Background Material on Proposed Changes to Rates for 2021/22

Introduction

We are proposing to make the following changes to rates for 2021/22:

1. Introduce a new **excess water rate for residential properties** using more than 700 litres per day on average.
2. **Extend the land drainage rate** to all land in the district, with a three year transition period.
3. Introduce a new **Heritage** Targeted Rate.
4. Introduce a new Special Heritage (**Arts Centre**) Targeted Rate.
5. Introduce a new **Central City Business Association** Targeted Rate.
6. Expand the scope of the **remote rural** differential used for the value-based general rate.
7. Remove rates remissions for wealthy not-for-profit community-based organisations.
8. Introduce a further minor restriction of “Residential pressure wastewater system electricity costs” remissions.

For each rate we explain:

a) How it works now
b) The problem
c) Our proposed change
d) Reasons for the change
e) Alternative options
f) How to give feedback

1. Excess water rate for residential properties

a) How it works now

Water supply costs and the Water Supply Targeted rate

Our water supply activity includes the provision and maintenance of water supply wells, pump stations, treatment facilities, reservoirs, underground reticulation pipes and meters. We forecast water supply costs over the next 10 years in the Long Term Plan, and this determines how much we need to recover in water-related rates. Most of the operating costs and the costs of renewing the assets are recovered through the Water Supply Targeted Rate.

The Water Supply Targeted Rate is paid by all properties within the water supply serviced area. Most properties are connected and pay the full rate, but some are not connected (though still within the serviced area) so pay a half rate. Each property pays the rate in proportion to its capital value. So for example in 2020/21, a property worth $300,000 would pay an annual amount of $194.07 (incl GST) for being connected to the water supply, while a property worth $3 million would pay ten times that amount: $1,940.73. Commercial and residential properties all pay on the same basis – the capital value of the property.

The Excess Water Supply Volumetric Targeted Rate

We also have an Excess Water Supply Volumetric Targeted Rate, set under section 19(2)(a) of the Local Government (Rating) Act 2002 (LGRA). This is charged only on certain properties, and only for water used above a calculated "allowance".

The properties that can be charged are:

- Those that receive a commercial water supply as defined in the Water Supply, Wastewater and Stormwater Bylaw 2014.
- Land under single ownership on a single certificate of title and used for three or more household residential units.
- Boarding houses.
- Motels.
- Rest homes.
- Residential properties identified as using significantly in excess of ordinary residential use.

In 2020/21 the rate was $1.05 (incl GST) per cubic metre for water used above the allowance. In practice very few residential properties are identified as using "significantly in excess of ordinary residential usage" – so very few pay the excess water rate.

The allowance for each property is determined by the amount of water the property has "already paid for" through the Water Supply Targeted Rate. A minimum allowance applies for each rating unit. Here's how that works: In 2020/21 a property worth $600,000 pays $388.15 per year for the Water Supply Targeted Rate which, at $1.05 per cubic metre, gives an allowance of 368.7m^3 per year. We measure the allowance daily so the allowance would become 1.01m^3 per day. (The minimum allowance for every rating unit is 0.6986m^3 per day, but that minimum level doesn't need to be applied here because the calculated allowance is already above that level). If there's an interval of 90 days between meter readings, the allowance would be 91.1m^3 for that period. If the property has used (say) 121.1m^3 for that period then the excess amount would be 30m^3 for the period and we would prepare an invoice for $31.50 (since the price is $1.05 per cubic metre).

We have a Rates Remission Policy allowing Council to remit excess water rates when a ratepayer could not reasonably have been expected to know that a leak within their boundary has resulted in unusually high water consumption.

We think it's important to acknowledge that we are not charging for the water itself – the water itself remains free. Rather we are charging to recover the costs of providing and maintaining our network (e.g. underground pipes etc), and we recover some of those costs through a rate on excess water usage. Nobody "owns" or "sells" the water, but legislation allows us to recover some of our costs by setting a rate based on water usage.

