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Report to the Policy, Finance and Strategy Committee

From Greg Schollum, Chief Financial Officer,
Ted Maguire, Council Secretary,
John Allard, Corporate Policy Manager,
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Local Government (Rating) Act 2002 – Implications for WRC

1. Purpose

To advise the Committee of the Local Government (Rating) Act 2002, its impact on Council (particularly for rate collection arrangements) and to seek approval for officers to actively plan for self-collection of WRC rates with effect from 1 July 2003, while continuing to investigate the feasibility of continuing the current agency arrangements with Territorial Authorities.

2. Public Excluded

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information and Meetings Act are:

To enable the Council to carry on, without prejudice or disadvantage, negotiations (including commercial negotiations).

3. Background

3.1 Local Government (Rating) Act 2002

The new rating legislation, the Local Government (Rating) Act 2002 (LGR) (tabled), was enacted on 30 March 2002 and repeals the Rating Powers Act

1988 (RPA). The LGR has significant implications for regional councils. Its main provisions come into force on 1 July 2003.

The purpose of the LGR is to provide all local authorities with flexible rating powers, to ensure that decisions are made in a transparent and consultative manner and to enable ratepayers to identify and understand their liability for rates.

To achieve its purpose, the LGR provides regional councils with the same rating powers as territorial authorities (TAs). This means, for example, that a regional council will now have the power to apply differentials to its general rates and levy uniform annual charges. In addition, “targeted rates” (previously known as “works and services rates”) will be able to be levied in a variety of new ways.

A series of seminars to assist understanding of the new legislation is being arranged for councillors and staff, to be held during July/August.

3.2 Funding Policy

As a result of its new rating powers, the Council will need to review its Funding Policies in order to examine whether the new rating tools provide more appropriate funding mechanisms for Council’s activities.

This review, which is part of the Council’s Long Term Council Community Plan process, needs to be accorded a high priority. The Council will first need to have a clear idea of what activities are to be funded and to understand the wider implications of the Local Government Bill (yet to be enacted).

3.3 The Need To Review Rates Collection

Over the past few years the WRC has conducted a number of reviews of its collection arrangements and has consistently concluded that current joint collection arrangements are the most cost effective for the ratepayer and should continue. Progressive enhancements to the current combined collection arrangements have also greatly improved transparency and accountability of the WRC’s rates. However, the coming into force of the LGR raises significant rates collection issues that mean TAs may no longer be able or willing to continue to collect WRC rates beyond 30 June 2003.

3.4 Current Combined Collection Arrangements

The WRC currently has agreements with TAs to collect most WRC rates on its behalf.¹ In accordance with section 127 of the RPA, these agreements continue in force until a regional council decides to collect its own rates.

Each TA is currently responsible for:

¹ The WRC collects its own Scheme and Biosecurity Rates via the Masterton Office.

- (a) Maintaining a district valuation roll (DVR) - the basis on which rates are made;
- (b) Maintaining a rating database and debtor ledger;
- (c) Making the DVR available for inspection;
- (d) Producing and delivering combined rates assessment notices to ratepayers;
- (e) Ensuring that assessment notices clearly identify WRC rates separately;
- (f) Levying rates exactly as they are made by the WRC;
- (g) Collection (i.e. receiving payments, debt collection and remitting or postponing both TA and WRC rates)
- (h) Providing WRC with the necessary information to manage its revenue, debtors and GST positions.

A maximum fee, established under the Wellington Regional Council Reorganisation Order 1989, governs the total cost of collection. The fee is equivalent to 2% of the regional rates collected; budgeted at \$982,000 (excl GST) for 2001/02.

3.5 **Separate Collection**

Previous reviews of rate collection arrangements have consistently highlighted that direct collection of WRC rates has a number of benefits, including:

- a) Enhanced public accountability;
- b) Greater public awareness of the Council's functions and services; and
- c) Improved transparency of the WRC's activities.

However, it has also been recognised that separate collection raises a number of issues, in particular that:

- a) Duplication of collection processes would increase the overall net costs to the ratepayer; (not necessarily WRC's costs)
- b) TA's income will be reduced;
- c) There could be negative public reaction to what might be perceived as a new rate; and
- d) There would probably be increased (negative) inquiries from the public about Council activities.

