



ORDINARY MEETING
of the
PERFORMANCE, AUDIT & RISK
PORTFOLIO COMMITTEE

MEMBERS

Mr Philip Jones (Independent Chair)

Her Worship Monique Croon

Cr Greg Horler

Cr Oscar Nilsson

AGENDA | 2021

Members of the Chatham Islands Council Performance, Audit & Risk Committee.

Notice is hereby given that a meeting of the Chatham Islands Council Performance, Audit & Risk Committee is to be held in Council Chambers, Tuku Road, Waitangi on **Monday 13 September 2021 commencing at 10.00am (9.15am NZ Time).**

Owen Pickles
Chief Executive Officer



PERFORMANCE, AUDIT & RISK COMMITTEE

AGENDA

Meeting Held Monday 13 September 2021 at 10.00am

- | | | |
|----|--|---------|
| 1. | Minutes of the PARC Meeting 12 August 2021 | P 1-4 |
| 2. | Financial Report to 30 June 2021 | P 5-20 |
| 3. | Statute Barred Report | P 21-22 |
| 4. | Report on the CIC 12 Month Accountability Report to 30 June 2021 to the Department of Internal Affairs | P 23-28 |
| 5. | Revaluation Document | P 29-63 |
| 6. | Judgements | P 64 |

Public Excluded Agenda

P 65-69

Performance, Audit and Risk

1. Minutes of Meeting 28 July 2021

Date of meeting	13 September 2021
Agenda item number	1.0
Author/s	Jo Guise, Executive Assistant

Purpose

To approve the minutes from the Performance, Audit & Risk meeting held on 28 July 2021

Recommendations

THAT the minutes of the Performance, Audit & Risk meeting held on 28 July 2021 be a true and accurate record.

CHATHAM ISLANDS COUNCIL

Minutes of the Chatham Islands Council Performance, Audit & Risk Committee, held in the Council Chambers, Tuku Road, Waitangi, on Wednesday 28 July 2021, commencing at 10.00am

- Present:** Independent Chair, Mr Philip Jones
Her Worship the Mayor, M Croon
Cr O Nilsson
- Apologies:** Deputy Mayor, G Horler
- Management & Officers:** Operations Manager, Colette Peni
Executive Assistant, Jo Guise (Minutes)

For future reference, Mr Philip Jones advised that when he is teleconferencing in to the meeting he would nominate another member to be the Chair.

1. Minutes of Meeting 8 July 2021

RESOLVED:

THAT the Minutes of the Performance, Audit & Risk meeting held on 8 July 2021 be a true and accurate record.

P JONES / M CROON / CARRIED

2. Financial Report to 30 June 2021

It was noted that the audit of the Annual Report had been pushed out for two months because of a lack of available auditors. Mayor Croon informed the meeting that the cost of the Annual Report audit would increase to \$90k, which was excessive. Mayor Croon asked if Council had to accept the quoted price.

Mr Jones suggested that as the Independent Chair he could speak with the Assistant Auditor General for Local Government about the proposed fee for the audit.

Questions were raised regarding the aged debtors. The Operations Manager explained the building consent debt was accumulated prior to the new process of applicants paying upfront for the building consent.

Ms Peni explained \$38k of the \$301k under Recoveries was for the MSD contract, \$158k was for Ministry of Health for Milestone 1 of wastewater. \$98k was sitting at over 90 days which included MBIE – Ms Peni would follow that up.

RESOLVED:

THAT the Performance, Audit and Risk Committee receives the financial report to 30 June 2021.

O NILSSON / M CROON / CARRIED

ACTIONS:

1. *Request a report on income from rates if water income and expenditure was removed.*

2. *Request a separate table in the financial report on grant money and where it is being spent.*
3. *Mayor to forward information re audit fees to P Jones.*
4. *Mr Jones to discuss with the Assistant Auditor General for Local Government if there was a modified approach to audit fees for CIC.*
5. *Breakdown of \$98k sitting at over 90 days in Recoveries and \$6,736 sitting in Sundry Debtors.*

The meeting moved in to Public Excluded at 10.40am.

Mayor Monique Croon declared her interest and left the meeting during discussion.

Performance, Audit & Risk Committee

Actions List

Meeting Date	Meeting Item #	Task	Owner	Status	Date Updated	Comments
28 July 2021	2	Request a report on income from rates if water income and expenditure was removed.	OM	Active	1 September 2021	Included in Financial Report
28 July 2021	2	Request a separate table in the financial report on grant money and where it is being spent,	OM	Active	1 September 2021	Included in Financial Report
28 July 2021	2	Mayor to forward information re audit fees to P Jones.	MC	Active		
28 July 2021	2	Mr Jones to discuss with the Assistant Auditor General for Local Government if there was a modified approach to audit fees for CIC.	PJ	Active		
28 July 2021	2	Breakdown of \$98k sitting at over 90 days in Recoveries and \$6,736 sitting in Sundry Debtors.	OM	Active	1 September 2021	Included in Financial Report
28 July 2021	3	Prepare a payment plan and identify any risk of statute barred.	OM	Active	1 September 2021	Included in PARC agenda 13 September 2021
28 July 2021	3	Proceed in getting a judgment which stops the statue barred.	OM	Active	1 September 2021	Contacted VWV – Judgement has been sought against 3 outstanding rates

Performance, Audit & Risk Committee

2.0 Financial Report

Date of meeting	13 September 2021
Agenda item number	2.0.
Author/s	Tanya Clifford, ECan

Purpose

To present to the Performance, Audit & Risk Committee the financial report to 30 June 2021.

Recommendations

That the Chatham Islands Council receives the report.

Summary of revenue transactions, compared to budget

Revenue items	June Budget YTD	June Actual YTD	Variance	Explanation
Grants	3,922,752	4,340,049	417,297	1
Roading Subsidy	3,489,648	3,853,404	363,756	2
Miscellaneous Income	227,952	2,512,249	2,284,297	3
Rates Income	576,564	625,402	48,838	4
Council Dues	264,996	306,742	41,746	
Resource Mgmt - Sundry Income	-	36,826	36,826	
Regional Alliance & Predator Free 2050	-	25,500	25,500	
Rent Inc - Housing	27,396	23,698	(3,698)	
Rent Inc - Land & Buildings	22,332	19,980	(2,352)	
Building Consent Fees	45,276	18,054	(27,222)	
Dog Registration Fees	15,504	16,804	1,300	
Port Charges Income	4,344	12,245	7,901	
Other revenue items	89,064	24,180	(64,884)	
	8,685,828	11,815,134	3,129,306	

Negative variance items are where actual revenue is less than budget. Positive items are where actual revenue is more than budget.

Council drawn down of an unbudgeted grants including funding from the Ministry of Health for water and wastewater projects
1 (previously earmarked for the sludge lagoon project). Grants are summarised separately.

Roading subsidy based on 88% of actual expenditure (operational and capital). A significant increase in work performed in the May/June
2 period, with \$480k in expenditure carried over from the previous financial year.

Council recognised financial support of \$2 million for the museum component of the new council offices. A grant of \$1 million grant
3 previously received from the Ministry of Culture and Heritage was recognised - previously held as "revenue in advance", and an
3 additional \$1 million was received from Lottery Environment & Heritage NZ.

Council also received an additional \$50 thousand related to an increase in funding for the Heartlands services, arising from the Wellbeing
budget 2020.

The remaining variance relates to a windfall of unbudgeted support payments including: Norman Kirk building & toilet programme
(\$190k), youth and regional alliance co-ordinators (\$150k), jobs for nature focused on Pitt Island (\$100k) Predator Free 2050 (\$50k).
Where the support payment has not been fully spent in year, the excess has been transferred to the next financial year.

4 Rates are based on the Council approved rates strike, variance due to recognition of penalties.

No other significant differences.

Summary of expenditure transactions, compared to budget

Expenditure items	June Budget YTD	June Actual YTD	Variance	Explanation
Depreciation Expenses	2,292,192	2,549,232	(257,040)	1
Miscellaneous Exp	243,492	1,925,977	(1,682,485)	2
Contract Payments	1,784,652	1,722,545	(67,904)	3
ECan Support Expenditure	1,355,304	1,335,759	19,545	3
Honorarium & Salaries	1,093,548	1,140,453	(46,905)	
Consultant Fees	225,156	713,805	(488,649)	3
Grants & Donations Distributed	58,368	194,855	(136,487)	4
Travelling Expenses	103,032	177,544	(74,512)	5
Computer Expenses	84,204	148,706	(64,502)	
Materials & Services	111,864	87,636	24,228	
Power, Heating, Lighting	71,976	75,058	(3,082)	
Insurance Premiums	50,328	68,654	(18,326)	
Long-Term Plan Expenditure	0	65,445	(65,445)	
Rates Exp	81,984	62,029	19,955	
Audit Fees	155,160	52,415	102,745	
Vehicle Expenditure	58,044	51,370	6,674	
Regional Alliance & Predator Free 2050	0	49,035	(49,035)	
Legal Expenditure	23,832	48,943	(25,111)	
Printing & Stationery & Postage	29,604	23,997	5,607	
Valuation & Land Expenditure	13,548	16,410	(2,862)	
<i>Other expenditure items</i>	<i>321,072</i>	<i>111,501</i>	<i>209,571</i>	
	8,157,360	10,621,366	- 2,594,017	
Capital Projects Additions	2,544,072	3,076,545	(532,473)	6
	10,701,432	13,697,910	- 3,126,490	

Positive items are where actual expenditure is less than budget. Negative variance items are where actual expenditure is more than budget.

Actual depreciation expense run up until February, annual apportionment estimate only, will run final depreciation as part of the Annual Report preparation process, delayed slightly due to COVID-19 restrictions.

Expenditure allocated to the construction of the CI Community Complex \$1.6 million. At this point in time, Council has received a greater portion in grants compared to what has been paid out in construction fees, depending on the grant conditions, this may require Council to repay funds to the granting organisation. An analysis of grants has been separately prepared.

Contract & consultancy payment items primarily relate to the ECan Regional Council contract and the Stantec/Fulton Hogan Roading and water, wastewater contracts. Additional water & wastewater expenditure for critical repairs has occurred in year, funded by way of reallocated funding previously made available for the sludge lagoon project - now deferred and the three waters 'tranche' funding. ECan's contract for service is operating within agreed deliverables.

The expenditure of \$100k to rejuvenate the Town Hall and Norman Kirk reserve buildings has been recognised here.

Of the traveling expenses, \$85 thousand has been used to purchase prepaid flights, primarily related to the Kiwi Can Do programme (funded by the Mayors Taskforce for jobs). This allows funding for travel from the Chatham Islands with the purpose of enabling drivers to gain access to Waka Kotahi driver licence testing.

Capital works relates to roading fees in year; \$480k in Waka Kotahi approved funding has been carried over to the current financial year, with increased work performed in the May/June period. Some transactions not fully processed for the June period and therefore expenditure has been estimated.

No other areas of significant variance. Expenditure has exceed budgeted estimates for the year by over \$2.5 million. However, the majority of this increased expenditure has been supported by way of grant or other external funding support. Council should aim for revenue to exceed expenditure (including capital, but excluding depreciation) in order to attain a financially sustainable position, ideally also achieving a positive cash movement. As demonstrated in the grey box below, Council has achieved a positive movement, which is an encouraging sign.

<i>Cash' surplus</i>	<i>276,588</i>	<i>666,456</i>	<i>389,868</i>
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Surplus for the period	528,468	1,193,769	665,301	a	-
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Note, whilst a \$1.1 million surplus figure is a positive achievement for the Council. A significant portion of this relates to one-off grants received. Therefore, a more prudent approach to expenditure may be required in the 2021/22 financial year.

Review of reporting ratios:

To be agreed

Ratio or measure of sustainability	Achieved?	Target	Actual	Comment
<i>Cash management:</i>				
Bank overdraft	Yes	> -\$300k	(278,120)	1
Working capital ratio (ability to pay our bills)	No	> 1	0.98	1
<i>Operating cash performance:</i>				
Net cash movement for period (2019/20)	Yes	> \$0	132,711	1
Operating performance (cash flow) ratio	No	> 5%	1.1%	1
Adjusted balanced budget (cash) ratio	Yes	> 100%	106%	1
<i>Asset replacement:</i>				
Asset sustainability ratio	Yes	> 90%	121%	1

Reporting ratios, including targets to be agreed. Indicative suggestions only.

