

9 June 2011

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

Dear Sir John

**Proposed Orders in Council – Rating Valuation matters:**

**Canterbury Earthquake (Rating Valuations Act: Selwyn District Council) Order 2011;**

**Canterbury Earthquake (Rating Valuations Act: Waimakariri District Council) Order 2011; and**

**Canterbury Earthquake (Rating Valuations Act: Christchurch City Council) Order 2011**

**1 Proposal**

1. We seek a review by the Panel under section 73 of the Canterbury Earthquake Recovery Act 2011 (CER Act) of draft Orders in Council (Orders) to amend the operation of the Rating Valuations Act 1998 (RVA) in greater Christchurch. Draft Orders have been prepared and are attached at **Appendix One**.

**2 Background**

2. The RVA requires territorial authorities to prepare and maintain district valuation rolls (DVRs) and to conduct a general revaluation of properties in their district every three years. DVRs are incorporated into local authority rating information databases (RIDs) which are used to set rates under the Local Government (Rating) Act 2002 (LGRA). The last general revaluation dates were:

- Christchurch City - 1 August 2007;
  - Waimakariri District - 1 July 2008; and
  - Selwyn District - 1 July 2009
3. Section 14 of the RVA permits, but does not require, councils to amend DVRs between revaluations. In practice councils routinely maintain their valuation DVRs, especially as much maintenance consists of adding new subdivisions and improvements to the DVRs which grow the councils' rating base.
  4. Section 16 of the RVA allows a ratepayer, at their expense, to request a new valuation of their property. In the case of a new valuation or a refusal to make or alter a valuation under s16, the owner may object under section 32 of the RVA based on comparable DVR evidence. After initial local authority review, any affected party may require the Land Valuation Tribunal to hear the objection.
  5. In greater Christchurch, the damage caused by the Canterbury earthquakes is such that it is not physically possible for the territorial authorities to reassess the value of the affected properties by 30 June 2011. It is likely that, in the absence of legislative intervention, many property owners will expect DVRs and RIDs to be adjusted to reflect the damage that has occurred to their properties with consequential adjustments to rating liabilities for the 2011/12 financial year. The level of damage and related disturbance in property markets is also such that the Christchurch City Council and the Waimakariri District Councils will not be able to undertake general revaluations within prescribed time periods.
  6. Three Orders are provided, one for each of Christchurch City Council, Selwyn District Council and Waimakariri District Council. This is necessary because of the different respective general revaluation timeframes and the consequent Order expiry dates.

### **3 Policy Objective**

7. The objective is to provide councils in greater Christchurch with a practical basis for setting and assessing rates, at least for the 2011/12 financial year and possibly for longer depending upon the speed of recovery work in greater Christchurch. Desirable characteristics of a modified system are that:
  - it should depart from the present valuation system as little as possible;
  - modifications to the valuation system should facilitate a return to the standard valuation system as easily as possible; and
  - resources should be directed to expediting earthquake recovery.
8. We consider that having a functional rating and valuation system is necessary for local authorities in greater Christchurch to achieve the purposes outlined in sections 3(a),(d),(f) and (g) of the CER Act.

## 4 Timing

9. It is proposed that the Orders come into effect the day they are approved by the Governor-General or on 30 June 2011, whichever date is earlier. This is necessary for the following reasons:
- Under the Local Government (Rating) Act 2002, rates for the next financial year must be set on the basis of information in the rating database as at the end of the preceding financial year. This means that rates for 2011/12 will be set on the information in the rating database as at 30 June 2011; and
  - Any gap between approval by the Governor-General and the Orders coming into effect could result in the receipt of a large number of applications for new valuations under section 16 of the RVA, which would undermine the intention of the proposed Orders.
10. It is necessary for the Orders to expire on the earlier of the completion of the implementation of the next general revaluation or the fixed expiry date. Further, it is necessary for each district to have its own expiry date based on the general revaluation date and the estimated time it will take to implement the general revaluation. On the basis of estimations made by the Valuer-General in consultation with the councils, the following expiry dates are proposed:
- the Canterbury Earthquake (Rating Valuations: Selwyn District Council) Order 2011 should expire on the earlier of the completion of the implementation of the next general revaluation or the close of 31 March 2013;
  - the Canterbury Earthquake (Rating Valuations: Waimakariri District Council) Order 2011 should expire on the earlier of the completion of the implementation of the next general revaluation or the close of 31 March 2013; and
  - the Canterbury Earthquake (Rating Valuations: Christchurch City Council) Order 2011 should expire on the earlier of the completion of the implementation of the next general revaluation or the close of 31 March 2014.

## 5 Preferred Option

11. The matters raised above fall under two distinct but related headings:
- maintenance and amendment of DVRs; and
  - general revaluations.

### ***Maintenance and amendment of DVRs***

12. Three options were considered for dealing with this matter. The first involves a temporary amendment to the definition of improvements to include compensation and insurance entitlements in the value of the property. This

would greatly reduce the number of properties for which a revaluation was required. This was rejected on both pragmatic and principled grounds. It would require the identification of uninsured and partially insured properties and their revaluation, which is probably not achievable in the available timeframe. In addition, compensation and insurance entitlements are not interests in land, they are personal property. Taking this approach would be a significant departure from the present system's principles.

