

Letter from Mike Underhill, chief executive of the Energy Efficiency and Conservation Authority to the chief executives of each New Zealand regional Council and territorial local authority.

Dear +++

Rates Postponement

Earlier this year the Energy Efficiency and Conservation Authority expanded its reach of household energy efficiency programmes by initiating the EnergyWise Interest Subsidy and Grants programme. The purpose of this scheme is to make household energy efficiency a reality to low and modest income New Zealanders. The programme enables households, with an income less than \$100,000 for up to two earners and \$140,000 for a household with three or more earners, to utilise a government funded interest subsidy to install a range of household energy efficiency measures. The measures include:

- A tailored energy efficiency assessment to the householder;
- Ceiling and underfloor insulation;
- Moisture proofing and draft stopping;
- Hot water cylinder and pipe lagging;
- Low flow shower heads;
- Clean and efficient heating (heat pump, woodburner, pellet burner, gas);
- Solar water heating.

A number of Councils are already offering these services to their communities. The benefits are numerous, including: warmer, drier, healthier homes; reductions in local air pollution and greenhouse gasses; reduced energy bills; and less reliance on the development of new energy infrastructure.

EECA is also very interested in targeting the most vulnerable New Zealanders. A key group that benefits is the elderly who are often asset rich, owning their own properties, but income poor.

EECA has been working with the Rates Postponement Consortium, a collective of 15 councils, on the options for utilising rates postponement as a means to fund the scheme. Further information on rates postponement is attached to this letter.

I encourage your council to participate in the scheme and consider the option of rates postponement in your next round of community consultation and planning.

If you would like more information on the subject please feel free to contact Peter McKinlay, Rates Postponement Consortium (+++++) or Walter Friedel, Manager Government and Local Government at EECA (04-470-2244).

Yours sincerely,

Mike Underhill
Chief Executive

Appendix: EECA EnergyWise - Funding Rates Postponement Option

Background

EECA's EnergyWise interest subsidy scheme relies on homeowners borrowing and then repaying the capital required to purchase the products and services covered by the scheme. EECA assist homeowners by providing an interest rate subsidy of up to \$1250, and selecting and monitoring the performance of approved installers.

Even with the help of an interest-rate subsidy, not all homeowners will be able to afford the cost of the capital repayments, especially if they are on low and/or fixed incomes. It is important that opportunities to improve the energy efficiency of their homes are made available to homeowners for whom capital repayment may be a difficulty - assisting low income New Zealanders is a priority for this programme.

To help these homeowners, EECA has looked for an option which would allow them to draw down some of the equity in their home. After taking advice, EECA has decided that private sector equity release options would not be appropriate for this programme. Instead, working with the Rates postponement consortium, EECA has developed an option based on a combination of a targeted rate and Rates postponement.

The Rates Postponement consortium (www.ratespostponement.org.nz) is a group of 15 councils which has developed an optional rates postponement programme for older people under which, at their own option, they can have their rates postponed indefinitely (in practice until they die or sell their property). The programme includes a number of "best practice" processes designed to protect both the councils, and older people themselves.¹ Amongst these are:

- An independent counselling service, using Relationship Services, to give people wanting to use Rates postponement the opportunity to consider the implications for themselves and their families.
- A detailed financial forecasting model so that both councils, and applicants, can work through different possible outcome scenarios.
- Protocols with major lender groups (the Bankers Association and the Financial Services Federation) for managing the relationship between postponed rates and mortgages.

Normally, councils are required to pay a fee of between \$5,000 and \$15,000 (depending on the population) in order to join the Rates postponement consortium to help meet the costs the original members incurred in developing their rates postponement programme.

EECA has reached agreement with the Rates postponement consortium that councils wishing to join the consortium in order to offer homeowners rates postponement as an option for borrowing to meet the capital cost of installing

¹ (for an independent view of the operation of the consortium's approach to Rates postponement, see the Auditor-General's report Residential Rates Postponement available at <http://www.oag.govt.nz/2006/rates-postponement/>).

energy efficiency measures may do so free of charge. The only condition is that councils agree they will not use the Rates postponement consortium's rates postponement processes for other rates postponement activities without paying the consortium's joining fee.

How will it work?

Rates postponement, so far, has been used only for postponing a council's normal rates. Using a combination of a targeted rate and rates postponement to cover the capital cost of participating in the EECA programme requires a somewhat different approach to comply with the strict terms of the legislation. The principal issue to resolve is that a targeted rate must be struck either as a fixed amount or on an ad valorem basis. It cannot be struck simply as "the cost of providing or enabling access to a service".

The Rates postponement consortium has obtained legal advice on the steps involved so that a combination of a targeted rate and rates postponement can be used to fund the cost of packages of energy efficiency services which will differ from property to property (a copy of the legal opinion is available for councils who wish to take up this option).

In practical terms this means that the use of the targeted rate/rates postponement option involves a two step process with the first and second steps taking place in separate rating years:

Year one

- The ratepayer contracts for the provision of energy efficiency services in terms of the EECA programme and applies to the Council for inclusion within the targeted rate/rates postponement facility.
- Payment for the services is funded by a temporary advance from the council carrying interest at the council's marginal cost of borrowing (the advance can be unsecured - there is no risk to the council as this arrangement is part of a package deal under which the balance due to the council ends up being secured as a postponed rate - the ratepayer's application to the council covers both the temporary advance, and the application for postponement of the targeted rate, once that has been struck).