With historic limitations in funding from the annual contribution and Council's decision to self fund the roading shortfall, over time these have had a detrimental impact on Council's cash position. Some grant funding has been received in year to support particular projects; improving the potential level of service Council can offer the community. Whilst this increased expenditure in 2020/21 is beneficial, such expenditure is unsustainable without further ongoing support. Therefore, whilst the cash position and ratios have improved in this 1 financial year, Council will need to continue to manage it's cash prudently to fund standard operating areas going forward.

Aged debtor trial balance (as at 30 June 2021):

Category	90+ days	60+ days	30 days	Current	Total
Administrative Services	40	-	-	41	80
Building Consents	16,319	-	-	7,087	23,406
Cemeteries Debtors	5,719	-	-	-	5,719
Council Dues	9,870	4,270	2,630	29,654	46,424
Housing	1,197	-	-	-	1,197
Moorings	9,432	-	-	-	9,432
Recoveries	98,818	5,032	-	375	340,019
Resource Consents	1,386	489	2,462	5,361	9,699
Sundry Debtor	6,736	-	-	-	4,755
Debtors Control	-	-	-	753,450	753,450
Total	149,517	9,791	4,718	1,130,857	1,294,882

No significant areas of concern.

Financial information requested from previous PARC:

1 Report summarising income from rates if water income and expenditure was removed:

	Budget 2021/22 \$000	Actual 2020/21 \$000	Actual 2019/20 \$000
General Rates	318	311	305
Targeted Rates:			
Roading	78	58	56
Solid waste	95	71	70
Water	73	74	69
Sewerage	68	80	66
Total Targeted Rates	314	283	261
Total Targeted Rates - excl water and wastewater	173	129	126
Rates Penalties	0	32	26
Total Rates Revenue	632	626	592
Total Rates Revenue - excl water and wastewater	491	472	457
Total water and wastewater targeted rates	141	154	135

2 Report summarising grant funds received and where it is allocated.

Transaction type	3 waters (DIA)	Sludge lagoon (MoH)	Predator Free 2050	Regional Alliance (DoC)	Jobs for Nature (DoC)	Kiwi can do (MTF)	Youth coordinator (MTF)	Toilets (MBIE)	Norman Kirk (MBIE - PGF)	Lottery Environment & Heritage NZ	Ministry of Culture and Heritage
Full value of grant	320,000	233,226	51,551	100,000	100,000	85,000	50,000	80,000	107,000	1,000,000	1,076,000
Consultant/contractor Fees	242,006	156,231		49,035							
Staff wages			25,500				25,336				
Construction									105,588	1,000,000	782,311
Travelling expenses						76,916					
Building - deposit								28,855			
Administration charge					49,035						
Balance transferred to 2021/22	77,994	76,995	26,051	50,965	50,965	-	24,664	51,145	-	-	293,688

Category	Account	Interest	Future 90 + Days	60	30	Current	Balance
		\$.00	\$.00	\$.00	\$5008250.00	\$.00	\$.00
		\$.00	\$.95	\$.00	\$635858.00	\$.00	\$.95
		\$.00	\$1735.00	\$.00	\$1735.00	\$.00	\$.00
		\$.00	\$.00	\$.00	\$94299.00	\$.00	\$67359.00
	Sundry Debtor	\$.00	\$1735.95	\$.00	\$5740142.00	\$.00	\$67359.95
	00910.9005.0910	Debtors Control	Year	Year	2022		-\$686090.00
		Balance to be Brought Forward	2021		2021		\$753449.95
							\$67359.95

Category Account	Interest	Future 90 + Days	90	60	30	Current	Balance
2 Council Dues 2022-01	\$.00	\$.00	\$.00	\$.00	\$.00	\$6782.24	\$6782.24
	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00
	\$.00	-\$60.28	\$124.51	\$.00	\$.00	\$.00	\$64.23
	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00
Council Dues	\$.00	-\$60.28	\$124.51	\$.00	\$.00	\$6782.24	\$6846.47
00910.9200.0910	Debtors Control		Year	2022			-\$39577.13
	Balance to be Brought Forward		Year	2021			\$46423.60
							\$6846.47
	\$.00	\$.00	-\$60.28	\$124.51	\$.00	\$6782.24	\$6846.47

Category 3 Moorings 2022-01
Account

	Interest	Future 90 + Days	90	60	30	Current	Balance
	\$.00	\$1632.00	\$.00	\$.00	\$.00	\$.00	\$1632.00
	\$.00	-\$157.00	\$.00	\$.00	\$.00	\$.00	-\$157.00
	\$.00	\$303.77	\$.00	\$.00	\$.00	\$.00	\$303.77
	\$.00	\$160.00	\$.00	\$.00	\$.00	\$.00	\$160.00
	\$.00	\$162.00	\$.00	\$.00	\$.00	\$.00	\$162.00
	\$.00	-\$81.00	\$.00	\$.00	\$.00	\$.00	-\$81.00
	\$.00	\$320.00	\$.00	\$.00	\$.00	\$.00	\$320.00
	\$.00	\$476.00	\$.00	\$.00	\$.00	\$.00	\$476.00
	\$.00	\$81.00	\$.00	\$.00	\$.00	\$.00	\$81.00
	\$.00	\$77.00	\$.00	\$.00	\$.00	\$.00	\$77.00
	\$.00	\$162.00	\$.00	\$.00	\$.00	\$.00	\$162.00
	\$.00	-\$946.50	\$.00	\$.00	\$.00	\$.00	-\$946.50
	\$.00	\$81.00	\$.00	\$.00	\$.00	\$.00	\$81.00
	\$.00	\$544.00	\$.00	\$.00	\$.00	\$.00	\$544.00
	\$.00	\$468.00	\$.00	\$.00	\$.00	\$.00	\$468.00
	\$.00	\$1.00	\$.00	\$.00	\$.00	\$.00	\$1.00
Moorings	\$.00	\$3364.27	\$.00	\$.00	\$.00	\$.00	\$3364.27
00910.9201.0910	Debtors Control		Year	Year	Year	Year	Year
	Balance to be Brought Forward		2022	2021	2022	2021	2022
	\$.00	\$3364.27	\$.00	\$.00	\$.00	\$.00	-\$6068.00
	\$.00	\$3364.27	\$.00	\$.00	\$.00	\$.00	\$9432.27
	\$.00	\$3364.27	\$.00	\$.00	\$.00	\$.00	\$3364.27

Category Account	Interest	Future 90 days	60 days	30 days	Current	Current	Balance
4 Food & Health Premises 2022-01	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 77.50	\$ 77.50
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 77.50	\$ 77.50
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 155.00	\$ 155.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 77.50	\$ 77.50
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 77.50	\$ 77.50
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 77.50	\$ 77.50
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 77.50	\$ 77.50
Food & Health Premi	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 697.50	\$ 697.50
00910.9202.0910	Debtors Control				Year 2022		-\$1283.50
	Balance to be Brought Forward				Year 2021		\$1981.00
							\$697.50
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 697.50	\$ 697.50

Category
6 Building Consents 2022-01
Account

	Interest	Future 90+	90	60	30	Current	Balance
	\$.00	\$.00	\$1142.00	\$.00	\$.00	\$.00	\$1142.00
	\$.00	\$.00	\$2368.41	\$.00	\$.00	\$.00	\$2368.41
	\$.00	\$.00	\$2894.70	\$.00	\$.00	\$.00	\$2894.70
	\$.00	\$.00	\$4400.00	\$.00	\$.00	\$.00	\$4400.00
	\$.00	\$.00	\$2827.97	\$.00	\$.00	\$.00	\$2827.97
	\$.00	\$.00	\$.00	\$.00	\$4779.27	\$.00	\$.00
	\$.00	\$.00	\$2686.29	\$.00	\$.00	\$.00	\$2686.29
	\$.00	\$.00	\$.00	\$4092.75	\$.00	\$.00	\$4092.75
	\$.00	\$.00	\$.00	\$.00	\$.00	\$1412.54	\$1412.54
Building Consents	\$.00	\$.00	\$16319.37	\$.00	\$686.52	\$4779.27	\$21824.66
00910.9204.0910	Debtors Control		Year	Year	2022		-\$1581.44
	Balance to be Brought Forward		2021		2021		\$23406.10
							\$21824.66
	\$.00	\$.00	\$16319.37	\$.00	\$686.52	\$4779.27	\$21824.66

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Category	Account	Interest	Future 90+	90	60	30	Current	Balance
7	Resource Consents 2022-01	\$.00	\$.00	\$.00	\$.00	\$.00	\$334.00	\$334.00
		\$.00	\$.00	\$396.75	\$.00	\$.00	\$.00	\$396.75
		\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$4003.43
		\$.00	\$.00	\$320.56	\$.00	\$.00	\$.00	\$320.56
		\$.00	\$.00	\$283.00	\$.00	\$.00	\$.00	\$283.00
		\$.00	\$.00	\$.00	\$.00	\$.00	\$334.00	\$334.00
		\$.00	\$.00	\$706.00	\$.00	\$.00	\$334.00	\$1040.00
		\$.00	\$.00	\$2141.87	\$.00	\$.00	\$.00	\$2141.87
		\$.00	\$.00	\$.00	\$652.00	\$.00	\$.00	\$652.00
	Resource Consents	\$.00	\$1385.75	\$2462.43	\$652.00	\$4003.43	\$1002.00	\$9505.61
	00910.9209.0910	Debtors Control		Year	2022			-\$193.00
		Balance to be Brought Forward		Year	2021			\$9698.61
								\$9505.61
		\$.00	\$.00	\$1385.75	\$2462.43	\$652.00	\$4003.43	\$9505.61

Category
8 Recoveries 2022-01
Account

	Interest	Future 90+	90	60	30	Current	Balance
	\$.00	\$.00	\$ 50.00	-\$ 25.00	\$ 25.00	\$ 25.00	\$ 100.00
	\$.00	\$.00	\$ 200.00	-\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
	\$.00	\$.00	\$ 500.00	-\$ 250.00	\$ 250.00	\$ 250.00	\$ 1000.00
	\$.00	\$.00	-\$.26	\$.00	\$.00	\$.00	-\$.26
	\$.00	\$.00	\$ 120.00	\$.00	\$ 60.00	\$ 60.00	\$ 300.00
	\$.00	\$.00	\$ 1400.00	\$.00	\$.00	\$.00	\$ 1400.00
	\$.00	\$.00	\$ 199.87	\$.00	\$.00	\$.00	\$ 199.87
	\$.00	\$.00	-\$.01	\$.00	\$.00	\$.00	-\$.01
	\$.00	\$.00	\$ 747.50	\$.00	\$.00	\$.00	\$ 747.50
	\$.00	\$.00	\$.00	\$.00	\$ 17492.73	\$.00	\$ 17492.73
	\$.00	\$.00	\$.00	\$.00	-\$ 1843.00	\$ 1843.00	\$.00
	\$.00	\$.00	\$ 897.00	\$.00	\$.00	\$.00	\$ 897.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 1768.94	\$ 1768.94
	\$.00	\$.00	\$ 546.25	\$.00	\$.00	\$.00	\$ 546.25
	\$.00	\$.00	\$.00	\$.00	\$ 268211.05	\$.00	\$ 268211.05
	\$.00	\$.00	\$ 1179.44	\$.00	\$.00	\$.00	\$ 1179.44
	\$.00	\$.00	\$.00	\$.00	\$ 35.00	\$ 100.00	\$ 135.00
	\$.00	\$.00	\$ 151.00	\$.00	\$.00	\$.00	\$ 151.00
	\$.00	\$.00	\$ 16.00	\$.00	\$.00	\$.00	\$ 16.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 373.75	\$ 373.75
	\$.00	\$.00	\$ 38.33	\$.00	\$.00	\$.00	\$ 38.33
	\$.00	\$.00	\$.00	-\$ 1249.76	\$ 1249.76	\$.00	\$.00
	\$.00	\$.00	\$.00	\$.00	\$ 4000.00	\$.00	\$ 4000.00
	\$.00	\$.00	\$ 299.00	\$.00	\$.00	\$.00	\$ 299.00
	\$.00	\$.00	\$ 44.00	\$.00	\$.00	\$.00	\$ 44.00
	\$.00	\$ 69000.00	\$.00	\$.00	\$.00	\$.00	\$ 69065.00
	\$.00	\$.00	\$.00	\$.00	\$ 15.00	\$.00	\$ 15.00
	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 1109.60	\$ 1109.60
	\$.00	\$.00	\$.00	\$.00	\$ 1843.79	\$.00	\$.00
Recoveries	\$.00	\$ 69000.00	\$ 6388.12	-\$ 375.00	-\$ 22578.55	\$ 5630.29	\$ 369489.19
00910.9206.0910	Debtors Control		Year	2022			-\$ 74004.84
	Balance to be Brought Forward		Year	2021			\$ 443494.03
	\$.00	\$ 69000.00	\$ 6388.12	-\$ 375.00	-\$ 22578.55	\$ 5630.29	\$ 369489.19