13. Option two involves the suspension of rights to new valuations under section 16 until the next general revaluation is carried out, and limits the circumstances in which councils may update their DVR.
14. The effect of option two is that no new or amended valuation would be made to reflect the effects of liquefaction or rockfall on land values, or to reflect the effect on improvement values of building damage other than total demolition.
15. Option three involves temporarily suspending the use of district valuation DVRs for rating purposes and simply setting rates as a proportion of the previous years rates. This is similar to the mechanism being used for Auckland Council rates until that council can develop a new rating system. Option three is not favoured as it gives a "free ride" to properties that are or have been developed since 30 June 2010 and creates difficulty for the assessment and collection of regional council rates. It also prevents councils introducing new rating tools or modifying existing rating policies to take account of the earthquake.
16. The draft Orders use **option two** for all three districts in greater Christchurch, to apply until their next general revaluations, at which time normal valuation practices would resume.

### ***General revaluations***

17. Section 9 of the RVA requires general revaluations to be undertaken at least every three years. Waimakariri is due to conduct a general revaluation with an effective date of 1 July 2011. The Waimakariri District Council advised that a revaluation at that date is impractical and requested an extension of one year to its revaluation date.
18. The Canterbury Earthquake (Rating Valuations Act) Order 2010 gave the Christchurch City Council an extension until 1 December 2011 to carry out the triennial revaluation of the City. This order was passed after the September 2010 earthquake but before the February 2011 earthquake. The damage caused by the February 2011 earthquake is much greater than that caused by the September 2010 earthquake. It is acknowledged that some areas of the city will not be rebuilt although the number and location of the properties that will be affected by this restriction is currently unknown. It is also possible (but yet to be determined) that the permitted form of development in the central business district will be quite changed from the pre-earthquake period. 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. It also seems likely that the property market within Christchurch will still be unsettled by that date as the shape of the planned recovery will still be

developing. Any new values will be difficult to substantiate and there would likely be many objections to revaluations.

19. Carrying out a general revaluation by 1 December 2011 may well be logistically impossible and would involve a large and costly amount of valuation of properties still in a damaged state and yet to be repaired. It is not clear by when a revaluation will be feasible, but the present deadline needs to be extended.
20. It is not practical to revalue parts of a territorial authority at different dates. This approach would require projected valuation tools similar to those available to regional councils to be made available at a territorial level, which would add further complexity to an already complex situation.
21. The only practicable option to deal with these situations is to extend the date by which a general revaluation must be completed. This should be done in a way that enables a general revaluation to be completed at an earlier date if the council is able to do that. Revaluations are generally released in the second half of the calendar year – from 1 July to late November. This allows councils to process objections to those revaluations by the commencement of the next financial year. It also allows councils to determine any adjustments that are needed to their rating systems for inclusion in their revenue and financing policy. Significant changes to that policy need to proceed with public consultation through an amendment to the long-term plan, and would normally be publicly advertised in late February or early March.
22. The draft Orders propose that the next general revaluation for the:
  - Waimakariri District Council be extended to an effective date no later than 1 December 2012.
  - Christchurch City Council be extended to an effective date no later than 1 December 2013.

## **6 Costs and Benefits**

23. From the local authorities' viewpoint, the proposals relating to district valuation DVRs avoid a great deal of maintenance and possible court proceedings on valuations that will be superseded by the next general revaluation. To the extent that inequities arising from this situation are resolved through rate remission applications, the local authorities concerned will incur additional administrative costs in administering the remissions process.
24. While individual ratepayers with damaged properties may consequently pay higher rates, across the community as a whole the effect is fiscally neutral, since lower rates for these property owners would be passed on to other property owners in the form of higher rates.
25. Deferral is likely to result in fewer objections since more properties will have been repaired and there will be better evidence to support the valuations

proposed. Improved evidence should reduce the difficulty and cost involved in settling objections.

26. Again, while deferring general revaluations adversely affects some ratepayers, collectively it is fiscally neutral to ratepayers since the general revaluation process redistributes rates between ratepayers, rather than affecting the total rate income collected by the local authorities.

## **7 Risks**

27. The main risk with the agreed limited amendment of DVRs is that Christchurch City Council is unable to produce a complying DVR even with the more limited maintenance required. We are advised by Christchurch City Council staff that they consider this risk to be low.
28. Continued deferral of general revaluations may result in very large swings in valuation and subsequently in rates paid by individual property owners when the new general revaluation takes effect. We consider this is not a significant risk in Waimakariri where the period between general revaluations will be extended from three to four years. However, in Christchurch City it may be up to six years between general revaluations. In the short run, there is little that can be done to mitigate this risk. Further work could be done between now and the date of the next general revaluation to assess alternative ways to manage and mitigate the risk.

## **8 Consultation**

29. The draft Orders were prepared in close consultation with the Department of Internal Affairs. LINZ also consulted with the Canterbury Earthquake Recovery Authority (CERA), and the Treasury. The Department of Prime Minister and Cabinet was informed of the policy and draft Orders.
30. LINZ also consulted on the policy with the Christchurch City Council (Steve Kelsen – Funds and Financial Policy Manager), the Waimakariri District Council (Maree Harris – Customer Services Manager, the Selwyn District Council (Paul Davey – Chief Executive) and Environment Canterbury (Helen Sellwood – Acting Chief Financial Officer).

## **9 Profile of draft OICs and proposed publicity**

31. An appropriate press release will be prepared for release by the Minister for Land Information at the time the Orders are made. Proposals that limit property owners' rights to obtain new valuations for their properties may be controversial. However, we consider that focusing resources on completing new general revaluations is a more productive use of public money.

## 10 Conclusion

32. We look forward to receiving your recommendations so that regard can be had to them before the Minister makes a recommendation on the draft Orders. The key contact for this item of work is Debbie Buck, (04) 460 0171, [dbuck@linz.govt.nz](mailto:dbuck@linz.govt.nz)

Yours sincerely



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## **Appendix One – Three Draft Orders In Council**