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CASE STUDY

Northland Rating Forum

Northland Regional Council, Whangarei District Council
Far North District Council, Kaipara District Council

Presenters

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NORTHLAND RATING FORUM

Executive Summary

1. The passage in late 2001 of the Local Government (Rating) Act 2002 and Local Government Act 2002 was the catalyst for realising that we were all entering a new era of rating that:
 - The new Rating Act removed the guarantee that regional rates would be collected by districts for a nominal fee prescribed by the Local Government Commission. Instead the legislation required that any new arrangements would have to be put in place by a process of negotiation and agreement.
 - The Act introduced significant reform to the various rating mechanisms, particularly in respect of targeted rates and granted regional councils similar powers to those that had formerly been restricted to territorial authorities – the regions had much to learn from their colleagues in neighbouring councils.
2. In Northland the situation was that rates collection had been managed by the three district councils – Far North, Kaipara and Whangarei since reorganisation in 1989. As a result of effective liaison over the years, the councils' finance and rating staff knew each other reasonably well. That was a good foundation on which to build a closer relationship by free negotiation within the new legislation.
3. The Northland economy, despite its recent reputation as a fast growing coastal economy, had typically lagged behind the development of most other regions.
4. While averages may be confusing, it was recognised that the typical Northland ratepayer, excluding a few wealthy retirees and business people, was a family, a beneficiary or pensioner living in modest homes, with modest incomes (generally well below the national medians).
5. The economic burden of adding the costs of a fourth rating system (regional council based), plus the consequential staffing requirements did not appear to be in the best interests of our joint ratepayers.
6. There was also a strong political incentive to show that the Northland authorities could work closely together where economies of scale and efficiencies could be obtained.
7. Accordingly, a working party of senior officers (Rating Forum) was established to review how the then current collection arrangements could be continued in the new rating era of the Local Government (Rating) Act 2002.
8. After a significant number of meetings and negotiations, a new workable agreement was reached in 2003.
9. The four councils have worked together successfully since that time and the original agreement was renewed in 2006 with only minor modification.
10. The effective collegial relationships established at that time have allowed for a broader relationship to develop where other matters of common concern/challenge have

presented themselves, i.e. in respect of the introduction of International Financial Reporting Standards (IFRS).

The Problem or Issue / Initial Environment

The problem to be addressed was that, as a result of the enactment of the Local Government (Rating) Act 2002, there was no longer any legislative basis requiring the three Northland territorial authorities to collect rates on behalf of the Northland Regional Council (NRC).

The NRC did not have the staffing experience nor the system support to undertake its own rate collection functions. Unlike the position that a number of other regional authorities adopted, the NRC did not believe that it was in the best interests of the Northland ratepayers to add the necessary resources to collect a relatively small amount of rate funds (\$5.5m in 2003-04).

The principal issue was therefore to provide a mechanism to collect the NRC's rates as efficiently as possible and at least cost to Northland ratepayers.

Description of the Project / Response

This section has been divided into several subsections that discuss the various issues that arose as part of the project.

Governance Issues

The four Northland authorities have an established Mayoral Forum, consisting of the three mayors of the districts and the chair of the region, together with the four CEOs. They meet regularly to discuss matters of common concern and it was this group that developed the concept to establish the rating forum. The Mayoral Forum was concerned to minimise the costs to the region as a whole that might arise out of the change in legislation.

At the end of the day, it was the same ratepayers who would pick up the collection costs, irrespective of whether the region collected its own rates or the territorials did so on their behalf. They also noted that the total amount was relatively small so they actively supported the formulation of a collection agreement.

Change Management Issues

There were two groups of issues that arose as the project evolved. The first of these related to operational matters whilst the second related to rating policy matters.