Category	Account	2022-01	Interest	Future 90+	90	60	30	Current	Balance
	9 Administrative Services	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 5.00	\$ 5.00
		\$.00	\$.00	\$ 39.60	\$.00	\$.00	\$.00	\$.00	\$ 39.60
		\$.00	\$.00	\$.00	\$.00	\$.00	\$.00	\$ 20.00	\$ 20.00
	Administrative Serv	\$.00	\$.00	\$ 39.60	\$.00	\$.00	\$.00	\$ 25.00	\$ 64.60
	00910.9207.0910	Debtors Control							
		Balance to be Brought Forward							
		\$.00	\$.00	\$ 39.60	\$.00	\$.00	\$.00	\$ 25.00	\$ 64.60
		Debtors Control							
		Balance to be Brought Forward							
		\$.00	\$.00	\$ 39.60	\$.00	\$.00	\$.00	\$ 25.00	\$ 64.60

Category	Account	Interest	Future 90+	90	60	30	Current	Balance
	Housing	\$.00	\$.00	\$462.66	\$.00	\$1.68	\$464.34	\$930.36
		\$.00	\$.00	\$600.99	\$.00	\$.00	\$134.00	\$1002.99
		\$.00	\$.00	\$259.00	\$.00	\$.00	-\$338.00	\$259.00
		\$.00	\$.00	-\$44.00	\$.00	\$.00	\$.00	-\$44.00
	Housing	\$.00	\$.00	\$1278.65	\$.00	\$1.68	\$260.34	\$2148.35
	00910.9208.0910	Debtors Control				Year 2022		\$159.36
		Balance to be Brought Forward				Year 2021		\$1196.99
							BALANCE ERROR	\$1356.35
		\$.00	\$.00	\$1278.65	\$.00	\$1.68	\$260.34	\$2148.35

DEBTOR TRIAL BALANCE BY CATEGORY

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Category	Account	Interest	Future 90+	90	60	30	Current	Balance
11 Cemeteries Debtors	2022-01	\$.00	\$.00	\$5400.00	\$.00	\$.00	\$.00	\$5400.00
		\$.00	\$.00	\$319.00	\$.00	\$.00	\$.00	\$319.00
		\$.00	\$.00	\$5719.00	\$.00	\$.00	\$.00	\$5719.00
	00910.9205.0910 Debtors Control				Year	2021		\$5719.00
		\$.00	\$.00	\$5719.00	\$.00	\$.00	\$.00	\$5719.00

Performance, Audit & Risk Committee

3.0 Statute Barred Report

Date of meeting	13 September 2021
Agenda item number	3.
Author/s	Murray Warin/Colette Peni

Purpose

1. To report the number of Rating Units and the arrears subject to Statute Barred status

Recommendations

Recommends that the Performance, Audit & Risk Committee accepts the report for discussion and recommends Actions to be taken:

That the Chatham Islands Council:

1. **approve the Rates Aged Arrears Summary and the Rates Old Arrears Summary**
2. **Recommends Actions to be taken**

Key points

- Statute Barred rates are rates that have been levied six or more years, and where no legal action has been taken for recovery
- Council is not able to legally recover any outstanding rates older than six years

Background

Rates Aged Balances Yearly Outstandings Summary

Select to Update -

UPDATE REPORT

Summary	Levies	Penalties	Total
Outstanding More Than Six (6) Years -	843.18	32.18	875.36
Outstanding Six (6) Years or Less -	110,033.01	30,260.44	140,293.45
Total Overdues -	110,876.19	30,292.62	141,168.81

Rate Year	Levies	Penalties	Total
2015	101.19	0.00	101.19
2016	741.99	32.18	774.17
2017	4,183.91	945.55	5,129.46
2018	6,496.68	1,547.85	8,044.53
2019	8,702.85	2,033.53	10,736.38
2020	194.08	0.00	194.08
2020	30,965.76	3,850.88	34,816.64
2021	2,757.08	168.85	2,925.93
2021	56,732.65	10,522.19	67,254.84
2022	0.00	11,191.59	11,191.59
Total	110,876.19	30,292.62	141,168.81

Rates Aged Balances Assessments With Balances Greater Than 6 Years

Select to Update -

REFRESH REPORT

Summary	Count	Levies	Penalties	Total
Outstanding More Than Six (6) Years -	3	843.18	32.18	875.36

Assessment	Rate Year	Levies	Penalties	Total	Assessment Total
67	2016	572.53	32.18	604.71	604.71
92	2015	101.19	0.00	101.19	
	2016	157.15	0.00	157.15	258.34
751	2016	12.31	0.00	12.31	12.31
Total		843.18	32.18	875.36	875.36

Two of the properties listed above, which are over 6 years old are Maori Land.

For the years 2017 – 2020 the total amount of levies which are Maori land is \$14,703.08

Three of the properties have had Legal Judgements sought against them, the total owing on these properties is \$33,519.15 as at 30 June 2021

Performance, Audit & Risk Committee

4.0 Report to the DIA to 30 June 2021

Date of meeting	13 September 2021
Agenda item number	4.0
Author/s	Philip Jones, PJ & Associates

Purpose

A report on the CIC 12 Months Accountability Report to 30 June 2021 to the Department of Internal Affairs.

Recommendation

That the Chatham Islands Council receives the report.

Background

The attached report from Philip Jones comments on the Chatham Islands Council's 12 Month Accountability Report to 30 June 2021 (included in the 12 August 2021 Council agenda) to the Department of Internal Affairs and should be read in conjunction with the report.



250 Snodgrass Road, R D 4, Tauranga 3174 New Zealand

Phone / Fax : 07-552-5564

Mobile: 027-4999-408

E-mail: philip@pja.co.nz

31 August 2021

Department of Internal Affairs
Pipitea Street
Wellington 6011

Attn: Richard Hardie/ Andrew Freeth

Review of Chatham Islands Council's 12 Months Accountability Report to 30 June 2021

This report comments on the Chatham Islands Council's (the Council) 12 Months Accountability Report to 30 June 2021 to the Department of Internal Affairs (the Department) and should be read in conjunction with the report. It should be noted that this is an interim report to 30 June 2021 as I will provide commentary once the Annual report has been audited and then adopted by the Council.

A number of the comments I made on the results in the previous reports regarding the overall financial position remain. While there are improvements in the results to date and the increase in the future Crown appropriations, they do not change the concerns that I discussed previously in my reports to the Department.

I have reviewed the following accountability reports that were supplied to the Department by the Council:

- Accountability Report to Department of Internal Affairs – 30 June 2021
- Unaudited Statement of Financial Performance for the period ending 30 June 2021

The Statement of Financial Performance includes the following:

- Summary of cash movements including Crown appropriations
- Work capital analysis
- Statement of Comprehensive Revenue and Expense
- Capital expenditure summary
- Liquidity report
- Rates collection report
- Council dues collection report

The results still continue to reflect the on-going impacts of the current and previous years funding deficits, which is a continuing trend that started a number of years ago with the reduction in the NZTA financial assistance rate. While the increase¹ in the Crown appropriations in subsequent years

-
- ¹ \$3.77m 2020/21
 - \$4.35m 2021/22
 - \$4.37m 2022/23
 - \$4.20m 2023/24 and out years (ad infinitum)

will reduce the future year deficits, they will not solve the immediate liquidity issues. As noted in the report, the approach by Council to manage the shortfall is to delay the payment to creditors. This is not a long term strategy to resolve the net working capital deficit of \$1.3M.

1. Summary of cash movements including Crown appropriations

While this reflects a positive result to 30 June 2021 with a surplus of \$1,642K (31 March 2021 \$2,398K), the report from the Council to the Department highlighted the following:

- Approximately \$2m relates to a grant received in-year from Lottery Environment & Heritage and recognition of previous funds held as revenue in advance from the Ministry of Culture and Heritage, both to support the cost of construction of the new museum and Council offices.
- Council have received a windfall of unbudgeted grants including: Heartlands services, which received an increase in funding as part of the Wellbeing budget 2020, Norman Kirk building & toilet programme (\$190k), youth and regional alliance co-ordinators (\$150k).
- Water and wastewater expenditure is higher than expected, with additional consultant hours required to complete the DIA Rfl package related to the proposed three waters reform.

As noted above the results are subject to year end adjustments including external audit. These adjustments could result in reallocation of the some of the revenue (Statement of Comprehensive Revenue and Expense) to Income in advance (Statement of financial position), this will reduce the final surplus. The reason for this is the expenditure that the income relates to has not yet been incurred. This will result in a decrease in the surplus.

2. Working capital analysis

The working capital report reflects the consequences of the deficits that the Council has been incurring over the last number of years including the current year. This report reflects that there is a deficit of \$1,300K. This indicates that there is no significant improvement in the working capital position since 31 December 2020.

In addition, the report states that the Council's liquidity (reflecting the ability of Council to pay its debts as they fall due) as at 30 June 2021 is a negative of \$292K which indicates that the Council is technically insolvent. At as at 31 March 2021 this was \$1,525K or a decrease in liquidity of \$1,817K.

3. Statement of Comprehensive Revenue and Expense

There is an operating surplus at 30 June 2021 of \$1,642 (this includes capital grants and subsidies of \$2,533K). This compares with a budgeted of surplus of \$517K but depreciation was not included to 31 March 2021. As depreciation is a non-cash expense, the amount of \$2,292K (actual \$2,549K) should be added back. There have been significant changes in the quarter, with additional expenditure including the expenditure allocated to the Community Complex of \$1,000K.

4. Capital expenditure

There has been significant capital expenditure in the quarter, with a total of \$3,057K for the year, compared with only \$1,788K for the 9 months to 31 March 2021

This has impacted on Council's liquidity as noted above. As noted above there are a number of grants that have not been expended and therefore the capital funding is showing a positive result. Once the Annual report is completed, then this will be revised.

	Actual 30-Jun-21	Budget 30-Jun-21
Total Net Loss/ Surplus	1,642	517
Less capital grants & subsidies	(2,533)	(2,239)
Add depreciation	2,549	2,292
Surplus(deficit) for capital funding	1,658	570

	Actual 30-Jun-21	Budget 30-Jun-21
Capital grants & subsidies	2,533	2,239
Surplus(deficit) for capital funding	1,658	570
	4,191	2,809

Capital expenditure by activity		
Roading works	2,879	2,544
Other, including housing*	37	200
Waste, including sludge lagoon project*	141	710
Water service connections*		3,070
Emergency management*		250
Critical wastewater capital replacement*		314
Critical water capital replacement*		239
	3,057	7,327
Capital funding (surplus) shortfall	-\$ 1,134	\$ 4,518

* Desired projects in the 2020/21 budget, removed due to lack of funding support

5. Rates and Council dues collections reports.

It is important to note that total of rates outstanding has increased when compared with last year but Council dues amounts outstanding have reduced. This does impact cash flow negatively but does not impact the working capital position.

Conclusions and recommendations

As noted above, the financial results to 30 June 2021 demonstrate that the Council is still continuing to have an ongoing deficit situation. While this is in part due to the reduction in the NZTA financial assistance rate, the Council is still spending beyond its means. While the increase in the Crown

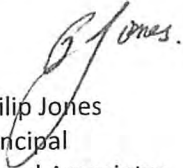
Final Report on Chatham Islands Council's Accountability Report

Page 3 of 5

appropriations and other grants for the 2020/2021 year has assisted in the reduction of the ongoing deficit, there is still an accumulated deficit from the roading activity which has not been addressed.