Perhaps the most intractable issue facing separate collection by WRC has been the increased overall cost. A review in February 2000 (**Report 00.17** attached) estimated that if rates were collected separately, it would cost the WRC \$1,030,000 compared with \$891,000 under current collection arrangements. In turn, the TAs would lose the revenue of \$891,000 and need to recover it from their communities, resulting in an overall increase in the charge to the community by the local authorities in the Region.

3.6 Impact of LGR on WRC Rates Collection

The main changes to collection, assessment and invoicing of rates are summarised below.

3.6.1 *Collection arrangements must be by mutual agreement*

Combined collection of WRC rates by TAs is still legally possible but may well prove impractical under the LGR. However, any future arrangements must be by mutual agreement with each TA. This means that any TA will now be in a position to refuse to collect WRC rates. In the past only regional councils were able to opt out of joint collection agreements. **In other words the Regional Council no longer has the ultimate say in this matter.** The total cost of collection is also a matter for mutual agreement. Previously collection costs were restricted to 2% of the total amount of rates collected.² It should be noted that the marginal costs for TAs collecting WRC rates is currently very small.

3.6.2 *The WRC will be responsible for maintaining a rating information database.*

The WRC will be responsible for maintaining a separate “rating information database” (RID) from 30 April 2003.³ The RID represents the combination of rating valuation data and WRC funding tools and is the basis on which WRC rates are to be assessed and invoiced in future. The RID therefore replaces the combined rating system that was solely undertaken by each TA under the RPA.

The maintenance of the RID can be delegated to each TA. However, a complete copy of the RID must be available for inspection at the Regional Council Centre.

3.6.3 *The WRC must maintain a rates record*

The WRC will be required to maintain a “rates record” for each rating unit (estimated to be nearly 180,000 rating units in the Region) and make these available for inspection at the Regional Council Centre. Although not entirely clear from the legislation, a rates record appears to be the individual record containing year-to-date debtor information. There is no explicit power to delegate the maintenance of a rates record to a TA.

3.6.4 *Policies on remission and postponement*

The WRC may remit or postpone the payment of rates if it has adopted a relevant policy in accordance with the Local Government Act 1974. The

² Under the Reorganisation Order there is nothing to prevent the WRC from altering the formula and percentage paid for collection by each TA. However, while the formula for payment has changed (i.e. the total amount of 2% is apportioned between the TAs according to the number of assessed properties), the 2% figure has represented both the minimum and maximum total paid for collection.

³ The provisions relating to the maintenance of a RID come into force from 30 April 2003 (LGR, s2(3))

WRC's current policy is that each TAs' approach to remission or postponement is applied to WRC rates. We understand that few of the TAs currently have an official policy in this regard.

The LGR appears to allow the continuation of current remission arrangements until 30 June 2004. However, it is as yet unclear whether the WRC will be able to continue to adopt individual TA policies or will be required to develop region-wide policies of its own. Advice is currently being sought on this matter.

3.6.5 *Other general changes*

Other changes include:

- (a) Regional rates to be levied as made (no change from current WRC practice)
- (b) Combined assessments are to be clearly separated (no change from current WRC practice);
- (c) Greater detail to be included in rates assessments and invoices;
- (d) Requirement to maintain separate debtor ledgers (for TA and WRC rates); and
- (e) WRC Offices must be able to receive payments and amendments to the RID (e.g. notifications of ownership changes).

A significant change affecting both regional and territorial authorities is that legal liability for rates will shift from the occupier to the property owner. (In many cases they are one and the same.)

These changes are expected to result in increased costs of Rate Collection irrespective of how rates are collected.

More importantly, requirements (c) and (d) in particular look likely to pose significant practical problems which could threaten the continuation of the current rate collection arrangements.

4. **Comment**

The combined rates collection model, whereby TAs act as WRC's collecting agent, is currently this Council's preferred approach to rates collection. However, the new legislation removes the obligation on TAs to collect WRC rates with TAs now being able to refuse to do so if they wish. There is also to be no regulatory guidance regarding collection costs, i.e. they become a matter for negotiation with each TA.

