

**AGENDA FOR A MEETING OF THE FINANCE AND OPERATIONAL PERFORMANCE
COMMITTEE TO BE HELD AT WAITAKERE CENTRAL, 6 HENDERSON VALLEY
ROAD, HENDERSON, WAITAKERE, ON MONDAY, 12 FEBRUARY 2007
COMMENCING AT 9.30 AM.**

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
<u>PART A - OPENING OF MEETING</u>	1
1 APOLOGIES	1
2 URGENT BUSINESS	1
3 CONFIRMATION OF MINUTES	1
<u>PART B - LEGAL AND CONSTITUTIONAL</u>	2
4 AFFIXATION OF COMMON SEAL	2
<u>PART C - FINANCE</u>	4
5 OPERATING AND CAPITAL EXPENDITURE SUMMARIES	4
6 STATUS OF SPECIAL FUNDS	5
7 BORROWING AND INVESTMENT REPORT	6
<u>PART D - GENERAL</u>	8
8 REPRESENTATION REVIEW - OUTCOME	8
9 2007 WAITAKERE CITY COUNCIL ELECTIONS: EARLY PROCESSING AND ORDERING OF CANDIDATES' NAMES ON VOTING DOCUMENTS	14
10 NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED AND SUBSIDIARIES - DELEGATION TO THE CHIEF EXECUTIVE OFFICER	16
11 ASSESSMENT OF THE IMPACTS UNDER ALTERNATIVE RATING SYSTEMS	18
12 REVIEW OF RATING SYSTEM	48
13 FORMER TE ATATU SOUTH LIBRARY BUILDING USE	53
14 LEISURE FACILITY PARTNERSHIP FUND STAGE TWO APPLICATIONS	56
<u>PART E - REPORTS FROM THE SUBCOMMITTEES</u>	61
15 EMERGENCY SERVICES SPECIAL COMMITTEE	61
16 TENDERS SUBCOMMITTEE	62
<u>PART F - PUBLIC EXCLUDED MATTERS</u>	63
17 PROPOSED LEASE ACQUISITION: NEW LYNN KINDERGARTEN, TOTARA AVENUE, NEW LYNN	63
18 PROPOSED LAND ACQUISITION CAMBRIDGE CLOTHING LIMITED, GREAT NORTH ROAD, NEW LYNN	63
19 CORBAN ESTATE: RESTAURANT SITE OPTIONS	63
PROCEDURAL MOTION TO EXCLUDE THE PUBLIC	63

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PART A - OPENING OF MEETING

1 APOLOGIES



2 URGENT BUSINESS

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 provides that where an item of business is not on the agenda, it may only be dealt with at the meeting if:

- (i) the Committee by resolution so decides; and
- (ii) the Chairman has explained at the beginning of the meeting (when open to the public) that the item will be raised for discussion and decision, why the item is not on the agenda, and why it cannot be delayed until a subsequent meeting.

The Committee may make a decision on a matter determined to be urgent.

NOTE: Urgent Business need not be dealt with now and may be delayed until later in the meeting.



3 CONFIRMATION OF MINUTES

Meeting Minutes - Monday, 11 December 2006

RECOMMENDATION

That the minutes of the Meeting of the Finance and Operational Performance Committee held on Monday, 11 December 2006, including the Public Excluded minutes, as circulated, be taken as read and now be confirmed.



PART B - LEGAL AND CONSTITUTIONAL

4 AFFIXATION OF COMMON SEAL

EXECUTION OF DOCUMENTS: 4 December 2006 to 2 February 2007

N°	NAME	PARTICULARS
4033	WCC – P & VR Tree	Drainage easement in gross – CT.307303 – 22 Alidade Place – SPW 22500
4034	WCC – Waitemata Maori Wardens Trust Inc	Lease of 3090 Great North Road – Resolution 2110/2006
4035	WCC – Waitemata Maori Wardens Trust Inc	Lease of building in Tui Glen - Resolution 853/2004
4036	WCC - N&I Properties Ltd	Drainage easement in gross – CT.249263 – 140-142 Solar Road – SPW 21672
4037	WCC – W Conwenbergh, YTM Conwenberg-Schoemans and HA Aalders	Drainage Easements in gross – CTs.249261 & 249262 – 140-142 Solar Road – SPW 21672
4038	WCC – N&I Properties Ltd	Fencing Agreement – CT.294263 – 140-142 Solar Road – SPW 21672
4039	WCC – W Conwenbergh, YTM Conwenberg-Schoemans and HA Aalders	Fencing Agreement – CT.249262 – 140-142 Solar Road - SPW 21672
4040	WCC – Marcus Braithwaite	Warrant of Appointment & Evidence of Identity – No.WCC323
4041	WCC – Green Bay Community House Society Inc	Lease of part of Batton's Green – Resolution 110/2006
4042	WCC – Inlook Ltd	Partial surrender of easement – 6 Waipareira Avenue – Resolution 1909/2003
4043	WCC – RK & FM Maxwell and Veronica House Ltd	Variation of Uncompleted Works & Maintenance Bond (No.6949840.9) – CT.262488 - 44 Landing Road, Titirangi
4044	WCC – IS McGregor	Drainage easement in gross – CT.311085 – 5 Orchid Place, Te Atatu South – SPW 22554
4045	WCC – Amon-Ra Investment Ltd	Stormwater Drainage easement in gross – CTs.224937-224940 – 6 James Laurie Street – SPW 22266
4046	WCC – Waitakere City Stadium Trust	Licence to Construct Grandstand, Floodlighting & Associated Works
4047	WCC – Waitakere City Stadium Trust	Lease of Grandstand and Environs
4048	WCC – Waitakere Pacific Arts & Cultural Trust ('WPACT')	Funding & Service Agreement 2006/2007 – Resolution 2464/2006
4049	WCC – Yelavich Bros Ltd and Waitakere Quarries Ltd	Deed of Assignment of Licence – Consent
4050	WCC – Marion Nettie Gibbins	Deed of Waiver s.40 Public Works Act – 129A Millbrook Road – Resolution 1288/2003
4051	WCC – M Keeran	Water supply easement in gross – CTs.311557-311562 – 19 Kamara Road, Glen Eden – SPW 22147

N°	NAME	PARTICULARS
4052	WCC – AM 2 PM Ltd	Stormwater drainage easement in gross – CT.282871 – 20 Matipo Road, Te Atatu Peninsula – SPW 22582
4053	WCC – Rebecca Robertson	Warrant of Appointment & Evidence of Identity – No.WCC324
4054	WCC – Premium Property Holdings Ltd /Hudson Bay Holdings Ltd/ Waitakere Properties Ltd	Deed re: Agreement dated 5 July 2005 – Lot 1 DP 317419 – Identifier 68319 – Clarke Road, Hobsonville
4055	WCC	Withdrawal of Caveat 5657589.1 – Identifier 68319 – Clarke Road, Hobsonville
4056	WCC	Withdrawal of Caveat 6519124.1 – Identifier 68319 – Clarke Road, Hobsonville
4057	WCC – RA & RA Harrison	Memorandum of Encumbrance for road encroachment – CT.NA621/226 - 1 Tanekaha Road, Titirangi
4058	WCC – Martin & Aloma-Masana	Fencing Agreement – 113A Titirangi Road – SPW 22374
4059	WCC – WCC	Easement Instrument – Right-of-way, water, power, telecommunications – 341-347 Henderson Valley Road
4060	Refer No.4058 above (entered twice)	
4061	Refer No.4059 above	
4062	WCC – Co-Housing New Zealand Ltd	Release of Uncompleted Works & Maintenance Bond – 457 Swanson Road – SPW 21194/21216
4063	WCC – Waitakere Properties Ltd	Easement Instrument for water supply – DP 370255 – Identifier 284767 (servient) and in gross
4064	WCC – Housing NZ Ltd	Drainage easement in gross – CT.300521 – 4100 Great North Road – SPW 22386
4065	WCC – Housing NZ Ltd	Water supply easement in gross – CT.300521 – 4100 Great North Road – SPW 22386
4066	WCC – Housing NZ Ltd	Fencing Agreement – CT.300521 – 4100 Great North Road – SPW 22386
4067	WCC – Shayleen Sandeep Prakash	Warrant of Appointment & Evidence of Identity – No.WCC234
4068	WCC – Robin Bigwood	Warrant of Appointment & Evidence of Identity – No.WCC327
4069	WCC – Steven Brent Rankin	Warrant of Appointment & Evidence of Identity – No.WCC328
4070	WCC – Tarun Ahuja	Warrant of Appointment & Evidence of Identity – No.WCC329
4071	WCC – Mark Gill	Warrant of Appointment & Evidence of Identity – No.WCC330
4072	WCC – Graham McIntyre	Warrant of Appointment & Evidence of Identity – No.WCC331
4073	WCC – Kevin Charles Ferguson	Warrant of Appointment & Evidence of Identity – No.WCC332

N°	NAME	PARTICULARS
4074	WCC – Stewart Glenn Nash	Warrant of Appointment & Evidence of Identity – No.WCC119 (reissued 12/1/07 name spelt wrongly)
4075	WCC – Leslie Walters	Warrant of Appointment & Evidence of Identity – No.WCC325
4076	WCC – Liza Atkinson	Warrant of Appointment & Evidence of Identity – No.WCC326
4077	WCC – Denis Wilson	Warrant of Appointment & Evidence of Identity – No.WCC333
4078	WCC – Lincoln Gardens Ltd (First Choice Construction Ltd)	Drainage easement in gross – CTs.318199, 318201, 318194 & 318186 – 38 Universal Drive & 43 Woodside Road – SPW 22542
4079	WCC – Lincoln Gardens Ltd (First Choice Construction Ltd)	Fencing Agreement – CTs.318193 & 318194, 318197 to 318199 – 38 Universal Drive & 43 Woodside Road – SPW 22542
4080	WCC - S Daley	Memorandum of Encumbrance – CT.NA31A/1141 – 46 Kitewaho Road, Swanson
4081	WCC – Waitakere Properties Ltd	Performance Bond re SPW 22252 – CTs.NA15C/270 and 184001
4082	WCC – PM & BJW Liddell	Conservation Covenant (s.77 Reserves Act 1977) – 30 Otitori Bay Road – CT.NA18C/361
4083	WCC – KJ Patterson	Conservation Covenant (s.77 Reserves Act 1977) – 130 Lone Kauri Road, Karekare – CT.NA20D/233

RECOMMENDATIONS

1. That the Affixation of Common Seal report be received.
2. That the action taken in affixing the Common Seal on the documents as set out in the agenda report be adopted.

Report prepared by: Magdalene Conceicao, Legal and Insurance Officer.



PART C - FINANCE

5 OPERATING AND CAPITAL EXPENDITURE SUMMARIES

PURPOSE OF THE REPORT

The purpose of this report is to inform the Finance and Operational Performance Committee as to the level of the year to date operating and capital expenditure by unit compared to budget.

BACKGROUND

Through the Long Term Council Community Plan processes, the Council approves operating and capital expenditure. The Council follows good practice for procurement of goods and services and ensures that funding has been provided from appropriate sources.

ISSUES

A1 This report covers expenditure for the six months to 31 December 2006. The financial summaries are attached on page A1.

If any further information is required in respect of this report, other than of a general nature, please contact either the writer or the Director: Finance prior to the meeting to enable the query to be researched.

CONCLUSION

Expenditure for the 6 months to 31 December 2006 is in line with the operational budget.

RECOMMENDATION

That the Operating and Capital Expenditure Summaries report be received.

Report prepared by: Bob Preston, Group Manager: Financial Management.



6 STATUS OF SPECIAL FUNDS

PURPOSE OF THE REPORT

The purpose of this report is to inform the Finance and Operational Performance Committee on the status of Council's Special Funds.

BACKGROUND

Special funds are those funds held or designated by Council for a specific purpose or purposes. With the exception of the Auckland Regional Services Trust funds which are held in a separate bank account, the balances of these funds are used to offset Council's borrowing requirements. Interest is allocated to funds where applicable.

Special fund movements are recommended through the Long Term Council Community Plan and Annual Plan adoption process. Special funds are classified as either "Restricted Funds" or "Non-Restricted Funds". Restricted funds are those funds that have been received by Council from a third party or parties and are to be used for a specific purpose or purposes. Non-restricted funds are funds established by a Council resolution to use and set aside its own funds and also to meet a specific purpose or purposes.

ISSUES

A2 The Special Fund report is separated into restricted and non-restricted funds. The balances and summary transactions for the six months ended 31 December 2006 are attached at page A2.

If any further information is required in respect of this report, other than of a general nature, please contact either the writer or the Director: Finance prior to the meeting to enable the query to be researched.

CONCLUSION

Special Funds are being held or designated for a specific purpose or purposes. The fund balances have been reported as required.

RECOMMENDATION

That the Status of Special Funds report be received.

Report prepared by: Bob Preston, Group Manager: Financial Management.



7 BORROWING AND INVESTMENT REPORT

PURPOSE OF THE REPORT

The purpose of this report is to provide the Finance and Operational Performance Committee with an update on the estimated borrowing and investment activity for December 2006.

BACKGROUND

Waitakere City Council enters into treasury related financial contracts in the ordinary course of its business. It is the role of Council's Funds Management section to manage such contracts and the impact that they have on the organisation. All funds management transactions are governed by the Liability Management and Investment Policy, prepared in compliance with the Local Government Act 2002. As a requirement of that Policy this report informs the Committee on the current and future movements of Council's debt and cash investments and provides a general commentary of financial market conditions.

A3-A8

The relevant portfolio and graphs reflect the estimated position as at 31 December 2006 and are attached at pages A3 to A8.

ISSUES

Council's Funds Management function actively manages a large portfolio of various debt and investment instruments. The benefit of borrowing is that it enables Council to carry out the projects identified in the Annual Plan and Long Term Council Community Plan, while spreading the costs for those projects over time to recognise the future benefits. Borrowing funds therefore assist Council with its entire loans funded strategic initiatives. The Liability Management and Investment Policy requires that a report detailing the management of the portfolio be presented to the Finance and Operational Performance Committee on a regular basis. The report must include information on the following subjects:

- Cash/Debt position;
- Forecasted borrowing profile;
- Interest rate profile;
- Risk management;
- Material transactions;
- Market commentary.

This report addresses the requirement of the Policy and may include other information that is relevant to the Funds Management function.

FINANCIAL IMPLICATIONS

The active management of the treasury portfolio seeks to minimise Council's borrowing costs and maximise investment returns of liquid assets. The Funds Management function is also charged with seeking investors, thus ensuring that there is sufficient liquidity available for the Council to continue its work programme. New Zealand financial markets are significantly volatile and therefore interest rate risk management is a key responsibility of the Funds Management function. Detailed financial information included within this report is intended to give assurance of the prudent management of Council's portfolio.

Council maintains Standard and Poor's Credit Ratings of A-1 short term, and A+ long term (stable).

ESTIMATED SUMMARY OF BORROWING AND INVESTMENT MOVEMENTS TO DECEMBER 2006

Council's estimated gross term debt position has increased by \$6.464 million since November 2006, with an estimated closing balance at December month end of \$254.552 million.

SIGNIFICANT FUNDING TRANSACTIONS ENTERED INTO DURING NOVEMBER AND DECEMBER 2006

- Mature \$8,500,000 of pre-1998 retail bonds;
- Released Sinking Funds of \$3,288,294.20 leaving a balance of \$500 only.

FINANCIAL MARKET COMMENTARY

Market Overview

Over the last few months the financial market has continued to speculate on the direction the Reserve Bank of New Zealand is likely to take with the Official Cash Rate. The Banks Governor, Allen Bollard has continued to threaten to increase the Official Cash Rate to try to keep inflation within the agreed 1% to 3% band on the medium term. Annual inflation in December was recorded at 2.6%, which has been trending down from highs of 4% recorded in June 2006. This trend has largely been because of the decrease in petrol prices. In more detail tradable inflation for the December 2006 year fell to 1.2% from 3.8% recorded for the June 2006 year and non-tradable inflation fell from 4.1% in June to 3.8% in December. Clearly the New Zealand dollar strength and the decreasing oil prices over the second half of 2006 has played a key role in containing domestic inflation, which the Reserve Bank of New Zealand stated in their 25 January 2007 Official Cash Rate media release. The Reserve Bank also suggested that inflation is likely to decrease considerably further during 2007. However, they have indicated no decrease in the Official Cash Rate is near, sighting domestic demand and the housing market as driving non-tradable inflation higher in the medium term, which will be responded to by the Reserve Bank by further interest rate hikes.

Most Banks consider an Official Cash Rate increase is imminent at the 8 March 2007 Monetary Policy Statement release. The 90 day bank bill is certainly currently pricing in this, trading in the 7.65% to 7.75% range for the past month. Longer term interest rates have also continued to trend upwards with 10 year swap interest rates touching 7% currently. New Zealand interest rates are attractive to offshore investors, who in turn, helped to support New Zealand dollar strength.

Up Coming Dates

8 March 2007 Monetary Policy Statement

CONCLUSION

All transactions covered by this report have complied with the requirements of Council's Liability Management and Investment Policy.

RECOMMENDATION

That the Borrowing and Investment report be received.

Report prepared by: Bruce Wilkin, Treasury Manager.



PART D - GENERAL

8 REPRESENTATION REVIEW - OUTCOME

PURPOSE OF THE REPORT

The purpose of this report is to inform the Finance and Operational Performance Committee of the Determination of the Local Government Commission on Council's Final Proposal on the 2006 Representation Review.

BACKGROUND

The representation review was undertaken to determine the method of election of the Council and of its Community Boards, in order to provide for fair and effective representation, pursuant to the Local Electoral Act 2001.

One of the reforms introduced by the Local Electoral Act 2001 was to reduce the frequency of reviews of the basis of elections by local authorities from every three years to at least one every six years. Only 23 out of 86 local authorities in New Zealand conducted Reviews in 2003, with all others therefore required to undertake these in 2006. Because the Council chose not to undertake a review in 2003 it was required to do so in the 2006 year.

The Local Government Commission advised that its workload to deal with any appeals and objections when considering final proposals from territorial authorities and regional councils would be substantial and requested local authorities to submit their final proposals ahead of statutory deadlines if possible. The Council therefore determined that it would commence the process in 2005 and continue on to 2006 seamlessly, in order to make its decision on the Final Proposal well ahead of the statutory time lines, as soon as possible after completing a process of robust consultation with the community.

