

Revenue & Financing Policy Discussion

Discussion paper for Councillor working group, 18-19 October, 2017

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Introduction

Purpose

This paper advises Councillors about rates funding policy issues for the Long Term Plan. It is intended as to support a discussion among Councillors about rate funding options for individual activities.

Objective

The objective is to establish a revenue and financing policy for LTP 2018-28 that is

- equitable
- defensible based on the distribution of benefits
- simple, and
- transparent.

Context for review

Local Government Act 2002 (LGA)

The LTP must contain a Revenue and Financing policy, which sets out how operational and capital expenditure will be funded from a combination of sources including rates. In developing the policy, Council must consider -

Part One

- 1 the community outcomes to which the activity primarily contributes
- 2 the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals
- 3 the period in or over which those benefits are expected to occur
- 4 the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity
- 5 the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities, and then

Part Two

- 6 the overall impact of any allocation of liability for revenue needs on the community.

Approach taken in this paper

This paper is focused on the Part One requirements listed above. The paper-

- outlines the objectives for the Revenue and Financing policy review
- provides the legal context for the policy
- provides some tools for assessing the equity of various proposals
- presents some revenue policy options
- enables Council to consider the statutory factors that it must into account when setting its revenue and financing policy.

The discussion is largely economic analysis, as required by the legislation. For many activities, this analysis leads to an alternative funding option from the status quo. That

second option has only been developed for activities where the funding requirement for any group seemed to be disproportionate to the benefits received by that group.

Once Council has considered the analysis in this paper, it can then move on to the sixth item in the list above and consider the overall impact of its funding preferences. Information on overall impacts will be tabled at the workshop.

Public Transport and Flood Protection discussion

The discussion for the Public Transport and Flood Protection activities is more detailed than the rest of the discussion. This is because

- the previous rate funding model for Public Transport is no longer workable due to the new PT Operating Model. The funding metrics that the old model relied on are not available, and are inconsistent with PTOM.

The PT funding discussion also includes several funding impact graphs (that are not provide for the other activities) because of the policy requirement to change the approach to, and relativities of, PT rate funding.

- Council's flood protection services are clustered in three river catchments (Hutt, Wairarapa, Kapiti) with almost no flood works needed in other areas. Funding for these services is highly complex, expensive to administer, and not well related to the beneficiaries of the services. It was therefore considered important to explore the funding rationale and options for Flood Protection in more detail for this LTP.

Note on the period of benefits

For all activities in the LTP, the period of benefits is estimated as-

- Benefits from activities that are funded by operational expenditure are generally expected to be achieved within the current funding period.
- Benefits from assets that are funded by capital expenditure are generally expected to be achieved over the life of the asset.

Next steps

Model the overall impacts - Officials will model the aggregate funding requirements, using the preferences that Council has indicated.

Council to consider the overall impacts - Council will have another workshop to consider the overall funding impacts and indicate how they want the Revenue and Finance policy to operate.

Draft the policy – Officials will draft the policy

Check the drafting – Council will get a legal review of the drafting.

Adopt the policy - Council will consider and adopt its draft Revenue and Finance policy, for consultation (later this year, or possibly Feb 2018)

Consult on the policy - Council will need to consult on the Revenue and Financing policy. If there are any significant proposals for change, these will need to be included in the LTP consultation document.

Table 1 Activities sorted by the funding options

<i>New funding options are proposed</i>	
Public Transport	9
Regional Leadership	
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Environment	
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 <i>Status quo is the only option proposed</i>	
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Measures for assessing equity

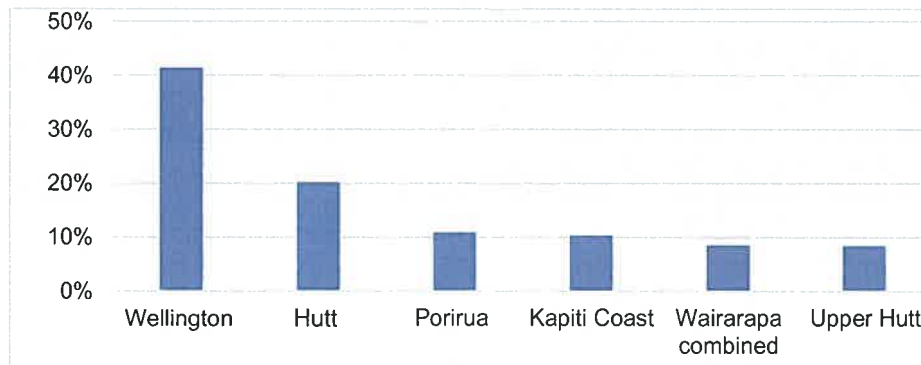
This section is intended to assist Council to evaluate the horizontal and vertical equity of the funding options in this paper.

We use population and equalised capital value (ECV) to measure the relative sizes of the cities and districts within the region. Combining these, to determine how equitable a rate is, we can compare impacts using the rate per capita, or the rate per \$100,000 value.

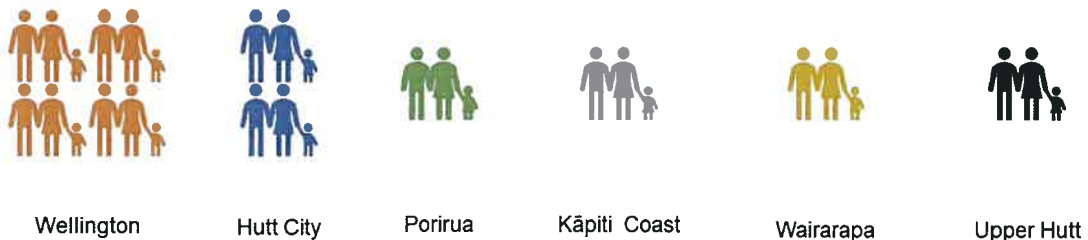
Population

Figure 4 shows the population proportions for the main areas within the region. Because the Wairarapa councils are much smaller than the other councils in the region, by grouping them, we can provide meaningful graphs of relative impacts.

Figure 1: Regional population proportions, 2017



This is another way to visualise the relative population proportions within the region.



Equalised capital value

GWRC uses equalised capital value (ECV) to adjust for differences in the timing of when properties in different councils are revalued. The equalised figures, take account of market and other movements in property values within the region.

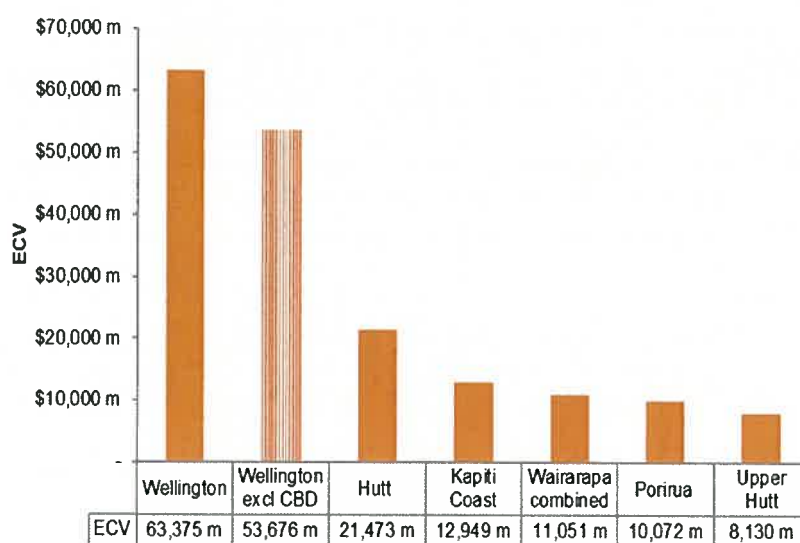
Every year, QV provides GWRC with a figure for each council which is the total equalised capital value for the council. Each council also advises GWRC of the total CV for each of the main rating categories

- Residential (includes Urban – Residential)
- Business (includes Urban – Commercial)
- Rural
- Regional CBD, (Wellington City Downtown area)

From these figures, GWRC calculates the proportion of the ECV that is attributable to each category, for each council.

Figure 5 shows the total ECV for each council. Clearly, the total property value in Wellington city is substantially higher than in the other councils, even when the CBD values are excluded.

Figure 2: ECV by TA, 2017/18

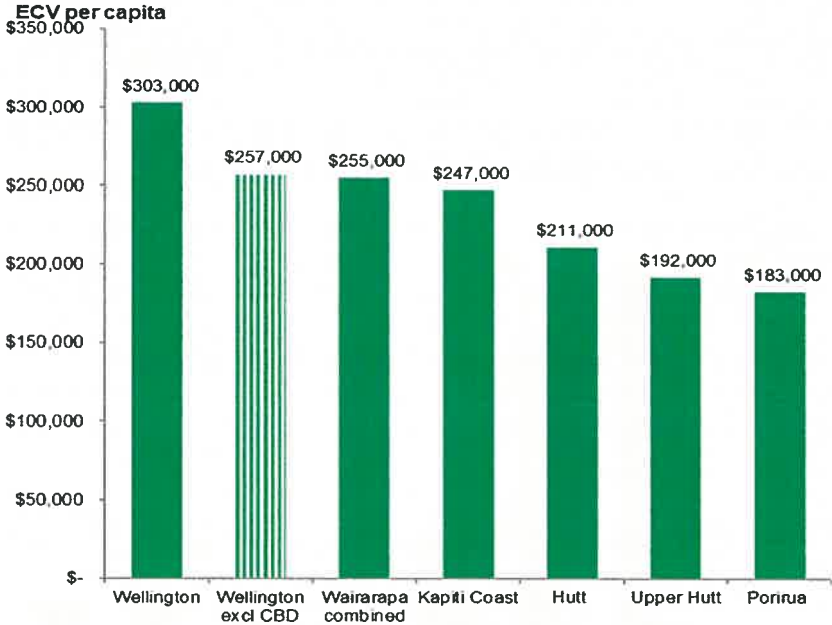


ECV per capita

Combining population and ECV to get ECV per capita is a useful way of understanding the relative wealth of the councils within the region. It is the total property value on an equalised basis, divided by the total population within that council. Figure 6 below shows:

- Wellington city has the highest per capita property wealth in the region (\$303,000)
- If you separate the Wellington CBD, then Wellington City, the Wairarapa and the Kāpiti Coast all have roughly comparable ECV per capita.
- Wairarapa has second highest ECV per head of population in the region.
- Hutt City has the second highest population, but is in the middle ECV range.
- In Porirua, the ECV per capita is \$183,000 which is only 60% of the Wellington city.

