

24 May 2012

Sir John Hansen  
Convenor  
Canterbury Earthquake Recovery Review Panel  
c/- Canterbury Earthquake Recovery Authority  
Private Bag 4999  
**CHRISTCHURCH 8140**

Dear Sir John

## **Canterbury Earthquake (Rating) Order 2012**

### **Proposal**

1. The Canterbury Earthquake Recovery Review Panel is asked to consider the draft Canterbury Earthquake (Rating) Order 2012 (draft Order). The draft Order modifies the rating powers of Christchurch City Council (the Council) to enable rates to be assessed following building, demolition or subdivision during the course of the year, rather than only at the start of the next financial year as at present.
2. The draft Order is attached as Appendix 1.

### **Background**

3. Under section 43 of the Local Government (Rating) Act 2002 all councils must assess rates in accordance with rateable values that are set out in the rating information database and that are current immediately before the commencement of a financial year. Changes to rateable values due to activity such as the subdivision of land, building work or demolition that occur during the year do not have any effect on rates until the start of the next financial year.
4. The draft Order will allow the Council to reassess rates in response to changes in rateable values throughout the year, on a monthly basis, rather than only at the beginning of each financial year. The application of these powers will result in an immediate reduction in rates for properties where



demolition results in loss of value and an immediate increase in rates where construction or subdivision results in an increase in value.

5. The draft Order will assist the Council to fulfil the purposes of the Canterbury Earthquake Recovery Act 2011 under:
  - section 3(a) - to provide appropriate measures to ensure that greater Christchurch and the councils and their communities respond to, and recover from, the impacts of the Canterbury earthquakes; and
  - section 3(f) - to facilitate, coordinate, and direct the planning, rebuilding, and recovery of affected communities, including the repair and rebuilding of land, infrastructure, and other property.

### **Policy Objective**

6. The Canterbury earthquakes have had a significant impact on the speed and nature of building activity and on the operation of the rating and valuation system in Christchurch City. In particular, the Council is forgoing rates through its rates remission policy and is losing rates where buildings are demolished and not replaced by the start of the next financial year. In addition, rates arrears have increased due to disruptions caused by the earthquakes.
7. The draft Order will allow the current rating system to be more responsive to building and demolition activity. This will create a more equitable rating base as the flow-on effect of changes to rateable values will be reflected more immediately in either increased or decreased rates over the balance of a financial year.
8. The modified rating powers under the draft Order are expected to generate a small amount of income for the Council. This will help to replace some of the foregone or lost rates income that would not otherwise be available for the rebuild. This could in turn allow the Council to be more generous to owners of properties affected by the earthquakes through their rates remission policy. The Council forecasts the additional income to be an additional \$8 million in rates between 1 July 2012 and 31 March 2016. The Council's budgeted rates income for 2011/12 is \$287 million.

### **Timing**

9. It is important that the draft Order in Council comes into force at the beginning of the next financial year, commencing 1 July 2012. If it comes into force part way through a financial year and is applied retrospectively, it would create retrospective tax liabilities against which there are strong conventions. Implementing the draft Order in the following financial year, commencing 1 July 2013, would reduce the benefits stated above.

## Preferred Option

10. The options are divided between those available to the Council and those available to the Crown. They are also split between options available to reduce rates on properties that have been demolished, and options for funding the foregone income that arises as a consequence.

### *Christchurch City Council options*

11. The Council could reduce rates on demolished properties without any regulatory intervention. It could achieve this by amending its rates remission policy and remitting the rates concerned.
12. Hence the key issue for the Council is how to fund the rates income foregone if rates on demolished properties are reduced (either by remission or reassessment). The Council could fund the foregone income in four ways. These are:
  - from existing rates income – this would spread the cost over all ratepayers and would require an increase in rates above that already made by the Council;
  - by reducing other expenditure – this would have an effect on the services provided to the community and would represent a shift in spending priorities by the Council. As with the previous option, effectively the cost would be spread over all ratepayers;
  - by borrowing – this would pass the cost of the remissions to future ratepayers. Generally such practice would be regarded as financially imprudent for a local authority. Local authority borrowing is normally confined to the funding of capital expenditure, which then spreads the cost of the assets acquired over the different generations of ratepayers that benefit from those assets; or
  - from new rates income as described in the draft Order - this targets those ratepayers that have invested in their properties either by rebuilding or subdivision. This requires some form of regulatory intervention by the Crown (preferred option).

### *Crown option*

13. The Crown option would be to provide direct financial assistance to the Council. Crown funding for this matter would need to be assessed against other competing priorities for earthquake recovery funding.

### *Status quo*

14. Another option is to leave the status quo.

### *Preferred option*

15. The preferred option is for regulatory intervention by the Crown. In considering the options and the case for Crown regulatory intervention the following criteria were considered:

- conformity to the purposes of the Canterbury Earthquake Recovery Act 2011;
- administrative practicality, including a clear exit mechanism from the intervention; and
- adherence to principles of good taxation law.