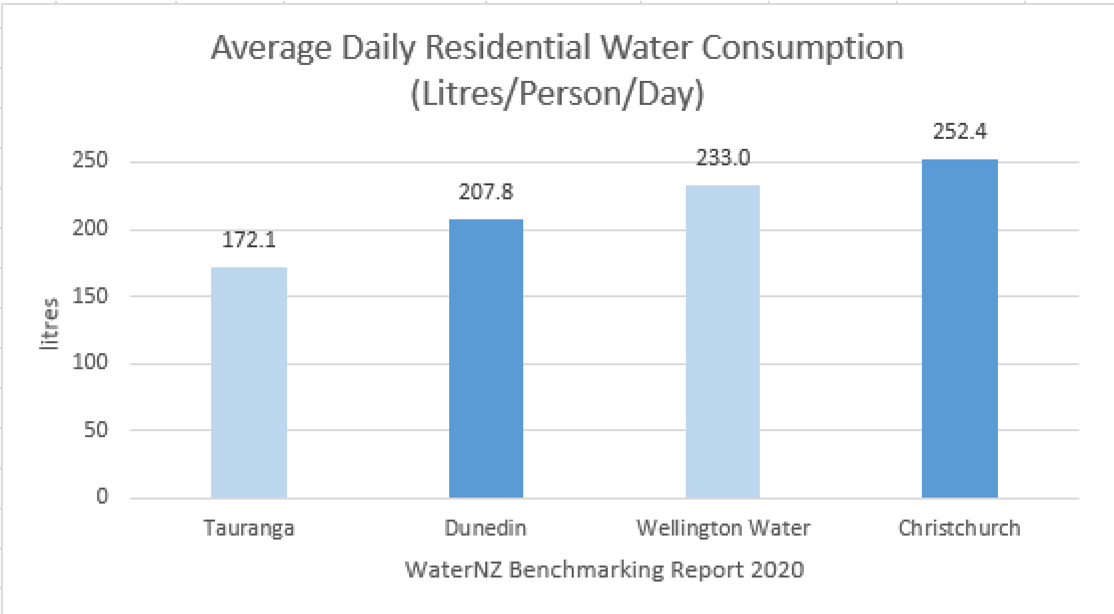
b) The problem

The average Christchurch household uses 540 litres per day (197,100 litres per year). That's the highest household water use of all the larger cities in New Zealand. Christchurch's water use in summer is about double that in winter. Peak usage is mostly due to people watering their lawns and gardens on hot days, generally from 5pm to 8pm.

In the past two summers, demand on the water supply network has been so high that the system has been at risk of not being able to supply enough water to properties. This could have serious implications for public health. Also there could be a risk that insufficient water pressure would be available for fighting a significant fire.

There is no cost to residents for using water (e.g. watering their lawns and gardens), so there is no monetary incentive to save water when we need those savings. There are practical difficulties in enforcing water restrictions, so we have to appeal to people's goodwill to reduce their water use. Repeated appeals may erode that goodwill over time.

The following chart shows average daily residential water use per person in Christchurch and in three other New Zealand cities for comparison.



c) Our proposed change

We propose to introduce a new excess water rate specifically for high-usage residential properties. All water users would continue to pay the Water Supply Targeted Rate on the basis of capital value.

Commercial users would continue to pay the commercial excess water rate (we propose this rate be set at $1.16 incl GST in 2021/22). Residential properties would pay $1.35 incl GST per cubic metre (1000 litres) for any water use over a fixed daily allowance of 700 litres. These rates are not directly comparable because the methodology for determining the allocation is quite different for each rate. Another reason for the difference is that residential peak usage tends to coincide more closely with system peak usage, so is a stronger driver of our long term costs.

Meters would be read roughly every three months on a rolling basis and invoices for any excess usage sent shortly after each meter reading. Excess usage is expected to arise mainly in the summer months.

Example: Suppose a residential property uses an average of 1200 litres per day over a 90 day period between meter readings. The allowance is 700 litres per day, so the excess amount is 500 litres per day. Over the 90 day period, that is an excess usage of 45,000 litres. The rate is $1.35 per 1000 litres. So an invoice for that 90 day period would be sent for $60.75 including GST.

We forecast that the new rate would result in invoices being sent to between 20,000 and 30,000 properties, mainly during summer months, depending on the extent to which households manage their usage. Over time, we would expect fewer properties could be affected as high-use households become better at managing their water use.

We propose to amend the Rates Remission Policy as follows:

- Where a ratepayer could not reasonably have been expected to know that a leak within their boundary has resulted in unusually high water consumption, we will require evidence the leak has been repaired before remitting those rates.
- We may remit excess water rates where a residential ratepayer provides evidence that water is used for personal medical purposes, and that has contributed to the high water use.
- When a residential ratepayer's high usage is the result of a large number of family members (greater than eight) living in the residence.

Where multiple rating units are served by a single meter, Council won't invoice for rates until separate meters can be installed, unless there is a special agreement in force specifying which rating unit/ratepayer is responsible for payment.

Where a residential rating unit is metered but the meter measures usage for two separately used or inhabited parts (SUIPs) – for example, a house and granny flat – then the daily allowance will be two times 700 litres; that is 1400 litres. If the rating unit uses water in excess of that total allowance, the ratepayer (owner) will be charged for that excess. It would be up to the owner to determine whether, and if so how, to recover that rate from the occupiers of each SUIP.

The new rate, called the Excess Water Supply Residential Targeted Rate, would be set under section 19(2)(a) of the LGRA.

We would rename the commercial excess rate as the Excess Water Supply Commercial Targeted Rate. Residential properties with three or more SUIPs on a single certificate of title will pay excess water rates on the same basis as commercial properties.

We would continue to charge the commercial excess water rate to rating units that receive a commercial water supply (as defined in the Water Supply, Wastewater and Stormwater Bylaw 2014), plus

a) Land under single ownership on a single certificate of title and used for three or more household residential units.
b) Boarding houses.
c) Motels.
d) Rest homes.

We think the residential excess water rate will raise around $2 million to $4 million (excl GST) in 2021/22, although much depends on the extent to which households respond to the rate by managing their usage. For budgeting purposes we are forecasting the lower figure of $2 million. We think the commercial excess water rate will raise around $4.16 million. These are relatively small amounts compared with the amount we raise from the capital value-based Water Supply Targeted Rate, which is $65.1 million (excl GST). For more information on our water supply activities, please refer to the Water Supply Activity Plan published as part of the Draft Long Term Plan 2021–31.

d) Reasons for the change

The proposed new excess water use rate for residential properties means properties that regularly place high demand on the public water supply network would contribute to the extra cost of supplying them with water.

