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Report PE02.659

25 October 2002

File: G/6/2/11

CFO/24/1/1

Aedghill:WPData/reports/Various/2002

Report to the Policy, Finance and Strategy Committee
from Greg Schollum, Chief Financial Officer,
Wayne Hastie, Council Secretary

Future Rate Collection Arrangements, post 1 July 2003

1. Purpose

To report back to the Committee on progress made in implementing the Council resolutions arising from report PE02.238 and to seek approval of a new Rate Collection Agreement, which has been prepared in conjunction with eight of the nine territorial authorities in the Region.

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 General

On 14 May 2002 the Committee considered report PE02.238 (refer **Attachment 1**) and resolved that Council:

- (1) *Receive the report and note its contents.*
- (2) *Agree that continuing the agency relationship with territorial authorities for the collection of WRC rates beyond 30 June 2003 be the preferred option given the net benefits which will accrue to ratepayers;*

- (3) *Continue to work with territorial authorities with a view to extending the agency relationship, for the collection of WRC rates, beyond 30 June 2003;*
- (4) *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;*
- (5) *Request officers to seek an extension of time for the implementation date of some or all of the Local Government (Rating) Act 2002 to ensure that any change in collection arrangements will be able to be appropriately managed with minimal risk to the community; and*
- (6) *Request officers to report back to the Committee as the process unfolds.*

Since 14 May 2002 WRC officers have been working closely with rating officers from the territorial authorities (TA's) in the Region, with a view to implementing the above resolutions, in particular Council's preferred option of continuing the agency arrangements with TA's. In addition, WRC officers issued a request to the market seeking proposals from suppliers to supply part, or all of, the rate collection services required by WRC. Councillors were briefed on progress to date at a workshop on 11 September 2002 and a summary of progress on the two broad streams of work is detailed in sections 3.2 and 3.3 below.

3.2 **Working with TA's to extend the current Agency arrangements (stream 1)**

Following an exchange of correspondence at Chief Executive level and a subsequent meeting on 24 July 2002, the Chief Executives of all Councils in the Region, excluding Tararua District, agreed that continuing with the current agency arrangements was a sensible course of action for the WRC to pursue. (As WRC ratepayers within the Tararua District can be counted on the fingers of both hands, the exclusion of Tararua District Council from these arrangements does not invalidate the collaborative approach from a regional perspective).

The Chief Executives delegated to the rating officers within each Council the implementation of the processes necessary to achieve the following terms of reference:

- To co-ordinate and advise Chief Executives on new regional rate collection arrangements so that all parties can effectively manage the transition to a new environment complying with the Local Government (Rating) Act 2002.
- To share ideas, experience and issues so that regionally we make a good job of implementing the new legislation.
- To identify and take advantage of opportunities to work jointly on stakeholder management issues.
- To identify, and where appropriate eliminate over time, differences in rating policies (e.g. remissions and postponements) between the various Councils within the Region.
- To assess the feasibility of co-ordinating valuation and database management services on a regional basis.

Since early August 2002 a Rating Officers' Forum has been meeting regularly with a view to delivering on the above terms of reference.

Essentially, the Forum has had two prime areas of focus:

- ⇒ Compliance with the new Rating Act (for both TA's and WRC)
- ⇒ Future collection arrangements for WRC rates

This has been a very positive and valuable Forum, which we're sure has been of benefit to all participating Councils in the Region. Because of WRC's strong interest in the success of the Forum, WRC has co-ordinated the activities of the group, including chairing all meetings.

During the same period (August to October 2002) the TA's rating officers sought formal resolutions from their respective Councils in relation to the future collection of WRC rates.

All Councils have now formally considered their positions on the matter. With the exception of Tararua District Council (as noted above), all TA's in the Region have resolved in principle to continue to act as WRC's collection agent, and most have delegated their officers the authority to enter into a new Rate Collection Agreement with WRC (only KCDC requires the new Rate Collection Agreement to be approved by its Council).

Refer to **Attachment 2** for a summary of the position of each Council.

We are now at a point where we have prepared, in conjunction with TA rating officers, a new Rate Collection Agreement ready for execution by the parties (refer **Attachment 3**).

As seven of the eight TA's have already delegated authority to sign the Agreement to officers, the new agreement can be executed quite quickly once the parties confirm they are happy to sign it.

In this respect, written confirmation has been sought from each TA as to their respective rating officer's and Chief Executive's willingness to sign the agreement once approved by the WRC (refer **Attachment 4**).

At the time of writing this report written confirmation has been received from two of the TA's. We will update the Committee as to responses received, at the meeting on 31 October 2002.