Operational:

- *Bringing the territorial authority software systems into line with the requirements of the Act* – Each of the three districts used different software systems to manage its rating functions. In all instances modifications were necessary to meet the requirements of the new Act and in particular to address the requirement to separately account for the region's rates. In the past these had been largely incorporated into the total rate ledgers of the territorials. The new requirements meant that there had to be a clear

separation of the different authority's rates and the ability to separately report and account for these. This requirement necessitated modifications to the various software packages that the region was willing to pay for, but did put additional pressure on the territorial authorities' staff who were also endeavouring to address the other changes brought about by the Act.

- *Assessments and invoice formats* – At the outset the authorities agreed that they would use combined assessments and invoices rather than issuing separate ones for the territorial and regional rates. These then had to be designed and agreed up front to ensure that they met the requirements of the Act, clearly separated the district and regional rates and provided the necessary information to ratepayers on the standard issues of due dates, penalties, rate relief policies etc.

Policy:

- *Rate Relief Policies* – It was agreed up front that for operational reasons, there should be a harmonisation of rating relief policies between the region and the territorial councils within each of the regional constituencies. This meant that the regional council had to adopt a variety of policies with the result that its ratepayers would be treated differently depending on where they owned properties, but would be treated the same way by both councils within each district. This approach has not resulted in any particular ratepayer concerns.
- *Rate Setting Mechanism* – One of the most significant issues to be resolved was the regional council's rate setting mechanism. In the past the NRC had set its rates on the basis of capital and land values whereas all rates were collected, by the territorial authorities, on the basis of land value only. This translation process, which was previously provided for in the Rating Powers Act 1988, was no longer included in the new Act. Because of practical considerations, the territorials were not willing to collect the rate set on capital value which meant that the region had to reconsider how to set its rates. NRC decided that it would use a fixed, differentiated rate in place of its capital value general rate from 1 July 2003 onwards. The land management rate would continue to be assessed on the land value basis adopted in 1995 and the differentiated Fixed Environmental Rate would be set as a fixed charge based on location. The differential was based on the net capital value of each of the three districts, to determine the level of the charge.

The required changes were outlined in the NRC's Annual Plan; and as it did not result in any significant change to ratepayers, they did not raise any particular issues during the consultation period.

Ratepayer Issues

- There have been no significant reactions from ratepayers. They were used to the territorial collection of regional council rates in the past, so as far as they were concerned, it was just business as usual.

Agreement Issues

- *Agreements between the NRC and the three territorial councils* – The final step was to negotiate and approve an agreement between the territorials and the region (at officer level) for the collection of rates. This agreement was prepared jointly by the authorities and was widely discussed at a number of meetings of the Rating Forum prior to its finalisation. There are three individual agreements between the NRC and each of the separate territorials. There was no intention of developing one agreement for Northland. These agreements were similar in approach except where there were specific matters that were unique to a particular authority. Each agreement sets out the common standards and service performance levels required from each of the signatories and separately sets out in Appendix 1, the basis of the fees and any specific charges

The Rating Forum is an officer led initiative and matters only reach elected members if there are particular matters that need a decision at the council level, i.e. the councils originally agreed that the territorials would collect the region's rates.

Results – Financial and Service Level Impacts

Costs and Cost Savings

The participant councils are confident that the system was implemented at least marginal cost to ratepayers.

The regional council believes that large savings were made for Northland's ratepayers, by meeting only the additional marginal costs incurred by the District Councils to incorporate the regional council's rates into the district rating systems.

The alternative would have been for the region to have purchased systems and resources that would have been necessary to collect its own rates. Given that there are about 80,000 ratepayers in Northland and the total regional rate requirements are relatively small, the costs would have been prohibitive on any cost/benefit analysis.

As part of the initial discussions, the region considered the possible cost implications to undertake its own rate collection. At a conservative estimate, it could have cost in excess of \$800,000 to \$900,000 per annum to collect its rates depending on the number of instalments chosen plus the one off costs that would have been incurred to set up the necessary systems to manage the collection of rates. It is estimated that there are costs savings of \$300,000 to \$400,000 per annum as a result of the project.

