HUTT CITY
TE AWA KAIRANGI

FINANCE AND PERFORMANCE COMMITTEE

Meeting to be held in the Hutt City Council Chambers, 2nd Floor, 30 Laings Road, Lower Hutt on
Wednesday, 28 February 2018 commencing at 5.30pm

SUPPLEMENTARY AGENDA

4.a) **Rates Postponement Scheme for Residential Ratepayers Aged 65 and Over** (18/246)

Report No. FPC2018/1/61 by the Team Leader Rates and Debt 2

CHAIR'S RECOMMENDATION:

"That the report be received and discussed."

HUTT CITY TE AWA KAIRANGI

Finance and Performance Committee

22 February 2018

File: (18/246)

Report no: FPC2018/1/61

Rates Postponement Scheme for Residential Ratepayers Aged 65 and Over

Purpose of Report

1. The purpose of this report is to provide the Committee with relevant information necessary to fully consider a proposed new rates postponement scheme for Hutt City residents aged 65 years and over.

Recommendations

That the Committee:

(i) directs officers on whether to proceed with the development of a draft rates postponement policy for residential ratepayers aged 65 years and over, that is consistent with the criteria and conditions as outlined in the officer's report, or otherwise as instructed, and

(ii) notes that a draft rates postponement policy for residential ratepayers aged 65 years and over, would need to be adopted by Council as part of the Draft 2018-2028 Long Term Plan and a special consultative process would be required. This consultation would be included in the Long Term Plan consultation process.

Background

2. In 2006, the Council decided against adopting a rates postponement policy for residential residents aged 65 and over. When people reach 65 years of age, they still have many years of living to fund, thanks to increased life expectancies. 60% of those aged 65 and over depend entirely or largely on NZ Superannuation for their income. As a result, money can be tight, especially when unexpected expenses arise. This is further exacerbated when interest rates on bank deposits are low (as they are currently), and

Council rates rise each year and take up a larger portion of elderly peoples largely 'fixed' incomes.

3. The Council currently has a rates remission and postponement policy for Maori freehold land and a short term (typically between 12 to 24 months) rates postponement policy to assist ratepayers experiencing financial circumstances which affect their ability to pay rates. This later policy requires applicant ratepayer(s) to establish acceptable payment arrangements with Council for payment of future rates before rates will be postponed.

4. The objectives of a rates postponement scheme for residential ratepayers aged 65 years and over are not specifically aimed at addressing financial hardship, but rather, the main objectives of this type of scheme are :

   - To provide residential ratepayers with the choice between paying rates now or paying them later, and
   - To ensure that the full costs of the rates postponement must be fully recovered from the applicant ratepayer(s) and be cost neutral to Council.

5. A rates postponement scheme for residential ratepayers aged 65 years and over potentially provides additional non-monetary benefits to eligible ratepayer(s), these being:

   - The potential to further reduce anxiety and improve general wellbeing.
   - Assures the applicant(s) that their property is safe from Council's legislative recourse, due to non-payment of rates.
   - Contributes to prolonged occupation of the property, promoting longevity of neighbourhood relationships.
   - Helps reduce demand on Council to provide additional housing for the elderly.

   Although similar benefits could also be obtained by residential ratepayers from reverse mortgages offered by commercial banking institutions (see below).

6. It should be noted that there are a number of Councils (Greater Wellington Regional Council, Wellington City Council, Kapiti Coast District Council, South Wairarapa District Council, Queenstown Lakes District Council, Nelson City Council, Christchurch City Council, Hamilton City Council, for example), that have adopted a rates postponement policy for residential ratepayer's aged 65 years and over.

7. Auckland Council also has such a policy but recently elected to drop the age criteria and offer rates postponements to all of its ratepayers, subject to other qualifying criteria and conditions. Officers would not endorse a similar arrangement for Hutt City.

8. Whilst qualifying criteria, conditions and the term of the rates postponement are variable between Councils', the number of ratepayers utilising the rates postponement schemes are relatively low. The Office of the Auditor General audited four Councils' rates postponement policies in 2006, noting that only

29 ratepayers in total were utilising those policies. Kapiti Coast District Council has had a policy for several years but to date, have not had a residential ratepayer elect to postpone their rates.

Reverse Mortgages offered by Commercial Banking Institutions

9. Reverse mortgages or “home equity release” financial products are currently offered by commercial banking institutions in New Zealand, such as Heartland Bank and SBS Bank.