Charging for excess water use would create an incentive for households to manage water use better. This encourages more sensible and sustainable use of water. We think the proposal will give rise to the following benefits for the city as a whole:

- The role of our water supply in maintaining public health will be protected. Risk to public health will be reduced.
- We will maintain our firefighting potential during the summer months.
- We expect it will reduce our pumping costs. We haven't factored this into our planning for 2021/22 yet because we are adopting a "wait and see" approach. If those benefits are seen during 2021/22, we can correspondingly reduce our future planned spending on pumping costs which will reduce the amount of rates we need to recover under the Water Supply Targeted Rate.
- Over the long term, we won't need to spend as much money on reinforcing our water supply network to cater for peak usage. This depends on the extent to which the rate leads to changes in peak summer water use over the next few years. Given that Christchurch households use considerably more water on average than in other large New Zealand cities, we think this benefit could be quite significant. If demand patterns change significantly, we expect savings will emerge in capital expenditure (and operating expenditure) which would mean lower rates increases in future compared with the forecasts in our Draft Long Term Plan 2021–31.

By planning to recover $2 million (excl GST) from a residential excess water rate, we reduce by an equal amount the costs we plan to recover through the capital value-based Water Supply Targeted Rate. The overall costs we recover are the same, but the proposal means that a greater proportion of the costs are recovered from high users rather than from everyone in proportion to their property value.

The figure of 700 litres per day for the allowance has been set to encourage meaningful improvements in the efficiency of water use while focusing attention on relatively high-usage properties (so that we do not create payment obligations for the majority of households which are relatively low-usage).

Our analysis indicates that 65 per cent of households use less than 700 litres per day on average through the year. We don't have good data on the distribution of household usage over the summer months, but we expect perhaps half of households currently use over 700 litres per day during summer. We expect that residential water usage patterns will respond quite strongly to the introduction of the new excess water rate. When Tauranga introduced a volumetric charge to recover some of its water supply costs, peak demand reduced by 30 per cent which enabled a proposed water scheme to be delayed by at least 10 years, deferring capital expenditure as well as achieving other cost savings. It seems that high-usage households find it relatively easy to reduce their usage and will do so when there is some incentive. When we put all this together, we think that our proposal will mean around 20,000 to 30,000 residential rating units (out of around 156,000 residential rating units) will receive at least one excess water use invoice during 2021/22. Many of those invoices will be for relatively small amounts – for example, if someone uses an average of 900 litres per day during a 90 day billing period (which is 200 litres/day above the allowance of 700 litres/day), they would pay $24.30 for that billing period.

If we set the allowance at a figure well above 700 litres per day, we think we would miss out on a lot of the benefits of the proposal because we would get less demand response (since a smaller number of households would be affected).

If we set the allowance at a figure well below 700 litres per day, we think we would get some additional demand response, but we expect we would be sending a much larger number of invoices (which creates additional cost for the Council and inconvenience for households), and there is a diminishing demand response per household as the allowance is reduced because it's harder for low-usage households to save water than for high-usage households.

Potential disadvantages

The capital-value based Water Supply Targeted Rate can be viewed as a "progressive" tax since it recovers more from high-value properties whose owners tend to have (though not in all cases) higher incomes and greater ability to pay. A residential excess water rate may not be as progressive: there may be less correlation between water usage and ability to pay. If that is true, then the introduction of a residential excess water rate may allocate rates away from those with a higher ability to pay and towards those with a lower ability to pay.

A counter-argument is that Christchurch already has a very heavy focus on a property's capital value as the allocation basis for rates – more so than almost every other New Zealand council. Auckland for example recovers the cost of its water supply activity from households on the basis of volumes used rather than capital value (the rates are set by Water Care). In Christchurch, if we move $2 million to $4 million of water rates from a capital-value basis to a usage basis, out of total water-related rates of around $71 million, that is a relatively minor movement, and directionally it moves Christchurch more into line with other New Zealand councils.

In our assessment the substantial advantages arising from improved efficiency of water use outweigh the potential disadvantages from the changing allocation of rates.

e) Alternative options

How do other councils rate for water supply?

We have examined how 20 other councils rate to recover the costs of their water supply activity. The following table shows whether the council recovers those costs through a fixed rate, volumetric rate, or a capital-value based rate.

Council	Fixed	Volumetric	Capital value	Fixed + Volumetric	Capital value + Volumetric
Christchurch			✓		✓
Auckland (Water Care)		✓			

Council	Fixed	Volumetric	Capital value	Fixed + Volumetric	Capital value + Volumetric
Wellington			✓	✓	
Hutt				✓	
Hamilton				✓	
Selwyn				✓	
Ashburton			✓		
Central Otago				✓	
Dunedin			✓		
Hauraki				✓	
Horowhenua				✓	
Hurunui				✓	
Kaikoura				✓	
Kapiti				✓	
Nelson				✓	
Palmerston North			✓		
Rotorua				✓	
Tasman				✓	
Tauranga		✓			
Waimakariri	✓		✓		
Whangarei				✓	
TOTAL	**1**	**2**	**6**	**14**	**1**

Note: Some councils have a range of different options for smaller towns e.g. Waimakariri District Council has different rates for Cust, Summerhill, Kaiapoi, Rangiora etc

In Christchurch we currently use capital value for residential properties. For commercial properties we use mostly capital value but support that with some volumetric charging. (Also we recover some costs associated with fire service connections and restricted water supplies through fixed rates, but these are relatively minor amounts).

Alternative Option 1: No change to water rating

If there was no residential excess water rate, we would have to recover $2 million (excl GST) extra from the capital value-based Water Supply Targeted Rate. Households that contribute most to peak summer usage would not pay any more, or face any monetary incentive to reduce their usage.

The main advantage of making no changes to water rating is that there is no change in the broad allocation of rates between ratepayers. Changing the allocation of rates can cause concern and anxiety for some ratepayers. Arguably, rates could be slightly better targeted towards those that have greater ability to pay (compared with the proposal).