The Electoral Officer started this process for Council by preparing a Discussion Document for Elected Members, and commissioning a consultant to undertake a study identifying Communities of Interest. A number of workshops reviewed the consultants report and updates thereto.

As part of the Review process Council first considered the voting system and Māori representation. On 31 August 2005, the Waitakere City Council resolved to stay with the First-Past-The-Post (FPP) electoral system. Residents were advised in a public notice of this decision and of their right to demand a poll to change the decision. In October 2005 Council resolved not to introduce Maori wards for the 2007 Triennial Elections. No demand from electors for a poll on either issue was received by the deadline and therefore the Waitakere City Council will use the First-Past-the-Post system in this year's elections.

Council's next task was to consider the number of Members and their method of election for both Council and the Community Boards, in the context of the requirement of the Local Electoral Act 2001 to provide for fair and effective representation.

The Local Electoral Act 2001 states that where a council is divided into wards effective representation must be ensured by the wards having an identifiable "community of interest" based on common characteristics that help define a community, for example, transport services, stream catchments patterns, landscape features, the way land is used, etc.

Fair representation is ensured by the requirement that the ratio of Elected Members to population does not vary by more than 10% from the ratio of Elected Members (other than the Mayor and any Members elected at large) to population of the Council as a whole.

The Council undertook an informal public feedback/information process on 3 options for a ward structure prior to the formal review of representation arrangements for the City and its Community Boards.

On 15 March 2006 the Council adopted its Initial Proposal making representation arrangements applicable for the 2007 Triennial Elections. This was publicly notified on 24 March 2006.

The Council's Initial Proposal was that the City be divided into 3 wards, with a Mayor and 14 Councillors. Community Boards would be established with boundaries aligned with those for each of the 3 wards and each Community Board would comprise of 6 Elected Members, elected at large within the ward concerned and 3 Members appointed from the Councillors elected for the respective ward.

The Council received 510 submissions on time and 103 late submissions in response to its Initial Proposal.

After hearing and considering the submissions received, the Council accepted that the rural area had a community of interest by itself that was weighted alongside other communities of interest. Consequently, the Council amended its Initial Proposal.

The Council publicly notified its Final Proposal on 7 June 2006. As the Initial Proposal had been modified anyone was entitled to object, not just those who had submitted to the Council on the Initial Proposal. Objections closed at 4 pm, 7 July 2006.

The Council's Final Proposal was as follows:

- (a) The Council comprise a Mayor and 14 Councillors;
- (b) The City be divided into 4 wards;
 - Henderson (5 Councillors);
 - Massey (3 Councillors);
 - New Lynn (5 Councillors);
 - Waitakere (1 Councillor).
- (c) That community boards be retained for each of the 4 wards;
- (d) That the Massey, Henderson and New Lynn Community Boards each consist of 5 Elected Members elected at large within the ward concerned and 2 appointed Members, and that the Waitakere Community Board consists of 6 Elected Members elected at large from the ward and 1 appointed Member.

STRATEGIC CONTEXT

Active Democracy is one of the Council's nine strategic platforms identified in its Long Term Council Community Plan and Annual Plan 2005/2006. This platform supports the involvement of citizens in the Council's decision-making process through education, removing barriers, developing partnerships, improving information flows and supporting the communities' own ways of interacting with the Council.

The Council measures its success in meeting active democracy targets by conducting regular household surveys. Although the public's perception of engagement in the Council's decision-making processes has improved since 2001/2002, (partly due to this Council's extensive community consultation processes), the voter turnout for Council elections remains low. Voter turnout was only 35.68% at the last triennial election and only 27.28% at the 2006 Waitakere Ward By-Election. The electoral representation review process addressed issues around Communities of Interest and aimed at structuring a system more conducive to active voter participation.

ISSUES

A total of 220 objections were received in response to Council's final decision. The main concerns of the objectors related to:

- the exclusion of Laingholm and other areas, including part of Titirangi, from the proposed Waitakere Ward (201 objections);
- the need for a minimum of two councillors to adequately represent the Waitakere Ward, given the size and geography of the ward;
- the location of boundaries for the Massey, Henderson and New Lynn Wards; and
- the number of Community Boards and their membership.

A9-A21

The Local Government Commission held a hearing in the Waitakere City Council Chambers on 19 September 2006 at which the Council and objectors were given the opportunity to speak. On 19 December 2006 the Local Government Commission announced its decision on Waitakere City Council's membership, ward, and Community Board arrangements for the 2007 Triennial Elections, as attached at pages A9 to A21.

After considering objections against the Council's Final Proposal, the Local Government Commission decided that:

The Council will comprise a Mayor and 14 Councillors elected as follows:

Wards	Population *	Councillors	Population per Councillor	Deviation from city average population per Councillor	Percentage deviation from city average population per Councillor
Massey	49,890	4	12,472	-1080.75	-7.97%
Henderson	58,770	4	14,692	+1139.25	+8.4%
New Lynn	58,210	4	14,552	+992.25	+7.37%
Waitakere	24,990	2	12,495	-1057.75	-7.8%
TOTALS	191,900	14	13,552.75	Range: 12,336-15,077	

There will be a Community Board for each ward.

The Commission's decision differs from the Council's Final Proposal in the following ways:

- An extended area around and including Ranui remains in the Massey Ward;
- An additional area of Glendene is to be transferred from the Henderson Ward to the New Lynn Ward;
- The Waitakere Ward will be extended to more closely follow the area identified in the Waitakere Ranges Heritage Area Bill (presently before Parliament), and will include Laingholm and part of Titirangi;
- Henderson, Massey and New Lynn Wards will be represented by 4 Councillors for each ward;
- The Waitakere Ward will be represented by 2 councillors instead of 1.

A22 The 4 wards are as indicated on the map attached to this agenda at page A22.

Massey Ward

A23 The Massey Ward, as indicated on the map attached to this agenda at page A23, will be the area generally encompassing Whenuapai, Hobsonville, West Harbour, Herald Island, Massey and Ranui (North of Universal Drive).

Henderson Ward

A24 The Henderson Ward, as indicated on the map attached to this agenda at page A24, will be the area generally comprising Western Heights, McLaren Park, Henderson, Lincoln (South of Universal Drive), Te Atatu South and Te Atatu Peninsula.

New Lynn Ward

A25 The New Lynn Ward, as indicated on the map attached to this agenda at page A25, will be the area generally comprising, Green Bay, Titirangi (North of the Titirangi Road and Godley Road intersection) Kelston, Glen Eden New Lynn and Glendene (up to and including most of Tirimoana Road).

Waitakere Ward

A26 The Waitakere Ward, as indicated on the map attached to this agenda at page A26, will be the area generally comprising Bethells/Te Henga, Waitakere Village, Swanson, Piha, Karekare, Oratia, Laingholm, Titirangi (South of the Titirangi Road and Godley Road intersection), Whatipu, and Huia.

The 4 Community Boards will cover the same areas as the Council wards.

The membership of the Community Board for each community shall comprise of 5 Elected Members plus two Members of the Council representing the ward concerned and appointed to the Community Board by Council.

Other Issues

1. Election Costs

One of the outcomes of the Commission's Determination has been to increase the number of voting paper combinations from 15 to 18 due to the inclusion of parts of more Licensing Trust Wards in all Council wards apart from Massey Ward, which is unchanged in this respect. One of the new combinations in Henderson ward covers only 130 electors. One of the existing combinations in Massey ward covers only 40 electors. Each combination attracts additional set up costs of \$321 making a total additional cost of \$963.

2. Communities of Interest

Council's community of interest consultant has reviewed the outcome in the light of the previous exercise of identifying communities of interest. The final representation system (4 wards) is generally in-line with the earlier "4 ward model" developed through the communities of interest work, and as published as Option Two in the Council's informal consultation process in February 2006.

As proposed in the original 4 ward model, the non-urban Waitakere Ward generally covers that area zoned under the District Plan as Bush Living, Waitakere Ranges and Foothills, (plus Swanson). It generally covers the area involved in the Ranges Bill.

The inclusion of the Titirangi area into the Waitakere Ward will need to be communicated to residents of that area.

The issues arising in the new Waitakere Ward are likely to be somewhat different from the current situation, given that at least half of the residents in the new ward live in the Titirangi area.

The main differences between the final 4 ward model and the communities of interest work lies with the boundaries between the 3 urban wards. The urban ward boundaries appear to reflect a desire to ensure equal representation (4 members per ward), rather than any particular communities of interest.

Of particular note are the following issues:

- While the boundary between the Henderson and New Lynn Wards was always hard to determine due to the lack of any distinctive natural boundaries in this area, pulling the boundary further north than proposed in Council's Final Proposal as has occurred in the decision was not advocated for in any responses to the informal options proposed by the Council, or in submissions on the formal proposal, as far as the consultant and the Electoral Officer are aware. With the boundary being so far north, it is likely that some residents in the northern Glendene area will be confused as to which Ward they are in, given that Henderson town centre is closer than New Lynn, especially for residents in the Manhattan Heights, Kirby Street area.
- The Glendene town centre appears to be split between New Lynn and Henderson Wards, which may complicate some local management issues which often involve Community Board input (e.g. parking management, road signage, and any future town centre upgrade).
- The boundary between the Massey and Henderson Wards is some what different to that proposed in the informal and formal consultation processes. While Ranui as a whole is within the Massey Ward (as was proposed in the "3 ward option"), the Sturges area is now split between Massey and Henderson. The Commission's Determination appears to include the northern side of the Sturges area (the Babich area, off the southern side of Metcalfe Road), as well as the area around the Paremuka Pond (Hillwell Drive) in the Massey Ward, while the rest of the Sturges area is in the Henderson Ward. Residents in the Sturges area who are in the Massey Ward are more likely to associate themselves with the rest of the Sturges areas and Western Heights and Henderson, rather than Ranui and Massey.

3. Possibility of Judicial Review

Section 19S(3) of the Local Electoral Act 2001 states that subject to schedule 5 of the Local Government Act 2002 the determination of the Commission made under s19R(1)(b) is final.

Schedule 5 of the Local Government Act 2002 provides that proceedings before the Commissioner are not invalid for want of form and no appeal lies from any decision of the Commission, though nothing prohibits or restricts the High Court from exercising a supervisory jurisdiction over the Commission on questions of law.

The decision of the Commission is challengeable only for some procedural defect or illegality in their decision making. At present, the Electoral Officer is not aware of any such defect in the decision. Section 19R as read with Section 19Q of the Local Electoral Act 2001 requires the Commission to consider all the information supplied to it by Council in reaching its decision, but otherwise the Commission is not restrained as to the decision it may reach. The extent of the Commission's discretion in making determinations is illustrated by the previous Commission's decision to introduce a combination of election at large and election by ward for Tauranga City Council, despite a referendum having clearly indicated a preference for elections at large

It is estimated that any challenge would cost approximately \$25,000. Any party challenging the decision would have no certainty of success.

In essence, although there is no way of knowing whether anyone will make a challenge, there is no readily identifiable defect in the determination, so all Council can do is act on the determination as given. If the determination is challenged, that is the Local Government Commission's issue and Council would only be affected if the challenge is successful and the determination overturned. It is worth mentioning that the longer anyone delays before mounting a challenge, the less favourably the Court is likely to regard it. In fact, a successful challenge would have the effect of significantly impeding the election process; one can easily imagine the Court refusing to overturn the determination unless any defect in decision making by the Committee was of a very significant character.

RESOURCES

No additional resources will be required for the Representation Review, however additional costs of \$963 will be incurred in running the 2007 Triennial Election due to the increased number of voting paper combinations.

CONCLUSION

This report is brought to the Finance and Operational Performance Committee for its information, as the delegated authority for Electoral matters by Council.

RECOMMENDATIONS

1. That the Representation Review - Outcome report be received.
2. That the Representation Review – Outcome report be forwarded to the Henderson, Massey, New Lynn and Waitakere Community Boards for their information.

Report prepared by: Darryl Griffin, Electoral Officer and Charlie Inggs, Deputy Electoral Officer.



9 **2007 WAITAKERE CITY COUNCIL ELECTIONS: EARLY PROCESSING AND ORDERING OF CANDIDATES' NAMES ON VOTING DOCUMENTS**

PURPOSE OF THE REPORT

The purpose of this report is to seek the Finance and Operational Performance Committee's approval for the early processing of the returned voting documents used at the next Waitakere triennial elections, to be held on Saturday, 13 October 2007. A decision is also sought as to the order in which candidates' names are to be shown on the voting documents used at that election.

BACKGROUND

(a) Early Processing

Section 79 of the Local Electoral Act permits a local authority to process (but not count) returned voting documents over the voting period.

(b) Order of Candidates' Names on Voting Documents

Formerly, candidates' names were required to be listed on the voting documents in alphabetical order, by surname.

Clause 31 (1) of the Local Electoral Regulations 2001 now allows Council to decide whether the names are to be arranged on the voting documents in alphabetical order of surname, pseudo-random order or random order. In the absence of any Council resolution approving another arrangement, the candidates' names must be arranged in alphabetical order of surname.

STRATEGIC CONTEXT

Active democracy is one of Council's nine strategic platforms. The Triennial Elections are a fundamental contribution to that platform.

ISSUES

(a) Early Processing

Early processing of voting documents was introduced for the 1998 local authority elections (but restricted to 84 hours before the close of voting). It was used very successfully throughout the country and in Waitakere. Because of the success of early processing in 1998 and the benefits which early processing provides, the early processing period was subsequently increased to the whole three-week voting period now provided for under the current legislation. The immediate benefit of adopting early processing is that much, if not all, of the cumbersome and time consuming task of extracting and checking the voting documents is undertaken progressively over the three week voting period (under strict security and under the supervision of a Justice of the Peace). This means a quicker and more accurate result can be achieved on polling day.

(b) Order of Candidates' Names on Voting Documents

The features of the three arrangements of alphabetical order of surname, pseudo-random order or random order are described below:

Arrangement 1 - Alphabetical Order of Surname

This is the order that has been required to be used at the majority of previous elections, and is self-explanatory. This arrangement has worked well in the past.

Arrangement 2 - Pseudo-Random Order*

Under this arrangement, the candidates names for each issue are placed in a hat (or similar receptacle) mixed together, and then drawn out of the receptacle, with the candidates' names being placed on all voting documents in that issue in the order in which they are drawn.

(*Note: Although the term "pseudo-random order" is used in the Local Electoral Regulations to describe this arrangement, this is a somewhat imperfect description, in that the term "pseudo-random" is understood by mathematicians and/or information technology specialists to have a quite different meaning).

Arrangement 3 - Random Order

Under this arrangement, the names of the candidates for each issue are shown in a different order on each and every voting document, utilising software that permits the names of the candidates to be laser printed in a different order on each paper.

The Local Electoral Regulations 2001 provide that if a local authority has determined that pseudo-random order or random order is to be used, the Electoral Officer must state, in the public notice required to be given, the date, time and place at which the order of the candidates names will be arranged. Any person is entitled to attend while the arrangement is in progress.

RESOURCES

The cost of printing the voting documents employing either Arrangement 1 or Arrangement 2 will be identical. Should Council adopt Arrangement 3 (random order) there will be some increase in cost, because of the need to individually laser print each voting document. While it is not yet possible to give an estimate of the likely additional costs that will arise from this arrangement, they are not expected to be substantial.

CONCLUSION

(a) Early Processing

The Council is required to determine that it will permit early processing of returned voting documents over the voting period as allowed for under Section 79 of the Local Electoral Act. This is of great benefit in terms of timely and efficient processing of votes and is recommended by the Electoral Officer.

(b) Order of Candidates' Names on Voting Documents

Formerly, candidates' names were required to be listed on the voting documents in alphabetical order, by surname. Council now has the option to continue with that arrangement or adopt a pseudo-random or random arrangement. The default position is that candidates' names must be arranged in alphabetical order of surname.

RECOMMENDATIONS

1. That the 2007 Waitakere City Council Elections: Early Processing and Ordering Of Candidates' Names on Voting Documents report be received.

2. That it be recommended to the Council that the returned voting documents for the 2007 Waitakere City elections be processed during the voting period, such early processing to be undertaken in accordance with Section 79 of the Local Electoral Act 2001, the Local Electoral Regulations 2001 and the Society of Local Government Managers' Code of Good Practice for the Management of Local Authority Elections and Polls.
3. That it be recommended to the Council that the order the names of the candidates at the 2007 Waitakere City elections be arranged on voting documents in as the preferred recommendation from the following options:
 - a) Alphabetical order of surname; or
 - b) Pseudo-random order; or
 - c) Random order.

Report prepared by: Darryl Griffin, Electoral Officer.



10 **NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED AND SUBSIDIARIES - DELEGATION TO THE CHIEF EXECUTIVE OFFICER**

PURPOSE OF THE REPORT

The purpose of this report is to delegate to the Chief Executive Officer the authority to action all matters relating to the New Zealand Local Government Insurance Corporation Limited and its subsidiaries.

BACKGROUND

At the Finance and Operational Performance Committee meeting on 12 June 2006 the Committee resolved:

“That a report be brought back on the options over a suitable review process for the election of Directors for the New Zealand Local Government Insurance Corporation Limited.”

1062/2006

Council has a small shareholding in New Zealand Local Government Insurance Corporation Limited, trading as Civic Assurance, and is a member of New Zealand Mutual Funds Trustees Limited, trading as Riskpool. The Council is entitled to nominate persons to be Directors of both companies and to vote on the election of Directors for the Company.

The annual meetings of both Companies are held in June 2007 and they require decisions by the shareholder on matters coming before those meetings. All matters relating to insurance are administrative, including the election of Directors for the companies.

STRATEGIC CONTEXT

Council uses insurance services as part of its approach to risk management in respect of Council's activities and community assets. The New Zealand Local Government Insurance Corporation Limited provides a sector owned presence in the insurance market to assist the sector in obtaining relevant services and good value for money in respect of insurance services. The Council has a small shareholding in the Company and from both a shareholding and service user perspective, is concerned with the good governance of the Company.

The New Zealand Mutual Funds Trustees Limited provides a mutual liability scheme that provides a risk financing tool for local government. The Council is a member of this Fund and has an interest in the good governance of it.