16. The draft Order provides for:

- the Council to reassess rates on the first day of the month following an adjustment to the rateable value in the rating information database due to building, demolition or subdivision;
- these reassessed rates to be calculated pro rata from the beginning of the month after the rating information database is updated;
- the Council to update valuation information, maintain the rating information database and issue rates invoices for these reassessed rates;
- the extension of full objection and appeal rights under the Rating Valuations Act 1998 to all valuations used as a basis for assessing rates generated under the Order; and
- application of the Order to rates collected by the Council on behalf of Christchurch Regional Council.

### **Costs and Benefits**

17. The draft Order has a range of impacts which fall into four groups:

- impact on the Council's income;
- impact on the Council's costs;
- impact on ratepayers directly affected; and
- impact on the Crown as a ratepayer.

#### *Impact on the Council's income*

18. The impact on the Council's income is difficult to forecast as it is contingent on the speed and level of the recovery. The Council has estimated that the proposal, if it commenced on 1 July 2012, is likely to generate an additional \$8 million in rates income over its life. The Council's budgeted rates income for the 2011/12 financial year is \$287 million.

### *Impact on the Council's costs*

19. The Council will incur some extra costs in administering the proposal. There will be a cross-over period where two sets of rateable values for affected properties will have to be recorded on the Rating Information Database (RID), with full landowner objection rights under the Rating Valuations Act 1998 applying. The cross-over period occurs between the implementation date of a general revaluation and the start of the next financial year when that general revaluation is first applied to rates set.
20. In addition, the Council will incur some additional administrative costs in carrying out the reassessment and advising ratepayers of the reassessment. The Council has not provided any estimate of these costs, but considers they are minimal. The onus will be on the Council to manage their systems and resources to implement the proposal efficiently and consistently across a whole financial year, and to communicate the changes to affected parties effectively.

### *Impact on ratepayers*

21. The impact on individual ratepayers will vary according to their property type, property value, the time of year at which the work on their property is completed, uniform charges and targeted rates. An indicative impact on individual ratepayers for every \$100,000 change in value in the 2012/13 financial year is:
  - residential property - \$41 per month increase;
  - commercial property - \$54 per month increase; and
  - rural property - \$22 per month increase.<sup>1</sup>
22. In dollar terms the most significant impact will be on major business developments. For example:
  - a \$20 million business development entered on the RID in September would be charged approximately \$97,000 in additional rates for the balance of that financial year; and
  - a new home valued at \$300,000 entered on the RID in September would be charged approximately \$1,100 in additional rates for the balance of that financial year.

### *Impact on the Crown*

23. The Crown is a ratepayer on many properties. These include residential red zone properties it is acquiring in Christchurch, Housing New Zealand residential properties, and operational properties such as courts, police

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<sup>1</sup> Data supplied by Christchurch City Council. GST inclusive. Includes both Christchurch City Council and Canterbury Regional Council rates.

stations, and office buildings. Some Crown properties are exempt from rates. The major exemptions relate to properties used for health, education and conservation purposes. The Crown will benefit from the draft Order where it demolishes rateable properties, such as in the residential red zone. However, where the Crown rebuilds properties that are rateable, it will also be liable for additional rates that would not otherwise have been payable. It is not possible to quantify whether the draft Order will result in an overall saving or cost to the Crown. However, since the total additional revenue to the Council is expected to be about \$8 million over the period of the Order, the cost, if any, to the Crown will be a significantly lesser part of that sum.

## **Risks**

24. There is a low impact risk that the draft Order may create a disincentive to build or may influence the timing of building completion, as rates will be levied shortly thereafter for the remainder of the financial year.

## **Other relevant matters**

25. There are no other relevant actions underway or proposed that relate to the subject matter of the draft Order.

## **Consultation**

26. The following agencies and local authorities were consulted on the policy Cabinet paper: Land Information New Zealand, Canterbury Earthquake Recovery Authority, the Treasury, Christchurch City Council and Canterbury Regional Council. The Department of the Prime Minister and Cabinet were informed.
27. The Department of Internal Affairs has worked closely with Land Information New Zealand and Christchurch City Council on the drafting of this Order.

## **Profile of draft OIC & proposed publicity**

28. The proposals in the draft Order have already had some level of public profile and are mentioned in the Christchurch City Council's annual plan and on their website.
29. The Minister for Canterbury Earthquake Recovery, the Minister for Local Government and, if necessary, the Minister for Land Information may issue a media statement on their intention to recommend that the Governor-General approve the draft Order.

## Conclusion

30. We look forward to receiving your recommendations so that regard can be had to them before the Minister of Local Government and the Minister for Land Information make a recommendation on the draft Order.
31. The key contact for this item of work is:

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Yours sincerely



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