The main disadvantage is that we would miss out on the benefits of the proposal arising from more efficient water usage which are reduced risk to public health, reduced risk of inadequate water supplies for firefighting, reduced pumping costs, and reduced spending to reinforce the water supply network.

Alternative Option 2: Proceed with the proposal but change the allowance from a fixed 700 l/day to an amount based on capital value

We have considered an alternative option under which the proposal would proceed but with a different method for setting the daily allowance for residential properties. The method would be more in line with the allowance given to commercial properties. The allowance would be calculated as the quantity of water (expressed as a daily allowance) that has "already been paid for" by the property's capital value-based Water Supply Targeted Rate. Again, a minimum daily allowance would apply so all properties received an allowance of at least 0.6986m^3 per day.

This option is essentially the same as the proposal on which we consulted in the 2020/21 draft Annual Plan. At that time we received a number of submissions from ratepayers concerned that high-value residential properties would receive a larger allowance than low-value residential properties.

We note that the proposal has addressed those concerns by setting a fixed allowance for residential properties while retaining the existing "what has already been paid for" methodology for determining the allocation for commercial properties.

The advantage of this alternative option is that it allows commercial and residential properties to pay excess rates on the same basis. This simplifies the administration of the rate and avoids any suggestion of unfairness as between residential and commercial users.

The disadvantage is that significant concern has already been raised about high-value properties receiving a larger allocation, and we think this option would not be acceptable to many Christchurch residents.

Alternative Option 3: Proceed with the proposal and change the Water Supply Targeted Rate from being capital value-based to being a fixed charge

We have considered an alternative option under which the proposal would proceed, but we would also change the basis for the Water Supply Targeted Rate from capital value to a fixed annual charge per rating unit.

This would result in a very substantial change in the allocation of rates as between ratepayers.

The advantage of this alternative option is that it would provide a stronger justification for having a fixed allocation for every residential property.

The disadvantage is that it would result in a very substantial change in who pays water rates, arguably directing the allocation of rates away from those with higher ability to pay and towards those with lower ability to pay.

We did not proceed with this option because we considered it would not be acceptable, at this stage, to most Christchurch residents.

f) How to give feedback

What do you think about the proposal to introduce the residential excess water rate? Make a submission at [Have Your Say].

2. Extend the land drainage targeted rate

a) How it works now

The land drainage targeted rate recovers the cash operating cost of the stormwater drainage, and the flood protection and control works groups of activities. It also recovers a significant share of the cost of related asset renewal and replacement (charged in lieu of depreciation).

It is assessed on every rating unit within the ***serviced area***. The serviced area includes all developed land within the district or where there is a land drainage service.

The rate is calculated based on capital value. High value properties therefore pay more than lower value properties. Non-rateable properties (e.g. schools, churches) do not pay the rate.

A service provided to land: We have historically considered that the activities covered by the land drainage rate are a service delivered to particular pieces of land, often by stormwater pipes. In this respect the service is similar to water supply and sewer: services are delivered to particular properties by pipes.

The rate covers 96.3 per cent of the district by value (excluding non-rateable properties), and 97.5 per cent of rating units by number. In terms of geographical area, less than half of the district pays the rate – since most rural Banks Peninsula properties, and most of the city's rural properties in the north-west, don't pay it.

Amount recovered: We plan to recover costs of $43.6 million (incl GST) in 2021/22 through the land drainage targeted rate. This reflects costs of $38.2 million for stormwater and $5.4 million for flood protection. The proposal for changing the land drainage targeted rate will not change the overall amount recovered – rather it affects the allocation of those costs between ratepayers.

b) The problem

There are two key problems with the existing arrangements.

"Land drainage service" is not defined: There is a range of activities that contribute to land drainage other than provision and maintenance of the underground stormwater network. Land drainage infrastructure also includes things like above-ground waterways, roadside kerbs, swales, soakage systems, stopbanks and pump stations. Since there is no definition of "land drainage service" in the policy, Council staff cannot be certain whether properties that drain through these assets can be said to receive a land drainage service. Further, it is often not easy to tell without close inspection whether a property does in fact drain through those assets. In practice our rating officers have adopted a conservative approach, so many properties that drain through non-pipe assets are not rated for land drainage. This means that some properties that are drained by Council-provided above-ground assets do not contribute to the cost of land drainage activities.

Beneficiary group wider than owners of drained land: The land drainage rate was originally predicated on the idea that land drainage was a service being provided to drained parcels of land. In this respect it was viewed as a service similar to sewer and water supply, where the beneficiaries are the serviced properties. Over the last decade, several aspects of our land drainage rating policy have moved away from this position.

- The extension of the land drainage rate policy from 2013 to “developed land”, regardless of whether a land drainage service is provided to the land, recognises that developed land benefits from land drainage activities regardless of whether it is itself drained.
- The extension of the land drainage rate policy to specified areas of Banks Peninsula (from 2013 to 2018) based on zone, regardless of whether a land drainage service is provided to the land, recognises that certain zones benefit from land drainage activities regardless of whether that land is itself drained.
- Our land drainage assets have a significant focus on draining the central business district. This reflects the importance of maintaining the accessibility and amenity of the Central Business District (CBD), and implicitly recognises that the benefits of CBD land drainage accrue to a wide cross section of Christchurch residents who work in or use the CBD, rather than only to the owners of those CBD properties that are drained.