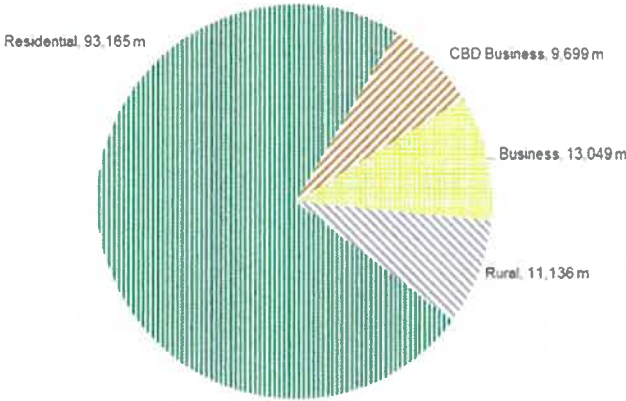
Figure 3 ECV per capita, by council, 2017/18



Rating categories

GWRC can also use four categories of land use for rates: Residential, Wellington CBD, Business/Urban, and Rural. Residential property is the largest category in the region, comprising 73% of the total property value in the region.

Figure 4 ECV, by rating category, 2017/18



Public Transport

Activities in the Public Transport group of activities

GWRC provides a network of public transport services, for the whole region. Historically these were separated into five different activities:

- 1 Metlink public transport network planning
- 2 Rail operations and asset management
- 3 Bus and ferry operations and asset management
- 4 Total Mobility
- 5 Metlink fares and ticketing, customer services and information

However, this approach which was adopted more than 10 years ago, is not consistent with GWRC's new vision for PTOM – one region, one network. Therefore, we propose that Public Transport becomes a single activity, in the Public Transport group of activities.

Customer-facing activity

The current structure of the transport activities appears to reflect previous accounting and business unit requirements, but activities are best viewed from a customer-facing perspective. For people who use public transport, the planning, operations, asset management, ticketing and customer services are all part of what a Council funds if it provides a public transport network – it's all part of one activity. These "activities" are all just things GWRC does to provide a regional public transport network. For example:

- There would be little or no interest in network planning if it did not result in the provision of actual services. Planning is not a separate activity from a customer perspective, it is just part of what a public transport provider would do. Planning will, of course, continue to be an important function within the business.
- Asset management is an important business function, because of the value of the assets, and more importantly, because of the value of the services that those assets can provide. Asset management is not a customer-facing activity in itself: Council does not own assets for their own sake, but so that it can provide services, and undertake critical functions for the region.
- Public bus and train services need a ticketing service. And conversely, fares, ticketing and customer services are meaningless unless there are public transport vehicles to ride. It's difficult to imagine the benefits of buses and trains if there were no customer services or information about when a service departs.
- The Total Mobility service is for people with disabilities who cannot always use public transport. so they can travel within the region. It could be a separate activity, but the Total Mobility budget is a very small component of the total revenue for Public Transport, and separating it out would add administrative cost without any additional community benefit. Council can continue to report on revenue, expenditure, and service performance for the Total Mobility service.

Strategic focus

The change to GWRC's mode of delivery will enable GWRC to become much more strategic in its approach to decision-making, and in its provision of public transport. All

the things about public transport that GWRC discusses would still need to be discussed – customer services, capex, strategic planning, etc. Public transport would continue to be the largest Group of Activities at GWRC (approx. 60%, by revenue) and it would continue to require considerable governance, and senior management oversight.

Administrative efficiency

Individual activities work best when they cluster services in a way that reflects a resident / customer view of the world, at a fairly high level. For internal business and management purposes, Council can retain and report against cost centres that are meaningful for managing the services and the assets. However, annual and long term planning, budgeting, and reporting would be aggregated up to a level that is consistent with the ways customers engage with the service, and consistent with GWRC's strategic objectives.

For comparison, under LGA each of the following activities is also a group of activities¹:

- water supply
- sewerage and the treatment and disposal of sewage
- storm water drainage
- flood protection and control works
- provision of roads and footpaths

Even if this change is adopted, GWRC would continue to develop services, manage assets, and provide Total Mobility subsidies. Council would continue to monitor and report against the essential service performance and accounting metrics for customer and business purposes.

Funding discussion

Community outcomes

The region has a vision for an efficient, effective, and safe network of transport services. Public transport is a critical component of these services, making a significant contribution to the region's economic prosperity in a way that is environmentally and socially sustainable.

Public transport contributes to the following community outcomes:

- **Connected community:** People can move around the region efficiently; communications networks are effective and accessible
- **Strong economy:** A thriving and diverse economy supported by high quality infrastructure that retains and grows businesses and employment
- **Healthy environment:** An environment with clean air, fresh water, healthy soils, and diverse ecosystems that supports community needs.

Benefits of public transport

Private benefits

Public transport benefits the people who ride the bus, train, or ferry, enabling them to get to work, school, shops, and social activities.

Public economic benefits

There has been development in the economic evidence on the benefits of public transport since the current rating model and policy was developed in the 1990s. Technology improvements have enabled economists to model and test massively more complex computations. Using the power of complex data, they have been able to demonstrate the public benefits of public transport more clearly. See for example, endnotes 2, 3, and 4.

- **Cities are more dynamic and more competitive** through the provision of an adequate public transport network. Public transport forms the backbone of any efficient urban mobility system - and efficient mobility in cities creates economic opportunities, enables trade, facilitates access to markets and services and makes efficient use of resources
- **City and district councils** within the region and the New Zealand Transport Agency (NZTA) benefit substantially from reduced wear and tear on roading networks, which reduces their costs. They also benefit from being able to delay investment in new road construction.
- **Global appeal** - Public transport networks and infrastructure also play an essential role in the 'global appeal' of a city, as cities that are easy to move about in are more appealing to businesses and to tourists.
- **Efficient land use** – An effective public transport network enables high density business centres, and significantly reduces the demand parking spaces⁵. Public transport is also a more efficient use of land than any other mode of travel for moving large numbers of people to and from, and within major urban areas.
- **Employment** - The public transport system itself creates jobs
- **Congestion benefits**– The evidence from congestion responses around the world is that while congestion may be mitigated in the short term, in the longer term it recurs. Hence rather than reducing congestion the aim has shifted to enabling more economic activity to occur at a given level of congestion through enabling people to travel on public transport services that increase the throughput of key transport corridors. Taking this into account, it is still true that public transport frees up space on congested motorways and arterial roads for freight, commercial uses, and other trips that cannot be made by public transport. Reduced congestion does also reduce journey times, and therefore, the journey costs.
- **Transport alternatives** – Public transport is an option for trips that are not yet anticipated, or are currently undertaken by other modes.
- **Non-use values** –the continued existence of public transport regardless of any possibility of future use by the individual in question. The motivation for the desire for the good to continue to exist may vary: individuals may value a good for altruistic reasons, reasons of indirect use, or because the good has some existence, bequest, or intrinsic value. Some examples of situations where non-use values may exist in a transport environment include:
 - use by other members of the household, friends, or family
 - concern for other people in the community/society in general, or for particular groups – e.g. the poor, the elderly, children, or for future generations
 - desire to reduce congestion, or improve safety or to reduce environmental problems
 - social cohesion effects – e.g. links to larger communities

- local economic or property effects⁶.

Environmental benefits

More liveable environments – Public transport improves amenity values and access for those living in dense urban areas as less space is needed for roading and parking. People who choose to live further from their work to enjoy suburban and rural lifestyles benefit from the economic opportunities enabled by proximity to and/or access to a thriving regional central business district.

Sustainable environment – Public transport means that the transport network generates lower CO₂ and other harmful emissions than if all transport was by private vehicles; reduced road runoff and reduced noise pollution.

Health and safety benefits

Journeys by public transport are safer than journeys in private vehicles, resulting in fewer deaths and serious injuries, and reducing the demand for accident, emergency, and health services. The additional walking associated with public transport also provides significant and measurable health benefits for the population.

Who gets these benefits?

From the list of benefits, it is clear that the public or community beneficiaries of public transport include:

- Everyone who drives on congested roads that are served by public transport
- Everyone who lives in the region or owns property here
- Employers in the regional business hub (Wellington CBD) and the other regional business centres
- Freight movers who can travel on less congested roads, and then the people who purchase the goods that have been moved
- Any industry or activity that relies on people coming together from different parts of the region, including retail, hospitality, and education industries. (For example, many parents who send their children to one of the several boarding schools in the Wairarapa rely on the public transport network.)

Distribution of public transport benefits

The sum of the public benefits of public transport is estimated to be considerably larger than the private benefits. However, the government's goal for public transport to grow patronage with less reliance on subsidy and associated policy settings encourages a significant portion (approximately 50%) of public transport costs to be covered by the fares paid by public transport users.

Rationale for separate funding

This section examines the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities.

Public transport is the single largest Activity that GWRC funds. A mixture of user charges (fares) and targeted rates provides service users, residents, and ratepayers, and NZTA with a measure of transparency about the costs and relative shares paid by different groups.

Current funding policy

The current funding policy is based on contributions from three distinct groups - public transport users, NZTA, and the regional community.

<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
50%	25% NZTA	25%	0%

At a high level, GWRC needs to retain the current split of funding to comply with the Land Transport Management Act 2003, the Government Policy Statement on Transport Funding and NZTAs funding policy.

From this point on, the discussion in this paper is focused on rate component of the revenue and financing policy. The current policy assesses benefits to the ratepayers within each territorial authority, using the following set of components -

CBD component – allocated selected trips and costs to the regional CBD

Inter-district component - based on the number of *journey to work trips* that originate in one territorial area and travel to another city or district. The data for this component is from the 2013 Census journey-to-work data.

Intra-district component - based on *journey to work trips* that stay within a city or district.