10. A reverse mortgage lets you borrow funds using your home as security. This means you can free up part of the value of your house without having to sell it. The lender gets its money back (plus interest) when your house is sold – which is usually when you go into full-time care or you die, or the last person named on the reverse mortgage document permanently leaves the property. Normal qualifying criteria includes the following:

    - You must be at least 60 before you can apply for a reverse mortgage.
    - You can only borrow a percentage of your home’s value.
    - Your home needs to be mortgage-free, although you may be able to borrow if you have a small mortgage left and use the loan to pay it off.

11. Reverse mortgages generally come with a lifetime occupancy guarantee, which gives borrowers the right to live in their home for as long as they choose. They also usually offer a no negative equity guarantee that ensures that you or your estate won’t have to repay more than what your house sells for.

12. Finally, the lender may offer equity protection, which guarantees a pre-set percentage of your equity is “protected” when it’s time to pay back the loan, no matter how much you owe. The drawback is that the amount you can borrow is reduced as a result of taking this option.

13. Reverse mortgages can be issued as a lump sum, funds can be drawn only when needed or borrowers can receive regular payments. Interest rates on reverse mortgages can be up to 2% higher than standard mortgage interest rates.

Council Rates Postponement Scheme for Residents Aged 65 years and Over

14. Subject to Council approval, a rates postponement policy for residents aged 65 years and over would be an accessible alternative to a reverse mortgage. Whilst this policy would not be income tested, a definite “belts and braces” type approach, similar in nature to other Council’s postponement policies, should be applied, to best ensure that it would be cost neutral to the Council (i.e. those ratepayers that pay their rates as they fall due for payment).

15. The intention of this report is not to provide a draft rate postponement policy for consideration, but rather, this report seeks to outline recommended criteria and conditions of a rates postponement scheme for residents aged 65 years and over for consideration, should Council decide such a policy warrants further consideration.

16. Any residential ratepayer aged 65 years and over should be eligible for a rates postponement provided that the rating unit is used by the ratepayer as their sole or principal residence. This includes, in the case of a family trust owned property, use by a named individual or couple.

17. If the rating unit in respect of which the postponement is being sought is subject to a mortgage, then the applicant ratepayer should be required to obtain the mortgagee's consent before Council considers postponing the rates. Once the total amount of indebtedness (mortgage and rates postponements) exceeds 60% of the rateable value of the property, Council should cease any further rates postponements to best ensure full recoverability and cost neutrality to Council.

18. When a rating unit is owned by a family trust, Council must be satisfied that all people with an ownership interest in the property have agreed to be part of the rates postponement scheme. As well as trustee(s), this may include all beneficiaries depending on the terms of the trust. Therefore, Council should require a letter from the family trust's lawyers to confirm that the family trust has the ability to postpone rates.

19. When the applicant ratepayer's property is freehold, once the total amount of rates postponed exceeds 60% of the rateable value of the property, Council should cease any further rates postponements to best ensure full recoverability and cost neutrality to Council.

20. The property must always be insured for replacement of the ratepayer(s) property, which should reflect the likely rebuilding costs of the property, including demolition, removal of debris, site preparation, labour and materials, professional, other fees etc, ie what is typically defined by insurers as 'comprehensive cover'. It should be a condition that the Council requires evidence of such insurance to be provided on an annual basis.

21. This rates postponement scheme should be eligible for all rates except for lump sum options, which are rates paid in advance and any central government rates rebates received by the applicant ratepayer(s).

22. Qualifying rates should be eligible for postponement until:

    - The death of the ratepayer(s) or named individual or couple. (a sunset date of between eight to twelve months following the death(s) should be further considered); or
    - The ratepayer(s) or named individual or couple ceases to be the owner or occupier of the rating unit; or
    - The ratepayer(s) or named individual or couple continue to own the rating unit, but are placed in long term residential care (a sunset date of between eight to twelve months following the admission(s) should be further considered), or
    - A date specified by the Council; or
    - Combined indebtedness on the property (mortgage and/or postponed rates), exceeds 60% of the rateable value of the property.

Consultation

23. A rates postponement policy for residential ratepayers aged 65 years and over would be a new Council policy and accordingly, the Local Government Act (2002) requires Council to consult on a draft policy prior to final adoption.

24. Should the Committee and Council wish to proceed with this rates postponement scheme, a draft policy will need to adopted by Council on 15 March 2018 and included as part of Council's 2018-28 Long Term Plan and consultation process.

Legal Considerations

25. A rates postponement scheme for residential ratepayers aged 65 years and older will require Council to register a statutory land charge against the rating unit to best protect its right to recover the full amount of the rates postponed.