We are now recognising this more explicitly: we think it is more fair and accurate to regard all Christchurch residents as benefiting from land drainage and flood protection and control works activities. Rather than viewing these activities as a service provided to drained properties, we now consider land drainage and flood protection and control works are services to the whole district. These services enable all of us to get around more easily without surface flooding and make our city an accessible and pleasant place to live. We should recover these costs in a way that recognises that the whole city benefits from land drainage.

c) Our proposed change

We propose to rate all rateable properties in the district for land drainage, although properties outside the historically rated area would move to paying the rate over a three year transition period, paying one third of the full rate in 2021/22, two thirds in 2022/23 and the full rate in 2023/24.

An interactive map showing the historically rated area which will continue to pay the full rate, and other land (which will pay a one-third rate in 2021/22) is shown on this map. The map allows the viewer to zoom in to view individual properties or zoom out to view the bigger picture.

Non-rateable properties such as schools and churches will continue not to pay the land drainage rate. This is a requirement of the Local Government (Rating) Act 2002.

d) Reasons for the change

The proposed change is a fairer approach that recognises all properties benefit from land drainage and flood protection and control works by improving the accessibility of the whole district, and especially places such as the central business district (and other community focal points) where many work, shop and access amenities.

The proposal is a simpler approach to rating for land drainage facilitating greater consistency and fairness between ratepayers. In particular, there will no longer be a need to identify a “serviced area”, which is a difficult task given the range of assets that assist with land drainage and flood protection and control works.

This is not dissimilar to our rating for costs relating to the provision and maintenance of roads and footpaths. Those costs are recovered from all rateable properties in the district through the general rate. Roads and footpaths are not regarded as only serving the properties that are immediately adjacent to: rather they benefit all ratepayers by improving the accessibility of the entire district. A property owner may benefit from roads located a long distance from their own property.

e) Alternative options

Alternative Option 1: Set the land drainage rate on properties receiving a land drainage service

Under this alternative option we would rate only those properties that are within a specified distance of certain Council land drainage assets, or where significant Council assets help to drain the property or substantially reduce its flood risk. Drainage assets could include stormwater pipes, concrete kerb and channel, swales, and drainage ditches. Flood mitigation assets could include stopbanks and pump stations.

Under this option we would regard land drainage as a service provided to particular drained parcels of land. In this respect the rate would be similar to sewer and water supply rates where services are provided to particular pieces of land.

If we regard the only beneficiaries of the Council's land drainage activities as (the owners of) those properties that are drained by Council assets, then this alternative option would better target those beneficiaries. Large rural properties far from the Council's land drainage assets may drain primarily to ground or to natural waterways. Some properties that are not drained by Council assets have spent considerable sums of money on establishing their own drainage arrangements using soakage systems. In this sense, it could be considered unfair to make those properties contribute to the Council's land drainage costs. The counter-argument is that those properties benefit from other land throughout the city being drained so that mobility and accessibility can be maintained.

The disadvantages of this alternative option are:

- While all residents share in the benefits from land drainage activities and flood protection and control works improving mobility and accessibility throughout the district, some beneficiaries would not be contributing to the cost of the activities.
- The complexity of determining and applying rules identifying which properties receive a land drainage service. These rules may not reflect the reality of how the property drains.
- A reduction in the number of properties paying the rate would mean the remaining properties would have to contribute slightly more.

Alternative Option 2: No change to the existing land drainage rating policy

We have noted that in practice our rating for land drainage and flood protection and control works is not always consistent with our existing policy. In particular there are a substantial number of properties that seem to be covered by our existing policy but which are not rated for land drainage.

If we made no changes to the existing land drainage rating policy, we would aim to change our practices to come more into line with the policy. Key changes in practice would include:

- We would move to consistently rate all developed properties. We would interpret this as all properties that contain a roofed structure larger than a garden shed.

- We would move to consistently rate all properties that are near to Council-owned assets such as stormwater pipes, concrete kerb and channel, and swales, or that have their flooding risk reduced by Council activities.

This would substantially increase rates to many properties that do not currently pay the rate.

By targeting both developed properties and properties "receiving a land drainage service", this option sits between the proposal (under which all rateable properties would pay the rate) and alternative option 1 which targets only those properties receiving a service.

One argument in favour of this alternative is, assuming benefits accrue to people from mobility and accessibility, we would target the rate towards properties that people use (developed properties) rather than undeveloped properties.

The disadvantages of this alternative option are:

- To the extent that all properties share in the benefits of a well-drained district, then some beneficiaries are not contributing to the cost of the activities.
- As for alternative option 1, the complexity of determining and applying rules identifying which properties receive a land drainage service or are developed.

Alternative Option 3: Remove the land drainage targeted rate and fund through the general rate

Rather than having a land drainage targeted rate on all properties (the proposal), this alternative option would remove the land drainage targeted rate entirely and simply fund land drainage activities from the general rate. Under this option, the allocation of rates between ratepayers would differ from the proposal in two important ways:

- The differential categories for the general rate would apply. This means that businesses would bear a higher proportion of land drainage costs, and remote rural properties would bear a lower proportion of land drainage costs compared with the proposal.
- A property not currently paying the land drainage rate would move immediately to paying a full share of land drainage costs through the general rate. Those properties would face significant rates increases.

One key advantage of this alternative option is simplicity – there would be fewer targeted rates. It would also address the problems we have identified above that led to the development of the proposal.

