would be approximately $2.2 million.

46. It is proposed that Council remit 100 per cent of rates for residential properties within the cordon on the basis that these ratepayers are not able to access their properties and typical domestic insurance cover would now have expired. The cost for 2012/13 is estimated to be $0.075m.

100 per cent remission for s.124 properties v. 40 per cent remission for properties unable to be occupied

47. Some ratepayers who are unable to occupy their residences and are receiving the 40 per cent remission have asked why the owners of s.124 properties are receiving a 100 per cent remission. From their perspective both groups are unable to live in their homes, but the s.124 owners are receiving a greater remission.

48. In adopting the 100 per cent remission for s.124 properties the Council considered them to be different because the Council's role in issuing the section 124 notices and enforcing the zero access to properties, its ongoing work in rock-fall mitigation clearly distinguishes the two categories of ratepayers and makes the 100 per cent remission appropriate.

49. It is not proposed that the Council increase its remission for residential properties that are unable to be occupied. Should the Council determine that all properties that are unable to be occupied should receive a 100 per cent remission the cost to ratepayers in 2012/13 would be an additional $7 million per annum.

Business properties that are unable to be occupied

50. The existing remissions policy provides for 30 per cent rates remissions on business properties that are within the CBD cordon and for properties that cannot be accessed because of a dangerous neighbouring property. No remissions are provided for a business property that cannot be occupied because of damage to the property itself because in this situation the owner is able to access the property for either demolition or repair.

51. It is not possible to accurately estimate the cost of extending the 30 per cent remission to business properties that are unable to be occupied. Although Council does hold records of properties that have been assessed and red stickered this data is now dated, does not reflect properties that have been demolished or repaired, and does not include properties where an independent engineer has advised that a building is unsafe.

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52. Based on the number of Business properties assessed as R1 or R2 and outside the CBD cordon the cost to the Council of providing a 30 per cent remission for Business properties that are unable to be occupied on is estimated to be $0.775 million for 2011/12 and $0.520 million for 2012/13.

Residential properties that are unable to be tenanted

53. There are an unknown number of residential properties which are able to be occupied but for tenants can not be found because the building is damaged, or tenants do not wish to rent in the worst affected suburbs (excluding the red zone properties). Owners of these properties have argued that no services are being used by these properties and therefore rates should not be charged.

54. It is not possible to estimate the cost of any remissions on Residential properties that are unable to be tenanted. It is not recommended that any remission be offered as occupancy is a risk of property ownership.

Property owners paying rates on two properties but only using one

55. There is concern being expressed by Residential and Business ratepayers who are paying rates on two properties. Residents who are receiving a 40 per cent discount because their homes are unable to be occupied are also paying rates on the houses they now reside in. Similarly, business property owners using alternate accommodation because their property is within the CBD cordon or is unsafe will be paying full or part rates on two properties.

56. If the Council were to decide to address this concern it would need to increase the current remission available to residential and business ratepayers to 100 per cent and offer remissions to business properties outside the cordon that are unable to be occupied. The cost of this is estimated to be an additional $7 million per annum, split approximately 50/50 between Residential and Business Ratepayers.

Insurance

57. Residential insurance policies generally provide 6-12 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 un-inhabitable property they will be paying rates on one property only (the one they own rather than the one they are temporarily residing in).

58. 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. These policies are generally taken by prudent investors for a two year period, with extensions commonly available to three years. 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.

59. Although some ratepayers have received extensions in their insurance cover because of delays in settlement or repairs that have been contributed to by the insurer, the cover provided to many residential and some business ratepayers has, or will soon, ceased. This means that these property owners are paying two sets of rates while only using one property.

Business land in the Red Zone

60. The Crown's offer to purchase property in the Red Zone only applies to insured residential properties. It is not available to properties used for commercial or industrial activities; properties that were not insured on 22 February.

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61. 100 per cent Land Value remissions for the 107 Business properties in the Red Zone is estimated to cost $0.078 million.

Damaged amenities

62. Some residents living in areas with major footpath, road, sewer and/or water reconstruction works have expressed the opinion that their daily hardships, or their diminished enjoyment of Council utilities, should be reflected in a rates reduction.

Properties where land value rates would be higher than current rates with the earthquake remission

63. In general Land Value for Christchurch properties is 47 per cent of Capital Value. This means that if the buildings on a property are demolished the rates on the land will drop to approximately 50 per cent (once uniform charges are taken into account). However, some properties within the city have a very high percentage of total Capital Value made up of Land Value. This is sometimes because the improvements are run down, but generally because the land is attractive to developers.

