

CREATING A SUPER CITY: INTEGRATION ISSUES PART 1: RATING AND DEVELOPMENT CONTRIBUTIONS

integrate /in-ti-greyt/ verb (-ting) to make up, combine, or complete to produce a whole or a larger unit

The government has announced that it will establish the Auckland Governance Transition Agency (AGTA) which will be responsible for rationalisation and transition to the new governance arrangements. These are the same responsibilities as the Royal Commission had identified for the Establishment Board.

This is the first in a series of legal updates covering issues with which AGTA will need to grapple in advance of October 2010 and focuses on rating and development contribution issues arising from the proposed amalgamation of the existing councils and the creation of the Auckland Council.

It has been suggested that the board of AGTA will be comprised of a number of high profile business leaders, skilled in organisational change. It is also expected that these individuals will be highly skilled in financial matters and we anticipate that income and particularly issues of rating and development contributions will be one of their starting points.

The Royal Commission suggested that the financial work stream would involve:

- Establishing financial policies required to be developed under the Local Government Act 2002, as set out in Chapter 20, "Funding and Financial Management Arrangements"
- Preparing the Auckland Council's draft budget and funding plan for its first year of operation
- Making arrangements for the roll-over of existing rating systems for the Auckland Council, and preparing options for the design of a new rating system
- Refining the estimated efficiency gains and integration costs identified in the report by Taylor Duignan Barry.

Rates

Because rates are set in July each year, AGTA and Auckland Council will have some breathing space between 1 October 2010 (when the Auckland Council is created) and the following year's rating cycle. AGTA is not expected to set rates, but to design a new rating system and take any necessary steps to allow the Auckland Council to strike an interim rate from July 2011.

The process of striking the interim rate and designing a new unified rate will involve the amalgamation of 8 different rating systems under the Local Government (Rating) Act 2002. AGTA will face a number of difficulties as it tries to move from a range of rating approaches to a consistent approach across the Auckland region. Aspects which will create transition headaches include:

- A simple amalgamation of both income (rating base) and expenditure (capital and operational) could lead to significant rating changes for individual ratepayers across the region
- Some councils rate for water and wastewater services, while others deliver these through CCOs and accordingly, the amalgamation of water services into Watercare will reduce the rates for some properties, but not others (although these costs would then be incurred through service charges)
- Each council has a different mix of residential and commercial ratepayers (and impose different multipliers on their commercial rate payers)
- Each council has a different mix of uniform annual general charges (UAGs), general rates and targeted rates

- Councils differ in their assessment of property value (capital value vs land value)
- Each council has a different approach to funding growth related capital expenditure. Funding comes from a range of sources such as financial contributions, development contributions and rates.

The amalgamation of councils with different rating approaches will have consequences for ratepayers. Even now, when a council seeks to change the basis for levying its rates, there is tension between the potential winners and potential losers. Unless the Auckland Council is given special transition powers, these issues will arise and have to be addressed as part of any interim rate struck in 2011.

In preparing the new rating system for the Auckland Council, or striking the interim 2011 rate, a transitional arrangement to smooth the transition between the old and new systems (i.e. minimise any increase or decrease in rates for particular properties) could be proposed. However this would involve using the mechanisms of the Local Government (Rating) Act 2002 in a way that they were not designed for and is unlikely to be entirely successful, particularly in the context of UAGs. However, if these issues are seen as a significant concern, the government could choose to provide specific transitional powers to the Auckland Council to smooth the transition to a new rating system.

Water services

These transition issues are similar to the ones which Watercare will face when receiving the region's water assets. The Local Government Minister has noted that changes to the systems for pricing water services will create winners and losers, and that "*this may create some challenges to the public acceptability of the reforms*".

Watercare's issues will be complicated because the organisation itself does not have a significant retail arm. Currently, services (apart from trade waste) are delivered to the existing councils and CCOs who in turn provide the retail operation. While contracts between CCOs and customers could be assigned to Watercare, many councils use rates as the funding mechanism for water services. AGTA and Watercare will need to consider what kind of retail relationship Watercare will have with its customers and how that relationship will be achieved, particularly if volumetric charging is to be introduced from 1 October 2010.

Watercare's finances will also be complicated by the vexed issue of growth related capital expenditure (GRCE). Councils seek to fund many of these costs through financial and development contributions and some of the CCOs achieve similar outcomes through contractual provisions. However recovering Watercare's GRCE through these mechanisms has never been fully tested. If changes are not made to the Local Government Act 2002 to allow Watercare's GRCE to be recovered through development contributions, Watercare will need to consider how it funds these costs and how it will deal with transitional issues for those who have paid financial or development contributions, but have not yet connected to the relevant service.

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