ISSUES

The Council has requested that the process of requesting the Council to determine matters relating to the New Zealand Local Government Insurance Corporation Limited and its subsidiaries be dealt with differently. When the matter was discussed at the June 2006 meeting of the Finance and Operational Performance Committee, the Committee noted that insurance matters are generally administrative in nature. Many other local authorities consider that to be the case and delegate such matters directly to their Chief Executive Officer to deal with and the Committee considered that Waitakere should consider doing that too. Accordingly the issue has been examined and there is no reason why delegation to the Chief Executive Officer cannot be put in place and a recommendation to that effect is set out below.

RESOURCES

There are no resource issues associated with this report.

CONCLUSION

The annual meetings of the New Zealand Local Government Insurance Corporation Limited and New Zealand Mutual Funds Trustees Limited are held in June each year. Insurance generally is an administrative matter and it is appropriate for all matters pertaining to insurance, including the governance of companies that the Council has a shareholding in and any subsidiaries, to which it belongs, should be delegated to the Chief Executive Officer to deal with.

RECOMMENDATIONS

1. That the New Zealand Local Government Insurance Corporation Limited and Subsidiaries - Delegation to the Chief Executive Officer report be received.
2. That the Finance and Operational Performance Committee delegate to the Chief Executive Officer responsibility and decision making authority to deal with all matters relating to the New Zealand Local Government Insurance Corporation Limited and its subsidiaries.

Report prepared by: Andrew Pollock, Director: Finance.



11 ASSESSMENT OF THE IMPACTS UNDER ALTERNATIVE RATING SYSTEMS

PURPOSE OF THE REPORT

The purpose of this report is to present an overall high level assessment of the impacts of alternative rating systems.

BACKGROUND

At its meeting held on 7 August 2006, the Finance and Operational Performance Committee considered the work programme and the approach proposed by the staff to address the benefits and costs of rating based on alternative property valuation systems (i.e. land value, capital value and annual value). The work programme included a proposal to engage an independent expert to undertake an assessment of the economic impacts of alternative rating systems.

A27-A133

The consultants (Capital Strategy Limited) commenced the project in mid September 2006 and conducted three workshops for the Councillors before the final report was submitted on 3 January 2007 attached at pages A27 to A133. In order to complete the assessment, it has been decided to include the social, environmental and cultural wellbeing aspects also in the staff report to the Committee. The economic impact assessment presented here draws heavily from the report produced by Capital Strategy Limited.

STRATEGIC CONTEXT

Rates revenue is the principal source of funding for a whole range of Council services, which are collectively used by the community, and which are not fully funded by other sources such as user pays.

Property rates are a tax as the amount levied is not directly related to the use of Council services by individual rate payers, and it is a compulsory payment. As a form of tax and a funding method, property rates need to be equitable, efficient, and acceptable to ratepayers while contributing to the Council's strategic direction.

Rating policy is an integral part of the Council's revenue and financing policy designed in accordance with the provisions in the Local Government (Rating) Act 2002. Section 101(3) (a) of the Act requires local authorities to consider the impacts of funding methods on the current and future social, economic, environmental and cultural well-being of the community.

The following strategic platforms in the Long Term Council Community Plan 2006-2016 provide a broad framework for the assessment of the impact of rating systems on the economic, social, environmental and cultural wellbeing of the community in Waitakere:

Economic

- **Strong and Innovative Economy**

This platform seeks to promote local enterprise, jobs and economic growth in high quality town centres.

Social and Cultural

- **Strong Communities**

This platform addresses how the Council supports health and wellbeing of the city's residents. It has a vision of a community that is active, informed, healthy and content; a community that feels safe and that has a strong sense of community.

Environmental

- **Urban and Rural Villages**

The objective of this platform is to make the city a vibrant and enjoyable place to live, work and play by creating attractive urban places that encourage growth and economic development with minimum environmental impacts.

- **Integrated Transport**

This strategic platform seeks to develop an efficient communication and transport system that supports the growing population. Transport systems are integrated, innovative and environmentally responsible.

- **Green Network**

This strategic platform is about caring for natural areas. The city's parks, bush and streams form a "Green Network" that provides homes and "highways" for wildlife and recreational areas for people.

Property rates can be related to these strategic platforms through their possible effects on: (a) land use and improvements on land, (b) cost of business operations, and (c) household disposable income of different social groups. Although the strategic platforms and the four elements of wellbeing are separately identified, they are interrelated, and contribute collectively to develop a sustainable community.

ISSUES

Property rates are a cost to the property owners. The nature and significance of these costs depend on a number of other factors such as the structure of property rates (who is included, rate base, rate level, how different classes of property are taxed and various differentials and uniform fixed charges). Although rates are related to property values, how they influence the land use pattern and improvements on land (capital development), and their potential wider effects are not clearly understood.

The identification and quantification of rates effects on land use and property development is one of the most difficult challenges faced by property rate experts. In fact, during the last three decades or so there has been an intense debate among the academics over the effects of property rates. There are two competing academic opinions on rates incidence and the economic effects: the "benefit tax" view and the "capital tax" view.

Benefit view of Rates

Property rates are used for funding an array of local authority services which benefit the community in a local area. Although these services are not specific to any one household or individual, they influence the property values in different locations. It is argued that the benefits of public investments in local areas are capitalised in the property values giving rise to different property values in different locations. Because of this, the proponents of the benefit tax view claim that property rate, in effect, is a payment for a bundle of public services received. Hence it is considered to be an efficient tax.

Capital Tax View

In contrast, capital tax view is based on the premise that property rates are a tax on capital development, as both land and improvements are taxed. Tax on capital inefficiently distorts resource allocation by driving capital investments out of high rate areas to low rate locations. They argue against rating (taxing) the capital component (improvements) of property values, and support a land value based rating system.

A hybrid version of the two theories has led to the introduction of a dual rating system under which the improvements component in the capital value is taxed at a lower rate in some states in the US. This theoretical debate is useful in understanding the potential impacts of rates on land use and improvements, as property rate can have the effects of a benefit tax or a capital tax depending on how the policy is designed. The academic debate has not extended to capture the possible effects of property rates on social, environmental and cultural wellbeing of local communities.

Crafting a rating policy that is consistent with the Council's strategic direction, tax theory and legal requirements is a major challenge. It involves balancing a set of often conflicting objectives – economic efficiency, equity, environmental sustainability and simplicity. Striking the right balance requires critical analysis and good judgement.

The Quadruple Bottom Line Assessment

Quadruple Bottom Line (QBL) assessment attempts to adopt an integrated multi-criteria decision making approach that would capture the four key elements of sustainable development, i.e. economic, social, environmental and cultural wellbeing.

At present, the QBL approach does not have a robust methodology that enables quantification and aggregation of the effects of these four elements to a single index or a value that could give a clear indication to rank the options in relation to net benefits. Quantification of some costs and benefits is not possible as there is no objective valuation method available, in the absence of market prices. There are also serious data limitations even on the variables that are quantifiable. Therefore what is attempted in this report is to make some qualitative judgements on each element based on a high level analysis of the potential impacts. The results are produced in a matrix at the end of the report.

Potential Economic Impacts

The economic impact analysis focuses on the potential impact of alternative rating systems on the economic activities in Waitakere. Economic activities are critical for generating employment opportunities and household incomes, which in turn, contribute to both economic and social wellbeing of the current and future communities.

Council rates are part of the operating cost of economic activities. A rise in operating cost in general can affect the financial viability of economic activities and, in the long term, investment, employment and incomes in the city. This analysis focuses on the following:

- Changes to the distribution of rates under alternative rating systems;
- The relative importance of the rates burden on the local economic activities so as to be able to characterise in general terms potential profitability impacts;
- The rates burden (rates incidence) and its significance on the operations of shopping malls and strip shops in the city centres (e.g. Westgate, Henderson, New Lynn, Glen Eden);
- The relative importance of rates burden under alternative rating systems on capital investments in the city (expansion of existing businesses and inflow of new investments);
- The potential impact on business investment and development in town centres in the city under the three rating systems.

In order to assess the significance of the potential economic impacts of alternative rating systems, it is important to understand the nature of economic activities in Waitakere.

Waitakere Economy: Salient Features and Recent Trends

The major share of the city's income, as measured by the local gross domestic product (GDP), comes from three sectors: business services (27%), retail and distribution (23%) and manufacturing (24%). These three sectors account for 60% of the employment opportunities: retail and distribution (27%), manufacturing (19%) and business services (14%). Retail and Distribution is the second largest sector in terms of the number of business units (25%).

Waitakere city's economy is dominated by small businesses. In terms of employment, the average business size in Waitakere is 3.5 full time employee equivalents (FTEs) per business unit, compared to the Auckland region average of 4.3 FTEs and the national average of 4.0 FTEs. Over the last ten years the annual average business size has been contracting in Waitakere, following the national and regional trend.

Another striking characteristic is that 65% of the business units in Waitakere had no employees, implying that they are owner-operated units. Most people working in the city work for small to medium sized enterprises (SMEs) - 88% of local businesses employ five people or less.

At the other end of the scale, there are only 49 businesses that employ more than 100 employees (of which 12 are in the retail sector).

In the retail sector, 45% of retail businesses (837) had no employees, while another 45% had less than 10 employees. In contrast, less than 1% of retail businesses employed more than 100 employees in each business. These large businesses account for 25% (or 2190) of employees in retail business. These figures portray the diversity of the retail sector in terms of size and employment.

Table 1: Waitakere City Long Term Economic Performance

	Annual Average Percent for 1996-2006		
	Waitakere City	Auckland Region	New Zealand
Resident Population Growth	1.8	2.0	1.1
Real Income (real GDP) Growth	2.9	4.0	3.1
Real GDP Per Capita Growth	1.1	1.9	2.0
Employment Growth	2.0	2.8	2.0

Source: BERL

Over the last ten year period (1996-2006), the employment and income growth in Waitakere was well ahead of the population growth as shown in Table 1. However, Waitakere lagged behind the Auckland region and the national economy in income growth (GDP). The growth of employment kept pace with the national annual average, but slower than the Auckland region. Per capita income and household income were also lower than these in other large cities in the Auckland region. Any improvement of economic and social conditions in Waitakere in the long term would require an expansion of its productive capacity through capital investments.

How Business Sector Rates are Calculated

Currently, under the land value based rating system, Council allocates 20% of its annual total rates requirement to the business sector and 80% to the residential sector. The proportion allocated to the business sector as a whole is called the “business differential”. It is set each year by assessing the Council expenditure that relates to the business sector so that the rates paid by the business sector approximately match the share of the cost of council services that are attributed to that sector. If no differential were applied, the business sector’s rates share would be the same as its property value share in the city.

The amount of rates allocated to the business sector is distributed on the basis of the individual property values. The level of business differential and the basis of distribution of wastewater cost have a significant effect on the rates liability of individual businesses.

Impacts of the Alternative Rating Systems on Business Rates in Waitakere

There are 2655 rateable business properties with capital value ranging from about \$30,000 to \$208,200,000. Because of these extremes in property values, the differences in the ratio of land value to improvement value and the diversity of business size, a change in rating system can have different impacts on the rate liability of different individual properties.

A change in the rating system will lead to a redistribution of rates within the business sector. If an equivalent business differential is applied under all three systems, the total rates collection from the business sector should be the same. That means, the increases experienced by some business ratepayers will be offset by decreases experienced by other business ratepayers.

Under capital value and annual value, the business differential could be set at a higher rate of 22% (reasons explained later), thus increasing the total rates take from the business sector as a whole. This would result in significant increases in the absolute amounts of rates on some business properties, further accentuating the redistributive effects.

The impact of rates change on individual properties varies, depending on the intensity of development (improvement value) as measured by the ratio of land value to capital value or annual value at all levels of property value. The greater the intensity of development above the average for the city, the higher the rates will be under a capital value rating system when compared to rates under land value system. Generally rates on the “average” property with the “average” intensity of development will be the same under either system of rating, based on the current estimates.

Potential redistributive effects of shifting from land value to capital value (with business differential at 22%)

The city wide effects on rates when the business sector differential is at 22% are summarised below.

- Nearly 60% of business ratepayers will either receive a decrease in their rates or their rates will remain the same. Of these:
 - 24.5% (650 properties) will receive decreases of 20% - 50%;
 - 10.6% (280 properties) will receive decreases of 50% -80%;

- Just over 40% of business ratepayers will receive an increase. Of these:
 - 20% (545 properties) will receive increases of 20-100%;
 - 2% (55 properties) will receive increases of 100-500%;
 - 2 ratepayers will receive increases of 500-700%;
 - 5 ratepayers will receive increases greater than 700%.

Potential Redistributive effects of Shifting from Land Value to Annual Value

- Just under 53% of business ratepayers will either receive a decrease in their rates or their rates will remain the same. Of these:
 - 22% (574 properties) will receive a decrease of 20%-50%;
 - 10.6% (267 properties) will receive decreases of 50% -80%;
- Just over 47% will receive rate increase. Of which:
 - 24% (636 properties) will receive increases of 20-100%;
 - 3% (80 properties) will receive increases of 100-500%;
 - 2 ratepayers will receive increases of 500-700%;
 - 5 ratepayers will receive increases greater than 700%.

The five businesses that will experience the largest percentage increases under capital value and annual value are all utility networks; the very large increases are due to the fact that under the current land value rating method, utility networks pay only the uniform annual general charge.

The percentage changes of all businesses mask the significance of the changes in absolute terms. For example, under capital value:

- two business properties will experience rate increases between \$1 million and \$2 million;
- nearly 40% of all business properties will experience increases less than \$10,000;
- About 54% will experience rate reductions of not more than \$10,000;
- Five properties will experience rates reductions over \$50,000, while the largest reduction is below \$100,000.

The largest increases both in relative (over 200%) and absolute terms (over \$ 1 million) would be experienced by the most capital intensive shopping centres.

Potential Impacts of Rates Change on Business Activity

The effects of rates change on business activity under capital value and annual value cannot be generalised to all types of businesses across the city. The nature and extent of the impact depend on several factors: critical among them are the ratio of improvement value to land value of the property, turnover level, degree of competition, business size, location and the nature of business. Among these, the size of the business would be the dominant factor determining the impact of rates on the businesses.

The negative impact would be greater on small businesses such as retail traders who tend to operate in a highly competitive environment earning low margins. In comparison, for large businesses, rates would be an insignificant proportion of their operating costs, and therefore, the intensity of the impacts is likely to be less.

In competitive environments, high rates cannot get passed on through prices because competitors with low rates will have a price advantage. The only other methods to pass on the costs are through a combination of reduced employer returns (which are low in many cases), reduced employee wages and reduced capital investment.

Property rates affect no sector of the business community more than small businesses. Although profitability improves among medium-to-larger-sized firms, the results clearly show that small businesses are limited in what increases in costs (e.g. rates) they can afford to pay.

In a report to the Auckland Regional Council Basil Sharp reiterates that, "one should not assume that business can fully recover rate increases by passing the cost on to consumers." The economic impact of the tax will vary across the business sector because of differences in market structure, scale, and so on.

Some businesses within the Auckland region will be able to pass on a greater percentage of rate increases than others. For those who cannot do so, not many choices are available; for example, retailers operating on very low margins might choose to close, and possibly relocate to another jurisdiction with lower rates. Others might decide to economise by shedding labour. These can have wider social consequences such as unemployment and lowering of income levels. While the ability of exporting firms to "pass-on" costs would be extremely limited, rates are more likely to be a relatively less significant cost for them.

These observations are consistent with some of the research studies in other countries such as the UK. The UK research concluded that the size of the firm was the dominant factor determining the impact of rates on the businesses. The effect of other characteristics of businesses such as the industry sector, location or property type was less marked.

In summary, increases in rates could affect the financial viability of some small businesses; and it could, in turn, involve implications for income and employment growth in the city, as Waitakere's economy is dominated by small businesses. However, it is not clear whether those businesses which receive a reduction in rates would expand to offset the negative impacts of rate increases.

Potential Impacts of Rates on Retail Shopping Centres

The impacts of rating system change on shopping centres vary depending on the degree of development (capital intensity) of the site. There are mainly two types of shopping centres:

- Internally developed shopping centres: These are more capital intensive (e.g. LynnMall and WestCity). They have higher operating costs, for example, as they require air conditioning and more cleaning due to large common areas.
- External shopping centres: These are less capital intensive (e.g. Westgate Shopping Centre). Their operating costs tend to be lower as they are not enclosed and thus don't have the need for internal services such as air conditioning. Rates as a proportion of operating costs can be higher as a consequence.

Table 2: Waitakere Shopping Centres – Rates as a Share of Rental Income

Shopping Centre	Current rent / m ²	Land value		Capital value		Annual value		% change	
		Land value Rates m ²	% of Rent	Capital value Rates m ²	% of Rent	Annual value Rates m ²	% of Rent	Land value to Capital value base	Land value to Annual value base
Waitakere Plaza	\$218.99	\$16.09	7%	\$20.93	10%	\$23.39	11%	30%	45%
Kelston Shopping Centre	\$166.05	\$15.62	9%	\$17.64	11%	\$18.81	11%	13%	20%
Westfield West City	\$521.34	\$14.57	3%	\$60.49	12%	\$56.22	11%	315%	286%
Lynn Mall Shopping Centre	\$483.36	\$17.32	4%	\$52.45	11%	\$51.19	11%	203%	196%
Westgate	\$284.92	\$15.82	6%	\$29.59	10%	\$30.29	11%	87%	91%

A change from land value to capital value (or annual value) would result in a significant rise in rates (13% -315%) per m² on all the major shopping centres in Waitakere as depicted in Table 2. The modelling shows that rates increase on the more capital-intensive (enclosed) shopping centres is much higher in both percentage (over 200% under capital) and absolute terms (over one million dollars). This is because the ratio of their improvements to their land value is higher (that is, the building takes up a significant proportion of the annual available land space).

Waitakere Shopping Centres compared with National Annual Average

According to the Annual Survey of Operating Expenses by the Property Council of New Zealand, the key operating expenses are rates, administration and cleaning, irrespective of centre type. Following are the average rates across New Zealand in 2005 for different types of shopping centres:

- Rates range from \$17.78 per metre square (m²) for City Centre shopping centres (which are characterised by higher land and capital values) to \$11.90 per metre square for neighbourhood and town centres;
- Rates comprise 16-24% of total shopping centre operating expenditure and 5%-8% of shopping centre rentals charged.