Weighted average of the total rates - allocates costs for transport network planning, information, and administration.

Social component – an allocation to represent social benefits of public transport of providing transport for people who do not have other options.

Discounts – The policy applies discounts for Kāpiti, Wairarapa and rural ratepayers.

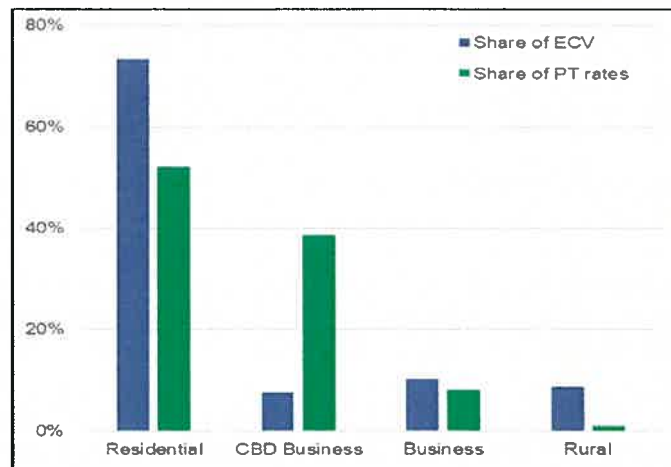
Impacts of the current policy

Rating categories – Figure 5 below shows the share of public transport rates paid by each rating category (green) compared to the relative share of equalised capital value (ECV)¹ by each category (blue). Residential ratepayers pay 51% and the regional CBD (the Wellington CBD as identified in the maps for the Revenue and Financing policy) pays 39%. The rural share is especially low due to the rural discount applied under the current policy.

1 GWRC uses equalised capital value (ECV) to adjust for differences in the timing of when properties are revalued by the TAs within the region. The equalised figures, take account of market and other movements in property values within the region. Every year, QV provides GWRC with a figure for each council which is the total equalised capital value for the council. Each council also advises GWRC of the total CV for each of the main rating categories. From these figures, GWRC calculates the proportion of the ECV that is attributable to each category, for each council.

- Residential (includes Urban – Residential)
- Rural
- Business (includes Urban – Commercial)
- CBD, (Wellington City Downtown area)

Figure 5 Share of rates, compared to share of ECV, by category, 2017/18



Residential impacts - The current policy results in wide variations in the share of public transport rates paid by residential properties. This difference is mainly because of the way that rail costs are allocated, and where the rail funding burden falls. Inter-regional services are predominately rail, and are significantly funded by Porirua and Hutt City ratepayers. Because of the current policy’s emphasis on journey to work data, Masterton is allocated a very small share of public transport costs compared to the other Wairarapa territorial areas.

The nett effect is a funding policy that has weak horizontal equity, and only limited vertical equity, because of the discounts applied to Kāpiti and Wairarapa.

Figure 6 Public transport residential rates, per \$100,000 value, 2017/18

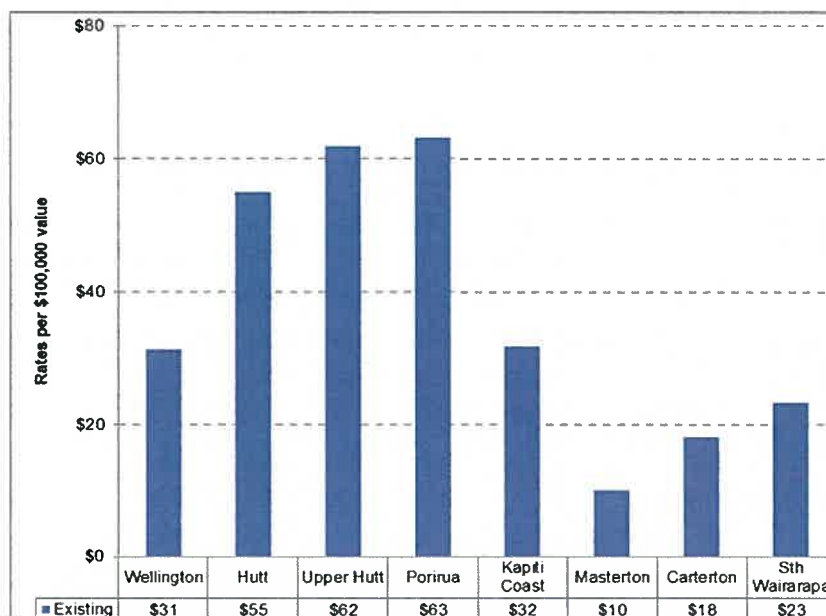
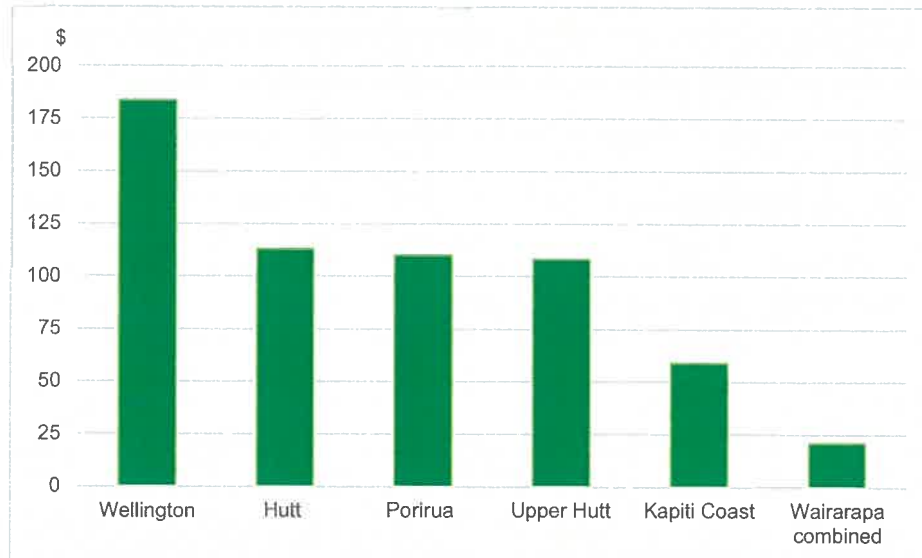


Figure 7 below shows the total rates paid, by ratepayers within each city or district (blue columns), and the population of each council on the red line. The table excludes the regional CBD (Wellington) because its scale is singular and it does not have comparator within the other councils. The data for the Wairarapa councils is combined in the graph as each is so small that the data barely registers.

On a per capita basis, the rates for the public benefits of public transport from the Kāpiti Coast and Wairarapa districts are significantly lower than the rates paid by the rest of the region. Figure 7 shows the per capita impacts.

Figure 7 Public transport rates, per capita, by territorial area, 2017/18



Challenges with the current policy

The current policy is no longer an option for GWRC for both practical and economic policy reasons.

Impractical - PTOM makes the model impractical because the current policy model is based on allocating costs from individual services to the ratepayers based on councils. However, under PTOM, GWRC does not price individual services. To achieve operational savings, PTOM service delivery is procured as bundles of services, rather than being purchased as individual routes. As well as providing operational savings, this means that PTOM provides a network of services across the region, to meet a wide range of public transport needs.

Policy - Since the revenue and financing policy for public transport was initially developed, the policy has become increasingly difficult to justify. The main issues are-

- The current model is based on allocating costs, but the funding policy is supposed to take account of benefits.
- The policy is inconsistent with the economic analysis of the benefits of public transport. New evidence on economic benefits and new evidence on congestion mean that public transport rates are no longer based on robust policy factors. For example, Hutt and Porirua paid relatively higher rates— however, the analysis shows that the whole transport network benefits from rail services by:
 - rail services enable the region to have a high density regional CBD
 - rail services enable large employers to operate in the regional CBD, and in other business centres in Porirua, the Hutt cities, Paraparaumu, and Masterton.
 - rail services reduce the demand for car parking in the regional CBD

- The policy doesn't take a regional approach, but allocates revenue requirements to the ratepayers in each council according to whether buses or trains are used for inter and intra district journeys.
- The policy tends to trade-off transparency in favour of precision. However, there is limited evidence for some of the estimations. For example, the current policy estimates the social benefits of public transport at 5% of the targeted component (25%) – which is 1.25% of the benefit of the service. We do not have evidence to allocate benefits this finely: the social benefit might be 1.25% or it might be 10%.
- The policy is difficult to explain, because its outputs are generated in a series of customised spreadsheets.
- The calculations are complex.

Options for funding public transport

Criteria for assessing options

We have developed two new rating policy options for funding public transport. Both options recognise to some extent, the strength of the evidence for public economic benefits from public transport. In addition, both options take a regional approach, and both options require the regional CBD to continue to fund a significant share of the required revenue, because of the benefits that the CBD receives.

The Public Transport rate funding options are assessed against the following criteria

Horizontal equity - Horizontal equity refers to similar treatment of properties that are similar in value, wherever they are in the region. Under this principle two properties of the same equalised capital value that receive similar levels of benefit would be charged the same levels of rates.

Vertical equity - Vertical equity is about the relative ability to pay of different ratepayers. The councils within the Wellington region have chosen to use capital value for rates assessments, partly because of evidence that income deciles are positively correlated with property values (Covec 2007, cited in Shand, 2007⁷). GWRC uses the equalised capital value of properties to smooth out variations in the timing of valuations among the councils in the region, and to incorporate vertical equity into the regional rating system.

The **distribution of benefits** - GWRC considers who benefits from the public transport network, and the distribution of the benefits when deciding how much rate revenue to require from identifiable groups of ratepayers. Some groups of ratepayers may receive more or less benefit, and the distribution of rates should fairly reflect the distribution of benefit.

Simplicity – a simple rating system is easy to administer, and has low transaction costs.

Transparency – enables public scrutiny of how much is being collected, how the share of different groups is calculated, what the revenue is planned to be spent on, what it was actually spent on, and the year that the expenditure occurred.

Consistent with PTOM

Option one – One network

- Treat the region as one geographic entity, which is served by one network of public transport services (the Metlink network).