3.3 **Actively investigating alternative rate collection arrangements (stream 2)**

During July 2002 WRC officers issued a Request for Proposal for a new rating system and associated rate collection services to cover the eventuality that WRC is unable to reach a satisfactory arrangement with the TA's for rate collection, post 1 July 2003.

We sought proposals from suppliers on the following basis:

- Providers of parts of the total solution (e.g. providers of rating software, mailing and banking services)
- Providers of the total rate collection solution, similar to the services provided by TA's now, ('end to end' solutions encompassing all the components required for WRC to collect WRC rates)

We received a good response from suppliers offering either parts of the rating solution or from 'end to end' providers offering the total solution. The providers offering the total

solution tended in most cases to be consortia of a range of suppliers, each offering a specialised part of the rating services required.

WRC officers have since shortlisted three end to end providers and three providers of rating software. The remaining services which WRC may require (e.g. print/mail services) will be evaluated at a later date, if the Council decides that it should move away from the current agency arrangements with TA's.

However, given the good progress made with TA rating officers, backed by the commitment (in the form of resolutions) of the Councils themselves, we have been putting most of our effort in recent months into trying to extend the current agency arrangements with TA's (in accordance with the Council's preferred option arising from consideration of report PE02.238).

Nevertheless, we have been able to determine that we do have other options, albeit now with limited time for implementation from 1 July 2003.

4. Assessment of the two broad streams – continuing with the TA's vs WRC direct rating

In assessing the relative merits of the two broad options before the Council, officers believe that the following factors need to be considered:

- Risk to the Council
 - ⇒ risk of not collecting the requisite level of rate revenue (revenue risk)
 - ⇒ risk of not complying with the new Rating Act (compliance risk)
 - ⇒ risk of loss of reputation (reputation risk)
- Cost of collection
 - ⇒ overall cost to the ratepayer
 - ⇒ cost to WRC ratepayers
- Other factors
 - ⇒ ability of the WRC to act without restrictions in relation to WRC rates
 - ⇒ desire of all Councils in the Region to collaborate, where its makes sense to do so

4.1 Risk to the Council

4.1.1 Revenue Risk

As the Committee is aware, the TA's have acted as WRC's rate collection agents for many years and during that time WRC has generally been able to collect the level of WRC rates set in the Council's Annual Plan each year.

Therefore the risk of continuing to collect WRC rates by using TA's as collecting agents is considered to be low.

By contrast, a move away from TA's into direct rating would be expected to significantly increase the revenue risk to the Council. This is on the basis that it would represent a move away from a 'tried and true' collection method, where the processes are proven, into new territory. Quite apart from the risk associated with changing systems, the fact

that ratepayers would be asked to pay a separate invoice for WRC rates would be expected to increase the cash collection risk.

In the view of officers, the overall revenue risk would be exacerbated by the short timeframe now available to implement alternative collection arrangements.

4.1.2 Compliance Risk

The risk of non-compliance with the new Rating Act is expected to be higher than under the status quo, irrespective of what option is chosen going forward. This is a reality whenever a new piece of legislation takes effect. However, a decision to remain with the TA's as WRC's collecting agents is expected to be a lower risk option than WRC direct rating. The pros and cons of remaining with the TA's in terms of compliance risk are as follows:

Pros

- TA's have a wealth of institutional knowledge in relation to detailed rating matters which would become less accessible to WRC should the Council move to direct rating.
- Two of the TA rating officers in the Region were on the steering group which advised the Government on the shape of the new Rating Act and thereby have a very good appreciation of the new requirements.
- The Rating Officers' Forum has proven to be a useful mechanism for raising and solving compliance issues. The continuation of the positive, collaborative mood at the Forum is dependent on having a common purpose. A move away from using TA's as WRC collecting agents will in all probability dilute the value of the Forum going forward.

Cons

- There are some limitations imposed by the rating software maintained by some of the TA's which make perfect compliance with the new Act probably unachievable. A series of workarounds have been developed so as to achieve material compliance in the short term. The TA's have agreed that as and when they upgrade their software these areas of non-compliance will be minimised. It is worth noting that the issue of non-compliance applies equally to the TA's and the WRC. WRC and TA officers have discussed the situation with the Audit Office and they are not unhappy with the workarounds proposed.

4.1.3 Reputation Risk

The Council's reputation risk is almost certainly higher should WRC move away from using TA's as collecting agents and establish its own direct rating capability. Not only are the chances of something going wrong implicitly higher under a direct rating scenario, as a result of the complete change in processes that would be required, but the TA's already have established relationships with ratepayers for combined rate collection services.