These national averages compare favourably with those of Waitakere shopping centres under the current rating system based on land value. However, under capital value and annual value, the level of estimated rates (ranging from \$29.59 to \$60.49) and ratio of rates to rent (10%-12%) of more developed shopping centres in Waitakere would exceed the national annual averages indicated above.

Shopping centres in Waitakere City: Regional comparison

Regionally (excluding Westfield Glenfield and Manukau Supa Centre), the rates on the shopping centres in Waitakere are the lowest under land value. It is important to note that rates in Auckland City and Manukau city *do not include* the cost of wastewater which is levied separately by their respective council controlled organisations.

The cost advantage enjoyed by Waitakere would reduce under capital value and annual value based rating systems in relation to Auckland shopping centres, bringing the rates on Westfield Westcity in Waitakere almost on par with Westfield St. Lukes in Auckland, while sharply narrowing the rates gap enjoyed by LynnMall shopping centre.

However, compared with Manukau city, the rates on regional shopping centres in Waitakere would be higher under both capital value and annual value (Table 2 and Table 3). Under capital value, rates as a percentage of estimated rent in Waitakere would also be significantly higher for regional shopping centres and marginally lower for district and neighbourhood types. However, because of the exclusion of wastewater costs in the rates in Auckland city and Manukau city, they are not comparable with the rates in Waitakere. The implications of rates increases on the financial condition of the shopping centres will depend on the proportion of the cost increase that can be passed on to the tenants. For tenant retail businesses, it is said that the rates costs are generally passed directly on by the shopping centre owner. However, the proportion of the rates increase that could be passed on to the tenants would depend on the relative strength of the demand for rental space. If the entire increase in rates is passed on to the tenants without a reduction of the occupancy level in the shopping centres, the impact of rates on the property owner would be minimal. Then, to preserve their expected return on investments, the retailer must recoup any cost increase (including rates), by generating extra sales and hence gross profit.

Retail Shops in Shopping Centres in Waitakere City: Comparison with Auckland Region

Under the current rating system (land value), the estimated rents on comparable shopping centres in Waitakere are significantly lower than those in Auckland City. For example, the estimated rents in Westfield Westcity and LynnMall in Waitakere are lower by 37% and 41% respectively compared with Westfield St. Lukes in Auckland. If Auckland rents are adjusted for wastewater charges, the cost advantage to Waitakere would become even greater.

Table 3: Auckland Region Shopping Centres - Estimated Rent

Location/Shopping Centres	Centre Type	Rate /m ²	Rate /m ²	Estimated Rent m2	Estimated Rent m ²	Rate % of rent
		Annual value	Capital value	Land value	Capital value ¹	Capital value
Waitakere City						
Waitakere Plaza	District	\$23.39	\$20.93	\$218.99	\$223.83	9%
Kelston Shopping Centre	Neighbourhood	\$18.81	\$17.64	\$166.05	\$168.07	10%
Westfield West City	Regional	\$56.22	\$60.49	\$521.34	\$567.26	11%
Lynn Mall Shopping Centre	Regional	\$51.19	\$52.45	\$483.36	\$518.49	10%
Westgate	Town	\$30.29	\$29.59	\$284.92	\$298.69	10%
Auckland City						
Two Double Seven	City	59.53			705.64	8%
Westfield Downtown	City	48.64			462.42	11%
Royal Oak Mall	District	19.12			253.54	8%
Mt Wellington Centre	Neighbourhood	84.7			1,149.06	7%
Westfield St Lukes	Regional	60.95			822.99	7%
Dress-Smart Onehunga	Town	47.09			480.66	10%
Manukau City						
Manukau Supa Centre	Bulk Retail	\$7.84			141.62	6%
Hunters Plaza	District	\$21.29			364.26	6%
Highland Park	Neighbourhood	\$17.94			327.99	5%
Botany Town Centre	Regional	\$23.37			427.69	5%
Westfield Manukau	Regional	\$31.71			582.54	5%
Westfield Pakuranga	Regional	\$26.19			478.84	5%

¹ Based on the assumption that full increase in rates is passed on to the shopping centre tenants.

The financial implications of an increase in rents for the retail outlets in shopping centres will depend on their size (turnover), the nature of business and the level of rents in the region for similar retail shops. If the entire increase in rates in Waitakere under capital value or annual value is passed on to the tenants, the cost advantage experienced by the retail shops in Waitakere shopping centres will reduce. The intensity of this negative impact would vary among centres as the estimated rent increase varies - ranging from 1.2% (Kelston Shopping Centre) to 8.8% (Westfield West City) per m² under capital value. Even with these increases, under both capital value and annual value rating methods, the estimated rental costs for comparable shopping centres in Waitakere would remain lower than those in Auckland City (Table 3).

On the other hand, Waitakere retail outlets in shopping centres would lose the rental cost advantage against those in Manukau when the rates base changes from land value to capital value. However, it should be noted that Manukau city also does not include wastewater in their business rates.

The foregoing analysis suggests that substantial increases in rates on large developed shopping centres do not lead to similar increases in the rental costs of the retail shops which are tenants, as the rates are only one component of costs included in the lease agreement. However, the impact of even small increases could be significant for small businesses operating under highly competitive market conditions.

Impacts on Specialty Shops in Shopping Centers

The gross margin used by a retailer will vary according to the type of sector. According to the New Zealand Retailers Association, gross margins vary significantly (13%-51%) among different types of retailers, but the average for total retail is 24.4%.

A simulation of selected typical specialty shops (women's fashion, men's fashion, jewelry, pharmacy, gifts, specialty stores and food courts) based on similar floor area shows that in order to maintain a gross margin of say, 25% per unit under capital value based rating system, retailers would need to increase their sales by four times to cover an increase in rates. In other words, for each dollar increase in rates, the shop needs to sell four dollars worth of goods to cover the cost increase. The lower the gross margin, the higher will be the sales required to cover the increase in rates; for example, if a shop's gross margin is 20% then sales need to increase by five dollars to cover the cost of a one dollar increase in rates.

A key question then is how sensitive is the viability of the retail shops in these centres to changes in their rents. There are no reliable data directly from the retail shops to investigate this aspect. The only available data relate to turnover values of the shopping centres produced by the Property Council of New Zealand. Under capital value, rates in relation to turnover for Westfield West City in Waitakere is higher (1.48%), than for Two Double Seven (1.09%), Westfield St. Luke's (0.90%) and Westfield Down Town (1.31%) in Auckland city. Rates as a percentage of turnover for LynnMall (0.85%) in Waitakere is lower than the Auckland shopping centres mentioned above. It should be noted that the Consultants had no way of verifying these figures.

A number of research studies in New Zealand and overseas (UK, Canada and the US) supports the view that in a competitive retail environment, businesses aren't able to automatically raise their prices to compensate for increases in costs.

Impacts on Retail Sector Strip Shops

Interviews from a sample of retail shops (representing hardware, hairdressers, pharmacy, bookshop, superettes, sports shops, restaurant, optometrist, clothing, gifts and health) scattered in various localities (New Lynn, Henderson, Glen Eden, Titirangi, Royal Heights and Hobsonville) in Waitakere revealed that there was a wide variation in the ratio of rates to operating costs (from less than 1% to 15%).

Most of them were tenants and rates as a percent of rent ranged from 3% to 31%, according to their responses. As the majority of these are small family owned businesses with 2-7 employees, rate increases could have a significant impact on their profitability. However, it is possible that some of these properties may receive a rates reduction while some others may experience rate increases when changing from land value based rating system. As none was willing to disclose the financial information to the consultants, it was not possible to verify their claims.

Impacts of Alternative Rating Systems on Medium to Large Employers

The medium and large businesses are among the largest employers in Waitakere City and are major contributors to the economy. Medium size businesses are defined as those with 50-100 employees and those with 100+ employees are treated as large businesses.

The impact of rates under each rating system for a sample of 31 key commercial/industrial businesses was examined based on interviews conducted by the Consultants. The sample includes a good mix of services (including retail, transport and business services) and manufacturing industries (marine, pharmaceutical and screen production) which experience significant changes in rates when moving from land value to capital value. The main observations include:

- Nineteen businesses (61% of the sample) would experience rate increases ranging from 6% to 315% (or a range of \$2667 to \$1,742,129) under capital value, and from 14% to 286% under annual value. These include marine, film, plastic and meat processing industries. The largest increases (over 100%) are recorded by four businesses of which two are shopping centres, one marine and one food manufacturing.
- Twelve business (39% of the sample) would experience rate decreases ranging from 9% to 52% (or from \$443 to \$87523) under capital value and 2.6% to 48% under land value. These include transport, pharmaceutical and clothing industries. The largest decrease of over 50% is recorded by a transport firm.
- A sample of 14 large commercial and industrial enterprises interviewed revealed that rates tended to be less than 1% of operating costs. The businesses that were tenants claimed that rates represented 4% to 10% of rental cost. Rates as a percent of net profits ranged from less than 1% to 4.5%. For the majority, rates were less than 1% of their net profits. But businesses tend to be very conscious of all costs as they erode their competitive advantage.

Impact on Utilities

In Waitakere, utilities are classified under the business sector ratepayer group. Under a capital value or annual value system, rates levied on utilities will increase from the minimal amount collected under the land value based rating system.

- In comparison to the land value system, most utility networks face substantial increases under a capital value system or an annual value system, because under a land value rating system they pay only the uniform annual general charge and other relevant uniform charges.
- Of the utility networks, Vector and Telecom will face the most significant impacts. The rates of Vector (electricity), for example, will rise from just \$600 under the land value system (as it pays only the uniform annual general charge), to just over \$643,000 under capital value and to just over \$394,000 under annual value.

It is worth noting that infrastructure such as electricity, gas and information technology and communication are important for long term economic development, in particular for the generation of local employment and income. It is not clear whether rates play a role in their investment decisions in the city, since such decisions take into account a wide range of other variables that influence their expected returns in the long term.

Influence on Business Location Decisions

Inflow and retention of investments in a local area is essential for long term economic and social wellbeing of the community. Without growth in capital investments, it is not possible to increase employment and incomes in the long term.

The potential impact of property rates on capital investments in a local area is a highly contentious issue among researchers. As capital is mobile, it can be argued that when property tax in a particular local area exceeds the national average, it could induce outflow of capital (a negative effect on the location of economic activity), assuming other things remain unchanged.

A number of overseas studies have tested the hypothesis as to whether property taxes (or rates) are a factor in the location decisions of firms. Their conclusions were mixed. Some considered that property taxes were not a decision-making factor; whereas another study indicated that property taxes were a deciding factor for intra-city location decisions and not for inter-city location decisions.

A recent study on how state and local taxes and services affect economic development in the US rejects the local tax burden argument and concludes that "state and local taxes play only a minor role in investment decisions". It goes on to say that "public services were key determinants of business location decisions". Another study on local economic development policies in the US has identified the common barriers to local economic development: limited availability of land, lack of skilled labour, lack of capital and funding, limited number of major employers, and traffic congestion (rates were not noted). Most studies on factors affecting business location decisions have identified infrastructure, education and government regulatory process as critical matters for location decisions.

Rates are not mentioned as a business location criterion in the New Zealand research. However, in discussions with key submitters and other stakeholders, rates are considered in the overall mix of operating costs in the feasibility study for development/re-development. Some retail businesses have indicated that if rates increase further, they would consider relocating their business to a local authority area where rates are lower.

Different business types have differing requirements in a location. For example, the availability and cost of certain natural resources such as water could be a critical factor for industries that use a large volume of water. The Auckland Region Business Land Strategy ranks 13 location factors in the order of importance for the businesses in the Auckland Region. Local government rates are not mentioned in this ranking.

The theoretical arguments against property rates ignore what rate payers receive in return for rates. The cost of rates could offset the benefits businesses receive in the form of better infrastructure and a generally better living environment, both of which contribute to business growth. If local rates on businesses do not exceed the benefits of the public services provided to them, rates, in effect, become a benefit tax, rather than a capital tax. Conversely, if the property rates exceed the benefits of services provided by local authorities, they could have the effect of a property tax. The real challenge is how to determine the share of the rates that fairly reflect the benefits they receive, especially as the positive spin-off effects (externalities) of Council investments in the city cannot be easily quantified.

In this context, it is also important to realise that local areas compete with each other to attract and retain businesses. Some local authorities have gone to the extent of providing grant assistance for relocating businesses (e.g. Manukau City Council). In such situations, if businesses perceive that the cost of rates exceeds the benefits they receive, it could potentially tip the balance more in favour of an alternative location, assuming all other things remain unchanged.

One of the biggest issues relating to business growth in the Auckland region is the limited availability of land suitable for businesses. Waitakere is particularly disadvantaged compared to Northern and Southern sectors. Therefore, business land availability could play a major role in attracting new investments and expanding existing business in Waitakere. According to overseas studies, even low property taxes could not attract businesses when land availability was the major constraint.

Impact on Property Improvements

Improvements to a (business or residential) property will not necessarily translate into higher rates for that property (under a capital value or annual value system). The level of rates on a particular property will depend on its share in the total property values in the city. This could change over time depending on the changes in the other property values.

Overall Assessment of the Economic Impact

A shift from land value to a rating system based on capital or annual value will have two effects: (a) an increase in the total amount of rates take from the business sector as a whole; and (b) redistribution of the rates liability on individual properties depending on the ratio of land value to improvement value.

The increase in the total amount of rates take from the business sector is due to the increase in the business differential from 20% to 22%. Under the current policy a business differential is applied because the land value does not fully reflect the type and level of development on each property and therefore can understate the level of demand for the Council infrastructure and services.

Table 4: Business Sector Share of Rates Under Alternative Rating Systems

Rating Method	Business Sector's Property Value Share	Business Differential
Land value	6.69%	20%
Capital value	10.55%	22%
Annual value	15.22%	22%

However, when changing from land value to capital value and annual value, the business sector's share in total rates increases to 10.5% and 15.2% under capital value and annual value respectively (Table 4), reflecting in part the value of the city's network utilities and in part the benefits of council investments to the business sector (benefit tax view). The present study has not investigated whether the business sector's rates share adequately matches the business sector's share of the cost of the council's operating expenditures.

If the costs of the public goods benefiting the businesses are not recovered through the rating system, the other ratepayers (both business and residential) would have to subsidise them. That could distort resource allocation in the city by artificially reducing the legitimate costs attributable to businesses. Artificial reduction of costs does not promote efficient and strong businesses.

Similarly, over-taxation (taxation in excess of the benefits received) of the business sector to subsidise the residential sector could also lead to inefficient allocation of resources. It could unnecessarily penalise businesses that could otherwise be commercially viable. This could have negative effects on employment and income growth.

Unlike company tax (which is based on profits) or sales tax (which is based on turnover), property rates are not related to the financial or sales performance of businesses. This makes it harder for the Council to determine a rating level that is "bearable" by different businesses. Businesses operate in a competitive environment which changes rapidly even in the short term. They are exposed to uncertainty and risk, and the risk absorbing capacity and profitability of businesses are not uniform across the city, as reconfirmed during the interviews. Property rating systems are inflexible in responding to changing business environment and financial circumstances of individual businesses.

The rates debate boils down to a question of adopting an objective and fair method to distribute the rates burden. Capital value and annual value could provide a reasonably objective and fair basis as these two systems are better than land value in capturing the type and level of development on properties and therefore can better approximate the demand for council services by each sector as a whole and by each individual property.

A rating system that does not tax businesses in excess of the costs they impose could promote a more robust and resilient business sector. It is, therefore, important to ensure that the business differential would approximate the demand for Council services by this sector as a whole. This is especially important as the business sector's share of total rates increases under both capital value and annual value, and business differential has the potential to accentuate any rates impacts on businesses. It is noteworthy that two councils that have shifted from a land value to a capital value or annual value approach have reduced their business differential or dropped it altogether (Manukau City Council and Tauranga District Council).

Potential Social Impacts

The impact of rates on the city's economic wellbeing could, in turn, impact on social wellbeing in terms of employment and income generation. In addition, as property rate is a compulsory payment, it directly reduces the amount of disposable income available to a household to meet discretionary expenses. Rates also have a link to housing affordability. This section focuses on the direct impacts of rating base changes on the household sector.

Social and Economic Conditions in Waitakere City

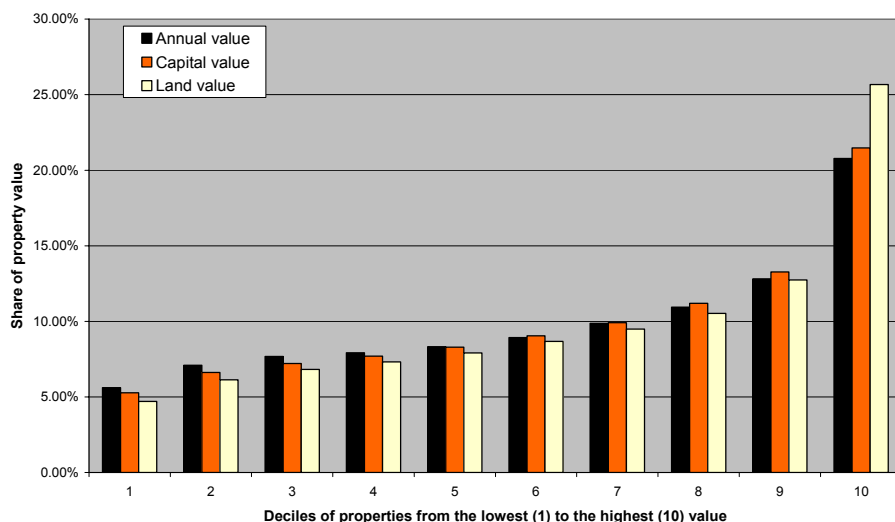
Waitakere is a "middle income city", with the majority of the households concentrated in the lower and middle income range from \$10,000 to \$70,000. A relatively high proportion of areas have high levels of poverty, substandard housing and limited educational achievement. According to the "deprivation index" released in 2001, the majority (59%) of the population in Waitakere lived in lower decile areas (6-10). However, not all people living in low decile areas are deprived and not all socio-economically deprived people are located in low decile areas. This mix of social and economic conditions causes a major problem in addressing the ability to pay issue related to rating, as rates are not based on household incomes.