- Allocate costs at a network level. There is no need to distinguish bus or rail costs when setting rates because the public benefits are region-wide. (Fares policy can continue to take account of service features, e.g. length of journey).
- Recognise that the regional CBD is a substantial economic beneficiary of the public transport network. Allocate a fixed proportion of the costs to the regional hub (40% has been modelled as it is close to the rate funding quantum currently paid by the regional CBD in the current public transport targeted rate).
- Allocate the balance of the funding requirement among all remaining ratepayers, using ECV.

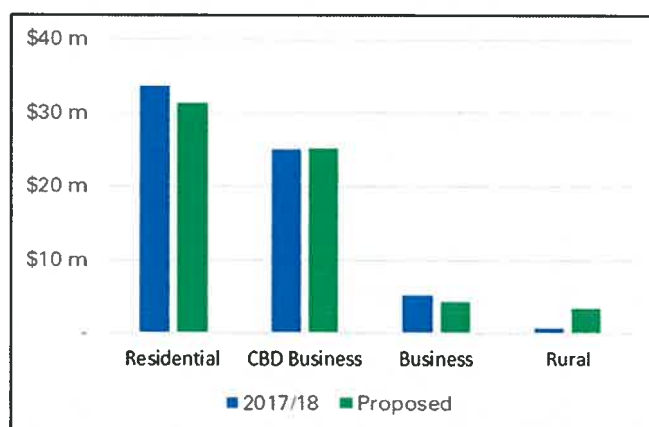
Strengths of option one

- Takes account of the benefits provided by public transport to the regional CBD.
- More equitable treatment of all residential ratepayers – all ratepayers will pay the same rate per \$100,000 of equalised CV.
- Ratepayers in higher value properties will be expected to pay higher levels of rates.
- Ratepayers within each council will pay rates that are consistent with the relative wealth of the council.

Impacts and issues with option one

Rural ratepayers would pay a larger share of rates while business ratepayers would pay a smaller share of the rates compared to the benefits they receive.

Figure 8 Share of rates, by category – Option one

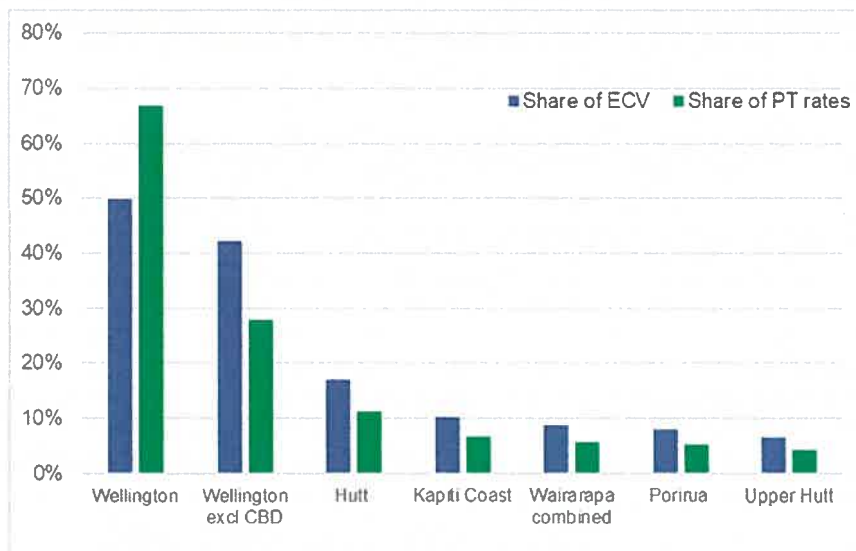


There are significant changes in the relative shares of public transport rates paid by ratepayers in specific areas or rating categories, and this option may need a transition policy (depending on the overall allocation of rates for all activities.)

Policy criteria applied to option one

Horizontal equity - Option one has strong horizontal equity for residential ratepayers, as Figure 9 shows. The rates per \$100,000 value, are very similar under this option, whereas they were highly variable under the status quo.

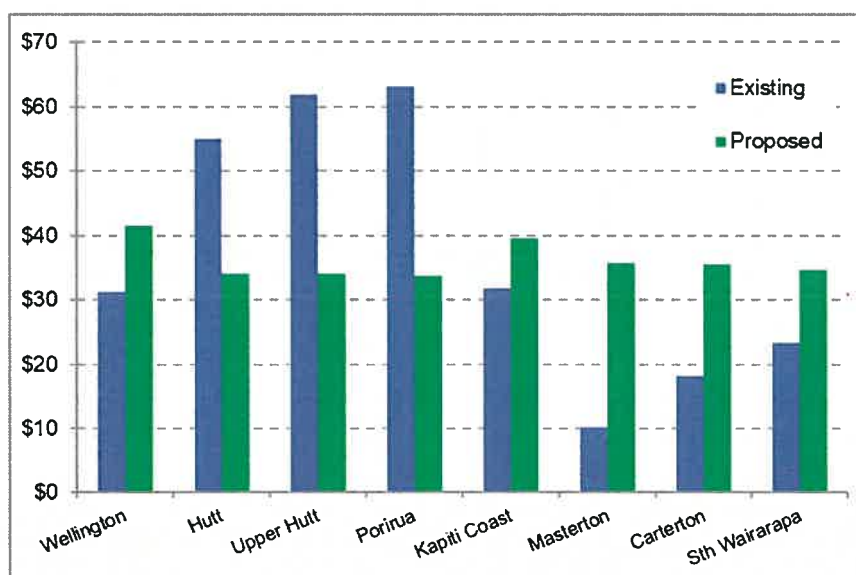
Figure 9 Public transport residential rates, per \$100,000 value, by council - Option One



The share of public transport rates paid within each territorial area, compared to the ECV for each property within that area is an indication of the relative equity of this option.

Vertical equity - However, vertical equity is not especially strong, because of the loading on the regional CBD. Under this model, the CBD pays a larger share of rates than their ECV proportion while all other ratepayers pay a smaller share.

Figure 10 Share of public transport rates and share of ECV – Option One



Distribution of benefits - The CBD share of rates is consistent with the level of benefits that it receives, but the funding requirements for the other rating categories is not based on benefits

Simplicity - Option One is simple to administer.

Transparency - Option One is largely transparent.

Consistent with PTOM Option One is not inconsistent with PTOM which means that future changes to service delivery or levels of service need not impact on the effectiveness of the Revenue and Funding Policy.

Option two – Level of benefit

- Treat the region as a one geographic entity, which is served by a single network of public transport services (the Metlink network).
- Allocate costs at a network level. Do not distinguish bus or rail costs for setting rates because the public benefits are region-wide not specific to how public transport is provided in a particular area.
- Recognise that different rating categories (residential, business, CBD, rural) derive different levels of benefit from the network.
- Use ECV differentials to reflect the different relative levels of public benefit each category receives.

9 Wellington CBD

2.5 Business - all rating units classified as business, plus the non-residential urban categories in the Wairarapa.

1 Residential

0.25 Rural - the justification for a rural differential is relatively weak because the benefits are mainly for the entire region, and are not specific to any one community. Rural communities receive a share of the economic and environmental benefits that everyone else gets, although their access to the social benefits is lower.

These suggested differentials were derived in a series of workshops with economics, policy, finance, and public transport staff, exploring the relative benefits and impacts of public transport. We originally were of the view that the Business sector should have a differential of 3.5 or 4, but this made the total increase in the share of rates for the business category so high that we could not justify it.

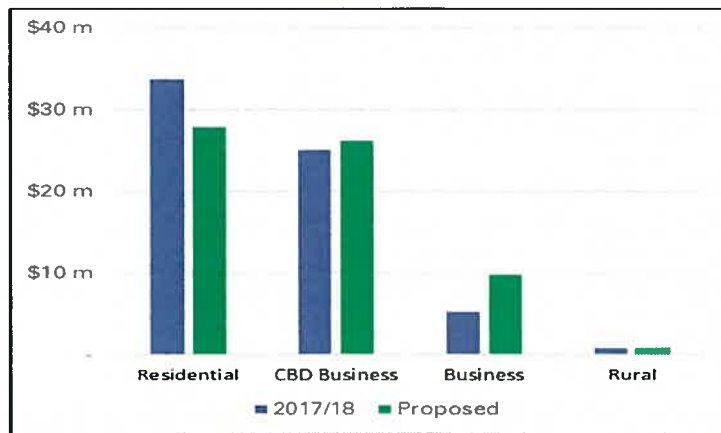
Strengths of option two

- The funding allocations under this option are broadly consistent with the public benefits that public transport provides.
- The option recognises the benefits provided by public transport to the regional CBD. This option increases the shares of targeted rates paid by Business rating units in line with the significant levels of benefits that the business community receives from the transport network.
- Equitable treatment of all residential ratepayers – all ratepayers will pay the same rate per \$100,000 of equalised CV.
- Ratepayers in higher value properties will be expected to pay higher levels of rates.
- Ratepayers within each council will pay rates that are consistent with the relative wealth of the council.

Impacts and issues with option 2

- The rural rates requirement is relatively unchanged.
- The CBD share increases by \$2 million.
- The business share increases by \$5 million because of the benefits that businesses receive.
- The residential share declines by \$5 million because of these changes.