Summary

A summary of the risk profile is as follows:

	TA's continuing as Collecting Agents	WRC direct rating
Revenue risk	Low	High
Compliance risk	Medium	High
Reputation risk	Low	High

It is likely that the risk profile would change over time with the risk of WRC direct rating reducing once the change was bedded in.

4.2 **Cost of Collection**

4.2.1 Overall cost to the Ratepayer

As has been noted in all previous reports on rate collection arrangements, the most intractable issue facing separate collection by WRC (direct rating) has been the increased overall cost to ratepayers. This is because under the status quo, the WRC pays the TA's rate collection fees and these collection fees received by the TA's are used to offset their own rates.

Therefore, the net benefit to the community that would be foregone by any move away from TA's acting as collecting agents would equate to the total rate collection fees currently paid to the TA's and the penalty income which the TA's currently retain (approximately \$1.3 million pa in total).

It has been this single issue which has driven all parties to try and retain the current agency arrangements.

4.2.2 Cost to WRC Ratepayers

The cost to WRC ratepayers associated with collection of WRC rates is expected to increase under either scenario of:

- ⇒ TA's continuing as collecting agents or
- ⇒ WRC direct rating

Although it is not possible at this stage to assess the exact impact on future rate collection costs, officers have estimated that the 2003/04 budget for rate collection costs, even if we reach agreement with the TA's to continue as Council's collecting agents, may need to increase by at least \$150,000.

Factors driving this increase include:

- Costs associated with sending separate WRC and TA rate assessments (currently a combined assessment is generated).
- Costs of maintaining on-line access to TA rating systems (currently WRC has no on-line access)
- Costs associated with collecting pest/scheme rates (currently WRC administers the rate collection services for these rates).

- Costs associated with making the Rating Information Database publicly available.
- Costs associated with the difference between the compensation for penalties paid to TA's and the level of penalty income officers are comfortable to budget for in future.
- Costs associated with increased valuation charges for maintenance of capital value information in respect of KCDC (a condition of KCDC's approval of the rate collection arrangements).

This is in addition to the one-off unbudgeted costs expected to be incurred during 2002/03 in order to put into effect the future rate collection arrangements. Such costs are expected to include:

- Costs of changing TA rating software to enable appropriate separation of WRC and TA rating records.
- Costs of establishing on-line access to TA rating systems (e.g. new hardware).
- Costs of setting up WRC's report writing needs associated with each of the TA's rating systems.
- Costs associated with redesigning rates assessments and rates invoices to comply with the new Rating Act.
- Costs associated with changing the collection arrangements for collection of WRC pest/scheme rates (all WRC rates for a property must now appear on one assessment).

At this stage, such one-off costs are expected to be between \$150,000 and \$250,000. These costs will need to be firmed up in the coming months and we expect to report these to Council as part of the six month review, to enable the expenditure to be funded in 2002/03.

4.2.2.1 Comparison of ongoing costs of rate collection - agency arrangements vs direct rating

A comparison between the expected ongoing costs of rate collection under a new Rate Collection Agreement with the TA's, and the costs of direct rating indicates that the costs to WRC of all options are likely to be of a similar order of magnitude:

	<u>Indicative Costs p.a.</u>	<u>Notes</u>
• Cost of new Rate Collection Agreement with TA's	\$1.6 million	Includes an allowance for additional costs incurred by WRC but not paid to TA's (e.g. costs associated with RID)
• Cost of Direct Rating (end to end solution)	\$1.7 million – \$2.1 million	Cost range depends on which provider is chosen
• Cost of Direct Rating (WRC acting as integrator of solution)	\$1.8 million	Actual costs would depend on volumes such as enquiries to call centre

NB: The indicative costs noted above, particularly related to the costs of direct rating, have not yet been firmed up as officers have been primarily focussed on trying to reach a consensus with TA rating officers on a new rate collection agreement.

4.3 Other Factors

4.3.1 Ability of the Council to Act without Restriction in Relation to WRC Rates

There is little doubt that rate collection under combined collection arrangements with the TA's will be more restrictive than WRC conducting direct rating on its own. Combined arrangements by their nature are more of a partnership and from time to time will require compromise between the parties.

Such restrictions may manifest themselves in future in areas such as:

- Format of rates assessments/rates invoices
- Ability of WRC to freely change the basis of setting/assessing WRC rates (e.g. use of new rating tools)
- Ability of WRC to have discrete policies (e.g. remissions of penalties)

In the view of officers such restrictions shouldn't invalidate the use of agency arrangements with TA's in the future. Rather, they represent areas where good quality consultation will be required if the arrangement is to remain a win/win.