Distribution of Residential Rates under the Three Rating Systems in their Pure Form

In order to isolate the effects of the three rating systems on different residential properties, it is necessary to examine them in their pure form, free from all adjustments (i.e. differentials and various uniform charges). For this purpose, rate in the dollar is assumed to be uniform across all properties, and the amount of rates would be determined solely by the property value. One of the methods of identifying the impact of different rating systems on different property value groups would be to compare the share of rates paid by each group. In order to do so, the property values under each method have been sorted in ascending order (low to high) and grouped into deciles. Chart 1 shows the share of rates of each 10% of the properties from low to high under the three rating systems.

If the rates burden is distributed equally among all 10 deciles, the share of rates must equal 10% in each decile. However, under all three options, the share of rates increases progressively with the increase in the property values. While the low deciles bear a share much smaller than 10%, the high value properties (top 10%) bear the largest proportion of the total rates (20.8% to 25.6%). This is because the very high value properties are concentrated among a few property owners.

Chart 1: Pure distribution of residential property values under different rating options



The property value ranges by deciles under each option are produced in Table 5. The top 10% has a wide range of land values (\$230,000 to \$6,060,000). The land values of the top 1% of the properties range from \$640,000 to \$6,060,000. They contribute 6.84% of the total rates under pure land value rating, while under capital value and annual value, their shares would fall to 4.5% and 4.4% respectively.

Table 5: Property Values Ranges in Deciles Under the Three Options

% of all house holds	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Annual value range	<= 11024	11024 - 12792	12792 - 13208	13208 - 13728	13728 - 14560	14560 - 16000	16000 - 17680	17680 - 19760	19760 - 24500	24500 - 568480
Land value range	<= 88000	88000 - 102000	102000 - 109000	109000 - 118000	118000 - 127000	127000 - 141000	141000 - 155000	155000 - 175000	175000 - 230000	230000 - 6060000
Capital value range	<= 200000	200000 - 225000	225000 - 240000	240000 - 255000	255000 - 280000	280000 - 305000	305000 - 340000	340000 - 385000	385000 - 480000	480000 - 6460000

The properties with very high land values include orchards, vineyards, lifestyle properties and large tracts of vacant land owned by property developers. All these properties are rated at a residential rate. The property rate data base does not show the current land use, and more intensive research is needed to exclude them from the residential rate data base.

For the bottom 90% of the properties, the share of total rates is lowest under a land value based system. These include properties with land value of \$230,000 or less and capital value of \$480,000 or less. The share of the rates of the low value properties is higher under the other two options than under land value.

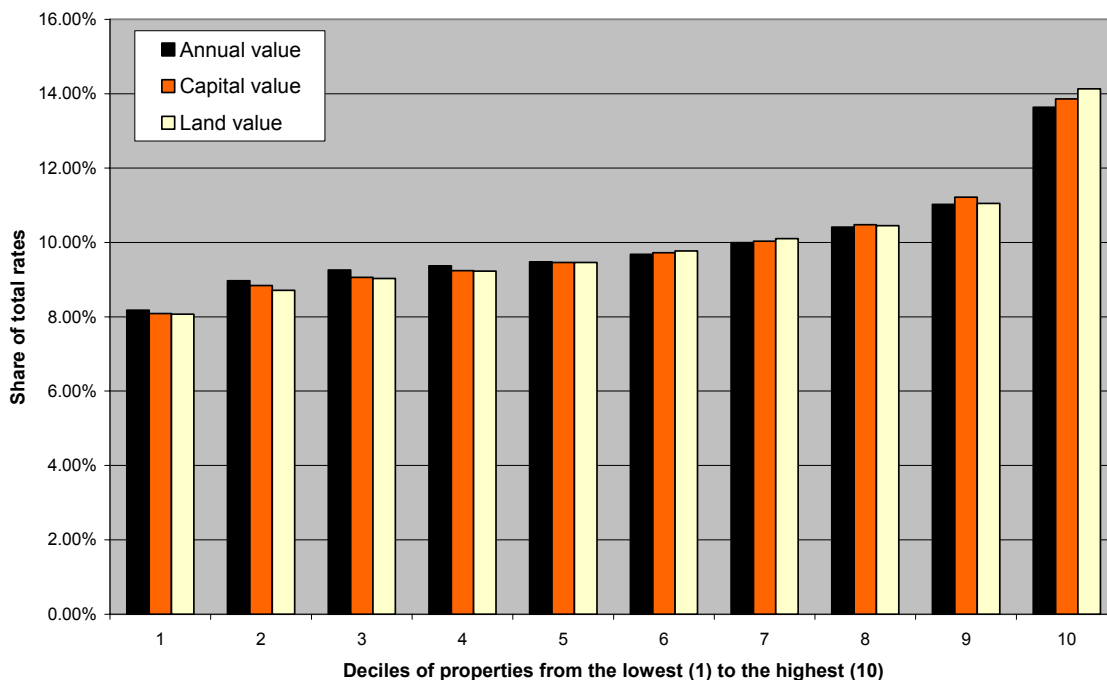
According to this analysis of the pure property rates base rating systems, the land value based rating system emerges as the most favourable rating system for properties with low land value as the largest share of rates (25.67%) is borne by the top decile, while smallest share is absorbed by the bottom decile (4.7%).

Adjusted Rates Distribution of Rates under Alternative Rating Systems

The actual rates levied on properties are arrived at after making a number of adjustments to the rates distribution described earlier. These adjustments include:

- Business differential – (currently set at 20% under land value, and 22% under capital value and annual value for modelling purposes);
- Uniform annual charges (\$600 per residential property);
- Wastewater uniform charge (\$350 per residential property);
- Rural sewerage charge in the Non-Drainage Area (\$154 per property);
- Environmental monitoring charge in the Non-Drainage Area (\$26 per property);
- Stepped differentials – to moderate the effect on high value properties (This applied only under land value).

Chart 2: Residential rates distributon by deciles (business differential 22% for CV and AV)



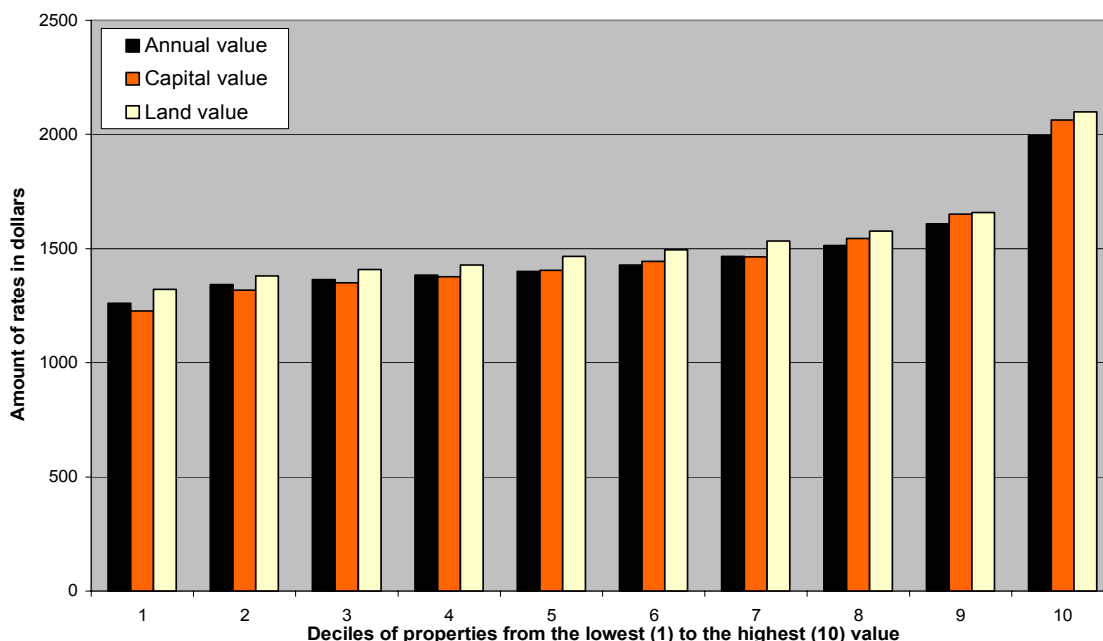
These adjustments result in shifting a part of the rates load from high value properties to low value properties thus moderating the progressivity of the distribution among different properties under all three rating systems, as shown in Chart 2. For example, under pure land value, the rate load on the top decile is 445% higher than that of the bottom decile. After the adjustments, it is reduced to 75%.

The adjustments have not changed the relative position of the three rating systems. Land value based rating system remains the most attractive system to low value to upper middle value properties in general (bottom 90%). The top 10% of the properties share 14% of the total rates allocated to the residential sector based on a business differential of 22%. However, the differences between the rate shares at each decile under the three rating systems are not very wide.

Impact on rates level under the three rating systems

When the business differential is raised to 22% under capital value and annual value, the rates level on residential properties would be lower under both capital value and annual value (Chart 3), because of the reduction of the rates proportion allocated to the residential sector from 80% to 78% under capital value and annual value.

Chart 3: Average level of property rates under the three options



However, there will be significant changes to the rates liability of individual properties when the basis of rating is shifted from land value to capital value or annual value. The key factor that determines these changes is the ratio of land value to improvement value in relation to the average ratio for the city. In general, under capital value, there will be a shift of rates burden from properties with a land value ratio larger than the city average. It appears that the majority of the properties in deciles 1 to 8 will experience a reduction in rates while the majority in higher deciles (9 and 10) will experience a rates increase (Table 6).

Table 6: Change from Land to Capital Value - Properties Experiencing Changes

% of all households	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Increases	1306	1162	1327	1701	1857	2092	2346	2824	3596	3144
Decreases	4608	4751	4586	4212	4056	3821	3567	3089	2317	2769
Total properties	5914	5913	5913	5913	5913	5913	5913	5913	5913	5913
Increases %	22%	20%	22%	29%	31%	35%	40%	48%	61%	53%
Decreases %	78%	80%	78%	71%	69%	65%	60%	52%	39%	47%

Overall, 64% of properties will experience decreases in their rates to varying degree under capital value rating (with a business differential of 22%). The ranges of the changes (both positive and negative) by deciles are presented in Table 7. The largest increases as well as decreases are experienced by the properties in the top decile. They range from the largest decrease of \$2473 to the largest increase of \$6058. These large changes of over \$2000 would be experienced by high value properties (capital value of over \$2 million) such as horticultural and lifestyle properties and vacant lands owned by property developers.

Table 7: Extent of Rates Changes When Moving from Land to Capital Value

% of all households	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
largest decrease (-)	-\$441	-1018	-992	-996	-1160	-1909	-1780	-1244	-1934	-2473
Largest increase	\$246	240	228	229	302	292	299	570	650	6058

Equity Issues

One of the key principles of taxation is fairness. Fairness (equity) is defined as horizontal equity (households with similar income paying the same rate) and vertical equity (households with higher income pay a larger share of their income in taxes than poorer households).

In taxation, fairness (vertical equity) is achieved by having a progressive tax. A tax system is considered to be progressive if the proportion of tax liability (i.e. tax as a percent of income) increases with the increase in income. This is because the tax burden is heavier on those at relatively low income levels than those at higher incomes. A progressive tax system could better address the ability to pay issue.

As stated earlier, rates are a tax on property, and they are not based on the incomes of the property owners. However, it is believed that generally, household income could have some relationship to the value of the property. Then which property rating system is fairer? If the public goods provided by the local authorities benefit all residents collectively (with equal access), one can argue that it is fair to distribute rates equally among all rate payers (e.g. uniform annual charges). One group should not be taxed to subsidise another group.

On the other hand, if the benefits of investments accruing to different properties are reflected in their values (based on benefit tax principle), then rating according to property values could be considered fair. A flat rate system disregards this, and shifts the rates burden from high value properties to low value properties. If property values are a proxy for household incomes it could be argued that rates based purely on property value (with no uniform charges) are fairer than uniform (flat) rates. However, the anecdotal evidence suggests that there are high value property owners with relatively low income (e.g. pensioners – nearly 9% of the population was over 65 years old in 2001), who are likely to be affected by pure property value based rating systems.

These competing arguments show that the concept of equity or fairness is elusive, and the distribution of rates burden to achieve equity is largely a value judgement.

One of the Council strategic goals is to support the health and wellbeing of the city's residents, and to have a strong sense of community. It is hard for the city to achieve these goals if there are wide disparities in social and economic conditions. The income distribution data (Census 2001) show that mean income (\$113811) of the top 20% of households is over 9 times higher than that (\$12156) of the bottom 20%. There is also evidence that some social groups are ranked very low in the deprivation index. Given this back ground, an assessment of the potential effects of rating systems on the household incomes of different groups would be useful in determining the fairness of the rating system.

A household's ability to pay depends on its income and expenditure. However, there are no data to link property values and household incomes. In the absence of income at individual household level, an attempt was made to find whether there is a good statistical relationship between household income and property values aggregated at mesh block level available from the 2001 Census (the data from the 2006 Census are not available yet).

This exercise revealed a poor correlation between property values (under all three options) and household income. This could be partly a reflection of the changes in the composition of property values and household income levels since 2001 – mesh blocks may not be homogeneous areas as such. Nevertheless, of the three options, capital value appears to be more related to household income than land value and annual value. This observation is consistent with the results of research done on another local authority in the Auckland region.

Rates Incidence (burden) on Different Income Groups

One way of assessing the income effect (progressivity) of a rating system is to measure the rates incidence – the proportion of household income spent on rates. In the absence of household income related to property values, a few hypothetical scenarios are presented here to illustrate the possible impacts on rates incidence if the mean property values are related to the mean household income levels of the quintiles. This is an assumption.

Table 8: Average Rates as a Percent of Household Income¹

% of all households	20%	20%	20%	20%	20%
Mean property value - CV	\$191,787	\$240,301	\$279,411	\$340,139	\$559,760
Mean income	\$12,156	\$28,875	\$46,617	\$64,905	\$113,811
Rates as % of income - AV	10.7%	4.8%	3.0%	2.3%	1.6%
Rates as % of income - LV	11.1%	4.9%	3.2%	2.4%	1.7%
Rates as % of income - CV	10.5%	4.7%	3.1%	2.3%	1.6%

¹ Hypothetical scenario based on 2001 Census data

Source: Household income from Statistics New Zealand.

Table 8 shows that if there is a direct relationship between household income levels and property values, under all three rating systems, the rates burden (rates as a percentage of household gross income) is more likely to fall heavily on low value properties than on high value properties. This could reduce the amount of money available to low income households for meeting the basic needs such as food, water, healthcare and heating.

Table 9: Average Rates as a Percent of Household Income with Rebate

% of all households	10%	10%	10%	10%
Mean income	\$16,105	\$24,456	\$24,456	\$24,456
Superannuitants number	1	2	2	2
Mean property value - CV	\$170,096	\$213,478	\$232,275	\$248,326
Rates rebate	\$500	\$500	\$500	\$500
Rates as % of income - AV	4.98%	3.57%	3.7%	4.0%
Rates as % of income - LV	5.28%	3.76%	4.0%	4.3%
Rates as % of income - CV	4.79%	3.53%	3.8%	4.1%

Some low income households are entitled to a rates rebate up to a maximum of \$500 per year (funded by the government), depending on income and the number of dependents. As demonstrated in the scenario in Table 9, as a result of the rates rebate, the rate incidence of low income earners (e.g. superannuitants) in the bottom four deciles could fall, but it still remains higher than those with high incomes in the top 60% of properties. It is noted that households with no more than 2 occupants and total income of not more than \$25,000 accounted for 14% of all households in 2001. These households are more likely to be small houses with relatively low capital value.

Similar changes in the rate incidence could occur among low income households with dependents after the rate rebate (Table 10). The rate incidence of the households with two dependents in the bottom 20% of property values could fall as a result of the rates rebate, but remain higher than those of the upper 60%.

Table 10: Rates Incidence of Households with Dependents

% of all households	10%	10%
Mean income	\$20,000	\$28,000
Dependents	2	2
Mean property value - CV	\$170,096	\$213,478
Rates rebate	\$500	0
Rates as % of income - AV	4.01%	4.91%
Rates as % of income - LV	4.26%	5.07%
Rates as % of income - CV	3.86%	4.87%

The scenarios in Table 9 and 10 are based on the income levels and the relevant rates rebates shown in the examples produced by the Department of Internal Affairs in their website. These two tables simply demonstrate that for low income households at the bottom 40% of property values, the rates rebate does not reduce their rate burden to a degree even equal to those in the upper 60% (based on the assumption that low income households fall into the bottom 40%). Although this observation is valid for all three options, capital value based rating system appears to be more favourable to low income households, when 22% of the rates requirement is allocated to the business sector.

It does not seem possible for local authorities to develop a perfectly fair rating system for two reasons: first, it is not practicable to fine tune the rating system to link individual property values to individual household income levels due to non availability of data; and second, there are likely to be low income households (e.g. pensioners) with high value properties. However, it is possible for the Council to reduce the degree of regressiveness of rate distribution to some extent when setting the level of various uniform charges and other fixed charges that have shifted the rates load from high value properties to low value properties. More in-depth analysis is required before such changes are made to rating policy.

Housing Affordability

Affordable housing is one of the most important basic human needs. A dwelling where the total housing costs are affordable to those living in that housing unit is defined as affordable housing. A commonly accepted guideline for housing affordability is a housing cost that does not exceed 30% of a household's gross income. The average proportion of income spent on housing in Waitakere was 28% (within this norm) in 2001, but was higher than both the regional and national average. According to a recent research study, 34% of tenants in Waitakere spent over 30% of their household income on rent. This ratio was as high as 75% among households with income under \$30,000. And nearly one-third of households had household incomes under \$30,000.

Rates Impact on Owner Occupied Houses

Housing affordability depends on a number of factors such as family income, cost of mortgage (if any), maintenance cost, insurance and rates. For those with mortgages, the debt servicing cost is probably the major cost. Rates are less significant. For example, on average, for every \$1000 in the capital value of a house, the rates levy would be less than \$5 compared to annual interest payments of about \$80 for every \$1000 in a mortgage (excluding capital repayment). However, for a low income household rates can be an important part of housing costs.

