

Report 00.17
27 January 2000
File: G/6/2/11

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.*

TED MAGUIRE
Council Secretary

GREG SCHOLLUM
Chief Financial Officer

PHILIP VAN DYK
Policy Analyst, Council Secretariat

Approved for submission:

HOWARD STONE
General Manager

Attachment: Report 99.646