The key disadvantage is that it would cause a substantial shift in the allocation of rates from households to businesses. We think there is not a sufficiently strong reason for doing this. It would also remove the transparency benefits of having a separate targeted rate to fund land drainage activities. A targeted rate allows ratepayers easily to see how much they are contributing towards those costs.

f) How to give feedback

What do you think about the proposal to rate all rateable properties in the district for land drainage (but with a three year transition period)? Make a submission at Have Your Say.

3. New heritage targeted rate

a) How it works now

Currently we fund all heritage spending through the general rate. This comprises interest costs and debt repayment where we have borrowed for capital works.

b) The problem

We are planning for the following future spending related to heritage:

- A $23.5 million grant towards the Canterbury Museum redevelopment scheduled over three years from 2024/25.
- Planned capital expenditure of $42.0 million associated with preserving key components of our own built heritage: the Provincial Chambers, Old Municipal Chambers and Robert McDougall Gallery.
- Possible base isolation of the Robert McDougall Gallery costing $11.8 million which is currently being consulted on as part of the Draft Long Term Plan 2021–31.

The spending on heritage is not transparent to ratepayers at present.

c) Our proposed change

We propose to introduce a new Heritage Targeted Rate to recover these planned costs over 30 years. The rate is planned to cease at 30 June 2051. The rate will be phased in over three years from 2021/22, so the rate will increase in 2022/23 and again in 2023/34 to reach a level consistent with recovering the full capital costs above (excluding interest).

In 2021/22 the rate is designed to recover a total of $75,000 plus GST. The rate will be charged to all rateable rating units in the district based on capital value, meaning properties with higher valuations will pay more towards the rate.

d) Reasons for the change

The proposal ensures that the amount each ratepayer pays towards these heritage projects is transparent to the ratepayer on their rates assessment.

e) Alternative options

Alternative option 1: Recover these costs through a fixed rate

We could recover these costs as a fixed rate per separately used or inhabited part (SUIP) of a rating unit. This would be the same as other rates like the uniform annual general charge, and the targeted rates for waste minimisation, active travel and Christ Church Cathedral.

The advantage of this alternative option is that it arguably more closely matches the distribution of benefits which are distributed equally among ratepayers. The disadvantage is that it is less “progressive” – rates based on capital value can be better targeted towards those more able to pay.

Heritage costs have historically been rated based on capital value (except for the Cathedral rate). We consider that the proposal is better than this alternative option 1 because it maintains this approach, minimising any change in the allocation of rates between ratepayers that doesn't have a clear justification.

Alternative option 2: Continue to recover these costs through the general rate

We could continue to recover these costs through the general rate. We have historically recovered heritage costs through rates based on capital value (except for the Cathedral rate).

Under this option businesses would pay a higher proportion of the rate, because businesses pay a differential on the capital value-based general rate of 1.697.

The advantage of this alternative option is that it more closely resembles the historical pattern of recovering heritage costs (through the general rate where businesses pay a higher differential). The disadvantage is that ratepayers cannot see on their rates assessment the contribution they are making to these heritage costs.

We consider that the proposal is better than this alternative option 2 because it is more transparent.

f) How to give feedback

What do you think about the proposal to have a separate targeted rate for heritage spending on all rateable properties in the district based on capital value? Make a submission at Have Your Say.

4. New Arts Centre (Te Matatiki Toi Ora) targeted rate

a) How it works now

In 2020/21 the Council did not have a Special Heritage (Arts Centre) Targeted Rate.

b) The problem

More than two-thirds of The Arts Centre Te Matatiki Toi Ora site has been rebuilt, strengthened and restored after the 2010–11 earthquakes, as part of a $255 million restoration project. However, the Arts Centre's revenue was severely impacted by COVID-19 and the subsequent lockdown, and it is seeking funding to carry out the remaining restoration work. The Council proposes to provide funding assistance by making a grant of $5.5 million to be paid to the Arts Centre over three years. If it is paid from general rates, instead of a special targeted rate, the amount paid by each ratepayer would not be transparent.

c) Our proposed change

We propose to introduce a new Special Heritage (Arts Centre) Targeted Rate to recover the grant cost over 10 years. The rate is planned to cease on 30 June 2031. The rate will be phased in over two years from 2021/22, so the rate will increase in 2022/23 to reach a level consistent with recovering the full cost above (excluding interest).

In 2021/22 the rate is designed to recover a total of $200,000 plus GST. The rate will be charged to all rateable rating units in the district based on capital value. More expensive properties pay more towards the rate. Lower value properties pay less.

d) Reasons for the change

The proposal ensures that the additional amount each ratepayer pays towards these costs is transparent to the ratepayer on their rates assessment.

e) Alternative options

Alternative option 1: Recover these costs through a fixed rate

We could recover these costs as a fixed rate per separately used or inhabited part (SUIP) of a rating unit. This would be the same as other rates like the uniform annual general charge, and the targeted rates for waste minimisation, active travel and the Christ Church Cathedral.

The advantage of this alternative option is that it arguably more closely matches the distribution of benefits which are distributed equally among ratepayers. The disadvantage is that it is less "progressive" – rates based on capital value can be better targeted towards those more able to pay.

Heritage costs have historically been rated for based on capital value (except for the Cathedral rate). We consider that the proposal is better than alternative option 1 because it maintains this approach, minimising any change in the allocation of rates between ratepayers that doesn't have a clear justification.

Alternative option 2: Recover these costs through the general rate

We could recover these costs through the general rate. This would match historical practice, since we have historically recovered the cost of capital grants through rates based on capital value (except for the Cathedral rate).

Under this option businesses would pay a higher proportion of the rate, because businesses pay a differential on the capital value-based general rate of 1.697.