In Waitakere, the majority (70%) of households were owner occupied according to the 2001 Census. Owner occupied households with incomes not more than \$30,000 per year accounted for nearly 20% of all households. The same source also records that close to 24% of all households with income not more than \$30,000 had 2 bedrooms, suggesting the probability that they were relatively low value properties. If so, for a significant proportion of the owner occupied households rates incidence could be relatively high. These ratios need to be refined when the 2006 Census data become available.

Rates Impact on Tenants

A high proportion (30%) of households in Waitakere lives in properties not owned by the occupants (this does not mean that all these are tenants as some houses may be under family trusts). Among them, households with income not more than \$30,000 represented about 13% of all households. For these households, rent is a major cost in their budget.

The rates on rental properties are paid by the property owner. In the short run, rent charges are based on market conditions (mainly demand and supply), but, the rate changes could have an indirect impact on rents in the medium to long term as the property owner will attempt to recoup all operating costs including rates related to the property. It has not been possible to examine the significance of rates in the total cost structure of the landlords in the absence of readily available data.

In Waitakere, even under land value rating, private sector rents have increased. According to a recent study, the median rent on 2 and 3 bedroom houses and units have increased by 20% between 2001 and 2005, exceeding the growth of income. In some areas such as Ranui, the rent increase on 2 bedroom houses and units was as high as 30% during the same period. More in-depth research is needed to isolate the rates factor in these increases driven largely by market conditions.

Any impact of rating system on rentals would also depend on the ratio of land value to capital value of such properties. As noted before, in the same property value band it is possible to have increases as well as decreases in rates when shifting to either capital value or annual value. Generally, households in multi-unit properties are likely to experience an increase in rates under capital value rating system than those in stand alone houses. However, rent charges are lower on multi-units (which are generally more capital intensive) than on standalone dwellings. For example, the median rent on a 2 bedroom unit (flat) in Waitakere is about \$250 per week, compared to \$270 for a stand alone house with the same number of bedrooms.

More intensive research is needed to gain a better understanding of the potential impact of alternative rating systems on different social groups occupying different types of housing in different localities.

Assistance Available for Low Income Families

Some low income households receive support from several government agencies. Housing New Zealand Corporation provides housing for income tested families at a subsidised rent charge (not more than 25% of the net income of eligible households). Low income families are also entitled to an accommodation supplement provided by the Ministry of Social Development through Work and Income.

In addition, as stated before, the government provides rates rebates up to a maximum of \$500 per year to owner occupied households with low income below certain thresholds. The actual amount varies depending on the income level and the number of dependents. However, this scheme does not address the issues of ability to pay for tenants.

Council provides housing for older persons (pensioners) at below market rent. Social housing facilities provided by charitable institutions for people with disabilities are non-rateable. In addition, the Council has a rates relief scheme to households which experience financial hardship under certain circumstances, subject to conditions.

Potential Impacts on Cultural Wellbeing

The most difficult aspect of the QBL assessment is the link between rating system and cultural impact as there do not appear to be direct links between rates and cultural wellbeing of a diverse community. One way rates could have an impact on the cultural wellbeing would be through the income effect on the low income groups.

The majority of the Waitakere population comprises European (71.9%), followed by Pacific people (14.7%) and Maori (13.4 %). Asians represent 11 % while all others account for 1% of the total population. The socio-economic conditions (in terms of income, employment, home ownership and educational attainments etc) of Maori and Pacific people are, in general, significantly lower than those of European and Asian ethnic groups.

Nearly 50% of Maori and 52% of Pacific people live in properties they do not own. As rates are paid by landlords, these groups are not directly exposed to changes in the rating system, but, rate increases are likely to influence rent charges by private landlords over the medium to long term. As said earlier, the low income households are entitled to a range of housing assistance available from the government and Housing New Zealand Corporation. However, these are social rather than cultural issues.

Land value based rates in particular can have an impact on Maori land if the land value to capital value ratio exceeds the average for the city. However, it is understood that there is no on-shore Maori land in Waitakere.

The Council has approved a heritage assistance fund to support the preservation of historic heritage buildings and sites in the city. This will come into operation from 2008. If the ratio of land value to improvement value of these properties exceeds the average ratio for the city, a change from land value to capital value could raise their rate liability. This has the potential to discourage capital investments to protect and restore these buildings and sites, unless there is additional support from the Council.

As far as the conservation of natural heritage in the city is concerned, the council has established an assistance scheme that provides outright grants as rates relief to the property owners. If the ratio of land value to improvement value of these properties exceeds the city average, capital value based rating systems can reduce their rates liability. This can be an added incentive to preserve natural heritage.

Environmental Effects of Alternative Rating Systems

Uncontrolled urban sprawl is considered to be the biggest cause of environmental degradation in urban areas. It is normally characterised by scattered and poorly planned low density development. Sprawling wastes resources, increases travel time and distances between communities. Low density also weakens the financial viability of mass transit, thus encouraging private car use. Increased private car use contributes to pollution, road congestion and depletion of non-renewable energy. It also causes excessive use of open space which could otherwise contribute to improved environmental quality.

The key link between property rates and environmental protection is the nature and intensity of land development. As stated earlier, according to the capital tax view, rates on improvements under a capital value based system raise the perceived cost of buildings, and owners can reduce the tax burden by designing projects that use relatively more land in comparison to improvements. This leads to lower than optimum densities and encourages the city to spread more than it would had a perfectly neutral rating system has been used to finance local services and infrastructure.

On the other hand, the rates burden on properties with low or zero improvements would be lower under capital value based rating than under land value based system. For example, in Waitakere, some properties with a relatively large area of land would experience rates reduction of between \$2000 and \$6000 under capital value rating. It could be argued that this could lower the maintenance cost of such land, encouraging the land owners to keep them as vacant open spaces. However, it is not clear as to how long such properties will remain vacant, if there are no restrictions on sub-division and developments.

In contrast, under land value rating system, rate burden falls more on properties with a low or zero improvement, inducing them to use it for income generating activities, rather than keeping them vacant or with low development. The high rates on vacant lands could act as a holding charge, and owners would be encouraged to bring the timing forward for development and generate income in order to pay their rates liabilities. However, this is possible only if there are no restrictions on land use.

On the positive side, a land value based rating system could encourage urban intensification through intensive development (increase the structure/land ratio), as the development component is not included in the property value used for taxation (assuming all other things remain unchanged). Urban intensification could produce a whole range of environmental benefits through the containment of urban sprawl, reduction of private vehicle use, and further development of mass transit and maintaining open spaces.

Literature is replete with theoretical studies that show how property taxes promote inefficiency and under-utilisation of land. However, there is no conclusive evidence either way to support the two theories (benefit tax theory and capital tax theory). Most empirical studies show that the effects are ambiguous. One of the reasons for this difference between the theoretical predictions and empirical observations is that the former implicitly assume that all other things being equal (*ceteris paribus*), when the reality is more complicated because of the influence of all other factors.

The argument that capital value based rating systems encourage low density developments hinges on the relative importance attached to rates as against other factors that influence investment decisions relating to the capital intensity of developments. As discussed earlier, rates constitute a relatively small share of the operating costs of rental properties, and the return would depend on both total cost and total revenue (the rental income). Property developments are driven by market forces (demand and supply) which are influenced by whole range of variables. The recent trend in the property market in Auckland is a good example of the power of the market.

The way capital value based rating system impacts on the level of rates on properties in Waitakere is somewhat different from the way the theoretical models have postulated. There is no fixed permanent relationship between the property value and the rates under the rating system in Waitakere. Property rates do not increase in proportion to the increase in the value of a particular property. The amount of rates levied is determined by the relative value of a property in the city (i.e. the share of the total property value in the city). Over time, the relativities among properties could change as a result of the change in land values in different locations and the degree of improvements introduced. Rating systems simply distribute the rate requirement among the properties.

Intensification and the Growth Management Strategy of Waitakere City

In New Zealand, local government regulations and land use planning play a major role in determining the nature of land use and the intensity of development. Local authorities in the Auckland region directly intervene through regulations in the District Plans under the Resource Management Act 1991 to control urban sprawl. They restrict sub-divisions and commercial and industrial activities outside the Metropolitan Urban Limits.

Waitakere has recently developed a growth management strategy in response to the Local Government (Auckland) Amendment Act 2004. This legislation requires that regional plans be aligned with the Auckland Regional Growth Strategy. Waitakere is also a signatory to the Northern and Western Sectors Agreements developed under the Auckland Regional Growth Forum. In addition, legislation is before Parliament to protect the Waitakere Ranges and the foothills.

These regulatory measures are reinforced by other strategies and policies that support urban intensification. Waitakere has a policy of concentrating the major proportion (78%) of the city's population growth within its Metropolitan Urban Limit (MUL). Intensification and consolidation of residential and business growth will take place primarily around the three key city centres and along the major transport corridors such as the rail spine and Great North and Lincoln Roads.

This is achieved by limiting infill throughout suburban areas, developing an integrated transport strategy and investing in physical and social infrastructure in areas identified for intensification. In addition, Waitakere City also has a policy enabling businesses to cluster and intensify close to town and neighbourhood centres and along key transport corridors.

The shortage of suitable vacant and potentially vacant land for business growth can contribute to urban intensification over time. It is estimated that the city currently has only 98 hectares of vacant and potentially vacant land. There will be some significant industrial and business growth within the "future urban growth areas" in the north of the city in conjunction with vertical expansion in existing business areas. The control of urban sprawl with regulatory measures combined with the shortage of business land within the urban limits are likely to be more powerful forces than rates in driving urban intensification. Therefore, property rate change is unlikely to have a significant impact on the nature of land use in the city.

The timing and the degree of such intensification could be influenced by other factors such as the opening of greenfields in the meantime, the take up rate of existing greenfields in the region and the growth of demand for land, more than rates. If the type of greenfield developments (locally and regionally) competes with urban intensification, the development of high rise buildings in urban centres in Waitakere could be delayed.

Perhaps one of the greatest threats to the preservation of rural character of the city comes from market forces. The growing demand for residential and business land would push the price of land within the urban limits as has happened in the Auckland region in recent years. Waitakere's population is growing rapidly. This trend is not expected to change significantly over the next 50 years. These demographic and market forces will exert more pressure on rural land for sub-division and development. Therefore, rates cost is likely to have a less significant impact on the land use pattern in Waitakere.

In the context of urban intensification, there is an issue concerning the type of retail business (e.g. closed shopping malls, open shopping centres and strip shops) most consistent with the nature of urban intensification desired by Waitakere City. The retail and business service sectors are generally considered as being important to city centres in that they concentrate employment in nodes and centralise products and services in convenient locations for both businesses and the wider community. How retail businesses contribute to the functional and social amenity of town centres depends on the type of shopping centres in the city centres. In this context, planning and regulation could play a major role in influencing town centre developments in the desired direction.

There do not appear to be any definitive studies available in New Zealand which have evaluated the impact of rating systems on intensification (and whether a particular system has discouraged intensification). However, as indicated in the earlier research, in the Auckland context, rates do not appear to be high on the list of criteria for business location decisions. As said, property rates are a levy paid by property owners for a bundle of services provided by the Council.

Limitations of the Analysis

As said at the outset, the identification and quantification of the potential effects of alternative rating is a major challenge. The depth and scope of this analysis was constrained by data, time and resource limitations. For example, the following aspects were either not covered or not analysed in depth:

- The relationship between business size and property values and rates;
- Rates in relation to turnover of different types of businesses (nature, size etc) in the city;
- Location differences in economic impacts (in relation to industry, business size etc.);
- Relationship between property values and the socio economic characteristics of households;
- Property values of different types of rental properties (by number of bedrooms, property type, and incomes of tenants etc);
- The appropriateness of the business differential level; and
- The impact of stepped differentials and uniform charges on households with different income levels.

Most of these are extremely complicated subjects that require extensive and intensive research which involves substantial costs and more time for completion.

Summary

Economic Impacts

1. Rebalancing of rates distribution is inevitable when changing from the land value based rating system. There will be a reduction in the rates liability for some rate payers at the expense of increases on some others at all levels of property values in the business sector. These positive and negative effects will cut across all types of businesses in the city. The degree of the impact on individual properties will depend on the ratio of land value to the value of improvements in relation to the average ratio for the city.

2. Business size is the most dominant factor that determines the impact of rates increase on businesses. The negative impact would be greater on those small businesses operating under intense competition, and small businesses (with less than 5 full time employees) account for 88% of the business units in Waitakere. It is not clear whether these potential negative effects would be offset by the potential positive effects of rates reductions that would be experienced by businesses in properties with relatively low capital intensity.
3. Both capital value and annual value methods are superior to land value in their ability to reflect the level of development on properties. They can therefore better approximate the demand for Council services by the sector as a whole and by each individual property.
4. The business differential is the critical factor that affects the rate level in the business sector. A higher business differential (22%) under capital value and annual value would increase the rates level on more capital intensive properties at a much higher rate than for less capital intensive businesses.
5. The largest increases in rates (excluding network utilities) both in percentage and absolute terms will be experienced by large capital intensive shopping centres in Waitakere. The rate cost advantage enjoyed by them *vis a vis* similar centres in Auckland City and Manukau City would reduce significantly under capital value and annual value.
6. If the rate increases are passed on to the tenants by the property owners in full, the rental cost advantage enjoyed by the retail shops too will erode, and the business will have to increase their sales to fund the cost increases.
7. Property rates are not considered to be a significant factor in business location decisions, as there are other more important considerations such as infrastructure facilities and availability of land etc., according to both local and international studies.

Social Impacts

1. Redistribution of rates liability is inevitable under any change from status quo. There will be a reduction of rates liability of some rate payers at the expense of others at all levels of property values (low, medium and high). The degree of impact on individual properties will depend on the ratio of land value to the value of improvements in relation to the average ratio for the city. However, the socio-economic characteristics of the households in different properties are not known.
2. The share of total rates load on low and upper medium value properties in the residential sector (representing the bottom 90% of residential rate payers) is lower under land value than under the other two methods.
3. However, the ultimate determinants of the rates incidence among different property values are the stepped differentials (under land value) and the various uniform fixed charges under all three rating methods. To the extent that there are uniform fixed charges, they reduce the amount of general rates collected on the basis of property values. This can have a regressive effect on the distribution of rates burden. While the uniform charges could have a greater negative impact on the disposable income of the households in low value properties, they could provide a degree of relief for low fixed income earners (e.g. pensioners) living in households with high property values.

4. Rates are less important than other factors such as property prices, household incomes and mortgage interest rates in influencing housing affordability for owner occupied houses in general.
5. Rates are part of the total operating cost of rental properties, but they account for a much smaller proportion than other costs such as mortgage costs and depreciation. In the short term, rents are determined by the market forces, but in medium to long term, rates could influence the level of rents.
6. The ultimate impact of alternative rating systems on rental properties is likely to be mixed. Currently, rental costs on units (flats) in multi-units are lower than on standalone houses with the same number of bedrooms. The rates on multi-units are likely to be higher under capital value than under land value because of the relatively high capital intensity. Conversely, rates on standalone rental properties are likely to be lower under capital value than under land value because such properties are more likely to have relatively low capital intensity.
7. Because of data limitations, it has not been possible to assess the impact of alternative rating systems on different geographic locations and household groups (in terms of income, family size, number of dependents, age level and ethnicity). Such an analysis would be useful in identifying the appropriate levels for stepped differentials (only under land value) and uniform annual charges and other fixed charges, but that would require extensive and intensive research.

Cultural Impacts

1. Rating systems can indirectly influence the cultural wellbeing of different ethnic groups. Since the socio economic conditions among Maori and Pacific Island groups are generally lower than among other groups, it might be possible to draw some link between rates and their cultural wellbeing through household income levels. Since these disadvantaged groups are more likely to be in households with relatively low values, the regressive effects of uniform charges could have a greater negative effect on their wellbeing under all options. These are socio-economic rather than cultural impacts.
2. Rating methods can have an effect on the level of rates levied on the properties with natural heritage features and cultural heritage buildings and sites in the city. While land value rating could have a higher rates level on sites where development is low or zero, it could have a lower level of rates on heritage sites where development component is relatively high. The opposite could occur under capital value based rating systems. However, it should be noted that the Council has an assistance scheme to encourage conservation of natural heritage under the "Green Network" and a separate assistance scheme to conserve the historic heritage buildings and sites will come into operation in 2008.

Environmental Impacts

1. Although there is a theoretical argument that a capital value based rating system discourages urban intensification, its validity is doubtful in the context of Waitakere for a number of reasons. These include, for example: (a) rates do not necessarily increase in proportion to the improvements of a property because the amount levied is determined by that property's share in the total value of all the properties in the city; (b) high demand for land against the shortage of land in Waitakere; (c) the growth of population and incomes; (d) regulatory control of developments outside the Metropolitan Urban Limits; (e) other policies of the Council aimed at reinforcing urban intensification; and (d) the land use policies of other councils in the Auckland region. These are likely to be more powerful than rates in determining property developments.

2. Rating systems in general are unlikely to influence capital investments in medium and high density developments (e.g. medium density housing) because other variables such as mortgage rates, cost of land, cost of labour and building materials, development activity in the neighbouring cities and the demand for building space are far more important. The demand for business space and housing is also influenced by macro-economic variables and demographic factors (immigration), rather than rates.

Conclusion: Overall Assessment of Impacts based on Quadruple Bottom Line

Waitakere is a diverse city in terms of land use (rural / urban mix), property values, demographic characteristics, business composition and size and social and economic conditions. No single property value system could capture all these complexities, and have a clear positive impact simultaneously on all four elements of sustainability. The overall potential impacts of alternative rating systems on the social, economic, environmental and cultural wellbeing of the community would be mixed, as summarised in the QBL Matrix (Table 11). The conclusion of the QBL analysis is that each option has slightly different strengths and weaknesses.

Rating is primarily a revenue tool to raise funds to finance Council services. As a form of tax, it has to be efficient and fair. It can be efficient if the rates levied approximate the benefits of the Council investments and the demand placed on the Council services. It can be fair if the rating system is reasonably progressive.

Whatever the valuation method is chosen, the efficiency, fairness and other effects will depend on the two modifications introduced:

- (a) the business differential (this accentuates the impacts on the business sector); and
- (b) the uniform charges and other fixed levies (these shift the rates burden from high to low value properties).