26. It should be noted that legislation prevents Council from applying penalties for late payment to unpaid rates where a rates postponement agreement is in place.

27. Furthermore, to fully protect Council against any suggestion of undue influence, Council must require applicants to first obtain independent legal and financial advice. Applicants would also be required to provide Council with evidence that such advice has been provided to the applicant ratepayer(s). Subject to Council approval, this cost could be borne directly by Council and included in the total amount of the rates postponed.

28. Unlike commercial banking institutions in New Zealand, Council is not regulated by the Financial Market Authority and a rates postponement scheme for residents aged 65 years and over is not a contractual transaction in which the Council becomes a debt issuer to eligible ratepayer(s).

Financial Considerations

29. As per Statistics New Zealand, life expectancy (based on death rates in New Zealand between 2012 and 2014), is 83.2 years for females and 79.5 years for males. Therefore, should Council adopt a rates postponement policy for residential ratepayers 65 years or over, it should expect average rates postponement terms of 16 years or more per qualifying rating unit if all applying ratepayers apply when they turn 65. Actual levels of uptake by the community and actual postponement terms will vary and should be considered on a case by case basis.

30. Table 1 below provides an illustrative and scalable example of the total amount of rates postponements that would need to be recovered by Council for up to 100 rateable properties with a rates postponement term up to 25 years. For year 1, this example assumes an average capital value of $470,236 with a total annual rates assessment of $2,925 (including Greater Wellington Regional Council rates). For years 2 to 25, this example has assumed an average total rates increase of 2% per annum.

31. The proposed total amount of rates postponement per applicant(s) would include the total levied rates for the full postponement term, a $500 once-off application/establishment fee, interest charges (applied six monthly using the Council's average cost of borrowings for the period, currently 4.14%, plus an additional 1% applied to the total outstanding balance), and an annual management fee of $100 to cover Council's administrative costs to (a) ensure that the rating unit is insured, (b) ensure at least 60% equity remains in the property for Council to recover the total cost of the rates postponed, and (c) calculate and apply interest and administration fees and provide half yearly rates postponement statements.

Table 1: Total Amount of Rates Postponement to be Recovered						
Number of Properties	Year 1 $000's	Year 5 $000's	Year 10 $000's	Year 15 $000's	Year 20 $000's	Year 25 $000's
1	4	18	43	77	123	184
5	18	92	216	385	614	919
10	36	184	432	771	1,228	1,839
50	181	921	2,161	3,854	6,138	9,193
100	362	1,842	4,323	7,708	12,276	18,387

Impact on Debt

32. It is important to emphasise that any rates postponement(s) provided to eligible ratepayer(s) will increase Council's gross debt (until repayment of the postponed rates). This is because for every $1 dollar of rates that is postponed, Council will need to fund this cash shortfall from additional borrowings.

33. With regards to Council's Financial Strategy limits on net debt, rates postponements will also increase Council's net debt levels. Net debt is a measure of gross debt less any liquid financial assets. Prudently, postponed rates are not considered to be liquid financial assets as there is no certainty that they could be readily converted into cash on demand.

34. Using Table 1 above, the total cost of rates postponements for 5 properties after 15 years would increase both gross and net debt levels by $385,000.

Administrative Impacts and System Changes

35. Officers do not expect a high uptake of this rates postponement scheme, at least not in the short term. Therefore, administration of the rates postponements, including applying interest, management fees and providing six monthly statements are not expected to require any additional resources.

36. Only minor changes will need to be made to Councils rating database and rates management system. Changes include additional billing codes and a flag to be placed on qualifying rate accounts to suppress the automatic charging of penalties on unpaid rates.

Other Considerations

Greater Wellington Regional Council (GWRC)

37. At the time of writing this report, GWRC has a rates postponement policy. This policy has a number of criteria and conditions, the most relevant being that GWRC will postpone rates when:

- A territorial authority in the Wellington region has postponed some or all of the territorial authority rates for the rating unit in the current rating year; and/or
- The ratepayer is experiencing extreme financial hardship.
- A statutory land charge has been registered against the land of the relevant rating unit for their postponed rates.

- Approval of rates postponement is for one year only. Applicants must re-apply annually for a postponement.

38. In making this recommendation, officers have given careful consideration to the purpose of local government in section 10 of the Local Government Act 2002. Officers believe that these recommendations fall within the purpose of the local government in that it provides support to eligible residential ratepayers by way of a rates postponement scheme which is cost neutral to the Council.

Appendices

There are no appendices for this report.

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