64. Where improvements are demolished and a property is rated at Land Value, some properties will be liable for more rates once the earthquake remission is removed. Although this may seem counter-intuitive, it is not proposed that the Council amend its rates remission policy in these cases. The ultimate return to the ratepayer from a property is reflected in its value, and if the Council were to continue to remit rates this subsidy would not be consistent with the treatment of other bare land.

Properties where the capital value is likely to have changed (particularly the CBD)

65. Some property owners, particularly those represented by City Owners Rebuild Entity (CORE), have argued that commercial property should be revalued to reflect changed circumstances following the earthquakes. They suggest that this would see property suburban property values, particularly malls, increase in value and pay more rates while inner city property values and rates would reduce.

66. There is logic in this suggestion. However, there is no provision in legislation for one segment of the City to be revalued independently of other property. Revaluing commercial property in advance of residential and rural property could result in greater inequalities than currently exist. Also, there is insufficient sales data to support any revaluation in the CBD.

67. Current Orders in Council require that the Council complete a citywide revaluation by December 2013. Staff are currently discussing possible methods of completing such a valuation with the Valuer General.

Rating Order in Council

68. The Council has resolved to seek an Order in Council that will modify s.34 of the Local Government (Rating) Act to enable the Council to reassess rates on those properties which have an increase or decrease in capital value during the year. The proposed Order 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.

69. 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;
- As the rebuild of Christchurch proceeds Council's rating base will expand within each year, helping to defray the impact on existing ratepayers of the capital value lost as a result of the Canterbury earthquakes.

3 Cont'd

70. Without such an order the Council can remit rates on properties as the improvements are demolished, but it cannot increase rates on a newly completed and occupied property as it begins to use Council services. The cost of remissions on demolitions, without the offsetting increase in rates on new buildings, is expected to be $3 million in 2012/13.

71. The former Minister of Local Government had recently written to the Council seeking clarification of some questions in relation to the request before he decides whether to support the request through to Cabinet level. The Mayor has responded on behalf of the Council and staff are awaiting an update on the status of the request.

72. When the Council originally requested the authority to reassess rates during the year it was hoped that an Order could be made in the first quarter of the 2011/12 year. On that basis the Council requested that the power be retrospective, so that increases or decreases in Capital Value prior to the making of the Order could be reflected in rates from the date of the value change. Given that the Order has not yet been made it is no longer appropriate for it to contain retrospective powers. It would not be fair for the Council to have the ability to retrospectively adjust the rates liability of property owners more than nine months after they were assessed and advised to the ratepayer.

73. Because it will not be able to retrospectively reassess rates for those properties that have been demolished the Council could consider remitting rates for 2011/12 on the basis that it is just and equitable to do so. The cost to the Council will be $2 million.

Options

74. The preferred additions to the current earthquake related-rates remissions are:

Option	Estimated Cost		Recommendation
	to 30 Jun 12	2012/13	
100% remission for vacant sections and properties under construction • Red Zone vacant land • Orange Red and White vacant land • Orange Red and White vacant land with an active consent • All vacant land • All vacant land with an active consent	 $0.275m $1.097m $0.280m $9.659m $2.547m	 $0.197m $0.823m $0.210m $7.177m $1.910m	 Not Preferred Not Preferred Not Preferred Not Preferred Not Preferred
Postponement of rates on vacant sections and residential properties under construction in the Red Zone at 22 February 2011	nil	nil	Preferred
100% remission for properties unable to be occupied	$9.917m	$7.000m	Not Preferred
100% remission for Residential properties within the CBD	$0.106m	$0.075m	Preferred
100% remission for Business properties within the CBD	$3.117m	$2.200m	Not Preferred
Improvements demolished within the year but which are still being fully rated	$2.000m		Not Preferred
30% remission for Business properties outside the CBD that are unable to be occupied	$0.775m	$0.520m	Not Preferred
40% remission for Residential properties that are unable to be tenanted	unknown	unknown	Not Preferred
100% remission for property owners paying rates on two properties	$9.917m	$7.000m	Not Preferred
100% remission for uninsured Business land in the Red Zone.	$0.098m	$0.078m	Not Preferred
Total cost of preferred remissions / postponement	**$0.106m**	**$0.0.75m**	