Also, as noted above, it is clear that regardless of the method of collection, costs are likely to increase significantly. Additional costs can be expected from the:

- (a) Increased printing and postal cost;

- (b) Purchase or development costs associated with ensuring computer rating systems are compliant with LGR requirements;
- (c) Costs related to maintenance of separate debtor systems; and
- (d) Costs associated with the requirement to have RID, rates records, payment facilities etc. available at the Regional Council Centre.

Some of these costs will be one-time costs while others will be ongoing.

4.1 **Combined Collection**

It is as yet unclear exactly what additional costs TAs may face in order to collect WRC rates under the LGR. It is possible that these additional costs will vary by TA depending on the particular circumstances of each case. A number of TAs have suggested that the greater detail to be included in rates assessments and invoices may have the practical effect of requiring TAs to provide WRC notices separately. This scenario is even more likely if WRC adopts rating tools that are more sophisticated as a result of wider rating powers.

More importantly, preliminary discussions with some TAs suggest that while their current software is capable of collecting their own rates in accordance with the LGR, such software would not be able to comply with the new **combined** collection requirements. These TAs have suggested either that new specialist cash allocation software would need to be developed or that a separate database may even be necessary. Either way, the costs are not expected to be trivial.

Over the past few months WRC officers have been meeting with rating officers from this region's territorial authorities to discuss these issues. The most recent meeting was held on 9 May. In particular, each TA has been asked for an indication as to whether they are in a position to continue to collect WRC rates and, if so, under what conditions. To date the TAs have not formally considered the matter of rate collection arrangements. However, they are expected to do so over the next few months. Officers will also be working closely with staff of other regional councils who are addressing the same questions.

4.2 **The need to investigate alternatives**

The potential changes to current collection arrangements and dependence on another agency give rise to considerable uncertainty surrounding the WRC's future rates revenue. This uncertainty suggests that it would be prudent for the WRC to plan concurrently for an alternative to the current combined collection with the TAs acting as the WRC's collecting agent. However, the timeframe for implementing such an alternative would normally be expected to be between two and three years. It is therefore a matter of great concern that the LGR requires the first phase of the transition to be completed by 30 April 2003. The alternative of separate rates collection by the WRC or an agent therefore must be investigated as a matter of priority.

5. **Communications**

No immediate communications are required. If or when a decision is taken that the WRC should collect its rates separately, a significant information campaign will be required to explain to the wider public:

- (1) that no new rates are being set.
- (2) that any additional costs as a result of the territorial authorities no longer collecting the rates on behalf of the Regional Council result from decisions of central government which local authorities opposed.

6. **Recommendations**

That the Policy, Finance and Strategy Committee recommend to Council that it:

- (1) Receive the report and note its contents.*
- (2) Continue to work with territorial authorities with a view to extending the agency relationship, for the collection of WRC rates, beyond 30 June 2003;*
- (3) Authorise officers to actively investigate options for the separate collection of WRC rates so that if necessary the Council is positioned to collect its own rates with effect from 1 July 2003;*
- (4) Request officers to seek an extension of time for the implementation date of some or all of the LGR to ensure that any change in collection arrangements will be able to be appropriately managed with minimal risk to the community; and*
- (5) Request officers to report back to the Committee as the process unfolds.*

Report submitted by:

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Attachment 1: Report 00.17

Public Excluded

Report 00.17

27 January 2000

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Report to the Policy and Finance Committee

From Ted Maguire, Council Secretary

Greg Schollum, Chief Financial Officer

Philip van Dyk, Policy Analyst, Council Secretariat

Review of Rates Collection Arrangements**1. Purpose**

To report on a recent review of the Wellington Regional Council's (WRC) rates collection arrangements (as detailed in the attached **Report 99.646** to the General Manager), and to seek a decision in principle on the Council's preferred approach to rates collection in the future.

2. Background**2.1 Why Review WRC Rates Collection Arrangements?**

A key driver for the review was to align WRC rates collection arrangements with the Council's Community Connections strategy. Rates collection may be viewed as a specific tool, among others, for community connection. The review assessed the costs and benefits of different options for collecting WRC rates. The questions providing a strategic framework for the review were to what extent, if any, different rates collection options would affect:

- Awareness of the WRC within the regional community
- Support for the WRC from the regional community
- WRC's accountability to the regional community
- Rates compliance in the regional community
- Efficiency for the regional community.