While both land value and capital value are not inappropriate for the purpose of rating, on balance, capital value seem to have some merit over land value for a number of reasons: (a) it is a better approximation of the benefits of public goods provided in different locations and the demand placed on such public goods by the intensity of developments; (b) it could better reflect the market value of properties than land value; and (c) it has a greater potential to raise revenue to meet the operating costs of a growing city.

Under all three rating options, some ratepayers will gain, at the expense of some others. If a change to the present system is introduced, some rate payers (both business and residential) will face significant rate increases. The adverse effects of such sharp increases could be minimised through various measures. For example, Council may wish to explore the practicality of: (a) introducing a phased transition to the new system over a period of time (with or without a dual rating method); (b) using its partnerships and advocacy role to influence the government agencies responsible for providing assistance to low income families (for example, housing assistance supplement and the rates rebate scheme); and (c) temporary rates relief.

Table 11: Summary of QBL Assessment of Alternative Rating Systems

QBL elements	Rates based on LV	Rates based on CV	Rates based on AV
Economic wellbeing			
Capacity to capture benefits of Council services to locations	√	√√√	√√√
Capacity to allocate costs to groups who benefit from Council investments & place demands on its services	√	√√√	√√√
Intensification of urban land use	Minor	Minor	Minor
Development of capital (building) intensive businesses	Minor	Minor	Minor
Retail business development	Mixed	Mixed	Mixed
Employment & income generation	Mixed	Mixed	Mixed
Attraction of capital and investment expansion	Mixed	Mixed	Mixed
Efficient and resilient economy	√√	√√√	√√√
Potential to raise Council revenue with growth	√	√√√	√√√
Social wellbeing			
Rates impact on low to upper medium value properties	√√√	√√	√√
Low value properties with low intensity of development	√	√√	√√
Low value properties with high intensity of development	√√	√	√
Impact on rental properties (high density)	√√	√	√
Impact on rental properties (low density)	√	√√	√√
Cultural wellbeing			
Natural heritage sites (if land/ improvements ratio is high)	√√	√√√	√√√
Historic heritage sites (if land/improvement ratio is low)	√√√	√√	√√
Environmental wellbeing			
Land banking	Minor	Minor	Minor
Urban intensification & town centre development	Minor	Minor	Minor
Impact on high density developments (e.g. MDH)	Minor	Minor	Minor

Ranking: √√√ Highly favourable; √√ Moderately favourable; √ Less favourable.

Note: The QBL matrix provides a qualitative assessment of the three rating options in relation to the four elements of sustainability, based on the assumption that differentials and uniform charges are absent. No particular weighting is assigned to any of the four elements of sustainability. Ticks denotes the degree of favourable impact.

RECOMMENDATION

That the Assessment of the Impacts Under Alternative Rating Systems report be received.

Report prepared by: Ariya Randeni, Senior Analyst: Economic Policy.



12 REVIEW OF RATING SYSTEM

PURPOSE OF THE REPORT

The purpose of this report is to present and recommend options to the Finance and Operational Performance Committee for consideration for changes to the rating system for 2007/2008.

BACKGROUND

At its meeting held on 11 December 2006, the Finance and Operational Performance Committee considered a progress report on the impacts of a change from rating on land value to rating on capital value or annual value. The Committee resolved:

“2. *That no further analysis be undertaken on an Annual Value Rating System at this time.*”

2435/2006

The Committee since August 2006 has discussed information on the impacts of a change to the current rating system by examining various rates models and information on the effects of alternative rating systems. If a proposal to change the basis of rating is to be made for 2007/2008 decisions must be made prior to the adoption of the draft Annual Plan scheduled for Council adoption on 1 March 2007.

STRATEGIC CONTEXT

The Courts have stated that a rating system is primarily a taxation system rather than a system for charging for services, although in adopting the basis of rating and setting its differential rating system, a local authority must not act unreasonably and decisions on a rating system involve the exercise of political judgement by elected representatives of the community.

ISSUES

Elsewhere on this agenda is a report on the assessment of the impacts under alternative rating systems. The three available rating systems all have their advantages and disadvantages. Under each system individual ratepayers pay a greater or lesser share of the same overall rate requirement. The assessment concludes that a capital value rating system would not be inappropriate after consideration of economic, social, environmental and cultural factors.

In considering any changes to the rating system for 2007/2008 there are a number of areas that require attention which are covered below.

Business Sector Rate Requirement

A134-A136 The rate requirement from business sector properties is currently 20% based on a land value rating system. The calculated share of the rate requirement is estimated at 18.63% with an allowance for unspecified direct costs of 1.37%. The Council over a number of years has reduced the overall rate requirement from the business sector from 25% to 20%. The share of the business sector land value has been reducing in the City at each triennial revaluation. Calculation of the business sector rate requirement is attached at pages A134 to A136.

A137-139 The Council in 2005/2006 consulted on a change to a capital value rating system that proposed an increase in the business sector share of rates to increase to 22%. This was based using the capital values of the business sector and it was estimated that 20.73% should be the calculated share with 1.27% added on for unspecified direct costs. This calculation is attached at pages A137 to A139.

The analyses of property values as at 30 June 2006 for the business sector under the three available rating systems are:

- Land Value 6.69%
- Capital Value 10.55%;
- Annual Value 15.22%.

Although the business sector share of property values in Waitakere City under both capital value and annual value rating are much closer to the sector's share of costs, using the current method of calculation there will still be a need for a business sector differential, with or without a Uniform Annual General Charge, if a similar rate requirement from the business sector is desired.

Rates Models

A140-145 Attached at pages A140 to A145 are two rates models showing the indicative impact on rates using capital values for calculation of rates on residential properties for the 2006/2007 year. The rates models also show the impact on business sector properties of rating on capital value. The two rates models have been previously reported to the Committee at its meeting held on 11 December 2006.

Analyses have been carried out to indicate the impacts on ratepayers in various bands of land value of a change to rating on capital value. In all cases the analysis has used the 2006/2007 Annual Plan total rate requirement and property values as at 30 June 2006, although these property values are expressed in terms of September 2004 levels of values. The rates models prepared and commentary on each follows:

A140-A142 Model 1 attached at pages A140 to A142.

- A capital value rating system with a contribution from the business sector of 22%;
- Business sector paying wastewater costs on a land value basis;
- Removal of the stepped differential for residential properties;
- A Uniform Annual General Charge for all properties of \$600;
- A Uniform Annual Charge for wastewater on residential properties of \$350;
- Uniform Annual Charges for Environmental Monitoring and Rural Sewerage included in the Outer area;
- Schools and non rateable properties paying targeted rates for wastewater on a land value basis.

A143-A145 Model 2 attached at pages A143 to A145.

The same as Model 1 but with the contribution from the business sector remaining at 20% of the rate requirement.

Both capital value models have been prepared on the basis of no stepped differential. The current stepped differential rating system for residential properties was designed around a land value based rating system and cannot transfer without major modification. A number of anomalies have been identified if capital values are used to calculate wastewater rates on business sector properties, with some high value properties being charged excessive amounts in relation to the relative volume of wastewater generated. Consequently, the business sector models have been calculated using land values for wastewater rates and capital values for general rates.

For many, if not most properties in the business sector, wastewater costs shared on the basis of property value may be greater than their share based on volume of wastewater generated. This situation is accentuated in many cases under a capital value rating system.

Whichever rating system is used, there is a need to move to charging the major generators of wastewater on the basis of volume generated under a system of negotiated contracts. This may reduce remaining costs to a reasonable level where a pan charge method could be more equitable.

The analyses of Model 1 shows that in the Inner Area, 62.9% of residential properties would have a decrease or no change in rates payable. In the Outer Area 75% of residential properties would have a decrease or no increase in rates payable. These relatively high percentages arise from a combination of two main factors:

1. A reduction in the overall share of rates met by the residential sector if the business sector share of rates increases from 20% to 22% of the total rate requirement.
2. The level of development on the properties may be lower than the average, i.e. the land value as a percentage of the capital value is higher than the average.

If the business sector share of the total rate requirement remained at 20% (Model 2), the equivalent figures would be 50.4% of Inner Area residential properties and 65.9% of Outer Area residential properties would have a decrease or no increase in rates.

Under capital value rating (with wastewater rates calculated on land value) 57.6% of business sector properties would have a reduction in rates, or no increase, if the sector's share of rates was increased to 22%. However, if the Sector's share of rates remained at 20%, 69.1% of business sector properties would have a reduction in rates or no increase.

Additional business sector rates would be received from a capital value rating system as Utility Companies would be rated on their capital values. Presently these Utilities which mainly comprise telecommunications and energy suppliers have only a small land value as the bulk of the asset value is in their infrastructure. The rating of these utilities on a capital value system would increase the rate requirement from the business sector by \$1,000,000 excluding GST.

The Committee could increase the current rate requirement from the business sector to 20.88% without impacting on additional rates from other business sector properties.

Growth in the Rating Base

In earlier reports on the effects of a change from rating on land value to rating on capital value, the Committee was advised that the natural growth in the rating base arising from development in the City would be greater under a capital value rating system than under a land value rating system. This is because under a land value rating system, growth in the rating base occurs only through subdivision of land. Under a capital value rating system, growth in the rating base also occurs from increases in the capital value of properties resulting from building construction and development.

The growth in the rating base on a capital value based rating system is estimated to be greater than a land value based system by \$400,000 excluding GST. A capital value rating system permits greater expenditure resulting from the demands from development in the City with no impact on the overall level of rates.

Growth in the rating base since 30 June 2006 has not yet been assessed.

Timing of a Change in Rating System

Any change to the method of rating may require an amendment to the Long Term Council Community Plan. This needs to be discussed with Audit New Zealand dependent upon the outcome of the Committees recommendations made to the Council.

As capital values are currently on the District Valuation Roll and property owners had the opportunity to object to these values at the time of the last review of values as at September 2004, a capital value rating system could be implemented as from 1 July 2007.

Changes to the Targeted Rate for Wastewater

As stated earlier in this report, if capital value were to be used to calculate wastewater rates on business sector properties, some significant anomalies would arise caused by the disparity between the rates calculated on capital value and indicative share of costs based on water used. These anomalies are less under a land value based rating system.

Residential properties are currently levied a Uniform Annual Charge for wastewater amounting to \$350 including GST. This charge covers the majority of wastewater costs attributable to the residential sector, with remaining costs being calculated on land value. The amount of wastewater rates calculated on the average residential property with a land value of \$150,000 using the stepped differential rating system amounted to \$19.80 for the 2006/2007 year. The Committee could consider increasing the wastewater Uniform Annual Charge for residential properties to fully cover the cost required for that sector.

Wastewater rates on schools and other non-rateable properties were calculated totally on land value with a stepped differential in the 2006/2007 year. This was the preferred interim option after consultation on proposals to charge on a capital value basis from 1 July 2006. It is suggested that this interim method of charging remain for 2007/2008.

SETTING OF UNIFORM ANNUAL CHARGES

Budgets for 2007/2008 are currently being finalised for presentation and review by the Long Term Council Community Plan and Annual Plan Special Committee. During these budget setting deliberations that Committee will need to consider the proposed level of the following Uniform Annual Charges for 2007/2008:

- Uniform Annual General Charge;
- Wastewater;
- Environmental Monitoring;
- Rural Sewerage Charge.

COMMUNICATION AND CONSULTATION

At its meeting on 11 September 2006, this Committee approved the Rating Review Consultation Strategy (minute number 1703/2006).

The timing of consultation on any proposed change to the rating system will coincide with formal consultation on the draft Annual Plan or amendment to the Long Term Council Community Plan.

Features of the programme include engagement with ratepayers (up to 40) through a series of workshops and face-to-face interviews; public meetings, general advertising billboards, and displays (at events, etc).

It is suggested that an editorial sub-group comprising the Mayor, the Chairman of the Finance and Operational Performance Committee, one other member of the Committee and a representative from the recently established Community Interest Group on rates be authorised to approve material for consultation if there is a change to the basis of rating.

CONCLUSION

All ratepayers will be affected by any change to the rating system. Those ratepayers whose rates would be less under a different rating system will generally be in favour of a change, and those whose rates would be greater will generally be against a change.

The Committee will need to make decisions and recommendations to Council on any proposed change to the current valuation basis for rating in 2007//2008 and the Long Term Council Community Plan and Annual Plan Special Committee will need to consider the level of Uniform Annual Charges as part of the draft Annual Plan 2007/2008 deliberations. Proposed changes must be included in the draft 2007/2008 Annual Plan for statutory consultation.

These decisions should include consideration of:

- A change to rating on capital value;
- The basis of rating to be used for the Targeted Rate for wastewater;
- The level of the contribution from the total rates requirement to be met by the business sector.

A consultation plan would need to be put in place to ensure that all those effected by any change to the rating system have adequate knowledge and information regarding any proposed changes and an opportunity to convey effects of proposals on them to Council. At its meeting on 11 September 2006, the Finance and Operational Performance Committee agreed that the draft Rating Review Consultation Strategy, as presented to the meeting, would form the basis of any consultation to be undertaken.

RECOMMENDATIONS

1. That the Review of Rating System report be received.
2. That the Finance and Operational Performance Committee consider the following options and recommend to the Council accordingly that either the:
 - a. General rate be calculated on the capital value of properties with no stepped differential, that Targeted Rates for wastewater levied on business sector properties be calculated on the land value of properties in that sector for 2007//2008 and the proposal to change the basis of rating be included in the draft Annual Plan 2007/2008 for consultation.
 - or
 - b. The current land value system be retained and the incoming Council in October 2007 be presented with a work programme to further review the rating system for their consideration.
3. That the Finance and Operational Performance Committee determine and recommend to the Council the level of the contribution from the total rates requirement to be met by the Business Sector for the 2007/2008 year.

4. That the Long Term Community Plan and Annual Plan Special Committee determine and recommend to the Council the level of the following Uniform Annual Charges for inclusion in the draft Annual Plan 2007/2008 for consultation:
 - a. Uniform Annual General Charge;
 - b. Wastewater;
 - c. Environmental Monitoring;
 - d. Rural Sewerage.
5. That an editorial sub-group comprising the Mayor, the Chairman of the Finance and Operational Performance Committee, one other member of the Finance and Operational Performance Committee, and a representative from the recently established Community Interest Group on rates be authorised to approve consultation material if there is a proposed change to the basis of rating for 2007/2008.

Report prepared by: Andrew Pollock, Director: Finance and Colin North, Financial Analyst, Rates.



13 **FORMER TE ATATU SOUTH LIBRARY BUILDING USE**

PURPOSE OF THE REPORT

The purpose of this report is to seek Finance and Operation Performance Committee's approval to temporarily use the former Te Atatu South Library building for the purpose of general community hire and for temporarily relocating displaced users of the Henderson Recreation Centre (the Centre) during the renewal project of the Centre and construction of the Henderson Youth Facility. The Henderson Community Board has been requested to approve this use and the Board's decision will be reported to the Committee.

BACKGROUND

The former Te Atatu South Library building is co-located on Edmonton Park with Te Atatu South Community Centre and is accessible from Edmonton Road. The former Te Atatu Library building is approximately 300 square metres of the complex in addition to an ex library storage room which is occupied by Grey Power as a community lease and is situated close to a number of community services and is adjacent to a retail complex which includes a supermarket.

As part of the Annual Plan deliberations for 2005/2006 Council decided to close the Te Atatu South Library in February 2006.

Council has approved the construction of a youth facility in the former Henderson Library on Alderman Drive. Construction of the Henderson Youth Facility is anticipated to start June 2007 and will take until approximately February 2008 to complete. Part of the scope of the project is to upgrade the adjacent Centre which will require it to be closed for approximately six months resulting in the displacement of users. These users have been given notice of the requirement to relocate during construction as the Henderson Recreation Centre will be closed.

STRATEGIC CONTEXT

Council's Wellbeing and Urban Village strategic and policy objectives aim to provide networks of appropriate and accessible public buildings as key community focal points and through a wide range of low cost, low impact community activities.

Council's strategic objective for leisure is that a comprehensive range of leisure, recreation and sports services and facilities are provided.

The Local Government Act 2002 defines one of Council's responsibilities as to promote the social, economic, environmental and cultural well being of communities, in the present and for the future.

In 1998, Council approved a Community Leases Policy, which in part encourages the maximum use of its community facilities and states that priority will be given to groups undertaking activities that will make a significant contribution to:

Improving access to information, education and learning opportunities;

- Encouraging the community to be involved in looking after the City's natural, heritage and cultural resources;
- Fostering cooperation, partnership, and sharing of resources between community groups; and
- Promoting a sense of belonging and identity for all people in Waitakere.

ISSUES

The Henderson Community Board has delegated authority to give landowner's consent to leases on local (as opposed to city-wide) parks. However delegated authority for all service delivery functions sits with the Finance and Operational Performance Committee. Accordingly this matter is also being reported to this Committee. The current Annual Plan has a rental target of \$28,000 per annum. Whilst it is possible to amend this target any amendment would have to be approved by this Committee.

With the closing of the Centre for an extended period during the Henderson Youth Facility construction and the Centre upgrade users will be required to relocate. There are two types of user at the centre. The first is the lessees of the community rooms which include the Music Education Centre, the Senior Arts group and Judo. The second group are the annual and casual hirers of the actual Recreation Centre. Annual hirers book their space and times on an annual basis whereby casual hirers simply book on an ad hoc basis.

The displaced users of the Recreation Centre have been given as much practical notice as possible of the need to relocate temporarily however the closure of the facility will cause some groups problems as they may not be able to find suitable alternative venues for their activities that meet the current conditions. Community space is of limited supply and other facilities such as existing Community Centres and Massey Recreation Centre will have to absorb the load. Even so distributing the load through these facilities will not meet the demand created by the displacement of the users.

To assist in accommodating displaced users, the former Te Atatu South Library building could be used during the closure period of the Centre. When the Centre reopens in 2007 the future use of the former library building can be reconsidered. A report on the future use will be brought back to this Committee and the Henderson Community Board to consider in time for the transition.

If this Committee and the Henderson Community Board are both in agreement with using the former Te Atatu South Library building as a contingency to provide bookable community space for displaced Centre users, then Council will try and accommodate as many users as possible.

