

Memorandum

7 February 2020

To: Mayor Goff, Deputy Mayor Cashmore, Finance & Performance Committee Chairperson Simpson, all councillors, Independent Audit & Risk members Sue Sheldon, Paul Conder, Bruce Robertson

CC: Stephen Town, Chief Executive; Matthew Walker, Group Chief Financial Officer; Dani Gardiner, General Counsel; Bram van Melle, Manager Property & Commercial; Barry Potter, Director Infrastructure & Environmental Services; Gael Ogilvie, General Manager Environmental Services; Anita Furniss, Executive Officer Finance Division; Rhonwen Heath, Head of Rates Valuations & Data Management

From: John Bishop, Group Treasurer

SUBJECT: RETROFIT YOUR HOME PROGRAMME

Background

1. On Monday 3 February 2020 I advised you that we had identified an error in the way that we have been calculating some of the Retrofit Your Home (RYH) targeted rate payments and that while we are working through the issue we have delayed sending those customers their third quarterly rates assessment/invoice for the 2019/2020 rating year.
2. We have also advised the approximately 14,000 RYH customers of the delay and placed notices on our website. We are assuring people that they will not need to pay more as a result of the error and, that if necessary, we will change the payment due dates and adjust direct debits so they are not disadvantaged.
3. This memo is a further update for you on this issue.

The RYH programme

4. As you will know, via the RYH programme council offers ratepayers financial assistance (of up to \$5,000) for the installation of clean heat, insulation, water conservation, mechanical extraction and fire place decommissioning in customer properties. The assistance is repaid by a targeted rate on their property over a nine year term. The targeted rate includes a floating interest rate updated annually (essentially, Council's average cost of borrowing plus a 1% margin). There are eligibility criteria for the programme, terms and conditions, and targeted rates setting processes etc.
5. Because council is offering financial assistance in this way, we are bound by obligations under the Local Government (Rating) Act 2002 (LGRA); and other relevant laws including the Credit Contracts & Consumer Finance Act 2003 (CCCFA), the Fair Trading Act 1986 (FTA) and the Financial Markets Conduct Act 2013 (FMCA) also apply to the programme.

Errors were identified

6. Late last year staff queried the interest rates showing on customer statements. Further investigations early this year identified that since transferring from a manual to automatic process in 2016/2017 errors have occurred in the interest calculations. The interest rates in SAP (where customer information is stored) had not been updated to reflect our correct floating interest rate. As a result many customers had been overcharged on the interest calculations.

7. We have since identified further issues relating to potentially incorrect communication to some customers about interest rates and some issues with the quality of the programme documentation and associated processes.
8. The full amounts due to RYH customers and cost to council is yet to be calculated and will be known once our remediation plan is finalised.

We are urgently remedying the error for our RYH customers

9. We have established an internal team working under urgency to understand the full scope and nature of the issues, and to prepare a remedial plan.
10. We are currently not accepting new RYH applications. We are in the process of advising suppliers and new applicants.
11. We have been processing RYH rating information for the purposes of property sales/settlements manually to ensure that we are providing accurate information (we process an average of 27 of these requests every week).
12. We identified that we had an immediate issue with the third quarterly rates assessment/invoices due to be sent out to all ratepayers in the first week of February. We have delayed sending these out to RYH customers as we are unable to de-couple the RYH targeted rate from other rates, and we did not want to send them out when we knew that the RYH payment information was incorrect. We also note that about 4500 of these customers pay by direct debit of varying periodic frequencies.
13. We are urgently investigating possible solutions so that remedial actions can promptly follow. We are aiming to have re-calculated rates assessments/invoices out to the majority of RYH customers by the end of March (one month later than usual).
14. The need to minimise customer disruption is the focus of our decisions and approach. We also acknowledge that it is important for Council to handle this process well for both reputational and compliance reasons. While a mistake is never welcome, how we manage it going forward will be important to maintain trust in Council and confidence of our ratepayers. To that end we have also contacted the Commerce Commission and will discuss with them our remediation.
15. Once we have calculated the likely remediation amount/s, we will include an appropriate provision in the half year results being reported to the Audit & Risk Committee at the end of this month.

Ensuring the RYH programme (and other similar arrangements) are robust in the future

16. It is critical we ensure the RYH programme, and any similar programmes, are robust going forward.
17. Our Internal Assurance Services Team is establishing a review which will ascertain how these errors have occurred, ensure remediation has been robust, identify what improvements are required and ensure that the relevant processes and systems are fully compliant in the future. That review will be progressed as a matter of urgency.
18. Over recent months we have been in discussions with the NZ Green Investment Fund (NZGIF) to discuss alternative funding mechanisms for RYH customers.
19. There have been recent amendments to the Credit Contracts & Consumer Finance Act 2003 which begin to come into force from 1 June 2020. These amendments add even more onerous requirements to what is already a prescriptive regulatory environment.

20. The most likely time that we would bring to you any recommendations relating to the RYH programme or similar programmes will be in May when we make Annual Budget decisions. To ensure that we are being transparent to customers who may be affected we will be suggesting to you (before the Annual Budget consultation material is adopted) some short additions to the consultation material noting the upcoming legislative change.

Customer help/questions

21. RYH customers can be advised that:
- a. They will not need to pay more as a result of the error.
 - b. We will change the payment due dates and adjust direct debits so they are not disadvantaged.
 - c. They can still pay their rates (excluding their Retrofit Targeted Rate) if they want to, but they won't be disadvantaged if they don't. We can help them work out the amounts owing.
 - d. When we are confident that invoices are correct and up to date, we will send them out. We are aiming for the end of March for the majority of them.
22. We have set up a dedicated phone number so that RYH customers can contact our Retrofit Your Home team if they have any questions: 09 890 7898 or email retrofit@aucklandcouncil.govt.nz.

ENDS