If there is any further information you require, or have any queries in respect of the issues raised, please do not hesitate to contact me.

Yours faithfully



Philip Jones
Principal
PJ and Associates

Appendix 1

This report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

To the fullest extent permitted by law, PJ and Associates accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PJ and Associates accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report, was not brought to our attention, or subsequently comes to light.

Performance, Audit & Risk Committee

5.0 Revaluation Documents

Date of meeting	13 September 2021
Agenda item number	5.0
Author/s	Colette Peni, Operations Manager

Purpose

1. To present the Revaluation documentation

Recommendation

That the Chatham Islands Council receives the report.

Background

Every three years revaluation of properties is undertaken. The last property valuations took place in 2018.

Land Information New Zealand have forwarded the documentation listed below to the Council in preparation of the revaluations being completed in 2021. The Council is required to fill in some of the documentation and the Council's valuation service provider should fill in the other questions.

- Valuer-General's Audit of the Chatham Islands Council 2021 General Revaluation – Introduction letter
- Introduction of 2021 Revaluation and District Valuation Roll Assurance Statement to Territorial Authorities
- 2021 General Revaluation Audit – Revaluation Questionnaire July 2021
- 2021 Revaluation and DVR Assurance Statement
- Mangatu Guidance

30 July 2021

Deborah Goomes
Corporate Services Manager
Chatham Islands Council
PO Box 24
Waitangi
CHATHAM ISLANDS 8942

Dear Deborah,

VALUER-GENERAL'S AUDIT OF THE CHATHAM ISLANDS COUNCIL 2021 GENERAL REVALUATION

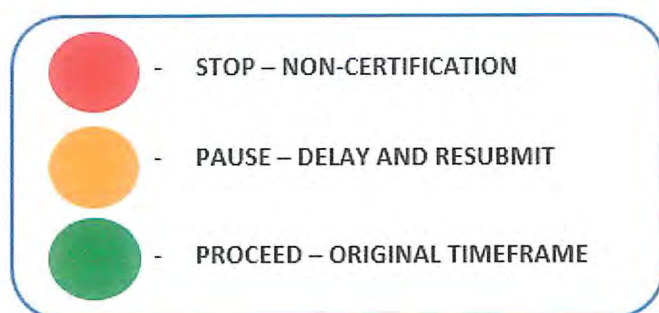
This letter is an introduction to the upcoming revaluation audit and highlights general issues which you will need to consider as part of your revaluation process. It is important that all key dates are met and that the quality of the initial revaluation including supporting documentation is of sufficient standard for regulatory certification requirements or implementation delays to can be expected.

Adequate quality control systems must be in place to ensure the proposed valuations are fully supported and accurate before they are submitted for certification. The council and their valuers' are responsible for effective revaluation quality control and should not be relying on my certification process for this purpose. Councils should be actively engaging with their valuation service provider in the planning phase of the revaluation and well before the basis is finalised to discuss significant market trends and ensure that the valuers are fully aware of potential hot spot issues. Revaluations which have material issues, requiring significant follow up work will either receive a Rating Valuations Act 1998, s11(1)(b) non-approval or a certification delay decision and be required to resubmit again at a later date. Where the issues are not significant or material then these can still be rectified and resubmitted during the original 15 day audit process.

Matters that could result in a non-certification of a revaluation include some or all of the following:

- Failure to provide compliant electronic audit files (Property and Sales files)
- Non provision or incomplete revaluation basis covering valuation methodology, evidence analysis, documentation of index/value attribute conclusions and justification for value conclusions reached for all significant property types in the district
- Sales files are incomplete
- Sales classifications are inaccurate
- Rating units do not comply with the regulatory requirements
- Proposed values do not meet statistical parameters as set out in the Rating Valuations Rules
- Applied valuation methodologies are contrary to legal interpretations through case law
- Indexing and valuation outcomes do not align to market evidence and/or are illogical
- Excessive amounts of outstanding roll maintenance
- Significant items of post audit follow up

A diagrammatic representation of the revaluation certification criteria and outcome stages is as follows:



A copy of this engagement letter has also been provided to your valuation service provider (VSP). Please find appended:

- Introduction to Revaluation Assurance Statement
- Revaluation Assurance Statement template
- Revaluation Questionnaire template
- Audit Terms of Reference. Please refer to this for important dates/milestones.
- *Mangatu* Guidance, issued 2019

Revaluation Certification Process

Revaluation Basis Files Due: 3 December 2021 Audit Files Due: 22 December 2021	<p>Revaluation basis and audit files due to the Valuer General in order to meet the proposed implementation date.</p> <p>After this date no further alterations or additions can be made without consent until implementation.</p> <p>Your valuation service provider should forward an electronic copy of the revaluation basis via the LINZ electronic document exchange system provided to them for audit purposes.</p> <p>Due to other scheduled revaluation audits if the information required is not received by the due date or is incomplete then it may be necessary to delay the audit and implementation of the revaluation of your district.</p>
13 December 2021	<p>On-site audit visit held over two days</p> <p>This includes an entry interview which members of the Council are invited to attend. This is normally held at your valuation service providers office on the morning of the first day of the site visit and raises any audit observations about the revaluation quality. We will contact you closer to the time to confirm your availability for this meeting.</p> <p>This meeting will also be used to discuss the councils quality assurance role in the revaluation exercise, your responses in relation to Question 1.1 of the revaluation questionnaire and the completed assurance statement.</p>

<p>15 – 16 December 2021</p>	<p>Initial revaluation review.</p> <p>At this point the revaluation audit team will convene with the Valuer General to discuss the progress of the audit and what pathway the audit review process will take.</p> <p>Please refer to the diagrammatic, traffic light representation of this stage as set out above.</p> <p>You will be kept fully informed throughout the audit and certification process so that you are aware of any issues that may develop. Either during the course of my review, including at the initial revaluation review point, or at the conclusion of the 15 day audit period you will be formally notified as to whether or not the general revaluation has been delayed or approved for certification. If the revaluation is not approved, you will be provided with a list of items that must be corrected before the revaluation can be resubmitted and reconsidered.</p> <p>This is a new stage in our audit process and will be discussed at the entry interview.</p>
<p>22 January 2022</p>	<p>Proposed implementation date.</p> <p>Once the revaluation is approved for certification and implemented, you are required to submit an electronic copy of the implementation file prior to commencing any new roll maintenance work. This is required for reconciliation purposes to ensure that the approved file was the one implemented.</p>

Sometime after completion of the 2021 general revaluation cycle an audit summary will be sent to you highlighting any observations and recommendations for future improvement.

As part of this engagement letter I have set out some key general issues as well as specific rural and urban issues to be aware of for this year’s revaluation. These are detailed in **Appendix 1** attached to this letter.

Conclusion

All sectors of the market will be challenging in 2021 due to the impacts of COVID 19 and councils as well as their valuation service providers will need to be particularly diligent in gathering and analysing the available market evidence to justify their revaluations.

There will be challenges this year for Districts that include:

- Productive rural properties with complexities in land and water management. For instance, nutrient loading restrictions or sensitive areas, irrigation (often coupled with changing land use), land use consents for on farm irrigation water storage and other land use activities. These issues have often been accompanied by subdued market activity and a resultant requirement for further research on prevailing market conditions including detailing properties on the market and general market sentiment.
- Areas which have experienced strong land development and land banking drivers. The intensity of residential and lifestyle demand, fuelled by supply shortages and population growth, has so far resulted in sharp increase in land values to the extent that existing rating value relativities from the previous revaluation date may have been distorted and require a much greater understanding of market demand pressures and analysis of evidence to reset new market levels.

Notwithstanding these challenges, I am looking forward to a successful revaluation in your district and trust that this letter will assist in achieving the best result possible.

Please contact me should you require clarification of any of the issues raised in this letter, or the attached documents.

Yours sincerely

A handwritten signature in black ink, appearing to read "Neill Sullivan". The signature is fluid and cursive, with the first name "Neill" and last name "Sullivan" clearly distinguishable.

Neill Sullivan
Valuer-General

Appendix 1

General Issues

Quality Control

Based on observations from the 2020 revaluations effective quality assurance in sales analysis, sales presentation and index determination is needed. Sales evidence should be grouped so that similar types and characteristic properties are shown together. This should be done in a way that logically supports the index ratio or value attributes selected and explain how the individual components of value as reported in the basis were derived. There is also a need for close attention to the accuracy of rating units as discussed later in this letter.

Revaluation Assurance Statement

A letter of introduction is appended along with a template for the Revaluation Assurance Statement. Please complete the template and return it as part of the basis that is provided in support of your revaluation.

Rating Revaluations Handbook

The rating revaluations handbook was issued in 2011 as a final document. Councils and their VSPs should be aware of the contents of the handbook and reconcile the presentation of the basis to this document.

There is a requirement to clearly describe the controls that were applied against the key components of the revaluation process. Examples of key revaluation components include:

- project management of the exercise
- database integrity checks
- currency of roll maintenance
- property inspections
- detailed discussions about market dynamics with local property professionals
- accuracy of sales file
- quality and completeness of revaluation basis
- index selection including cusp management
- application of indexes
- exceptions testing
- statistical testing
- quality control including peer review etc.

Additionally, all revaluation bases submitted to my office should have been reviewed against the revaluation handbook to ensure sufficient detail has been supplied to justify the valuation conclusions. It should be noted however that the revaluation handbook was a snapshot in time and whilst still largely up to date there are some areas, such as case law and the treatment of water rights which are no longer current. Your valuation service provider should be aware of changes in these areas.

Documenting Key Market Changes and Influences

Revaluations reflect the changing market over a three-year period and in this case will directly compare the market of mid to late 2018 with the so far highly buoyant post COVID 19 market of mid to late 2021. The revaluation basis should document the key market changes and influences that have occurred in the three years. It is expected that the basis will include these changes and influences as a high level summary which may be in the form of bullet points. This level of documentation will be important to assist; the understanding of market dynamics by all valuers involved in the revaluation exercise, council for communications purposes and the Office of the Valuer-General auditors for certification purposes. Please work closely with your valuation service provider to develop these key messages.

Examples of key changes and influences could include:

- Impact of COVID 19 on property values
- Significant regional changes that are impacting on your district eg working from home, new cross region roading infrastructure, new transport and retail hubs changing demand profiles across a region
- Increasing environmental compliance in rural areas
- Horticultural values up very significantly, in some cases doubling or more in value due to Gold Kiwifruit varieties and general export/demand trends
- Strong performance of land suitable for Forestry and carbon farming
- New irrigation schemes proposed or built
- Commercial accommodation values with international tourism exposure down significantly in some cases due to lower occupancies and higher yields reflecting inbound travel restrictions
- Closure of a significant factory/employer has negatively impacted on all urban/rural category values
- Returning New Zealanders having significantly lifted urban values in the following parts of the district (whole district or central areas) – provide data on population change 2018 vs 2021
- Strong economic conditions driving demand for Industrial property with resulting lifts in value
- New or proposed district plan has impacted significantly on certain sub locations and/or property types
- Land banking by developers of large sites in fringe areas is driving up prices
- Lower value residential in high demand from investors indicating reduced yield rates – high level indication of changes eg 2018 5% vs 2021 3.5%
- High price residential market movements – prices lifting in some areas
- Coastal value concerns due to sea level rise/erosion

Valuation of Māori Freehold Land

If you believe that the principles of the *Mangatu* decision are relevant in your district, then you must ensure that a comprehensive list of Māori Freehold Land (MFL) is clearly identified and be able to demonstrate that appropriate adjustments have been applied when determining values. The original MFL rating valuation guidelines that were issued by this office in December 2000 have now been superseded by the August 2019 guidelines (copy attached). These guidelines should be applied for the 2021 revaluation round.

It is generally accepted that the Te Ture Whenua Māori Land Act imposes additional hurdles on land development and valuers should consider the implications of this when setting their *Mangatu* adjustment rating values. Care is required when applying the hypothetical subdivision valuation approach to ensure that the value workings adequately allow for the potential of increased costs and time delays.