It is proposed that until the former library is required for the displaced Recreation Centre users the facility be reopened as a temporary extension of the Te Atatu South Community Centre to provide casual bookable space for local community groups. This will remain in place until such time as the Recreation Centre is closed and the displaced users take priority. No modifications will be required to allow this activity.

In the longer term, proposal for use of the building will be determined by a process of community consultation to determine local needs and therefore identifying the best use of the building to serve the community. The results of the consultation will be brought back to the Henderson Community Board whereby the Community Board can either recommend a future lease or make recommendations to the appropriate Council Committee if Council budget amendments are required. As the Finance and Operational Performance Committee is responsible for service delivery this matter will also be reported to this Committee at that time.

RESOURCES

No additional resources are required to fulfil the proposal.

CONCLUSION

The former Te Atatu South Library building is now a building available to be used for community use. In 2007 the Henderson Recreation Centre will be closed for renewal work alongside the construction of the new Henderson Youth Facility. The result of which will be the displacement of the Centre users for approximately six months.

The displaced users of the Centre will need to find alternative temporary locations and Council will try to absorb them within existing facilities. Even so the increased demand caused will not be able to be fully met by existing Community Centres and Massey Recreation Centre. To help alleviate the pressure it is recommended that the former Te Atatu South Library building be used to temporarily accommodate displaced users during the period of the Centre.

Prior to the Centre closure it is proposed that the former Te Atatu South Library building be used for casual community bookings as per what is currently the case at the Te Atatu South Community Centre. The future of the former Te Atatu South Library building after the reopening of the Recreation Centre is yet to be determined, however a report with options will be presented to the Henderson Community Board to consider and a further report will be presented to this Committee to give direction of future uses.

This matter will be considered by the Henderson Community Board at its meeting on 8 February 2007 and the decisions of the Board will be reported to the Finance and Operational Performance Committee at this meeting.

RECOMMENDATIONS

1. That the Former Te Atatu South Library Building Use report be received.
2. That the decisions of the Henderson Community Board at its meeting of 8 February 2007 on the use of the Former Te Atatu South Library building be reported to the Finance and Operational Performance Committee at this meeting.
3. That the Finance and Operational Performance Committee approve the use of the former Te Atatu South Library building for casual hire to community groups until such time as the Henderson Recreation Centre be closed for renewal works.
4. That the Finance and Operational Performance Committee approve the use of the former Te Atatu South Library building for displaced users of the Henderson Recreation Centre during the period the Henderson Recreation Centre is closed for renewal works.

5. That a report be brought back to the Finance and Operational Performance Committee on future uses of the former Te Atatu South Library building post the Henderson Recreation Centre renewal project.

Report prepared by: Louis Rattray, Leisure Services Manager.



14 LEISURE FACILITY PARTNERSHIP FUND STAGE TWO APPLICATIONS

PURPOSE OF THE REPORT

The purpose of this report is to seek the Finance and Operational Performance Committee's approval of the recommendations made by the Leisure Facility Partnership Fund Management Team (The Management Team) as to which applications should progress to stage three of the Leisure Facility Partnership Fund (LFPF).

BACKGROUND

The purpose of the LFPF is to enable Council to strategically direct capital development assistance to community leisure and sporting projects. Traditionally Council responded to such capital development requests on an ad hoc basis, which raised the potential risk that worthy projects may have gone unsupported for the simple reason that they were presented before Council at an inopportune time.

The fund has been set up to compare potential projects at the same time, and to work with organisations through the design and consultation process in support of best community outcomes.

In any given year a total funding pool of \$500,000 is available under The Leisure Facilities Partnership Policy. The total funding pool will be shared amongst successful applicants. This funding is contested with final allocation resting solely at Council's discretion. Council may choose not to fund any of the proposed projects in a given year or alternatively may forward fund in another year.

Proposals to the LFPF will be analysed in three distinct stages, each with their own evaluation criteria by The Management Team. The policy has been set out this way so as to minimise the level of work community organisations are required to undertake when making an initial proposal.

Five applications were accepted to move forward to stage two of the LFPF and asked to provide more in-depth information about their project which was to be assessed against the stage two criteria. These applicants were given details of what was required and were assigned a Council officer to assist them in putting together an application for stage two.

STRATEGIC CONTEXT

Through the adoption of Strong Communities, Council outlines its commitment to undertaking initiatives that will contribute to making Waitakere City a safe, healthy place to live and to improving local leisure and recreation opportunities and choices. Through adoption of First Call for Children, Council has also stated its commitment to proactively supporting children, young people and their families in Waitakere City. Direct financial assistance to organisations and facilities providing active/passive leisure which allow people to be more active and involved within the community, assists Council's commitment to these policies.

ISSUES

Applications for stage two closed on 8 December 2006. Two applications were received from Green Bay High School (the School), and Suburbs New Lynn Cricket Club and Lynn Avon United Associated Football Club (the Clubs).

The three applicants that did not apply for the next stage informed Council officers that they needed more time to gather the information required for stage two and that they would be looking to continue with their project during the next funding round later in 2007.

As with stage one The Management Team (made up of the Manager from Leisure Services, Parks Planning and Arts/Public Affairs) assessed the applications against the stage two criteria as set out in the LPPF policy document. The criteria are as follows:

Stage Two Criteria:

1. What extent will the facility support increased community participation in particular leisure or sporting activities?
2. Has the proposed facility got community support and involvement?
3. What is the likely community use of the proposed facility and how does that compare to the size of the capital grant being sought?
4. Is there a need for the facility of this nature in that particular area?
5. The potential of the project to resolve existing community facility or capacity building problems.
6. Is the project financially viable, which organisations have signalled they will fund this project and how much are they going to contribute?
7. The degree to which partner organisations have shown the ability and willingness to develop and share in a joint vision in a facility (e.g. has the potential partner shown a willingness to enter into a partnership with Council).
8. The extent to which the organisation has demonstrated the ability to develop and then operate the proposed facility.

Summary of Applications

Green Bay High School - Upgrade and Expansion of School Auditorium

The School is proposing to expand the current auditorium to seat up to 400 people as well as installing a staged area and retractable seating to create a multi use space which would allow other school and community groups to use the facility. The proposed upgrade will include provision for back stage facilities (which are currently inadequate for most potential user groups) which will double as extra classroom space and upgrade the changing rooms. The auditorium is located on the road frontage with excellent parking (see appendix one) and is easily accessible to the wider community outside school hours.

The School has a current roll of 850 students which is only 20% of the potential high school student population in the Green Bay Area. At present a large percentage of those students travel outside Waitakere to the likes of Avondale College where they have had better quality teaching spaces and facilities. The School believes that to reverse this trend they need to upgrade their facilities and have already started with their Arts and Technical block. These improvements have already seen the roll increase by 10% for 2007. The upgrade of the auditorium should see that trend continue and ensure Waitakere youth are staying in Waitakere and not leaving for other schools outside the city because they have superior facilities.

The School's application included a detailed list of possible users along with a large number of letters of support from many of these groups. Although this does not always transfer to actual users it does highlight a need in the community as some of these groups provided details regarding their needs in a facility. When comparing the needs to existing facilities in the area, it is apparent that there is a lack of suitable performance spaces in the Green Bay area as many existing auditoriums have limited backstage facilities and therefore are unsuitable for a large number of users.

The project is estimated to cost between \$1.2 and \$1.5 million which is based on the cost associated with similar projects completed recently. Please note that detailed designs and quality survey estimates will not be required until stage three.

The School outlined how they intend to fund the project. Council officers and The Management Team regard this as realistic and achievable particularly given the significant investment by the school themselves.

Green Bay High School	\$ 500,000
WCC LFPF	\$ 250,000
Portage Licensing Trust	\$ 300,000
ASB Community Trust	<u>\$ 400,000</u>

Total **\$1,450,000**

The School is proposing that the facility would be available for community use for the majority of time outside of school hours and during weekends. A partnership agreement would be drawn up during stage three which would outline the details of community use, pricing schedule, etc.

The Management Team recommends that the School's application be accepted to stage three of the LFPF and that \$250,000 of the total \$500,000 in the LFPF be allocated to this project.

Lynn Avon United Association Football Club and Suburbs New Lynn Cricket Club – Clubroom Upgrade and Indoor Training Facility

The project outlined by the Clubs in the application for stage two has changed considerably from that proposed in stage one. After being accepted into stage two, Council officers met with the clubs to discuss the concerns surrounding the cost of their initial proposal and the ability for them to raise the \$4 million required. Council officers felt that it was unrealistic and that the scope of the project needed to be addressed if the project was to become viable. The Clubs took this advice on board and have revaluated their proposal and submitted to Council an amended proposal to amalgamate the clubs and to share an upgraded cricket clubroom. The existing football club will be pulled down to allow extra car parking and an indoor training facility is being proposed for the south eastern end of the car park (see appendix two). This would cater for the needs of both clubs as well as other sporting clubs (such as hockey and indoor soccer) and local schools in the area. This new proposal is estimated to cost approximately \$1.2 million, which is much lower than the original proposal of \$4 million estimated for purpose built clubrooms and an indoor training facility.

The Clubs intend to split the use of the cricket clubrooms for six months of the year. The football club will operate and manage the clubrooms over winter and the cricket club for the six months over summer. The cricket club is in far better condition than the football club and only requires an upgrade of the changing rooms and extension of the lounge area to comfortably provide for the needs of both clubs now and in the future. The Clubs estimate it will cost approximately \$200,000 to do the required upgrade of the clubrooms.

The Clubs plan to demolish the existing football clubrooms and create more space for car parking and possibly more green space. They proposed building a 20m x 50m indoor training facility which would have the capacity for four indoor cricket lanes which can be opened up into a large training surface for soccer and other sports. The building will also have changing and toilet facilities accessible to both inside and outside users.

There is a real need for indoor training facilities in the region with current facilities at capacity. Both Clubs find it difficult to find viable training facilities when the weather is unpleasant and they are unable to train on Ken Maunder Park. The cricket players currently travel to Eden Park for indoor net training and with limited times available find it difficult to provide quality training for players. The training for soccer teams are regularly disrupted due to field closures and wet weather. A nearby commercial indoor sports organisation has expressed an interest in using this facility as they currently do not have enough space to cater for the increasing demand. Hockey who currently train in another building on Ken Maunder Park are very interested in using the proposed facility as their current space is inadequate and they have difficulty finding other suitable training venues.

A number of schools have expressed an interest as well in using this facility if was to go ahead.

The Clubs are proposing setting up a trust who will own all the building assets on Ken Maunder Park. The trust will lease the clubrooms to the clubs for their seasonal use at a nominal value and will operate the indoor training facility. The trust would charge a discounted rate to community groups and the two clubs to use the facility in order to recover the operating, maintenance, and depreciation costs of the facility.

The Clubs estimate the facility could be used 50 hours a week with the clubs themselves using the facility an estimated 25 to 30 hours per week. A detailed analysis would need to be conducted as part of stage three to ensure the facility is sustainable in the future.

Outlined below is how the clubs intend to fund this project:

LFPF	\$ 250,000
Portage Trust	\$ 250,000
ASB Community Trust	\$ 250,000
Other Community Trusts	\$ 250,000
SNLCC & Lynn Avon Contribution	<u>\$ 200,000</u>
Total estimated Cost of Project	\$1,200,000

In their proposal the Clubs have identified that their funding / contribution towards the project (as identified above) includes tradesmen from within the club who are prepared to volunteer their services to the project. Council officers and The Management Team have identified this as a risk and part of the conditions for continued development in the next stage will be to work with the Clubs in exploring the practical implications and feasibility of this plan.

As part of this proposed project there is an opportunity to relocate the public toilets located in the entrance to Ken Maunder Park into the indoor training facility. This would allow the entrance way to be widened providing greater visibility for incoming and outgoing traffic. Parks Assets have identified this and funding is already included in the Long Term Council Community Plan (LTCCP) to relocate these toilets. If this project proceeds this may be an ideal opportunity to include the relocation as part of the new building.

The Management Team recommends that the Clubs' proposal be accepted to stage three of the LFPF and that \$250,000 of the total \$500,000 in the LFPF be allocated to this project.

If the Finance and Operational Performance Committee gives approval for these two applicants to progress to stage three, whereby concept design work can commence, it is further recommended that some of the funding be released to support the applicants produce the concept designs to include in their applications to other funding organisations. Without these drawings the applicants will not be able to sell their concepts to these funding agencies. It is difficult to predetermine how much each applicant will need advanced as each applicant will be different for example Green Bay High School does have the funds to undertake the design work where as the sports clubs does not. It is therefore recommended that The Management Team have the discretion to allocate some of the forward funding to the applicants for the pre-build work but shall be capped at \$50,000.

Before any funding is released funding agreements will be entered into which give Council the confidence that public monies will be spent in accordance with best practice and that all risks are minimised for the rate payer.

RESOURCES

Council has set aside \$500,000 in the 2006/2007 budget for the Leisure Facility Partnership Fund. Other resources include staff time to review and assess the applications and assist and direct the organisations with the gathering of information.

CONCLUSION

Stage two of the LPPF closed on 8 December 2006 with two of the five stage one applicants applying. Green Bay High School and Suburbs New Lynn Cricket Club and Lynn Avon United Associated Football Club submitted applications and were assessed against the stage two criteria by The Management Team which consists of Managers from Leisure Services, Parks Planning and the Arts/Public Affairs.

The Management Team found that both applications met the criteria and have recommended that both applicants be accepted into stage three of this fund where they will be required to do more detailed design and cost analysis of their project.

The Management Team also felt that it was important for the Council to show support for projects if accepted into stage three and that funding should be allocated at this stage, however the funds would not be released until approved by The Management Team.

RECOMMENDATIONS

1. That the Leisure Facility Partnership Fund Stage Two Applications report be received.
2. That the Finance and Operational Performance Committee accept the application by the Green Bay High School for stage two for the Leisure Facility Partnership Fund and allow the School to move on to stage three.
3. That the Finance and Operational Performance Committee accept the application by the Suburbs New Lynn Cricket Club and Lynn Avon United Association Football Club for stage two for the Leisure Facility Partnership Fund and allow the Clubs to move on to stage three.
4. That the Finance and Operational Performance Committee endorse the recommendation by The Management Team that \$250,000 be allocated from the Leisure Facility Partnership Fund for the Green Bay High School's proposal to expand and upgrade the school auditorium and that The Management Team is given the authority to manage and distribute these funds during the projects development as required.

5. That the Finance and Operational Performance Committee endorse the recommendation by The Management Team that \$250,000 be allocated from the Leisure Facility Partnership Fund for the Suburbs New Lynn Cricket Club and Lynn Avon United Association Football Club for their proposal to upgrade the cricket clubrooms and construct an indoor training facility and that The Management Team is given the authority to manage and distribute these funds during the projects development as required.
6. The successful applicants, Green Bay High School and Suburbs New Lynn Cricket Club and Lynn Avon United Association Football Club, must meet the stage three criteria and all other conditions as set out by The Management Team by 30 June 2008 or else the Finance and Operational Performance Committee can withdraw all remaining funding and require the applicant to reapply.
7. That the Director: Finance be authorised delegated authority to release part funding to the applicants to allow the applicants to produce design work for the successful completion of Stage three.

Report prepared by: Rob McGee - Leisure Services, Projects and Contracts Officer.



PART E - REPORTS FROM THE SUBCOMMITTEES

15 EMERGENCY SERVICES SPECIAL COMMITTEE

**THE SPECIAL COMMITTEE SUBMITS THE FOLLOWING REPORT OF ITS MEETING
HELD ON TUESDAY, 5 DECEMBER 2006**

MATTERS CONSIDERED

A146-A147

The Special Committee dealt with a number of items for which it has delegated powers to act and a copy of the minutes of the meeting is attached at pages A146 to A147.

The Special Committee Recommends:

That the Meeting report of the Emergency Services Special Committee held on Tuesday, 5 December 2006 be received.

DQ Battersby, JP
CHAIRMAN



16 **TENDERS SUBCOMMITTEE**

THE SUBCOMMITTEE SUBMITS THE FOLLOWING REPORT OF ITS MEETING HELD ON FRIDAY, 1 DECEMBER 2006, FRIDAY, 15 DECEMBER 2006 AND FRIDAY, 26 JANUARY 2007.

MATTERS CONSIDERED

A148-A168

The Subcommittee dealt with a number of items for which it has delegated powers to act and a copy of the minutes of the meeting is attached at pages A148 to A168 and the public excluded minutes are included in the Confidential Supplement.

The Subcommittee Recommends:

That the Meeting report of the Tenders Subcommittee held on Friday, 1 December 2006, Friday, 15 December 2006 and Friday, 26 January 2007 be received.

JM Clews, QSO, JP
CHAIRMAN



PART F - PUBLIC EXCLUDED MATTERS

17 PROPOSED LEASE ACQUISITION: NEW LYNN KINDERGARTEN, TOTARA AVENUE, NEW LYNN

18 PROPOSED LAND ACQUISITION CAMBRIDGE CLOTHING LIMITED, GREAT NORTH ROAD, NEW LYNN

19 CORBAN ESTATE: RESTAURANT SITE OPTIONS

These items will be considered in the Confidential Supplement of the agenda, and have been circulated to members separately with this agenda.

PROCEDURAL MOTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of the proceedings of this meeting, namely Proposed Lease Acquisition: New Lynn Kindergarten, Totara Avenue, New Lynn, Proposed Land Acquisition: Cambridge Clothing Limited, Great North Road, New Lynn and Corban Estate: Restaurant Site Options.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation of the matters, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of the matters to be considered.	Reason for passing this resolution in relation to the matters	Ground(s) under Section 48(1)(a) for the passing of this resolution.
<ul style="list-style-type: none"> Proposed Lease Acquisition: New Lynn Kindergarten, Totara Avenue, New Lynn. 	<p>The withholding of information is necessary in order to:</p> <ul style="list-style-type: none"> Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). 	<p>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
<ul style="list-style-type: none"> Proposed Land Acquisition: Cambridge Clothing Limited, Great North Road, New Lynn. 	<ul style="list-style-type: none"> Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). 	<p>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
<ul style="list-style-type: none"> Corban Estate: Restaurant Site Options. 	<ul style="list-style-type: none"> Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). 	<p>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 7(2)(i) of that Act which would be prejudiced by the holding of the relevant part of the proceedings of the meeting in public as follows:

- *The report contains information which if released could affect Council's negotiations.*