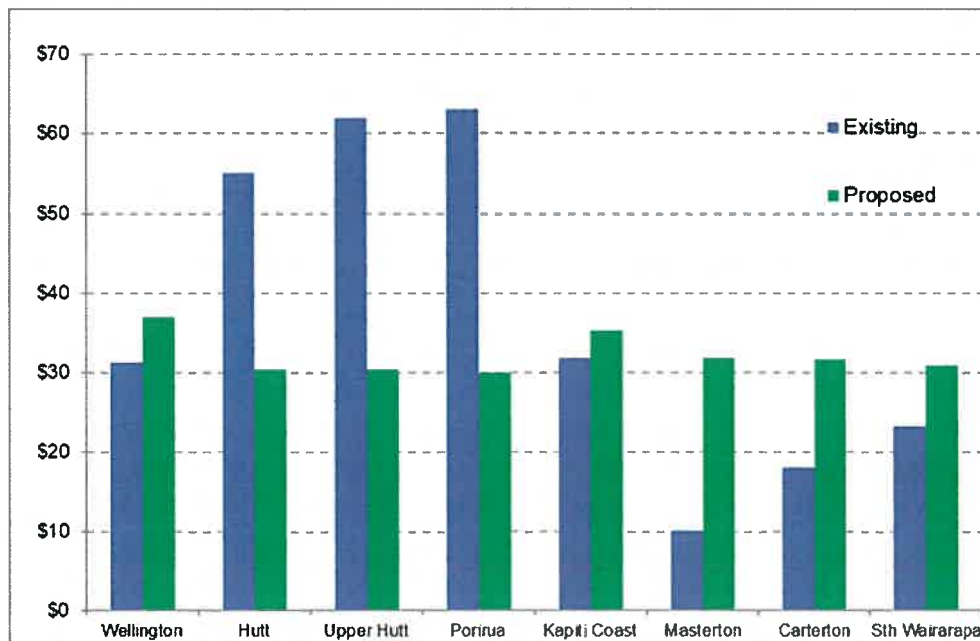
Figure 11 Share of public transport rates by category – Option Two



Policy criteria applied to option two

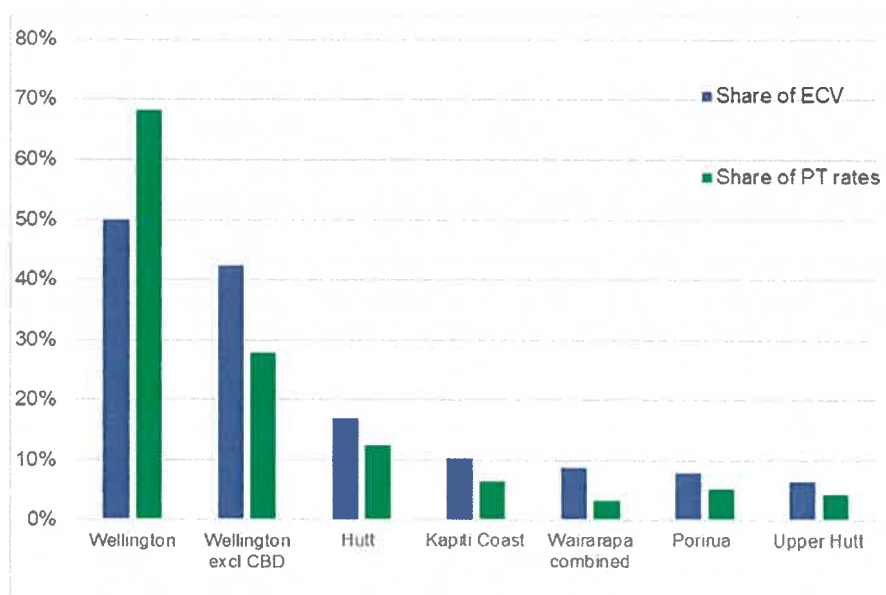
Horizontal equity - Option two has strong horizontal equity for residential ratepayers, as Figure 9 shows. The rates per \$100,000 value, are very similar under this option, whereas they were highly variable under the status quo. This option substantially levels out the huge discrepancies between residential rates in the current model. Figure 12 below shows the impacts per \$100,000 of capital value, and Figure 13 compares the public transport rates within each territorial area with its ECV share.

Figure 12 Public transport residential rates, per \$100,000 value = Option Two



Vertical equity – As in both options and the status quo, vertical equity is not especially strong in option Two, because of the loading on the regional CBD. Under this model, the CBD pays a larger share of rates than their ECV proportion while all other ratepayers pay a smaller share.

Figure 13 Share of public transport rates and share of ECV, by territorial area – Option Two



Simplicity - Option two is simple to administer.

Transparency - Option two is largely transparent.

Consistent with PTOM - Option two is not inconsistent with PTOM which means that future changes to service delivery or levels of service need not impact on the effectiveness of the Revenue and Funding policy.

Comparison of options

Options one and two have relatively similar impacts, although option two takes a more subtle approach to the allocation of benefits – which is largely reflected in the share of rates paid by Wellington CBD and the Wairarapa. Figure 14 is a quick summary application of the policy criteria for each option.

Figure 14 Policy criteria applied to each option

	<i>Status quo</i>	<i>Option one</i>	<i>Option two</i>
<i>Horizontal equity</i>	No	Yes	Yes
<i>Vertical equity</i>	No	Somewhat	Somewhat
<i>Simplicity</i>	No	Yes	Yes
<i>Transparency</i>	No	Yes	Yes
<i>Distribution of benefits</i>	No	Partially	Yes
<i>Consistent with PTOM</i>	No	Yes	Yes

Recommendation

Option two is preferred because it best allocates rates requirements based on the public benefits of the Public Transport activity. Both options allocate a substantial proportion of the rate funding requirement to the regional CBD, but option two also recognises the

benefits to other business centres, and the slightly lower level of benefits for rural properties.

Transition policy

Because of the scale of changes for some ratepayers, a transition policy could smooth the impact for ratepayers whose share is increasing, while taking account of the desire of ratepayers whose share is falling, who will want their savings as soon as possible.

We will develop transition policy options when we have an idea about the overall scale and direction of the changes to the Revenue and Financing policy that Council is considering.

Graphic

The private benefits of PT are for the individuals and households whose members catch a bus, ride a train, or ferry.

The public benefits are for the entire regional community.

Public Benefits of Public Transport



1 Better land use = better regional economy

More efficient land use and a compact urban environment support the regional economy

- Enables concentrations and increases the efficiency of economic activity – CBD, other commercial centres
- Keeps horizontal infrastructure costs down
- Less need for land for parking

2 Efficient movement of private vehicles

- Congestion relief
- Shorter journey times
- Better journey-time reliability for private vehicles
- Reduces the costs of goods and services to the whole region



3 Reduced emissions

- From private vehicles that are *not* on the roads, because someone is on a bus
- From vehicles that *are* on the roads, because of shorter journey times



4 Better health and safety

- Fewer vehicles on roads
- Safer driving



5 More liveable environments

- Less traffic on our roads
- Global appeal of cities that are easy to move about in

All communities within the region receive these benefits.

Regional Leadership

Relationships with mana whenua

Funding discussion

<i>Community outcome</i>	Engaged community			
<i>Purpose / rationale for activity</i>	Enables Council to build and maintain constructive partnership relationships with iwi and Māori of the region to deliver GWRC's outcomes			
<i>Who benefits? How are the benefits distributed?</i>	<p>Mana whenua benefit from a partnership approach to managing the natural environment ensures that iwi fulfil their obligations as natural managers of the world, through their kaitiaki roles and responsible.</p> <p>The community as a whole benefits too - regional communities benefit from the quality of decision making that is enabled when mana whenua participate in decisions that affect them.</p>			
<i>Does anyone cause GWRC to provide this service?</i>	No			
<i>Rationale for separate funding</i>	Council reports on the financial and service performance for this activity in its annual report.			
<i>Current funding policy</i>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
				100%

Impact and assessment current policy

Equitable - The General rate is based on equalised capital value (ECV) so that higher value properties contribute a greater share of the funding, ensuring both horizontal and vertical equity.

Distribution of benefits – the benefits are distributed among the community as a whole, and Council does not use differentials for the General rate.

Simple - the policy is simple to administer.

Transparent – the policy is transparent.

Funding options

There are no reasons to consider changing this policy.

User charges – this activity does not provide services to individuals who could be expected to pay a user charge.

Targeted rates – this activity does not provide services or benefits to identifiable groups within the region, so a targeted rate would not work.

General rate – this is an appropriate funding mechanism for this activity.

Recommendation

No Change - 100% General rate funding.

Regional transport planning & programmes

Funding discussion

<i>Community outcome</i>	Connected community
<i>Purpose / rationale for activity</i>	GW plans for the long term development of the region's land transport network
<i>Who benefits? How are the benefits distributed?</i>	The community as a whole benefits from infrastructure planning services to enable the efficient movement of people and goods
<i>Does anyone cause GWRC to provide this service?</i>	No
<i>Rationale for separate funding</i>	There is no particular need for separate funding for this activity. Council reports on the financial and service performance for this activity in its annual report.

<i>Current funding policy</i>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
		52% NZTA		49 %

Impact and assessment of current policy

Equitable - The General rate is based on equalised capital value (ECV) so that higher value properties contribute a greater share of the funding, ensuring both horizontal and vertical equity.

Distribution of benefits – the benefits are distributed among the community as a whole, and Council does not use differentials for the General rate.

Simple - the policy is simple to administer.

Transparent – the policy is transparent.

Funding options

There are no reasons to consider changing this policy.

User charges – this activity does not provide services to individuals who could be expected to pay a user charge.

Targeted rates – this activity does not provide services or benefits to identifiable groups within the region, so a targeted rate would not work.

General rate – this is an appropriate funding mechanism for this activity.

Recommendation

No Change - 100% General rate funding.

Emergency management

Funding discussion

<i>Community outcome</i>	Resilient community			
<i>Purpose / rationale for activity</i>	The Wellington region has a wide range of natural hazards (earthquake, flooding, landslide, tsunami, storm) and hazard risks (biological, chemical, terrorism, other), and the region wants to be prepared to provide emergency services			
<i>Who benefits? How are the benefits distributed?</i>	The community as a whole benefits from these services			
<i>Does anyone cause GWRC to provide this service?</i>	No			
<i>Rationale for separate funding</i>	There is no particular need for separate funding for this activity. Council reports on the financial and service performance for this activity in its annual report			
<i>Current funding policy</i>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i> 100%

Impact and assessment of this policy

Equitable - The General rate is based on equalised capital value (ECV) so that higher value properties contribute a greater share of the funding, ensuring both horizontal and vertical equity.

Distribution of benefits – the benefits are distributed among the community as a whole, and Council does not use differentials for the General rate.

Simple - the policy is simple to administer.

Transparent – the policy is transparent.

Funding options

There are no reasons to consider changing this policy.

User charges – this activity does not provide services to individuals who could be expected to pay a user charge.

Targeted rates – this activity does not provide services or benefits to identifiable groups within the region, so a targeted rate would not work.

General rate – this is an appropriate funding mechanism for this activity.

Recommendation

No Change - 100% General rate funding.