The advantage of this alternative option is that it more closely resembles the historical pattern of recovering the cost of capital grants (through the general rate where businesses pay a higher differential). Also it is simpler and avoids a proliferation of targeted rates. The disadvantage are that ratepayers cannot see on their rates assessment the contribution they are making to these heritage costs.

We consider that the proposal is better than alternative option 2 because it is more transparent.

Alternative option 3: Not make the grant/not have a new targeted rate

We could decide not to make the grant at all, in which case there would be no need to have a separate targeted rate, or add it to the general rates.

The advantage of this option is it would reduce the overall rates bill for ratepayers, although only by 0.000212 cents per dollar of capital value. The disadvantage is the Arts Centre will have to seek other funding sources, when there is demand from many other organisations also affected by COVID-19 and the lockdown. They may not complete their restoration work as quickly as desired.

We consider the proposal is better than alternative option 3, because of the value this significant heritage asset brings to our city.

f) How to give feedback

What do you think about the planned grant to the arts centre funded by this rate, and also about the proposed design of the rate itself: to rate all rateable properties in the district based on capital value? Make a submission at [Have Your Say](#).

5. New Central City Business Association targeted rate

a) How it works now

We have been providing grant funding to the Central City Business Association (CCBA) each year since the earthquakes, as part of our support for a vibrant central business district. This has been funded through the general rate which all ratepayers in the district pay.

b) The problem

We keenly value the CCBA as a strong voice advocating for the central city, but we do not think it is fair to continue asking ratepayers generally to support the CCBA.

c) Our proposed change

We are proposing that the grant to the CCBA ($150,000 excluding GST in 2021/22) be funded by a targeted rate on central city properties. The rate would be a fixed rate per rating unit charged to all business rating units in the CCBA Area with a land value of $50,000 or more. The $50,000 minimum value will mean very small rating units don't have to pay – there are a large number of individual carparks in the central city which are legally separate rating units. The CCBA Area is the land within the red boundary shown in the map.

There are currently 623 rating units in the defined area. This means each business property would pay $276.89 (incl GST) for this rate in 2021/22. This is $240.77 excluding GST.

d) Reasons for the change

Over coming years the CCBA wants to move towards being funded by its members. We don't think we can move to that position immediately, but funding the grant from a targeted rate on business properties in the central city helps move the CCBA in that direction.

Since the CCBA's activities mostly benefit central city businesses, we think a targeted rate more closely aligns to those who benefit.

e) Alternative options

Alternative option 1: Recover the costs through the general rate

We could continue to recover these costs through the general rate.

The advantage of this option is that it is simpler for the Council and central city property owners. The disadvantage is that the rate does not target the beneficiaries of the CCBA grant.

We consider that the proposed targeted rate is better than alternative option 1 because it means the beneficiaries of the grant fund its cost.

Alternative option 2: Recover the costs through a land value or capital value-based targeted rate on central city business properties

We could recover the costs through a rate on business properties in the CCBA area based on land value or capital value rather than the proposed fixed rate per rating unit.

The advantage of this approach is that the size of the property may better reflect ability to pay or may (arguably) better reflect the benefits received by each rating unit. The disadvantage is that a fixed rate arguably better represents the voice that each business has in the activities and direction of the CCBA. The feedback we have from CCBA Board members is that the fixed rate per rating unit is preferred.

Alternative option 3: Not make a grant to the CCBA

We could decide not to make the grant at all, in which case there would be no need to have a separate targeted rate, or include it in the general rates.

The advantage of this approach is central city business rates would be less than under the proposal. The disadvantage is that such a substantial decrease in funding for the CCBA will significantly affect its ability to continue its activities unless its members can provide that funding, but many of its members have been affected by COVID-19 and the lockdown.

f) How to give feedback

What do you think about introducing a CCBA targeted rate, and the proposed design of the rate itself: a fixed charge for each business rating unit in the CCBA area with a land value of $50,000 or greater? Make a submission at Have Your Say.

6. Expand remote rural definition

a) How it works now

The value-based general rate recovers a majority of our rates revenue. There are three differentials for this rate. Properties in the standard category have a differential of 1 so pay the normal rate. Business properties pay a differential of 1.697 so pay 69.7 per cent more for the same value property. Properties classified as remote rural pay a differential of 0.75 so pay 25 per cent less than standard properties.

The remote rural differential is available only to rating units that are (all of the following):

(a) zoned residential or rural in the District Plan, and

(b) situated outside the sewer serviced area (this is a measure of "remoteness"), and

(c) either vacant or used principally for certain specified farming purposes.

b) The problem

Some large rating units (often farms) fail to meet these criteria simply because a sewer pipe passes close to one corner of the property, or connects a farm house. It seems unfair that these very large properties are not regarded as "remote" because of a small scale interaction with the sewer network. Common sense suggests they are indeed remote, simply because of their size.

c) Our proposed change

We propose that the measure of remoteness (paragraph b above) will have two alternative criteria. If either is satisfied then the remoteness test is satisfied. The existing sewer system measure will be one criteria. The second, new one will be whether the property is greater than 20 hectares in size.

d) Reasons for the change

This is a fairer approach to allow a small number of large properties (typically farms) to qualify for the 25 per cent remote rural discount.

e) Alternative options

The only alternative we have considered is not introducing this change. The disadvantage of this alternative approach is that rates will be unfairly high for those large farms. The advantage is that rates will be very slightly lower for all other ratepayers.

f) How to give feedback

What do you think about the planned change to the definition of the remote rural differential which is used for the value-based general rate? Make a submission at Have Your Say.