The 2019 guidelines apply an initial lump sum discount of \$7,000 to recognise general administration costs. This will have a significant impact on low value MFL with many properties potentially reverting to the floor value of \$100. We would recommend a close review of lower value MFL properties by your valuation service provider to ensure that the starting values prior to application of the discounts is a fair reflection of market levels.

Property Inspections

Your attention is drawn to the requirements of Rules 5.6.1 and 5.6.2 in relation to adequate sales, rental and general property inspections. It is a requirement to undertake a sufficient level of property inspections for sold and non-sold properties. If you are using the indexing technique to derive proposed property values then this will also require a reasonable level of general property follow-up inspection once the indexes have been applied. If no follow up inspections are undertaken the audit and therefore certification will likely be delayed. All completed questionnaires should be inspected where new work or change of land use is indicated.

Currency of Roll Maintenance

Strong economic activity, low interest rates (OCR at .25%) and a rising population have contributed to record building consent activity across New Zealand. Councils are required to ensure that all actionable building consents are valued for rating purposes by 30 June of each year ready for the start of the new rating year on 1 July. I am concerned that the currency of roll maintenance for building consents and S12 sales in particular is not where it should be, which affects the fairness of the DVR for rating equity. Councils need to be vigilant around the performance of their valuation service provider in this regard and excessive levels of outstanding roll maintenance may impact on the revaluation certification decision.

Rongotai LVT Decision on Leasehold Land

A recent LVT decision has been issued for Industrial/Commercial land subject to a Glasgow Lease in perpetuity in Rongotai, Wellington. The decision focused on the impact of the lease when assessing rating valuations and found that in certain circumstances a discount to land value may be appropriate. This decision has now been appealed to the High Court and as such should not be adopted until the outcome of that action is known which is unlikely to occur prior to the 2021 revaluation round.

Rural Issues

Rural Rating Valuations

Except for dairy farms, the rural market in New Zealand has been particularly strong over recent years resulting in significant changes to both values and land uses. Land use changes, fluctuating returns to horticulture, changes to livestock and dairy farm incomes along with increasing environmental compliance are issues that have impacted on market perceptions for a wide cross section of rural land. Forestry land has been performing strongly and there is a noticeable trend of conversion of sheep and beef farming to forestry or carbon farming.

I am concerned that the availability of qualified rural valuation expertise in the rating valuation sector is struggling to keep up with the volume of change and the technical rating valuation skills required. A thorough understanding of the value and highest and best use impacts of irrigation water availability, nutrient loading restrictions and Regional Council planning implications are now critical to accurate rural rating valuations.

In addition, the market is becoming increasingly discerning regarding property types and characteristics and these factors require research and evaluation as part of the revaluation exercise. The standard of data capture and the quality of valuations is under more pressure in the rural sector than I can remember and a concerted effort is now required to maintain both the quality of supporting property data and the accuracy of valuations.

Rural Rating Units

The DVR is constructed on the basis of ownership and generally one certificate of title or one instrument of ownership will require a separate rating unit. There are, however, a few exceptions to the rule and two or more ownerships can be combined into a single rating unit in the circumstances prescribed in Rule 2.4. The exceptions for a substantial improvement straddling a boundary, or where the land is likely to be alienated as only one farming operation, require valuation judgement and your VSP will therefore need to make these decisions. In respect of the farming operation, the revaluation basis should provide a clear summary with maps showing a demarcation between the various rural/lifestyle market sectors and explain the general market based criteria to qualify as one farming operation.

I wrote to councils early in 2015 to advise them of the need to conduct a careful review of rural properties on their district valuation roll to ensure compliance with Rules 2.4.1.2 (d) and 2.4.2.2 (d). These rules require two or more titles to be one rating unit where a property would likely sell as one farming operation. In recent years there has been a trend

in the rural market towards some larger farm holdings being split partly as a result of changes in Overseas Investment Act criteria and partly due to changes in highest and best use towards land banking and land development. This has resulted in the need for a closer review of rating unit compliance and in some cases separating previously amalgamated titles. There has now been sufficient time for councils and their valuers to ensure that the rural rating units are correct for their district. Accordingly, the 2021 revaluation certification process will require a high degree of compliance in regard to these rating units.

Land and Water Management Plans

Regional planning requirements to manage water, nutrient allocations and stocking rates for rural properties are now in place in most Districts. Resource and land use consents are often a condition for farming operations and in some cases these restrict the productive potential of the land and impact on highest and best use. Valuers must be aware of the impacts of the plan requirements to ensure sales evidence is analysed appropriately and individual farm value assessments are accurately applied. This is an evolving situation which will require careful investigation and analysis for this revaluation.

Plant Breeder Rights – Licences

The value of licences that allow the legal planting and farming of vines and trees has been included in rating valuation assessments within the value of improvements. The licences provide the legal basis to plant and farm certain production crops and there is a view that once planted the vines/trees reflect the improvement value based on market transactions. An example is the G3 licences which rating valuers have decided to include in orchard assessments – this matter is however under dispute at present and it is hoped that more certainty will be provided in time for this years revaluation round.

Asking Prices as Market Evidence

The economic impact of COVID 19 and likely ongoing uncertainty in the market will require valuers to be very aware of what's on the market and agent comment about the level of offers/interest being received. The decline in milk solids pay-outs in the Dairy sector during 2015 and 2016 adversely impacted the level of sales volumes however pay-out prices have firmed since 2019 and improved during 2021 and sales volumes are starting to improve, albeit off a low base. Rural lenders are starting to become less cautious in their lending practices. While the market for dairy farms is improving, there is still an underlying lack of certainty in some Districts which is impacting on the number of sales and in some cases on value levels. Where there is insufficient recent sales evidence to justify the proposed values, it will be necessary for the revaluation basis to provide detailed information about asking prices and likely selling prices. This information should be clearly analysed to support any proposed index conclusions. In addition I would urge your valuation service provider to seek out participants in the market including private rural valuers, real estate agents and bankers to understand their perception of the market and rural values.

The rating revaluations hand book discusses the process of gathering, analysing and presenting this type of market evidence.

Carbon Farming Influence

Strong rises in carbon prices could impact on the value of the trees and the previously marginal land on which they grow. Valuers need to be aware of the market impact of carbon credits for accurate sales analysis and revaluation purposes.

Rural and Horticultural Questionnaires

Questionnaires completed by owners and managers contain important information about rural and horticultural land uses, including changes to individual properties since the previous revaluation. On this basis there should be a system in place to record all returned questionnaires which can also be used to demonstrate that an appropriate level of valuer inspection and updating of rating valuation information has occurred.

Urban Issues

Leaky Buildings

Please ensure your register of potential leaky buildings is made available to your valuation service provider as part of the revaluation planning process and that individual revaluation assessments have been made for properties on the register. Valuers must identify individual leaky building sales and analyse them carefully to determine the extent of any price discounting by the market. They also need to understand the common characteristics of leaky buildings and apply appropriate discounts to properties that have not sold.

Earthquake Prone Buildings and Land

The earthquakes in Canterbury and Kaikoura have sharply focussed national market attention on buildings that are not strengthened to acceptable standards and land that may be subject to liquefaction in the event of an earthquake. As with leaky buildings above, valuers must identify individual sales of earthquake prone buildings or land and analyse them carefully to determine the extent of any price discounting by the market. Contact with agents and basis documentation of their comments about market trends and impacts is recommended especially where the sales evidence is not conclusive.

Valuers also need to understand the common characteristics of earthquake prone buildings or land and apply appropriate discounts to properties that have not sold. Further, there is evidence of pressures on rental returns for earthquake prone buildings and in some cases increasing vacancy rates. This information needs to be researched, discussed and factored into valuations as appropriate.

If you hold a register of potentially earthquake prone buildings and the information within it would be included on an individual LIM report for a property, then this information should be provided to your valuation service provider as part of the revaluation planning and analysis documentation. The more information that is available to your valuers, the more accuracy they can provide to their analysis of sales and values.

Commercial & Industrial Rating Valuations

Rating valuations are completed on a hypothetical basis following the principle that two identical adjoining properties should have the same rating valuation irrespective of their actual current lease income earning circumstances (section 21 Rating Valuations Act 1998). This is important to remember for commercial and industrial categorised properties particularly when the market conditions are unusually difficult or buoyant.

The valuer has to consider what the average market conditions are for various types of commercial and industrial properties such as retail, office, warehouse etc. when analysing sales and assessing proposed values. In this regard some vacant properties may seem quite highly valued whereas those that are fully leased may seem undervalued for rating purposes yet in both cases they are still correct.

Commercial Office and Retail has been significantly impacted by COVID 19 due in part to changes in work place attitudes to working from home and an increasing trend of purchasers adopting on-line shopping with a subsequent impact on vacancy levels.

The rating revaluations handbook discusses the process of gathering, analysing and presenting this type of market evidence.

Commercial Tourism and Accommodation

New Zealand experienced record tourist flows in recent years which in turn impacted positively on occupancy levels and values for accommodation properties in particular. However, the impact of COVID 19 has seen a dramatic reduction in overseas visitor numbers and this will be affecting occupancy levels and hotel returns in some cases. Balancing this in some places will be hotels that have ongoing contracts with the government to provide COVID MIQ accommodation. The revaluation basis therefore needs

to clearly document the extent of this research and include detailed analysis of market evidence to support the proposed value levels for 2021.

Urban Land Development

Strong population growth fuelled by record inward migration has been a major factor in the current property market supply/demand imbalance and the impacts are particularly evident for residential land. There has been an increasing demand nationally for sites with redevelopment potential ranging from the creation of a single additional site through to full scale subdivision. Sales of redevelopment land should be analysed carefully and conclusions applied as appropriate to all properties with subdivision and intensification opportunities.

The market has also experienced strong demand for land banking opportunities and values have often risen significantly for these types of properties. In some cases prices are being paid well in excess of existing zoning potential in the anticipation of some future rezoning; in these case valuers should be reflecting the full extent of what the market is paying and not be limited by the current zone. Valuers will need to be particularly vigilant when identifying key sales evidence for areas of the market that are significantly influenced by land banking strategies.

Low Volumes of Residential Sales

Residential property listings are currently at near record low levels which is impacting on volumes of sales and causing market volatility. Where there is insufficient recent sales evidence to justify the proposed values, it will be necessary for the revaluation basis to provide detailed information about the level of properties on the market, asking prices and likely selling prices.

July 2021

Introduction of 2021 Revaluation and District Valuation Roll Assurance Statement to Territorial Authorities

The Rating Valuations Act 1998 places the responsibility on Territorial Authorities (TA) for the production of the District Valuation Roll (DVR) including the quality and accuracy of the data contained within it and other supporting information.

My office continues to promote the benefits of TAs being more active in the management of the DVR and supporting the accuracy of revaluations. I believe that the TAs are best placed to influence these matters because they maintain the DVR and directly control the contracting process for the provision of valuation services.

Based on feedback that I have received at various forums, it is apparent that most TAs place a high value on the quality of their DVR as well as the accuracy of revaluations and are in fact keen to develop opportunities for improvement. What is also apparent is that councils would like:

- some guidance as to the practical quality initiatives they could undertake
- a template that provides for consistent documentation of the work that has been done.

Many council officers comment that they are not qualified to test the accuracy of their Valuation Service Providers (VSP) proposed values however they believe that they can undertake improved administrative and compliance checks of the rating valuations process. Completion of these sorts of checks will have a positive impact on the accuracy of revaluations and are to be encouraged.

I believe that significant quality improvements are achieved by all councils who complete an Assurance Statement as part of their revaluation basis. Please find enclosed a copy of the template that should be used for this purpose. The template requires you to document quality assurance work in the following administrative and compliance checking areas.

1. **Meetings held between TA and VSP.** This information will provide details of the revaluation planning process and document the roles and responsibilities of each party. Consideration and actual use of the Revaluation Audit Handbook should be addressed as part of this response.

Documentation should include details of meetings between TA Planners and VSP re District Plan and Zoning issues as well as a summary of the key changes, which may affect values since the last revaluation. This meeting will assist valuers with analysis of sales evidence and help to identify where some revaluation hot spots may exist. The process for updating VSPs about zoning changes during the currency of the roll and leading up to the revaluation should be clearly documented.

Regional planning issues are increasingly impacting on district plans and it is now a requirement to report details of meetings held between valuers and the regional planners.