Democratic services

Funding discussion

<i>Community outcome</i>	Engaged community								
<i>Purpose / rationale for activity</i>	Democracy services enable citizens and communities to engage with decision makers for the benefit of the region. These services also support Councillors in the performance of their roles								
<i>Who benefits? How are the benefits distributed?</i>	The community as a whole benefits from these services								
<i>Does anyone cause GWRC to provide this service?</i>	No								
<i>Rationale for separate funding</i>	There is no particular need for separate funding for this activity. Council reports on the financial and service performance for this activity in its annual report								
<i>Current funding policy</i>	<table border="1"> <thead> <tr> <th><i>User charges</i></th> <th><i>Subsidies</i></th> <th><i>Targeted rates</i></th> <th><i>General rate</i></th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td>100%</td> </tr> </tbody> </table>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>				100%
<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>						
			100%						

Impact and assessment of current policy

Equitable - The General rate is based on equalised capital value (ECV) so that higher value properties contribute a greater share of the funding, ensuring both horizontal and vertical equity.

Distribution of benefits – the benefits are distributed among the community as a whole, and Council does not use differentials for the General rate.

Simple - the policy is simple to administer.

Transparent – the policy is transparent.

Funding options

There are no reasons to consider changing this policy.

User charges – this activity does not provide services to individuals who could be expected to pay a user charge.

Targeted rates – this activity does not provide services or benefits to identifiable groups within the region, so a targeted rate would not work.

General rate – this is an appropriate funding mechanism for this Activity.

Recommendation

No Change - 100% General rate funding.

Regional initiative - Warm Wellington

GW provides funding for home insulation, originally as part of the Energy Efficiency and Conservation Authority's home insulation and clean heating scheme. The communities in Wainuiomata and Masterton are also offered funding for clean heating because the airsheds in those areas have breached the national standards for air quality.

Funding discussion

<i>Community outcome</i>	Resilient community			
<i>Purpose / rationale for activity</i>	Good quality insulation helps keep the heat in during winter and out during summer. This makes houses easier and cheaper to heat properly, and more comfortable and healthy to live in.			
<i>Who benefits? How are the benefits distributed?</i>	The major beneficiaries are those ratepayers who take up a loan. Tenants in properties that have been insulated under this scheme also benefit from living in healthier housing. The communities in Wainuiomata and Masterton will also benefit when their airsheds no longer breach quality standards, so that GWRC can approve consents for industrial discharges to air in future.			
<i>Does anyone cause GWRC to provide this service?</i>	No			
<i>Rationale for separate funding</i>	Separate funding is essential so that Council can recover the loans from participating property owners			
<i>Current funding policy</i>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
			100%	

Impact and assessment of current policy

Equitable - The policy is equitable in a narrow sense, because property owners only pay if they use the service.

Distribution of benefits – the policy is consistent with distribution of benefits.

Simple - the policy has relatively higher administration costs than many other targeted rates, because Council must maintain loan records for every single property that participates in the scheme. The loan charges are intended to cover the administration costs.

Transparent – the policy is transparent.

Funding options

Targeted rates – Targeted rates are a useful mechanism for this activity.

Recommendation

No Change - 100% targeted rate funding.

Regional initiative – Water Wairarapa

Water Wairarapa has to fund about \$200,000 per year of debt from previous expenditure. The discussion is about how the debt will be funded (both finance costs and principal). If Council decides to invest further in the project, we will develop a funding policy for the investment at that time.

Funding discussion

<i>Community outcome</i>	Strong economy								
<i>Purpose / rationale for activity</i>	GWRC has been exploring options for water storage for agriculture, horticulture, municipal and other community use								
<i>Who benefits? How are the benefits distributed?</i>	The primary beneficiaries are organisations and households that will use the water, or who can rely on the water as an alternative water source during an emergency. People in the Wairarapa may also benefit from increased resilience of source water for the drinking water supplies.								
<i>Does anyone cause GWRC to provide this service?</i>	No								
<i>Rationale for separate funding</i>	Separate funding would enhance transparency and accountability for this activity								
<i>Current funding policy</i>	<table border="1"> <thead> <tr> <th>User charges</th> <th>Subsidies</th> <th>Targeted rates</th> <th>General rate</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td>100%</td> </tr> </tbody> </table>	User charges	Subsidies	Targeted rates	General rate				100%
User charges	Subsidies	Targeted rates	General rate						
			100%						

Impact and assessment of current policy

The most significant impact has been on ratepayers outside the Wairarapa who have paid their own territorial authorities (TAs) for water storage investigations and development, while funding investigations and development work for this project as well.

Given that Wairarapa is one of the wealthier areas in the region (ECV per capita), it is not clear why poorer areas such as the Hutt cities and Porirua should subsidise them.

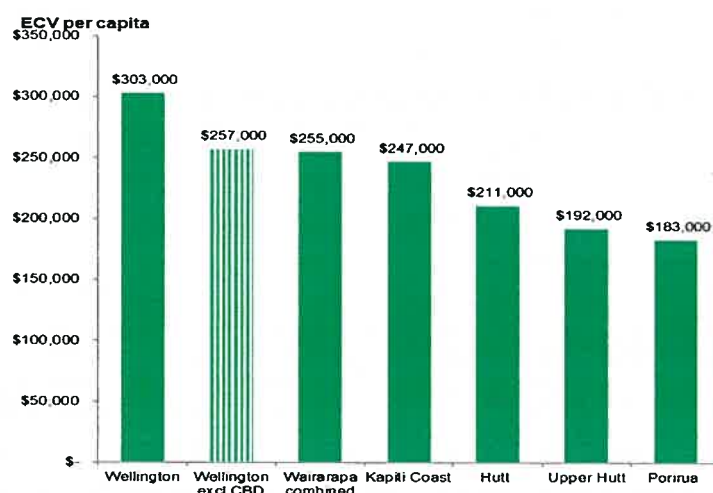


Figure 15 ECV per capita, by TA

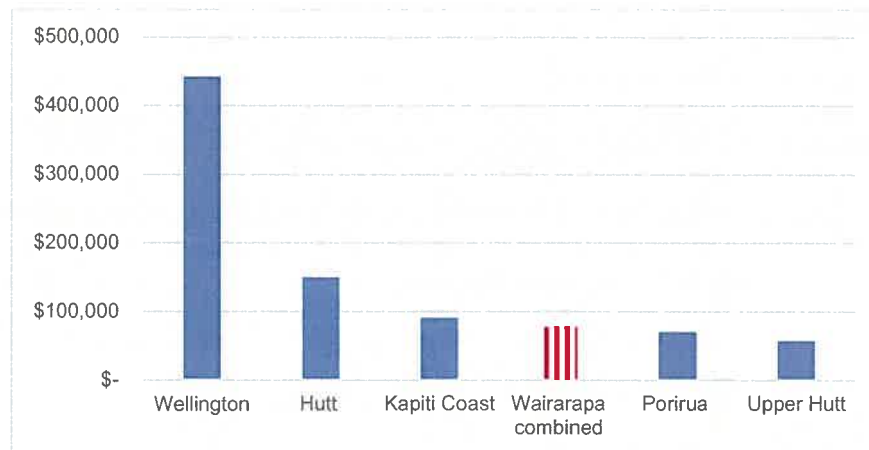
Equitable - The policy is not equitable because it requires property owners all over the region to fund water storage in one small part of the region, in addition to any water storage that property owners are funding via their own TAs. Figure 3 below shows the general rate funding provided by ratepayers from each TA over the last five years.

Distribution of benefits – the policy is inconsistent with distribution of benefits.

Simple - the policy is simple to administer.

Transparent – the policy is transparent, but the current rationale is opaque.

Figure 16 Water Wairarapa - General rate funding, 2012-2017



Funding options

Targeted rates – Targeted rates are a useful mechanism for this activity so GWRC can set funding levels that are aligned with levels of benefits. Targeted rates also enable Council to align its expenditure on an activity more closely with the community’s willingness to pay.

General rate – The General rate is not an especially transparent mechanism for this activity. Using the general rate when there is a clear set of direct beneficiaries typically leads to overinvestment, because:

- Using the General rate means that people cannot see on their rates bill how much they are paying for this project.
- People outside the Wairarapa have provided 91.3% of the rate funding to date.
- Wairarapa ratepayers have paid 8.7% of the costs to date.

Option One – Status quo

As discussed above

Option Two – Level of benefits

Allocate all subsequent costs to ratepayers in the Wairarapa-

- Rural properties – 50-75% of the funding requirement.
- Business and residential – 25-50% of the funding requirement.

Recommendation

Change the funding source – Targeted rate allocated as per Option Two provides the regional community with the best alignment of costs and benefits.

Wellington Regional Strategy

Funding discussion

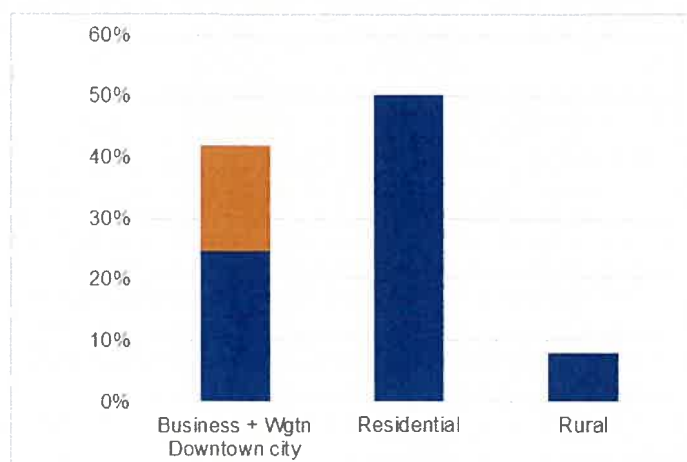
<i>Community outcome</i>	Strong economy			
<i>Purpose / rationale for activity</i>	GWRC promotes economic growth in the region. This activity is hosted by GWRC on behalf of the region			
<i>Who benefits? How are the benefits distributed?</i>	Business communities are the primary beneficiaries of economic growth and increased wealth within the region The community as a whole benefits, if the benefits are evenly distributed			
<i>Does anyone cause GWRC to provide this service?</i>	No			
<i>Rationale for separate funding</i>	Separate funding enables Council to apply revenue requirements that are consistent with the levels of benefit that different ratepayer categories receive. Separate funding also supports accountability and transparency to the ratepayers who fund the activity			
<i>Current funding policy</i>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
			100%	

Impact and assessment of current policy

The policy is applied as follows:

<i>Rating Category</i>	<i>Funding type</i>	<i>Amount</i>
Rural	Fixed charge	\$28 rating unit
Residential	Fixed charge	\$14 rating unit
Business	Targeted rate, based on ECV	Balance of the funding
Wellington CBD		

Although the business sector has been identified as the major beneficiary of this activity, they were only rated to fund 42% of rates requirement in 2017/18. Residential ratepayers collectively funded 50% of the revenue and the rural rating category funded 8%.

