

## **STAFF REPORT**

**TO:** Chairman and Members, Corporate Services Committee

**FROM:** David Ward

**DATE:** 27 July 2006

**SUBJECT:** Property Rating

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### **Introduction**

At a previous meeting of the Corporate Services Committee, staff were requested to prepare a discussion paper identifying those issues to be considered if Council were to introduce a rating system based on the number of dwellings per property. The philosophy behind the request is to attempt to link costs of occupation directly to the number of occupied dwellings within a rating unit. The philosophy acknowledges that a large number of Council costs are consumed by individuals, not by properties.

In preparing this paper staff have held discussions with a range of organisations who may ultimately be involved in assisting Council from a legal or valuation perspective.

### **Rating Act Requirements**

The methodology that local authorities may consider when defining categories of rateable land or calculating the liability for rates is contained in Schedule Two and Schedule Three of the Local Government (Rating) Act 2002.

Schedule Three identifies as a factor for calculating the liability for (targeted) rates the number of "separately used or inhabited parts of the rating unit". Council would refer to the number of dwellings within a rating unit.

Council would need to be clear in its definition of a dwelling. There would be reasonable clarity in relation to the second house or dwelling used on a permanent basis, but closer consideration may need to be given where seasonal occupation is the norm, or where seasonal workers use a portion of a production area for accommodation purposes.

### **Establishment of Database**

Council's rating database currently reflects a valuation applicable to the title at large, rather than specific aspects of the title (ie dwelling numbers, separate valuations and separate buildings etc). The first requirement for Council would be to engage our valuation service provider, Quotable Value, to undertake as a one-off project, a review of its central database for the purposes of establishing the number of dwellings within the district.

The issues in relation to database establishment that Council will need to consider include:

- There would be an initial capital cost to setting up the database to hold and report the dwelling numbers.
- There would also be a capital cost to purge the existing data.
- Urban properties (which total approximately 13,000) would be quite straight forward, whereas rural properties (which total approximately 9,000) such as farms, orchards, and lifestyle blocks would be more difficult.
- There would be a need to capture worker accommodation such as small cottages, baches. This may also include property inspections to verify existing data.
- Once the system was set up with a separate field to report dwellings it would only be a matter of maintaining the data, there would only be minor cost of maintenance.
- The current capital value of a property reflects the market value of a bach or other dwelling on a rural property.

### **Calculating a Targeted Rate where there is more than one dwelling on a Rating Unit**

Those matters that Council would need to give consideration to in relation to a targeted rate or UAGC being applied to separate dwellings within a rating unit include:

- A targeted rate is levied on a rating unit and not on a dwelling. Just because there may be two dwellings on a property does not mean that the Council can levy a targeted rate twice in respect of that property. There is however provision for Council to introduce a differential for each rating unit, based on the number of separate dwellings contained within a rating unit – ie three dwellings equals a differential of three for targeted rate purposes.
- A key aspect of the current rating regime under the Local Government (Rating) Act 2002 is that the person primarily liable for payment of rates is generally the owner of the rating unit. There may be three separate households on a rating unit, but the person responsible for payment of a targeted rate is the owner of the land. In other words, Council will continue to levy rates directly to the owner of the rating unit – it is up to the owner to recover rates from the occupants of separate dwellings (assuming the cost of this rate is not built into weekly rentals).
- The position is the same if land comprised in more than one certificate of title can be treated under the Rating Act as a single rating unit, and there is more than one dwelling on the rating unit. If there are three dwellings on a rating unit, the Council cannot, for example, levy a wastewater rate on each of the dwellings, but it can levy wastewater rates with a differential (of say three) to the property owner. In this case, Council would prepare its differential on the basis of the number of connections for an infrastructural service to the rating unit.

There are some difficulties with calculating a rate in this way. Are the three dwellings on the rating unit in fact “separately used or inhabited”?

- What happens if one dwelling is vacant?
- Would this bring into the equation buildings that are not dwellings but are “separately used”, such as an artist’s studio in one corner of a farm?
- Can the rate be expressed in such a way that it is only calculated on “inhabited parts”? What then is the status of a sleepout some distance from the dwelling?

### **Charging a UAGC where there is more than one dwelling on a rating unit**

The ability to charge a UAGC on a per dwelling basis follows the same principles as identified in the previous section of this report. In other words, we would be charging on the basis of a differential equal to the number of separate dwellings located on each rating unit.

### **Financial Benefit**

To this point, the staff report has concentrated on the ability to legally effect targeted rates calculated by the number of separately used or inhabited parts of a rating unit. The conclusion is that Council is able to introduce such a rating regime, acknowledging of course the consultative process that would be required.

In order for staff to be able to assess any financial benefit to the property owner, we would first need to undertake a reasonably accurate assessment of the total number of dwellings within the District. We would reasonably expect Quotable Value to be engaged in such an exercise and which, while both time consuming and costly, would at least provide Council with very accurate data upon which to base any projections and propose rates for inclusion in our 2007/2008 draft Funding Impact Statement.

As a cautionary note however, we need to consider where the benefit of such an exercise would lie. As I stated earlier in this report, Council is legally only able to levy a rate to the property owner. If the property owner chooses not to, or is unable to, recover the increased charges from the occupant of the separate dwelling, their cost to Council therefore increases.

If, hypothetically, we start with a rating base of 16,000 properties connected to our wastewater systems, upon which the current charge of \$410 is based, and if, after identifying the number of separate dwellings throughout the district, this database was to increase to 17,000 separate dwellings connected to our wastewater system, then the current charge would reduce to \$385. This cost saving would be directly beneficial to say urban properties, or those rural properties with single dwellings.

The same scenario could be applied to any of those targeted rates that Council currently charges on an annualised basis.

In order for this proposal to gain some forward momentum, I believe it would be prudent for Council to agree in principle to pursuing the idea and to engage our valuation service provider to prepare a database that would identify the number of

dwellings that exist within the District, upon which any variation to our existing rating system may be based.

If Council agrees to do this, once the data is received, staff would then be required to prepare a range of scenarios to identify the potential financial movement in both targeted rates and in general rate (if the application of a UAGC to each dwelling is contemplated). The outcome to this exercise would then need to be reported back to Council before the end of the 2006 calendar year, in order that proposed variations could be drafted for inclusion into the Funding Impact Statement to be included in Council's 2007/2008 Annual Plan. A consultation process will then follow, the outcome to which will determine the final Funding Impact Statement effective from 1 July 2007.

### **Recommendation**

**That:**

- a) the Corporate Services Committee agrees in principle to undertake an exercise to identify the number of separate dwellings within Tasman District.**
- b) Staff be authorised to negotiate an appropriate fee and timeframe with Council's valuation service provider, to undertake such an identification exercise.**

David Ward  
Corporate Services Manager