In rural areas there is a new requirement to comment on the level of investigation by valuers/council staff of the Regional Council web site for information on:

- Land & Water Management Plan impacts
 - The extent of irrigation within your district
2. **Sufficient property inspections to support the revaluation.** TA has agreed to a revaluation inspection program with their VSP – provide details of the criteria used to determine the inspection program. TA should support VSP in gathering market information in accordance with section 45 Rating Valuations Act 1998.
 3. **DVR Integrity checks.** Explain what DVR integrity checks have been actioned and confirm that any necessary changes have been completed as part of the revaluation. Your valuation service provider should advise the type of tests that have been run and high level information about where changes were necessary.
 4. **Roll maintenance compliance checks have been completed.** TAs should be auditing their VSP to gain assurance that roll maintenance work has been actioned in compliance with the rules ie no outstanding actionable maintenance as at 30 June, comparable parcels recorded, plans captured, construction details noted etc – this exercise does not require valuation judgement.
 5. **Determination of Rating Units.** Explain the process used and confirm that you are satisfied that all rating units comply with the requirements of Rating Valuations Rule 2.4. A number of councils have already taken responsibility for this exercise utilising specialist GIS tools to identify land parcels. Specific checks should be documented and LINZ can supply details of the tests that it has previously run if required. **Please comment specifically on the process used to identify and create rating units for Rule 2.4.1.2 (d) & 2.4.2.2 (d) one farming operation properties.**
 6. **Zone codes.** These should be reviewed and updated to ensure that the DVR land use data for each rating unit is consistent with the district plan. Future audits are intended to include the use of electronic thematic maps and the effectiveness of these relies heavily on accurate zoning data.
 7. **Previous revaluation audit report.** These should be reviewed and recommendations actioned. TA needs to document the specific actions they or their VSP have undertaken to address past recommendations and improve the TA ranking score for the initial basis – provide details of specific management actions taken.
 8. **Previous revaluation settled objections.** These should have been reviewed and any significant valuation issues identified. Include details of any trend analysis of settled objections and any specific actions required for this revaluation.
 9. **Details of any other issues** since the previous revaluation that were identified and required addressing in this revaluation. This would normally involve maintaining some form of a “bring up file” to identify sub locations or pockets of property types that required special attention in this revaluation.

Real estate markets have been reacting negatively to properties with weather tightness or earthquake issues in recent years. Under the Value definitions within the Rating Valuations Act 1998 the impact of these issues has to be recognised in revaluations. Accordingly, you should make council held information about known weather tightness or earthquake properties available to your Valuers for the revaluation.

10. **Revaluation Registered Valuer peer review.** TA confirmation that a process has been undertaken to identify any properties that require valuation peer review. These will typically be high value properties that have a material effect on the rating base or a dominant political profile and may include sub pockets such as your Central Business District or Forestry properties. We would not expect the whole revaluation to be peer

reviewed, unless councils specifically wanted this, but key properties or groupings of properties may warrant review of part or all of the valuation process.

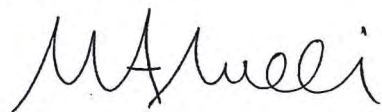
Peer reviews need to be done in a timely manner so that any improvements identified can be actioned and checked prior to the revaluation basis being sent for audit. Details of how the peer review process operated should be documented in the assurance statement.

11. **Validation of audit files.** The property and sales files have been put through the LINZ validation process and there are no errors. LINZ are finalising an updated validation package which will be available shortly for TA and VSP use.
12. **Revaluation Basis.** The TA has reviewed the revaluation basis prior to it being sent for audit and can confirm that they agree that the key issues have been covered and the general conclusions are reasonable.
13. **Quality Assurance process.** Provide details of any TA initiated internal or external review of the revaluation and the conclusions. Where TAs have run their own thematic map checks details of the process and results should be documented.

I trust that you will support this initiative, as I believe it has important benefits for all stakeholders in the rating valuations industry and it evidences the level of involvement of the TA in the revaluation process. I would encourage the TA to complete the assurance statement directly and not default this responsibility to your valuation service provider. Further, the successful implementation of the assurance statement process should assist to moderate the LINZ audit fees.

Please complete the assurance statement template and forward it with your 2021 revaluation basis.

Yours sincerely



Neill Sullivan
Valuer General

2021 General Revaluation Audit

Revaluation Questionnaire July 2021

This questionnaire is designed to assist in the auditing of the 2021 General Revaluation. Please ensure that it is completed and returned to the Valuer-General along with the other information requested. Any reference to rules in this questionnaire relate to the Rating Valuations Rules 2008.

Where the following issues have been addressed in the revaluation basis they do not need to be readdressed in this questionnaire. Please reference the appropriate section of the revaluation basis in your answer. Notwithstanding this, certain questions require you to provide an individual documented example of evidence in support of your answer whether covered in the basis or not. The example supplied may only be a representative sample of the full body of evidence, the balance of which must be included in the basis.

Question 1.1 requires a response from the council directly whereas the remaining questions can be answered by your valuation service provider. Please include the completed assurance statement template (which addresses part of 1.1 below).

1. Management Control

- 1.1 What specific quality assurance measures have been applied by the council to ensure that:
- The base data on the district valuation roll is accurate?
 - All relevant rating valuation legislation has been complied with?
 - The proposed values are reasonable?
 - All issues raised in the previous revaluation audit report have been addressed?

Please supply copies of any documentary evidence in support of your responses to the above bullet point questions.

- 1.2 Who has overall quality control for the revaluation?
- 1.3 Please provide the names of the valuers and support staff involved in the revaluation and their areas of responsibilities.
- 1.4 Explain the process used for the:
- creation of rating units
 - value based identification of lifestyle areas as opposed to one farming operation areas in accordance with 2.4.1.2(d) and 2.4.2.2(d)
 - **process undertaken to identify and create rating units for one farming operation properties**
- 1.5 Does your valuation service provider have a documented quality assurance system for their part of the revaluation process? If yes, please explain.
- 1.6 Is there a peer review system for valuers undertaking revaluation work? If so, please explain how it operates.
- 1.7 What checks are in place to ensure the accuracy of data being entered onto the revaluation audit files?
- 1.8 What system do you have in place to ensure staff owned properties are fairly assessed?
- 1.9 What procedures do you have in place to ensure valuation notices are sent to owners and ratepayers within 10 working days of the public notice being given under Section 12 of the Rating Valuations Act 1998?
- 1.10 Please supply a copy of the public notice.

2. Market Evidence

- 2.1 Did you consider you had sufficient market information/evidence, **including an allowance for COVID-19 impacts**, for each property type and location when determining the revaluation basis? If so, what do you consider sufficient market information/evidence consists of?
- 2.2 If you had insufficient market information, how did you determine your basis?
- 2.3 Please supply details of market evidence from outside the district that was used to determine values.

- 2.4 In accordance with Rule 5.6.1 what level of inspection of properties that had sold or leased did you undertake to set your basis?
- 2.5 In accordance with Rule 5.6.1, how have you recorded changes to current roll values for sale properties that were used to determine the basis? Please supply any schedules to evidence compliance with this rule.
- 2.6 How do you ensure that all sales classified as S1-1 are in fact market sales?
- 2.7 What level of checking was undertaken where proposed values are quite removed from recent S1-1 sale prices? Please provide any documentary evidence of this checking.
- 2.8 How have you determined the dairy company shares component of dairy farm sales? Please submit an example of a typical sales analysis to evidence this.

3. Application of Values

- 3.1 How have you applied your basis for each property type? eg Rural index program, index by percentage, individually assessed, mix of adjustment approaches within a property type etc.
- 3.2 How do you ensure that property categories are accurate and reflective of market conditions as at the effective date of the revaluation?
- 3.3 Please provide a comprehensive schedule of the final index specifications where this technique has been used to effect value changes. Where indexing was done in stages we require the overall percentage change to previous values.
- 3.4 What systems do you have in place to check that indexes are correct and supported by sales and asking prices?
- 3.5 How do you ensure effective cusp management in the proposed values? If more than one adjustment approach was used within a property type, include how this was managed.
- 3.6 How have you checked that these indices have been applied correctly for each category?
- 3.7 What value change outlier testing has been done? Please supply any documentary evidence of this process.

4. General Property Inspections

- 4.1 In accordance with Rule 5.6.2 please detail:
 - your criteria for determining what was a sufficient level of inspection for non sold properties in this revaluation
 - areas where non sold properties were inspected
 - % of non sold properties inspected by category
 - the extent of inspections eg roadside, external but on property etc

- 4.2 Commercial, Industrial and Accommodation properties - Did you send out rental sheets to owners for them to complete? If yes, please supply a copy and an indication of the response levels.
- 4.3 Seismic strength of Commercial, Industrial, converted residential and other category properties - Did you send out questionnaires to owners for them to complete? If yes, please supply a copy and an indication of the response levels.
- 4.4 Rural properties- did you send out stock sheets/horticulture sheets for these types of properties? If yes, please supply a copy and an indication of the response levels.
- 4.5 Where stock sheets/horticulture sheets were not sent out for this revaluation, when was the last time production figures and changes to rural properties were captured?
- 4.6 Were there any issues from the settlement of past revaluation objections that required general property inspections?

5. Valuation of Specialist Properties

- 5.1 Specialist property - please provide methodology details for the following property types. Note that this list is not exhaustive:

- hotels	- dams
- motels	- casinos
- boarding houses	- airports
- rest homes	- ports
- service stations	- railways
- schools	- other utilities [eg wind farms, irrigation schemes]
- cinemas	- forestry
- civic property eg town halls, museums, libraries, landfills, parks and reserves, designated land, sports centres, swimming pools, parking buildings	
- government property eg naval bases, military properties, prisons, universities, hospitals, historic properties, contaminated sites, dairy factories, meat works, infrastructure assets	

- 5.2 With respect to other/specialist properties please supply a list detailing major properties, eg dams, forestry, tourist attractions etc.
- 5.3 How have you identified and valued Maori freehold land and Maori customary land subject to the Te Ture Whenua Act?
- 5.4 With respect to Maori freehold land and the Mangatu case, how have you identified and reported:
- number of owners?
 - sites with special cultural significance and the type of significance?
 - adjustments already in place from past objections?
 - what adjustment % has been applied?

The original MFL rating valuation guidelines that were issued by the Valuer General in December 2000 have now been superseded by the August 2019 guidelines (copy attached to the revaluation introduction letter from the Valuer-General). These guidelines are available to be applied for the 2021 revaluation round; however, this is not a mandatory requirement and as such will not impact the certification process. You and your valuation service provider will need to decide on the timing of their use; if you decide not to apply.

Please supply a schedule listing all properties affected showing what adjustments have been made and what guidance material has been applied.

6. General

- 6.1 How up to date are subdivisions, new improvements and 1-2 sales listings? Please supply a status report showing this.
- 6.2 What is the rating base in this district?
- 6.3.1 In relation to individual property types/ownership are there any contentious issues in your district that need special consideration?
- 6.3.2 Residential property - For the different residential 'locations' what is the make up of each of these localities?
- 6.5.1 Please provide a map(s) which clearly shows the location of roll boundaries.

Thank you for completing this questionnaire.

2021 Revaluation and DVR Assurance Statement

(To be completed by the Territorial Authority and returned to the Valuer General along with revaluation basis - please respond by marking under Y for yes, N for no or N/A if not applicable - additional comments should be provided for clarity, especially where N or N/A are marked)

Territorial Authority _____ Valuation Service Provider _____ DVR Maintained By _____

Assurance Statement Completed by _____ Date ____/____/2021

	Y	N	NA	COMMENTS
1. Meetings Held Between TA and VSP				
1.1 Meetings were held to formalise planning, roles and responsibilities of each party for the revaluation process				
1.2 The Revaluation Audit Handbook has been used during the revaluation to assist with compliance				
1.3 The District Plan, Zoning changes and other key issues that may influence values were discussed between TA Planners and VSP valuers at a meeting to help identify where some revaluation hotspots may exist.				