It is also timely to review the WRC's rates collection arrangements because the cost of any decisions for change should be factored into the Long-term Financial Strategy process.

Another significant factor influencing the review is the Government's review of local government funding powers, which may require, among other things, separate rates assessment notices for all local authorities, even where rates are collected by territorial authorities (TAs) on behalf of a regional council. The Government aims to have amending legislation through the House by mid-2001, which would be followed by a transitional implementation period of some years.

Lastly, the views of TAs in this matter, and the way in which some have tried to use their regional rates collection services as leverage in their relations with the WRC also underpin this rates collection review.

2.2 **Current Rates Collection Arrangements**

The TAs in the Region are contracted to collect most regional rates on behalf of the WRC. The current combined rates collection arrangements were established by the Local Government (Wellington Region) Reorganisation Order 1989 and have been sustained by subsequent rates collection agreements with each of the TAs. The Council has periodically reviewed its collection arrangements and to date has consistently retained the current system.

There have been a number of improvements in the WRC's rates collection processes over the years. Transparency and accountability have been improved in WRC rates collection by:

- WRC rates being collected exactly as the Regional Council makes them, with its respective Transport and Stadium Rate differentials being applied; and
- WRC rates being clearly identified separately on rates assessment notices.

WRC pays the TAs a total collection fee equivalent to 2% of the regional rates collected, budgeted at \$840,000 (excl GST) for 1999/00.

3. **Comment**

3.1 **Rates Assessment Notices**

Examples of TA rates assessment notices, which include WRC rates, are included in Attachment 6 of Report 99.646. While these notices all contain basically the same information, they vary in terms of the presentation of that information, especially with respect to the visibility of WRC rates. The Wellington City Council (WCC) assessment notice most clearly displays WRC rates in a red box, and has the appearance of a joint notice, displaying with equal prominence the WRC and WCC logos. We favour this approach and believe it is consistent with the transparency sought by critics of the current rates collections arrangements. Other rates assessment notices appear in the name of the TA only. Should the current rates collection arrangements be retained, the other TAs in the Region should be strongly encouraged to adopt the WCC model.

3.2 Range of Options

The review explored the following rates collection options:

- **Option 1** – Current combined collection of TA and WRC rates – the status quo
- **Option 2** – Current combined collection of TA and WRC rates *plus* a personalised communication sent annually by the WRC to each regional ratepayer detailing regional outcomes sought and the rating impacts
- **Option 3** – Separate WRC and TA rates assessments with TAs continuing as WRC collection agents:
In same envelope as TA assessment, OR
In separate envelope using same TA instalments, OR
One annual instalment for regional rates only, possibly in lieu of one TA instalment
- **Option 4** – WRC taking full responsibility for separate collection of WRC rates, potentially contracting out various parts of the rates collection process to one or more service providers
- **Option 5** – Private provider or joint LATE to collect all local authority rates in the Region

Following consultation with TA rates managers, Options 1, 2 and 4 emerged as feasible.

3.2 Cost of Feasible Options

The estimated costs of the feasible options are set out in the table below:

	Option 1	Option 2	Option 4
	\$840,000 (current TA services ¹) \$51,000 (Bovine Tb and Scheme rates)	\$840,000 (current TA services) \$51,000 (Bovine Tb and Scheme rates) \$120,000 (basic personalised letter excluding backup ratepayer advisory service)	Approx. \$1,030,000 (contracting out all current TA services, including set-up cost, but excluding in-house costs that could add up to \$300,000)
Total	\$891,000	\$1,011,000	\$1,030,000

Clearly, enhancing the status quo (Option 2) or contracting out all or some parts of the

¹ Services currently provided by TAs include:

- Levying the rate (applying rates to valuation information)
- Generating assessment notices
- Sending out rates assessments
- Collecting the rates (providing various payment options)
- Applying penalty fees and debt collection
- Applying the remissions and exemptions policy
- Maintaining ratepayer accounts and handling queries

collection process currently done by TAs (Option 4) will be more expensive to the WRC than retaining the status quo, especially when the cost exclusions listed above are factored in.

The net cost to the ratepayer overall should also be considered. If the WRC chose to take full responsibility for separate collection of their rates and the TAs lost the 2% regional rates collection fee, then TAs would be required either to find savings or increase their own rates (particularly in the case of smaller TAs). If TAs made no savings and their lost revenue were simply added to their rates, the extra cost to the ratepayer would equal the cost of the WRC's separate collection arrangements, ie around \$1 million pa.

