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Report PE02.238

10-May-02

File: G/6/2/11

Report to the Policy, Finance and Strategy Committee

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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.*

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Attachment 1: Report 00.17