	Y	N	NA	COMMENTS
1.4 The Regional Plan, Zoning changes and other key issues that may influence values were discussed between Regional Planners and VSP valuers at a meeting to help identify where some revaluation hotspots may exist. In rural areas please comment on the level of investigation of the Regional Council web site for information on: <ul style="list-style-type: none"> Land & Water Management Plan impacts The extent of irrigation within this district 				
1.5 Specific discussions relating to COVID-19 impacts.				
2. Revaluation Inspection Program				
2.1 TA has agreed to a revaluation inspection program with their VSP – provide details of the criteria used to set the program				
3. DVR Data Integrity Checks				
3.1 What DVR data integrity testing has been completed to ensure high level accuracy of the information entered and what types of changes to the DVR have been completed prior to or as part of the revaluation.				
4. Completion of Roll Maintenance Compliance Checks				
4.1 Provide assurance that roll maintenance work has been actioned by your VSP in compliance with the rules, i.e. comparable parcels recorded, plans captured, and construction details noted etc. Include details of the roll maintenance state of work status as at 30 June. TAs should be auditing their VSP to gain assurance that roll maintenance work has been actioned in compliance with the rules.				

	Y	N	NA	COMMENTS
5. Determination of Rating Units				
5.1				Explain the processes used to determine Rating Units and confirm you are satisfied all comply with the requirements of Rating Valuations Rule 2.4. Please comment on any checks completed for Rule 2.4.1.2 (d) & 2.4.2.2 (d) rural properties used as one farming operation. Specific checks should be documented and LINZ can supply details of the tests it has previously run if required.
6. Zone Codes				
6.1				All zone codes in the land use data have been reviewed and updated to ensure the DVR land use data for each rating unit is consistent with the district plan. Future audits are intended to include the use of electronic thematic maps, and the effectiveness of these relies heavily on accurate zoning data and corresponding land value levels.
7. Previous Revaluation Audit Report				
7.1				Previous revaluation report has been reviewed and recommendations actioned. Please comment on the specific actions undertaken to address previous report recommendations.
8. Past Revaluation Settled Objections				
8.1				Past revaluation settled objections have been reviewed and analysed.
8.2				Trends identified from past revaluation objection settlement analysis have been addressed in this revaluation

	Y	N	NA	COMMENTS
9. Details of Other Issues since Previous Revaluation				
9.1 Sub-locations or pockets of property types that required special attention in this revaluation have been identified – how was this done?				
9.2 Details of council information regarding properties with known weather tight issues or earthquake prone issues have been provided to your Valuers.				
10. Revaluation Registered Valuer Peer Review				
10.1 TA confirmation that a timely process has been undertaken to identify any properties that require valuation peer review. Detail the key properties or groupings of properties that received valuation peer review of part or all of the valuation process and when this occurred. Key properties will typically be high value, that have a material effect on the rating base, or a dominant profile, and may include sub pockets, such as your Central Business District or Forestry properties				
11. Validation Process				
11.1 The property and sales files have been put through the LINZ validation process and there are no errors.				
12. Revaluation Basis				
12.1 Has the TA reviewed the revaluation basis and consider that all key issues have been identified?				
12.2 Does the TA generally agree with the value conclusions?				

	Y	N	NA	COMMENTS
13. Quality Assurance Process				
13.1 Provide details of any TA initiated internal or external review of the revaluation and conclusions. Where TA generated thematic map checks have taken place, details of the process followed and results should be documented.				

Mangatu Guidance

Guidance on the Rating Valuation of Māori Freehold Land

Office of the Valuer-General

27 August 2019



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Introduction

The Valuer-General (VG) is responsible for setting standards, monitoring, and auditing the provision of rating valuations in New Zealand under the Rating Valuations Act 1998. This includes a statutory duty to set minimum standards for a nationally consistent, impartial, independent, and equitable rating valuation system.

From time to time the VG also issues guidelines to assist valuers in undertaking rating valuations. This includes guidelines relating to the rating valuation of Māori Freehold Land (MFL). Guidelines are best practice recommendations - they do not have the effect of law and there is no compulsion dictating their use. However, there is a general expectation they will be used for rating valuation purposes unless there is a documented reason not to.

Mangatu Case Context

Court of Appeal case *Valuer-General v Mangatu Inc*, 3 NZLR 1997.

Background to the case:

The appellants owned rural land which is MFL under the Te Ture Whenua Māori Act 1993 (the 1993 Act). The land is predominantly East Coast hill-country farmland within the catchment basis of the Waipaoa River, extending south to the Wharerata Ranges, north to Tolaga Bay and west to the Ureweras. In addition, there are 300 hectares known as the Awapuni blocks, on the site of a lagoon on the coastal fringe of Poverty Bay and on the south-western outskirts of Gisborne City. This Awapuni land is used for both agricultural and horticultural purposes.

The 1993 Act imposed a number of restrictions on the sale of MFL, and includes a mechanism for potentially lifting the restrictions and converting the land to general land. Pursuant to the Valuation of Land Act 1951 (VLA), the VG (part of the Government Valuation Department at that time) valued the land for rating purposes on the standard applicable to non-MFL available for sale on the open market, without making any deduction for the effect of the 1993 Act. In other words it was valued as if it was general title land.

The VLA defined “Capital Value” and “Unimproved Value” for rating purposes as the sum of the owner’s estate or interest in the land. The Land Valuation Tribunal (LVT) at Gisborne disallowed the appellants’ objections to the valuation, deciding that the constraints in the 1993 Act did not constitute a change in definition in the VLA and it could therefore be disregarded in settling the value of the land. It was of the view that where it was possible to sell land without restriction then existing constraints did not affect the value of the land, applying what it considered to be binding authority to that effect in *Thomas v Valuer-General* [1918] NZLR 164.

The appellants appealed against that decision. The essential question in the appeal was whether the 1993 Act diminished the normal valuation of the owner’s estate or interest in the land under the VLA.

The Court of Appeal allowed the appeal and ruled that the restrictions on the ability to alienate MFL held under the 1993 Act should be reflected in rating valuations and sent the

objection back to the LVT for further consideration of the rating values in light of the judgment.

The subsequent LVT applied the Court of Appeal decision concerning the Mangatu blocks and took into account the statutory restrictions on the sale for MFL when determining its value.

The original objection had related to 290 properties and it was agreed to make an initial determination and application of the principles outlined in the Court of Appeal decision in relation to two representative properties.

One was Awapuni Moana, a place to which Māori had extensive links and which would in all likelihood never be sold because of its cultural and spiritual significance to the iwi. The other was Mangamaia, which had strong historical links for Te Aitanga-a-Māhaki and had historically been a land base for hundreds of people, and once had several marae on it. It had been leased to Pākehā for several decades and had been developed and returned in the 1940s.

The Tribunal found that it was required to make an assessment in a situation where an agreement to sell had been reached, that is, all substantial requirements for a quorum had been overcome and agreement had been reached either with a person within the preferred class of alienees (PCA), or Māori outside the preferred class, or non-Māori.

It found that the Court of Appeal decision required it to concentrate on the extra time and costs associated with the sales process for MFL when compared to other land (as opposed to any problems with obtaining a quorum to agree to a sale), including the need to notify the PCA and the need to obtain confirmation of the sale from the MLC.

The LVT found that MFL was being sold to some extent on the open market, despite the restrictions of the 1993 Act and on the evidence, the Tribunal concluded that, because of the extra time required and costs incurred around the offer back process for non-PCA sales, valuations of MFL should be discounted between 5 and 15%, depending on the particular circumstances of each block.

Subsequent LVT Decisions that apply the principles identified by the Court of Appeal

1. Farthing v Far North District Council [2003]

Adjustments: No change to original deductions

The objector is one of many owners of two pieces of land situated at Rangihamana Road just south Kaikohe. The land is zoned Rural 1 under the Far North District Plan (transitional) and General Rural under the Far North District Plan.

In its calculation of land value, Quotable Value has deducted from its initial assessment 15% because the land is Māori Land in multiple ownership.

The objector, representing all the owners, submitted that the land is of special significance to the owners. It has been in their possession for over a thousand years. It is their intention that it will remain so forever. In these circumstances to contemplate a “willing seller – willing buyer” is abhorrent. Such a concept strikes at the very heart of Māori tikanga or values. Further, the Treaty of Waitangi accorded the owners free and

undisputed enjoyment of their lands. The objectors consider that taxing the lands breaks that sacred covenant and undertaking.

Conclusion: [14] S 38 (2) Rating Valuations Act 1998 requires that an objector must prove that the valuation objected to is wrong. The objectors have not done this.

2. **Te Whaiti Nui A Toi Trust v Whakatane District Council [2007]**

Adjustments: Owners 9%; Site of Significance 5%; Other 25%

The property is owned by the Te Whaiti Nui A Toi Trust and is situated on State Highway 38, approximately 10 kilometres south of Murupara. The surrounding properties comprise mainly a mix of undeveloped land in native bush, National Park and exotic forestry.

Centred around the effect of a Gazette Notice amounting to an additional limitation of alienability, noting as it does that the land is set apart "as a Māori reservation for the purpose of a landing place and scenic reserve for the common use and benefit of the owners of Te Whaiti Nui A Toi and their descendants."

Conclusion: that it was not appropriate to apply a full deduction for Reserve in addition to the 5% deduction for sites of special significance. Reserves other than Māori land are often by their very nature set aside on account of particular historical interest.

3. **Ongare Trust Māori Land Block v WBoP DC [2008]**

Adjustments: Owners and Site of Significance 20%; 50% in respect of 5.2 hectares of land

The trustees of the Ongare Trust objected to the valuation in respect of a 40.4 hectare or 100 acre block of land at Ongare Point near Katikati. The land is an extremely attractive block close to the Bowentown entrance to Tauranga Harbour, and is a working orchard planted in kiwifruit and avocados.

This land has some 227 owners, all of whom are known directly or indirectly to one or more of the trustees. The trustees sought to establish that it would be beyond the resources of any of the current owners to purchase a Māori freehold title in the land for a sum in excess of \$1,000,000 as their resources were inadequate to do so.

The decision noted that it must be remembered that the task of the Tribunal is to value the land by reference to a sale to a hypothetical purchaser fully informed as to the history and nature of the land over which the Māori freehold estate exists and also fully informed as to the restrictions inherent in Māori freehold title including restrictions on alienation, the requirement for MLC consent, and the relative paucity of resources that may exist within the preferred class of alienees recognised by the 1993 Act. It is also worth recalling that the onus of proof in rating valuation objections lies on the objector, who must prove the case for revaluation on the balance of probabilities.

The history of the land was highly relevant. The occurrence of a battle in recent historical times is relatively unusual and highly significant. The land has enormous historical significance to the present owners, each and every one of whom is a direct lineal descendant of the original holder of the Crown grant. Looking at that issue in the context of this particular block of land, the Tribunal was satisfied that a special cultural and

historical significance attached most strongly to the 5.4 hectares of land running between the two identified pa sites along approximately half of the waterfrontage.

4. Taheke Paengaroa Trust v WBoP DC and Landmass Technology Limited [2008]

Adjustments: 15%

The land has a substantial historical value to the present owners, as there are battle sites, graveyards, caves, housing, skeletons and human remains. The land has areas of wāhi tapu and kaimoana sites as well as pa sites, battle sites, graveyards and burial grounds.

In 1989 Fletcher Challenge obtained the lease, and the Māori Trustee granted a forestry right for a term of 42 years in place of the lease, to provide for two rotations of Pinus Radiata forestry. The land was largely in Pinus Radiata forest, although significant areas remain in native vegetation generally too steep and inaccessible for commercial forestry purposes.

The owners' estate is one in MFL and the assets of the trust are such that the Trust cannot and will not for the foreseeable future be able to develop the land for pastoral farming because of the likely cost of physical development of around \$4,000.00 to \$4,500.00 per hectare. Additional Kyoto Protocol costs of \$13,000 per hectare would now apply to pastoral development. The native forest on the land is protected from development by the Western Bay of Plenty District Council District Scheme.

There are more than 2,000 owners recorded as having shares in the land, but of those contact details are held for only 875 owners. A number of the presently listed owners are likely deceased, and it would be a very substantial and expensive task for the ownership records of the block to be brought up to date.

The major issue affecting the valuation was whether the land should be valued in accordance with the market for forestry land, that being the only commercial use to which this land has ever been put, or whether the land should be valued for its potential to be converted to pasture and use as a dairy support grazing unit. In rating appeals of this nature, it is for the objector to establish on the balance of probabilities that the territorial authority's assessment is wrong.