Figure 17 Share of total funding - Wellington Regional Strategy, 2017/18

Distribution of benefits – The policy is not well-aligned with the distribution of benefits from this activity. Despite the business sector being the major beneficiary of the policy, they provide less than half of the funding.

Equitable - The policy has a measure of horizontal and vertical equity within the residential category. However, rural properties (farms, lifestyle properties) do not necessarily pay a proportionately higher share of the rates.)

Simple - the policy is simple to administer.

Transparent – the funding rationale for this policy is somewhat opaque because the policy was developed after a challenging series of discussions among the regional territorial authorities and GWRC.

Funding options

Targeted rates – Targeted rates are a useful mechanism for this activity so GWRC can set funding levels that are aligned with levels of benefits.

General rate – The General rate is not an especially transparent mechanism for his activity.

Option One – Status quo

As described above.

Option Two – Levels of benefit

If Council wants to align the funding more closely with the benefits that the Wellington regional intends to provide, then the revenue sought from each rating category would be a targeted rate based on ECV that provided:

Business + Wellington CBD	60-80% of the rate funding
Residential, Rural	20-40% of the rate funding

Recommendation

Option one is preferred because option two would require Council to relitigate the funding formula, which would have substantial relationship costs that would impact on many other aspects of GWRCs work.

Parks

Activities in the Parks group of activities

The Parks group of activities consists of

- Parks planning, and
- Visitor services.

Individual activities work best when they cluster services in a way that reflects a resident / customer view of the world, at a fairly high level. Council is advised to merge these two activities into a single activity for three reasons.

Customer facing

A customer facing grouping puts the activities together – they are all aspects of Parks services and the current activities cannot sensibly occur without the other. There would be little or no interest in parks planning if Council did not have any actual parks that people could use. In the long term, visitor services would decline in relevance if there was no planning

From a customer perspective, planning for parks is not a separate activity - it is just part of what a regional council does as part of its parks work.

Strategic focus

Council can continue to include Parks in the Infrastructure strategy if it wishes. All the things that GWRC discusses about Parks would still need to be discussed – assets, capex, strategy, customer services, etc.

Administrative efficiency

Parks planning has relatively little expenditure, so making it a separate activity within the LTP adds administrative cost without any matching benefit for the region. For internal business and management purposes, Council can retain and report against cost centres that are meaningful for managing the services and the assets. However, annual and long term planning, budgeting, and reporting would be aggregated up to a level that is consistent with the ways customers engage with the service, and consistent with GWRC's strategic objectives.

For comparison, under the LGA, each of the following activities is also its own group of activities⁸:

- water supply
- sewerage and the treatment and disposal of sewage
- stormwater drainage
- flood protection and control works
- the provision of roads and footpaths.

If this change is adopted, Council will continue to plan to meet future needs for parks assets and services, and planning will continue to be an important function within the business.

Funding discussion

<i>Community outcome</i>	Engaged community			
<i>Purpose / rationale for activity</i>	GWRC manages a network of regional parks and forests for the community's use and enjoyment. Council also works with mana whenua and community groups to protect the environment of regional parks.			
<i>Who benefits? How are the benefits distributed?</i>	<p>Organisations that use parks for commercial purposes. For example, this includes -</p> <ul style="list-style-type: none"> • stock grazing • film making • outdoor activities • education. <p>Individuals and groups who use the camping facilities within regional parks</p> <p>The regional community and the whole country benefit from being able to enjoy regionally significant landscapes, bush, and heritage features.</p> <p>Future generations can also benefit because the bush, landscapes and heritage features are being preserved. Mana whenua benefit from a partnership approach to managing the natural environment ensures that iwi fulfil their obligations as natural managers of the world, through their kaitiaki roles and responsible.</p> <p>The community as a whole benefits from these services. Regional communities benefit from the quality of decision making that is enabled when mana whenua participate in decisions that affect them.</p> <p>The whole country benefits from the preservation of nationally significant landscapes, forests and heritage features.</p>			
<i>Does anyone cause GWRC to provide this service?</i>	No			
<i>Rationale for separate funding</i>	There is no particular need for separate funding for this activity. Council reports on the financial and service performance for this activity in its annual report.			
<i>Current funding policy</i>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rate</i>	<i>General rate</i>
	10% for organised events, farming and other leases, license fees, other added value services			90%

Impact and assessment

Equitable – General rate funding for the community benefit is based on equalised capital value (ECV) so that higher value properties contribute a greater share of the funding, ensuring both horizontal and vertical equity.

Distribution of benefits – Charges for commercial users enables Council to match the benefits with the private gain. The rate funding component is equitable because the benefits are distributed among the community as a whole,

Simple - the policy is simple to relatively administer.

Transparent – the policy is transparent.

Funding options

There are no reasons to consider changing this policy.

User charges – this activity does not provide services to individuals who could be expected to pay a user charge.

General rate – this is an appropriate funding mechanism for this activity.

Recommendation

No Change – 10% user charges, and 90% General rate funding.

Water supply

Council provides bulk drinking water services (collection, treatment, and distribution) that meet New Zealand Drinking Water Standards. Water is provided under the Wellington Regional Water Board Act 1972, to four city councils in the region – Wellington, Hutt, Upper Hutt, and Porirua.

Funding discussion

<i>Community outcome</i>	Strong economy, healthy environment, resilient community			
<i>Purpose / rationale for activity</i>	Clean, safe drinking water is essential for life, and also used for- residential purposes (gardens, swimming pools) community purposes (parks, swimming pools, schools, hospitals, turf, and other recreation services). industrial purposes (hygiene, other uses).			
<i>Who benefits? How are the benefits distributed?</i>	The participating TAs benefit from- being able to provide potable water for their residents the efficiency of a coordinated water collection, treatment, and distribution system.			
<i>Does anyone cause GWRC to provide this service?</i>	No			
<i>Rationale for separate funding</i>	Funding water supply services distinctly from other services has benefits for transparency and accountability. Because water is supplied in bulk to TAs, a volumetric levy is a fairer and more efficient funding tool.			
<i>Current funding policy</i>	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rate</i>	<i>General rate</i>
	100 % volumetric levy on TAs			

Impact and assessment of this policy

Equitable - The volumetric charges are based on population which gives them a high degree of horizontal equity.

Distribution of benefits – the benefits are distributed proportionately to the TAs that receive the water.

Simple - the policy is simple to administer.

Transparent – the policy is transparent.

Funding options

There are no reasons to consider changing this policy. This activity provide services to identifiable groups who can be expected to pay a **user charge**.

Recommendation

Retain the status quo - 100% volumetric charges on the participating TAs.

Environment

Activities within the Environment group of activities

Council undertakes a wide range of services and operations for some of these activities, and therefore we provide a more finely grained discussion and options under these headings.

Resource management

- Policy and planning
- Consent service
- Compliance and enforcement
- Pollution prevention and control
- State of the Environment monitoring

Land management

- Farm plans
- Farm environment plans
- Catchment management schemes
- Soil conservation reserves
- Akura conservation centre
- Advisory services

Harbour Management

- Navigational aids and communications service
- Education and enforcement of maritime safety regulations
- Clean-up oil spills

Pest Management

- Regional Pest Management Plan
- Regional predator control programme

Biodiversity management

Resource management

Services within this activity

The services within this activity are largely focused on the Regional Plan – developing, implementing, and monitoring the plan. In the last LTP, the activity was divided into five services, which largely reflect the way Council organises its business:

- State of the Environment monitoring
- Policy and planning
- Consent service
- Compliance and enforcement
- Pollution prevention and control.

A more customer-facing grouping would sort these services into two categories, still based around the Regional Plan-

- Policy services, including policy, planning and environmental monitoring
- Operational services including consents, compliance, and pollution response.

Resource management - Policy services

Funding discussion

<i>Community outcome</i>	Healthy environment, engaged community.
<i>Purpose / rationale for activity</i>	GW regulates the use and development of the environment via the Regional Plan and other planning documents, to ensure that natural and physical resources are managed sustainably.
<i>Who benefits? How are the benefits distributed?</i>	The community as a whole benefits from the policy and planning services. TAs, and individuals, may benefit from Council's State of the Environment monitoring database. The community as a whole also benefits from this monitoring service.
<i>Does anyone contribute to GWRC's need to provide this activity?</i>	Everyone uses the region's natural resources to some extent.
<i>Rationale for separate funding</i>	Because the community as a whole is the main beneficiary, there is no particular need for distinct funding. Council could increase transparency for ratepayers, by funding Environmental services (in aggregate) using a targeted rate.

Current funding policy

	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
<i>Policy and planning</i>				100%
<i>State of Environment monitoring</i>				100%

Impact and assessment current policy

Equitable – The policy has both horizontal and vertical equity. Council applies user charges to TAs and other bodies for data, information, and analysis from the State of the Environment monitoring database.

Distribution of benefits – The policy captures the breadth of benefits that the region receives.

Simple – The policy is simple to administer.

Transparent – The policy is transparent.

Funding options

Option One – Status quo.

As described above.

Recommendation

The status quo is recommended because these are largely public good activities.