3.3 **Option Assessment**

The following observations are relevant in assessing the feasible options in terms of the strategic framework set out in section 2.1 above:

3.3.1 ***Awareness***

Both options 2 and 4 will raise awareness of the WRC compared to the status quo, although separate rates collection will likely raise a negative profile among some in the community. By contrast, a single communication simply relating individual cost to the regional outcomes will likely have a positive effect due to increased ratepayer understanding of what they are contributing to.

3.3.2 ***Support***

As with the awareness issue, separate rates collection in itself is not likely to increase support for the WRC. Indeed the likely negative ratepayer response would probably, to some extent, lower WRC support. By comparison, the Option 2 communication is likely to increase support from ratepayers.

3.3.3 ***Accountability***

If accountability is defined broadly as telling ratepayers about what the WRC does to achieve the regional outcomes that the ratepayers fund, then clearly Option 2 would increase accountability. Option 4 in itself will not achieve this, although it may increase transparency by further separating the association of TA and WRC rates.

3.3.4 ***Rates Compliance***

Separate rates collection would likely lead to lower rates compliance, initially at least, and an increase in unpaid rates, especially at first, as separate collection may be viewed as a new rate. Option 2, on the other hand, may enhance compliance as ratepayers understand more clearly the benefits of paying their regional rates.

3.3.5 *Efficiency*

The lowest cost option is clearly the status quo. Preliminary costings for Options 2 and 4 are not hugely greater than current costs. However, the net cost to the ratepayer of withdrawing the TA rates collection fee (under Option 4) must also be considered. Separate collection effectively means a duplication of WRC and TA rates collection processes.

4. **Conclusion**

While the Government's review of local authority funding powers may have significant legislative impacts on the WRC's rates and how it collects those rates, it is too early to assess the extent of those impacts. There is a sense that separate rates assessment notices, at least, are inevitable. New legislation is expected in mid-2001 and it is very likely that any significant legislative changes would take some years to implement. It would therefore be prudent to wait for legislative clarity before making any significant changes to WRC rates collection arrangements.

Of the feasible options, it seems that separate rates collection in itself would contribute little to improved relations with ratepayers; indeed, it could well be detrimental to those relations. However, enhancing the current rates collection arrangement by sending out a personalised communication to ratepayers detailing the regional outcomes they each contribute to is very likely to improve the Council's connections with the regional community.

The most efficient method of collecting regional rates is the status quo. This approach could be made more effective by introducing the Option 2 communication, in conjunction with other communication tools in the Community Connections strategy.

These findings are supported by a focus group exercise in November 1999. The groups were made up of regional residents and discussions included the Council's accountability to ratepayers and residents, and its funding options. The focus group report states that people did not see any advantages in the WRC rating separately, which was thought to be expensive and unnecessary.

Any increased expenditure on the rates collection process would have to be funded from rates.

Should the Council decide to retain the current rates collection arrangements, it is considered important that TAs be encouraged to adopt the format of WCC rates assessment notices.

5. **Communications**

It would be in the interests of both the WRC and its ratepayers to publicise the outcome of this review and the reasons behind the Council's preferred approach to rates collection in future. *Elements* is a very appropriate vehicle for this.

6. Recommendations

That the Policy and Finance Committee:

- (1) *Receive this report and note its contents;*
- (2) *Recommend to Council support in principle to:*
 - (i) *Maintain the current regional rates collection arrangements whereby territorial authorities in the Region collect regional rates on behalf of the Wellington Regional Council; OR*
 - (ii) *Enhance the current combined collection of territorial authority and Wellington Regional Council rates by sending out annually a personalised letter to each Wellington Regional Council ratepayer detailing the cost of regional rates and regional outcomes they fund; OR*
 - (iii) *Take full responsibility for separate regional rates collection, potentially contracting out a mix of the collection process to one or more service providers, and seek a further report from officers detailing the implementation of this option.*
- (3) *Recommend that Council direct officers to encourage other territorial authorities in the Region to adopt the Wellington City Council model of rates assessment notices, should the Council decide to continue the combined rates collection arrangement.*

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