It was considered that the market evidence established on the balance of probability that the price for forestry land in the mid-North Island suitable for pastoral conversion was from 2003 being driven by the higher prices paid by pastoral farmers wishing to convert forestry land to pastoral farming, to the general exclusion of purchasers wishing to buy and hold such land for purely forestry purposes.

Greater discount applied reflecting additional delays and costs associated with obtaining Māori Land Court consent before any development work, such as conversion from forest to pasture, could begin.

Recent Sales of Māori Freehold Land

It is apparent from our research with registered valuers who work with MFL that few recent sales have occurred. Those that have been analysed indicate a discount in the sale price as the result of the restrictions of the 1993 Act was between the current 5% - 15%. However, the properties that have sold do not have the extent of sites of significance, or areas of

special significance, such as the circumstances prevalent in the LVT decisions outlined earlier in this document.

Valuers commented that the market is now more mature around its understanding of MFL and the fact that the titles are for a freehold interest which in their view has given greater confidence to non-PCA purchasers. The MLC also remains vigilant to ensure that MFL sale prices are reasonably in line with general title market values.

There was a view that non-PCA purchasers generally have quite specific criteria (adjoining other freehold land, productive qualities, scenic views, proximity to coastal or other amenity factors) about the extent of benefits required from MFL to support buying this tenure over general title land.

Adjustment Analysis

This Guidance Note is limited in scope to the Court of Appeal direction on rating valuation treatment of MFL.

In *Mangatu Inc v Valuer-General v [1996] 2 NZLR 683* the High Court dealt with a suitable methodology for valuation:

“In practical terms this will very likely mean starting with a valuation as if the land could be bought on the open market and then allowing a deduction for the alienation restrictions. The deduction will vary in amount depending on the extent of restrictions, the likelihood of Māori Land Court approval for the sale, and the nature of the property.”

The Mangatu decision requires the contemplation of a notional sale at general title market levels then make deductions for perceived time delays. This is because any non-Preferred class of alienee (PCA) has to offer the land back and deal with the MLC when they come to on-sell before a sale can be completed.

The final decision of the LVT that was applied following the Court of Appeal decision concerning the Mangatu blocks found that it was required to make an assessment in a situation where an agreement to sell had been reached, that is, all substantial requirements for a quorum etc had been overcome and agreement had been reached either with a person within the PCA, or Māori outside the preferred class, or non Māori.

The LVT further found that the Court of Appeal decision required it to concentrate on the extra costs associated with the sales process for MFL when compared to other land including the need to notify PCA and the need to obtain confirmation of the sale from the MLC.

Whilst MFL seldom actually sells, the Mangatu decision effectively requires the rating valuer to assume each separate MFL rating unit has already sold to a non-PCA and apply value deductions to recognise administrative issues and time delays that would occur if the non-PCA wanted to on sell the land again.

Māori Freehold Land Sales Process

Selling or gifting MFL to anyone outside the PCA or offer back sales from a non-PCA must be confirmed by the MLC and the MLC Rules 2011 set out how proceedings in the Court are dealt with, from making the initial application through to its conclusion.

Before transferring MFL to anyone outside the PCA, or for a non-PCA to on-sell MFL it must be shown that:

1. Sufficient notice has been given to anyone who is a member of the PCA.
2. Rule 11.5 of the Māori Land Court Rules deals with the procedure for notifying preferred classes of alienees as to right of first refusal:
 - (1) Where a right of first refusal must be given under section Te Ture Whenua Māori Act 1993 (the Act), an application for confirmation of alienation under rule 11.3 must be referred to a Judge for directions as to—
 - (a) a hearing date that will allow sufficient time for notice of the right of first refusal to be given to the preferred classes of alienees; and
 - (b) any other matter that is relevant, including directions as to notice.
 - (2) For determining whether any preferred alienees wish to exercise their right of first refusal, an applicant for confirmation of alienation under rule 11.3 must—
 - (a) give public notice that complies with rule 11.5(3); and
 - (b) following publication, without delay file a copy of the notice with the Registrar; and
 - (c) comply with any directions that the Court has made in relation to notice.
 - (3) The notice required under rule 11.5(2) must—
 - (a) be in form 27; and
 - (b) be published at least twice at intervals of not less than five working days in a newspaper approved by the Registrar and circulating in the district in which the land is situated; and
 - (c) stipulate a date for filing and serving a notice of intention to exercise the right of first refusal that is not less than 15 working days after the date of publication of the second notice (b) any other matter that is relevant, including directions as to notice.
 - (4) On receipt of the notice, the Registrar must—
 - (a) arrange for the alienation to be notified in the next available Pānui; and
 - (b) display a copy of the notice on a noticeboard in the public office of the Court for not less than three months, or until the application for confirmation is heard, if that occurs before three months.
 - (5) A preferred alienee who wishes to exercise a right of first refusal must file in the Court and serve on the applicant, within the time fixed by the notice given under this rule, a notice in writing stating—
 - (a) that he or she intends to exercise the right of first refusal; and
 - (b) his or her full name and contact address.
 - (6) The Registrar must give notice of the time, date, and place of the hearing of the application for confirmation to each person who files a notice of intention to exercise the right of first refusal.
3. Evidence that demonstrates that offers have been sought from members of the PCA which have been unsuccessful, any offers received have been declined (not reaching the required price) or no expressions of interest to negotiate a price have been received.
4. There is a conditional agreement to the sell the land from someone outside the PCA.
5. Rule 11.3(b)(iii) requires a special valuation of the land and any improvements on it or of the interest alienated (including, in the case of lease, the fair market rental), unless an application for an exemption from the requirement of a special valuation is made under rule 11.4, which states:

- (1) An application for an exemption from the requirement under section 158 of the Act of providing a special valuation must be—
 - (a) in form 26; and
 - (b) accompanied by a current roll valuation in respect of the land or interest alienated or other evidence of the current value of the land or interest alienated that is acceptable to the Court.

6. Pay the prescribed application fee.

Discussions with Māori Freehold Land Owners, Valuers and Councils

Discussion with owners of MFL and valuers indicates that once there are more than 100 PCAs, the notification and approval for the process is similar for 100 PCAs as for 1000. Therefore, a common discount of 10% should apply for over 100 PCAs. The VG considers that this assessment is reasonable and on this basis the discount for multiple numbers of PCA should be altered to allow 10% on all properties with 100 PCAs and over. As a result the discount adjustment thresholds where the numbers of PCAs is less than 100 have been reconsidered with incremental steps of 2% from a starting point of 4% for less than 20, through 6% for less than 50 and 8% for less than 100 (see summary table on page nine).

There was also a view that there should be a standard administrative cost adjustment of between \$5,000 to \$10,000 for any parcel of MFL before consideration of additional discounts, due to the current allowances for number of PCA and sites of significance.

Variations in administration costs between different parcels of MFL are hard to quantify. In the interest of creating an easily applied factor for all MFL the VG supports a new, initial \$7,000 lump sum discount for all properties in addition to the existing percentage discounts. This lump sum is intended as a proxy for Māori Land Court charges, valuation and legal fees and is designed to allow for upfront administrative costs associated with any parcel of MFL. This amount will be reviewed biennially.

The application of additional percentage factors for the number of PCA and sites of significance will increase the quantum of adjustments for larger, more valuable land with more PCAs where the costs and time delays could be more significant.

A recent survey of Councils with significant MFL rating units indicated general support for any new adjustments to increase the range and effect of the guideline discounts.

Summary of Adjustments

Prior to application of any MFL adjustments, the first requirement is for the land to be assessed as general land based on market evidence and reflecting relevant planning provisions as well as physical and locational aspects, both positive and negative. Allowances need to be made in the general land valuation for factors such as the impact of district plan designations (specific use restrictions which prevent part or all of the land being used in accordance with general zoning provisions), access difficulties especially for landlocked situations, contour challenges and subdivision restrictions arising from the 1993 Act.

The general land value becomes the basis on which the MFL adjustments are applied:

- A uniform, lump sum deduction for all MFL rating units of \$7,000 to reflect a standard, base administrative cost incurred to comply with the MLC rules when fulfilling offer back obligations to the PCA
- Application of revised percentage discount adjustments as below - to take into account the number of people within the PCA and a further additional discount for sites of special significance; noting here that in many cases the existence of a site of special significance may have influenced the starting value as general land.

Initial discount for multiple numbers of PCA

Number of PCAs	Discount
Under 10	3.5%
Under 25	4.0%
Under 50	6.0%
Under 100	8.0%
100 and over	10.0%

Additional discount for special significance sites

Special significance of specific sites	Discount
Pā site	1.50%
Urupā	1.50%
Rūnanga sites	1.50%
Whawhai sites	1.50%
Indigenous Forest	1.50%
Kainga	.50%
Access trails	.50%
Garden sites	.50%
Kai Moana sites	.50%
Other Wāhi Tapu sites	.50%
Maximum	5.00%

Minimum Value Criteria

There will be some instances where application of the adjustment factors could result in a zero or negative value. This would run contrary to the view that all land has some value and for the purposes of this rating valuation guideline a minimum value criterion of \$100 per rating unit is reasonable. If the initial general title value of the rating unit is less than \$100 then this amount should be adopted.

Working example for MFL Adjustment

Area	3.1717 hectares
Number of Owners	71
Site of Significance	Yes
Unadjusted Capital Value (CV)	\$75,000
Unadjusted Land Value (LV)	\$75,000

Old MFL guidance Adjustment		
Unadjusted CV		\$75,000
Unadjusted LV		\$75,000
Owners Adjustment	6.0%	
Sites of Significance	1.5%	
Adjusted CV		\$69,000
Adjusted LV		\$69,000

New MFL guidance Adjustment		
Unadjusted CV		\$75,000
Unadjusted LV		\$75,000
Lump Sum Adjustment	\$7,000	
Sub Total		\$68,000
PCA Adjustment	8.0%	
Sites of Significance	1.5%	
Adjusted CV		\$61,500
Adjusted LV		\$61,500

The guidance calculation deducts the lump sum from the unadjusted or “starting” capital and land value with the percentage adjustments being calculated on this subtotal. Improvement values may reduce to zero in some circumstances and a floor has been introduced into the guidance. For example:

Unadjusted Capital Value	\$7,000
Unadjusted Land Value	\$1,000
Unadjusted Improvements	\$6,000
<i>Less MFL Adjustments</i>	<i>\$7,500</i>
Adjusted Capital Value	\$100
Adjusted Land Value	\$100
Adjusted Improvements	0



Performance, Audit & Risk Committee

6.0 Legal Judgement Sought

Date of meeting	13 September 2021
Agenda item number	6.0
Author/s	Colette Peni, Operations Manager

Purpose

1. To report the status of Legal Judgements sought.

Recommendation

That the Performance, Audit & Risk Committee receives the report.

Background

The Council has Rates Debtors with accounts which have been long overdue. A recommendation from PARC at the last meeting held 12 August 2021 was to seek a Judgement against a particular rate payer.

- Judgement has been sought against the following properties as advised by PARC at the meeting held 12 August 2021.
 - RU341 – Pt Lot 2 DP 42232 BLK II Oropuke SD
 - RU342 – Pt Lot 2 DP 42232 BLK II Oropuke SD
 - RU677 – Gaz 70-869 Blk Pt Kekerione 25 – Te Rotopara (this property is exempt as it is Maori Land)
- One other property has also had a Judgement sought against it.
 - RU218 – Lot 4 DP 73087
- A third property has had an amended claim prepared by Wynn Williams.
 - RU760 – Lot 4 DP 26020

Public Excluded Agenda

13 September 2021

Chair to Move

I move that the public be excluded from the following part of the proceedings of the meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter 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:

Item No.	Minutes / Report of:	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
1	Chief Executive Officer	Minutes of PARC Public Excluded Meeting 28 July 2021	Good reason to withhold exists under Section 7	Section 48(1)(a)

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 6 or Section 7 of that Act which would be prejudiced by holding the whole or relevant part of the proceedings of the meeting in public, are as follows:

Item Nos	
1.	<p>Would be likely to prejudice the commercial position of the person or persons who are the subject of the information. 7(2)(b)(ii)</p> <p>To maintain legal professional privilege. 7(2)(h)</p> <p>To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities. 7(2)(i)</p>