Year two

- The council levies a targeted rate on all of those properties which, in year one, benefited from a council advance to meet the cost of services within the EECA programme. The targeted rate is set as a standard amount calculated to ensure that it will be adequate to cover the cost of the most expensive individual package likely to be taken out under the programme.
- The difference between the amount of the targeted rate, and the temporary advance plus interest to the previous 30th of June, is remitted under a rates remittance policy adopted for the purpose.
- The ratepayer is granted rates postponement for the amount of the targeted rate less the remittance.

The cost of rates postponement

Rates postponement schemes are normally operated on a break even basis - councils are not permitted to make a profit but may cover their reasonable costs. These typically include:

- The council's administration costs - not all councils impose an administration charge. Those that do normally impose a one-off fee of \$50. Others treat this as simply just another service to ratepayers broadly similar to arrangements for payment by instalment etc and so something which should be treated as part of council's overhead.
- A fee of 1% per annum on the outstanding balance of postponed rates and accrued interest and costs as a contribution to the rates postponement consortium's operating costs.
- Interest at the council's marginal cost of borrowing - in practice, however councils actually treat postponed rates within their accounts, councils will typically be borrowing in one way or another to cover the cash flow shortfall until the rates are finally paid.
- A fee of 0.25% per annum on the outstanding balance of postponed rates and accrued charges and interest as a reserve fund contribution to offset the risk of non-payment. For ratepayers whose only use of rates postponement is to cover the capital cost of energy efficiency services, councils may decide to waive the reserve fund contribution as the actual risk of loss for non-payment will be effectively zero (because the total amount of the advance plus accrued interest and charges will always be a relatively small proportion of the value of the property).
- Relationship Services counselling costs (\$150) and the cost of registering a statutory land charge (\$50).

Some key facts about rates postponement

- Postponed rates are a first charge on the property ahead of all other charges provided that the council registers a statutory land charge - this is a very simple and low-cost process.
- The rates postponement consortium normally requires that at least one applicant be 65 years of age or older. This is essentially a risk management requirement recognizing that indefinite postponement of a council's normal rates, coupled with accrued interest and charges, can grow to a quite significant amount. Open eligibility regardless of age could risk the amount ultimately due for repayment exceeding the value of the property. The relatively small amount involved with the EECA programme, and the fact that it is a one-off amount, could justify removing any age on entry requirement.
- The rates postponement consortium itself operates as a joint committee made up of the six establishment councils (Far North District Council, Gisborne District Council, Rodney District Council, Thames-Coromandel District Council, Western Bay of Plenty District Council and Environment Waikato). Day-to-day management is handled by a subcommittee made up of the chief executives of member councils or their nominees. Councils which have joined subsequently are invited to attend meetings of the committee and subcommittee, and take part in discussion, but are not

formally members. The basic reason is simply the logistical difficulty of running a joint committee with a very large membership. In practice decisions are normally taken by consensus so that the issue of membership has little bearing on the consortium's operations.

- Individual councils manage their own rates postponement activities as part of their normal rating operations.
- Management of the consortium itself is contracted to RP scheme managers Ltd, a subsidiary of McKinlay Douglas Limited which advised on the consortium's establishment and developed much of its intellectual property. The scheme manager remains responsible for handling the policy and strategic aspects of rates postponement ranging from dealing with government departments, to developing templates for use by the consortium, to advising on new initiatives such as the EECA initiative.

Implementing the EECA initiative

In order for any council to offer a targeted rate/rates postponement option as part of the EECA initiative, it will need to adopt four interlocking policies as part of its Long Term Council Community Plan. The policies are:

- A policy on supporting EECA in delivering residential energy efficiency services which sets out the council's commitment to funding the initial cost through an unsecured advance, including conditions of eligibility (for example age), and the terms of the advance – and that the ratepayer has signed an application which covers not just the advance itself, but the targeted rate/rates postponement components as well.
- A targeted rate as a fixed amount to cover the repayment to the Council of unsecured advances made for the purchase of residential energy efficiency services.
- A rates postponement policy under which that targeted rate will automatically be postponed.
- A rates remission policy to remit the difference between the amount of the targeted rate and the amount of the unsecured advance together with interest from the date of the advance to the 30th of June in the financial year the advance was made.

The rates postponement consortium, through its manager, will draft templates for each of these policies.

Who should offer the EECA initiative - regional councils or territorials ?

With conventional rates postponement, the decision has always been that the territorial local authority should be the one which offers rates postponement, usually with arrangements made between the territorial and the regional council to deal with the regional rates as well. The reason is obvious. Regional council residential rates are not significant enough to justify a separate rates postponement arrangement. Ratepayers who want their rates postponement are focused on the territorial rate because it is the large one.

The situation is quite different with the EECA initiative. This is not a case of a council dealing with its own revenue requirements. It is a case of councils using

their powers in a facilitative way to help low income homeowners improve the energy efficiency of their homes, and their quality of life.

The immediate policy interest is often a regional council one because of air quality issues - an important part of this initiative is replacing inefficient wood or coal burning fires, especially in districts which have an air quality problem.

EECA does not have fixed view on whether this initiative should primarily be taken up at the regional council level or at a territorial level. However it does note that:

- Air quality is a priority issue in a number of regions and improving the efficiency of, and reducing emissions from, domestic fires is an important objective.
- There are obvious efficiencies if only one council in a region needs to adopt the necessary policies, and manage the rates postponement activity. At the same time, it would make very good sense for any regional council adopting this initiative to work closely with the territorials in its region.
- Regional councils have a larger scale than many territorials within their regions and so may be better placed to handle the balance sheet and other financial implications of rates postponement to facilitate this initiative.