7. No rates remissions for not-for-profit community-based organisations that hold large cash balances

a) How it works now

We provide rates remissions to not-for-profit community-based organisations under Remission 1 of our Rates Remission Policy.

Rateable properties are assessed normally for all rates. Non-rateable properties including schools, churches, and land used for some conservation or recreational purposes, pay water supply and sewer rates, but not other rates.

Not-for-profit community-based organisations can apply in writing for remission of the rates which have been assessed.

We can remit up to 100 per cent of most rates (up to 50 per cent for sewer, water and land drainage rates) for not-for-profit community-based organisations which deliver a predominant community benefit – that is where the organisation's activities provide significant public good. The extent of the remission is at our sole discretion.

Some organisations are excluded: chartered clubs, political parties, trade unions (and associated entities), dog or horse racing clubs, or any other entity where the benefits are restricted to a class or group of persons and not to the public generally.

b) The problem

We forecast the amount of remissions we will provide each year, and that forecast revenue must effectively be recovered from all other ratepayers. Ratepayers fund remissions.

Some remissions are very much needed by these organisations so they can continue to provide public benefits. However, some remissions are given (in accordance with the policy) to organisations that can more easily afford their rates, compared to others that have greater difficulty. We think it is not fair for all Christchurch ratepayers to fund remissions to not-for-profit organisations that hold large cash balances.

c) Our proposed change

We propose to introduce a new criteria for this remission. It is that organisations must have a closing balance of cash and investments in their latest financial accounts of less than 50 times the GST exclusive Council rates for properties in relation to which the remission is sought. Cash and investments include term deposits of all durations, and shares in listed companies, but do not include investment properties.

For example if GST exclusive Council rates are $5,000, the organisation cannot have more than $250,000 of cash and investments.

Funds that have been received from grants, fundraising or insurance proceeds that are committed to a specific capital project may be excluded from the cash balance for this calculation. Applicants must provide evidence showing the purpose for which that cash is held.

Applicants must provide financial accounts for the latest financial year for which accounts are available (not more than 18 months old). The accounts must be for the reporting entity which is directly responsible for paying the rates. Where there is a legal or reporting obligation on the reporting entity to have the accounts audited or reviewed, the accounts must have been audited or reviewed.

We think this could reduce remission costs by $300,000 (excluding GST) per year.

d) Reasons for the change

The proposal focuses the Council's resources on organisations that most need rates relief. This proposal better balances the interests of not-for-profit community-based organisations with the interests of other ratepayers who fund those remissions.

e) Alternative options

We considered a number of different ways of measuring the cash balances, wealth or income of organisations to provide an indication of their ability to pay rates. To the extent they restrict the remission more tightly, rates can be slightly lower for ratepayers, but the not-for-profit community-based organisations will lose additional remissions.

We also considered not changing the remission criteria. Relative to the proposal that would increase rates slightly to most ratepayers, but could make it easier for some not-for-profit organisations to provide more public benefits from their activities.

We prefer the proposal because we think it balances the interests of not-for-profit community-based organisations with the interests of other ratepayers who fund those remissions.

f) How to give feedback

What do you think about the planned change to the criteria for rates remissions to not-for-profit community-based organisations, to reduce remissions to organisations with relatively high cash balances? Make a submission at [Have Your Say].

8. Further minor restriction of "Residential pressure wastewater system electricity costs" remissions

a) How it works now

After the Christchurch earthquakes of 2010 and 2011, some properties had their previous gravity-based sewer connections replaced with pressure sewer connections. Those systems require a pump to be installed at the property. The pump is powered using electricity from the property's mains electricity supply. This means the property owner/occupier has some additional electricity costs. To compensate the owners, we provide a rates remission (Remission 5 in our Rates Remission Policy) to those properties, equal to an estimate of the annual electricity cost of running the pump.

The Council's expectation is that where tenants pay for electricity, landlords will pass on the benefit of the remission to their tenants.

For 2020/21, the remission was set at $26.00 + GST per annum. We propose to retain it at that level for 2021/22.

Consistent with the overall purpose of the remission, we don't provide the remission to any property:

- with a pump owned and installed by a property owner prior to 1 July 2013,
- that requires a pressure sewer system as part of a subdivision of land that occurred after 1 July 2013,
- that was vacant land prior to 4 September 2010, or
- that is sold after 30 June 2018.

b) The problem

The second bullet point above ("that requires a pressure sewer system as part of a subdivision of land that occurred after 1 July 2013") is intended to address the situation where a property is subdivided and a new house constructed. If the new house requires a pressure pump, our existing policy is to not provide a remission. This reflects the purpose of the remission which is to compensate property owners for sewer system changes imposed on them after the earthquakes.

However, the new house might require a pressure sewer system due to a land use consent or building consent (rather than due to a subdivision). Under a literal reading of the existing policy, that property could be eligible for a remission. This is not consistent with the purpose of the remission.

c) Our proposed change

We propose to change the second bullet point above to read: "That requires a pressure sewer system after 1 July 2013 as part of a subdivision, land use consent or building consent".

d) Reasons for the change

This ensures that a new house that requires a pressure sewer system will not receive a remission. This is consistent with the purpose of the remission.

e) Alternative options

The only alternative option considered was to make no change. Some additional remissions may be granted. However, these would not be consistent with the clear original purpose of the remission.

f) How to give feedback

What do you think about the planned change to the list of property types that are excluded from receiving the pressure sewer pump electricity remission? Make a submission at Have Your Say.