4.3.2 Desire of Councils in the Region to collaborate, where it makes sense to do so

The response received to date from TA's, at both officer and elected member level, has been very encouraging. It would be a shame therefore if agreement could not be reached with TA's in respect of a new Rate Collection Agreement.

Regional collaboration lies at the heart of the new Local Government Bill and shared services are increasingly being talked about in local government circles as a way of ensuring local government efficiency is optimised.

A move away from the current agency arrangements with TA's would run counter to the collaborative spirit which currently exists.

4.4 **Summary of the Two Broad Streams (Continuing with the TA's vs WRC Direct Rating)**

Although officers have been focussing hard on trying to implement Council's preferred option in respect of future rate collection arrangements, some work has been done on looking at alternative options. That work has highlighted the following:

- The risks to the Council are expected to be significantly lower, particularly in the short term, by continuing with the agency arrangements with TA's.
- The TA's and the ratepayers in the Region would be disadvantaged by at least \$1.3 million p.a. should WRC and the TA's not reach agreement on a new Collection Agreement.
- The costs to WRC of moving to direct rating are expected to be broadly similar to those of continuing with the current agency arrangements.
- Whatever option is chosen for future rate collection arrangements the WRC is likely to incur unbudgeted one-off costs and additional unbudgeted ongoing costs.

- Both the WRC and the TA's will need to accept some restrictions around rating policies and practices as a result of continuing with combined collection arrangements.
- If the parties can agree to enter into a new Rate Collection Agreement, it will be consistent with the spirit of Regional collaboration contained within the Local Government Bill.

5. **Where to from here?**

The focus of the Rating Officers' Forum in the past few months has been on assessing the impact of the new Rating Act and on trying to reach agreement on a new Rate Collection Agreement for collection of WRC rates. Discussions have been constructive and in the view of officers the agreement which is attached as **Attachment 3** represents a good balance between the TA's desire to have the freedom to act and the WRC's requirement to ensure it materially complies with the new Rating Act.

In our view, we are close to reaching agreement with all TA's although at the time of writing this report, only two written confirmations had been received from TA's to support that contention.

The next key step is clearly to look at the position of each TA in relation to the written confirmation sought (refer **Attachment 4**).

In the event that such written confirmations are forthcoming, we should be in a position to enter into new agreements with each TA within the next few weeks.

However, if such outstanding confirmations are not forthcoming, or if they are signed off "subject to" further major amendments being made to the agreement, we will have to carefully reassess our position.

We believe that we have acted in good faith throughout our discussions with Rating Officers and that all parties (including WRC) have been trying to implement the wishes of all Councils in the Region (except Tararua) by putting in place new Rate Collection Arrangements post 1 July 2003. We are hopeful that this continues to be the case as we attempt to "close the sale".

In the event that we are able to reach agreement with the TA's the focus will need to quickly move to implementation of the Agreement as there is much to do before 1 July 2003.

However, should negotiations with the TA's fall down, we will be faced with the need to implement an alternative solution in a very short time frame which will be more risky and more expensive for the Region's ratepayers.

6. **Communications**

Not applicable at this time.

Recommendations

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

- (1) Receive the report and note its contents.*
- (2) Confirm that continuing the agency relationship with Territorial Authorities for the collection of WRC rates beyond 30 June 2003 be the preferred option, given the net benefits which will accrue to ratepayers.*
- (3) Request Officers to obtain from Territorial Authorities by 8 November 2002, all written confirmations of their intention to enter into a new Rate Collection Agreement with the WRC.*
- (4) Subject to obtaining the agreement of the Territorial Authorities, approve the Memorandum of Agreement included as **Attachment 3** to the Report, with any minor amendments to be approved by the Chief Financial Officer and Council Secretary.*
- (5) Agree that in the unlikely event that agreement with the Territorial Authorities cannot be reached by 8 November 2002, instruct officers to implement alternative rate collection arrangements as required.*

GREG SCHOLLUM
Chief Financial Officer

WAYNE HASTIE
Council Secretary

Attachment 1: Local Government (Rating) Act 2002 – Implications for WRC Report PE02.238

Attachment 2: The formal position of each Council in the Region in relation to collection of WRC rates post 30 June 2003

Attachment 3: Memorandum of Agreement – Concerning the Rating Information Database, the Rating Information System and Collection of Wellington Regional Council Rates

Attachment 4: Memorandum of Agreement – Confirmation of Officers.