Of particular note was that the agreements provide for any extraordinary costs that might be incurred during the term of the agreement, to be met by the regional authority. This allowed for a renegotiation of fees where, for instance, the region decided to introduce a new rate.

Problems

One problem that has become apparent over recent years is that because historically the regions have not had to deal with the practical implications of rating, there is a general lack of understanding of the realities of the processes that are required when implementing new rates. Whilst the joint agreements provide that the region must give notice no later than March when there is an intention to introduce a new rate in the following rating year, that has not worked in practice, and indeed may not be practical. Examples of this issue are:

- Over the last two years the NRC has introduced two new rates. In one instance the rate was complex for flood protection as it was based on a land area targeted rate using six differentials. While the region gave notice, it did not finally resolve to introduce the rate or its final form until it adopted its annual plan. And indeed, it was still modifying its differential classes up until June before it was to be introduced. This made it extraordinary difficult for the territorial to introduce the rate and emphasised that the technical staff in the region did not understand the implications of their proposals.
- The following year the region decided to introduce a new and somewhat controversial regional events centre fixed rate; however it was not until it adopted the LTCCP in June 2006, that the rate was confirmed and the territorials could update their systems to handle it.

What is being noted here, is that there can be practical issues associated with territorials collecting regional councils' rates, particularly when the regional council does not sufficiently understand the practical issues of implementation. For example, technical staff at the regional council do not understand that new rates have to be introduced through the LTCCP process which can result in the region deciding to adopt a new rate without considering the practical implications. These issues can be overcome with sufficient planning and good will on both sides.

In general, service levels have improved for ratepayers with the transparency of newly designed assessments and invoices which more clearly distinguish between district and regional rates. In addition procedures have been put in place to allow ratepayers to pay their rates at the regional council's offices and any payments received are turned around within 24 hours to district offices.

Prospects / the Future

The success of the joint rating forum that has developed in Northland has led to a broader sharing of common problems and issues. In particular there has been shared training and the establishment of project plans to implement the requirements of International Financial Reporting Standards.

It has also been a very useful sounding board during various stages of implementing the Long Term Council Community Plan regime and in particular Northland Regional Council also shared totally in the community outcomes project to order to achieve harmonisation in broad measures across the region for outcomes and to share the costs of the various consultants.

The members of the Rating Forum agreed at the end of the initial implementation in mid 2003, that the forum should continue to exist and to meet regularly to discuss matters of

common interest and to ensure that issues arising in future rating years would be adequately addressed at the appropriate time.

One of the latest matters of consequence, which is being discussed by the Rating Forum is that of the triennial revaluation. The officers within the authorities would ideally like to harmonise their revaluation periods which would assist to address the variations that occur with the basis of the NRC's fixed targeted rate. In addition the authorities are considering whether they should seek a joint contract for valuation service, and perhaps reviewing, once again, the shared valuation database system operating in the Waikato region. Eighteen months ago, the system was demonstrated to one of the Forum's quarterly meetings, but at that stage there was little interest in pursuing it further in the near future.

Adaptability / Transferability

The joint collection system also operates in four of the twelve other regions: Bay of Plenty, Taranaki, Wellington and Canterbury. That has already proved the system to be 'transferable' or viable. However it is noted that regions with more than three to five districts may face more issues on which to compromise in order to reach compatible solutions and still achieve cost efficiencies. Each region worked independently with the neighbouring territorial authorities and it appears that agreements differ quite substantially. That is, in Taranaki, the districts take all penalties income on all rates, and pay the regional rate instalments on due dates. Greater Wellington has adopted the philosophy that regional ratepayers should be rated on a common policy basis by the region, in lieu of ratepayers receiving the same policies within Districts as in Northland.

Conclusions

A key ingredient is goodwill by all parties to the project, in order to work through the issues that inevitably arise from time to time. It is important to be always mindful of the end objective – the efficient and effective service to ratepayers at least cost, or at least to avoid unnecessary duplication in compact regions that would add further overhead costs to the rates burden.

Contact for Further Information

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