Resource management – Operations

Funding discussion

<i>Community outcome</i>	Healthy environment
<i>Purpose / rationale for activity</i>	GW implements the Regional Plan, with consenting, compliance, and pollution services.
<i>Who benefits? How are the benefits distributed?</i>	Consent applicants benefit from information services. Consent holders benefit from the right to use regional resources, from monitoring, because consents may be granted with greater confidence / certainty about the potential impacts
<i>Does anyone contribute to GWRC's need to provide this activity?</i>	Polluters People who want to use the region's resources
<i>Rationale for separate funding</i>	These services are best funded jointly with other Resource management activities.

Current funding policy

	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
<i>Consent service</i>	100%, consent applicants			
<i>Compliance and enforcement</i>	100%, consent holders			Up to 100% for investigations where a liable party cannot be identified
<i>Pollution control</i>	100% identified polluters			

Impact and assessment of current policy

Equitable -. The policy is equitable.

Distribution of benefits – The policy seeks to match the costs with the distribution of benefits.

Simple -The policy is relatively simple to administer.

Transparent – The policy is transparent.

Funding options

User charges will continue to be a useful and appropriate funding mechanism for these services.

Targeted rates are not appropriate funding mechanism for these services.

General rate – General rates are the fairest way to fund only those services where no beneficiary or liable party can be identified.

Option one – Status quo

In applying the current policy, Council staff provide up to one hour free advice for consent applicants, to discuss how the Regional Plan might apply to an applicant's specific resource requirements. The rationale is that this can save time (and money) at later stages in the process, and it builds trust and engagement with consent applicants.

Although the policy is for consents to be 100% funded by users, the free hour of advice has actually been funded from general rates in the past.

Staff have proposed providing three hours of free advice for applicants and potential applicants. The objectives are to strengthen the implementation of the Regional Plan by building stronger engagement with applicants, and to help both Council and applicants gain a better understanding of what consents may be needed.

That proposal only has merit if consent applicants fund 100% of the time involved. Council would retain its policy of 100% funding from consent holders, while changing the administration of the policy to provide the 3 "free" hours. By increasing the various hourly rates that Council charges for consent activities, the total funding requirement could still be met.

- Behavioural economics tells us people with skin in the game respect the game more than people who haven't made that commitment. Therefore, people who want to use regional resources will respect the allocation of those resources (the Regional Plan) much more if they are required to pay to get access to them. And the rest of the community will respect them more for this.
- The TAs within the region require applicants for resource consents to fully fund their applications. This very often requires applicants to engage specialists to prepare consent applications. It is not obvious why a different funding regime would be appropriate at the regional level.

The policy would be highly inequitable if any general rate funding was used to subsidise consent applications.

Recommendation

Status quo

- 100% user charges for consents, compliance, and enforcement, and
- Up to 100% general rates for compliance investigations and pollution responses that do not identify a liable party.

Biodiversity management

Council provides the following biodiversity services–

- manages 61 specific sites within the region (most on public land, 18 on private land), including key native ecosystems, with pest monitoring and control, weed control, revegetation, etc
- coordinates GW input to collaborative restoration sites (Porirua Harbour, Wairarapa Moana)
- works with farmers to ensure stock are not in waterways
- advocates for biodiversity.

Funding discussion

<i>Community outcome</i>	Healthy environment
<i>Purpose / rationale for activity</i>	Biodiversity contributes to the region’s natural character and supports the healthy functioning of ecosystems which in turn provide essential, life supporting services, including purifying air and water.
<i>Who benefits? How are the benefits distributed?</i>	The benefits of a healthy environment are shared by the community as a whole.
<i>Does anyone cause GWRC to provide this service?</i>	Farmers who have not yet fenced waterways so that stock can get into them contribute to the need for this activity.
<i>Rationale for separate funding</i>	This activity is one, relatively small, part of the larger Group of Activities and separate funding would not be cost effective.

Current funding policy

	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
<i>Key Native Ecosystems programme</i>				100%
<i>Biosecurity services for TAs</i>	100%			
<i>All other services</i>				100%

Impact and assessment current policy

Distribution of benefits – the region as a whole benefits from these activities.

Equitable – The funding system does not require polluters to pay (farmers who allow stock into waterways) and to that extent, it is inequitable to require non-polluters to fund the clean-up from a commercial activity.

The contribution from participating TAs is relatively small compared to the benefits that their districts and cities receive.

The remainder of the funding is equitable, because the balance of the benefits are shared among the community as whole.

Simple -The policy is simple to administer.

Transparent – The policy is transparent, except for the funding for farms to prevent stock entering waterways, which is not easy to monitor or track.

Funding options

User charges – High levels of contributions from TAs for the benefits they receive from the Key Native Ecosystems programme would enable TAs to demonstrate their level of their commitment to biodiversity. It would also be more equitable if the communities that receive the reputation and amenity benefits of the programmes contributed more strongly to their funding.

Targeted rates – Council could apply a targeted rate on all agricultural properties that contain or are adjacent to unfenced waterways or waterways that are open to stock. The rate would provide an incentive for farms to ensure that stock could not pollute the region's waterways.

General rate – The general rate is an appropriate funding mechanism for the bulk of this activity.

Option one – Status quo

Option two – Stock in waterways rate

- Introduce a targeted rate for farms that border rivers and wetlands that are accessible to stock
- General rate funding for the balance.

Recommendation

Status quo is recommended until further work has been done.

Pest management

Pest animals and plants have adverse impacts on the environment, economy, and community. Rooks, feral rabbits, and possums are the most heavily controlled pest animals. Council undertakes two sets of services in this activity-

- Regional Pest Management Plan. Council aims to
 - minimise the impact of selected pests on the environment, economy, Māori values and community (rabbits, rooks, possums, etc)
 - maximise the effectiveness of pest management through a regionally co-ordinated response
 - support working with Māori to protect the taonga of the region.
- Regional predator control programme. Council seeks to control possums in
 - land that has not received any possum control under any other either GWRC programmes or the National Pest Management Strategy for bovine Tb, and
 - land that has recently been declared bovine Tb-free after a sustained period of control.

Funding discussion

<i>Community outcome</i>	Healthy environment
<i>Purpose / rationale for activity</i>	<p>Pest management supports economic activity and improves environmental outcomes.</p> <p>Primary producers benefit from</p> <ul style="list-style-type: none"> • reduced loss of pasture • reduced loss of crops • reduced damage to trees and shrubs • sustained and increased primary production.
<i>Who benefits? How are the benefits distributed?</i>	<p>Cattle and deer farmers in operational areas benefit from reduced risk of disease to farmed animals.</p> <p>The regional community benefits from reduced spread of unwanted pest damage to high value ecosystems, and reduced pest impact on safety, amenity, and social values.</p>
<i>Does anyone cause GWRC to provide this service?</i>	Pest management, including possum control activities are undertaken in line with Biosecurity Act 1993, and the National Policy Direction for Pest Management.
<i>Rationale for separate funding</i>	Because Council provides two pest management activities, with different funding policies, a targeted rate would increase operational costs without increasing transparency.

Regional Pest Management Plan

<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
<i>The funding % is not available</i>	<p>The Ministry for Primary Industries provides subsidies for-</p> <ul style="list-style-type: none"> • National Interest Pest Response programme • Check Clean Dry freshwater pest advocacy programme. 		<p>General rates are used for inspections, surveillance, monitoring, and approved control work under the RPMP, including-</p> <ul style="list-style-type: none"> • managing eradication and containment of pest species • pest surveillance, monitoring and reporting • managing the regional biocontrol programme. <p><i>The funding % is not available.</i></p>

Impact and assessment current policy

Equitable - The policy seems inequitable for those services under the regional pest management plan that are largely for farmers whose businesses are subsidised by the rest of the region.

Distribution of benefits – some pests are a problem for the community as a whole because of the damage they do to community-owned resources (e.g., possums in our parks) and some pests are a problem because of the damage they do or harms they cause to private property (e.g., rooks on Wairarapa farms, possums that spread bovine Tb).

The services funded by the General rate are not all public good activities. For example, elements of pest surveillance, monitoring and reporting provide benefits for identifiable sections of the community.

Simple – The policy is relatively simple to administer.

Transparent – The current policy is not transparent because it is not clear what share of funding is required from any identifiable group, or the community as a whole.

Funding options

User charges – User charges are an appropriate funding mechanism for pest management services direct to landowners.

Targeted rates – Targeted rates can be an effective and equitable funding mechanism for services that have a focus on supporting an identifiable sector of the community (in this case, farms).

General rate – General rates are an appropriate mechanism for funding the public good share of the service.

Recommendation

Status quo

- Require landowners and TAs to pay all costs to comply with the plan.
- Collect whatever subsidies may be available

- Fund the balance of the work with general rates.

Regional predator control programme

<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
		40% on all rateable rural properties 4ha and over	60%

Impact and assessment current policy

Equitable -. The policy seems fairly equitable because it recognises the benefits to rural properties and applies rates accordingly.

Distribution of benefits – Farms receive substantial economic benefits from possum control. The community as a whole also benefits to some extent.

Simple -The policy is simple to administer.

Transparent – The policy is transparent.

Funding options

User charges – User charges are not an especially appropriate funding mechanism because the benefits of possum control last for more than the year of operation.

Targeted rates – Targeted rates are an ideal mechanism for services that have a focus on supporting an identifiable sector of the community (in this case, farms).

General rate – General rates are an appropriate mechanism for funding the public good share of the service.

Recommendation

Status quo

- 40% targeted rate on all rateable rural properties 4ha and over
- 60% general rate.

Harbour management

- Navigational aids and communications service
- Education and enforcement of maritime safety regulations
- Clean-up oil spills.

Funding discussion

<i>Community outcome</i>	Strong economy
<i>Purpose / rationale for activity</i>	GW provides this service to support safe commercial shipping and recreational activities in the regional harbours. Maritime traffic in the harbours benefit from Beacon Hill Communications station, navigational aids, and the enforcement of maritime safety regulations.
<i>Who benefits?</i>	Recreational boat users benefit from navigational aids, education programmes, and the enforcement of maritime safety regulations. Other harbour users receive a small benefit from the enforcement of maritime safety regulations. Commercial shipping is the major economic beneficiary of this service.
<i>How are the benefits distributed?</i>	People using recreational boats and yachts also benefit substantially. The rest of the region gets some residual benefit.
<i>Does anyone cause GWRC to provide this service?</i>	Maritime traffic (commercial and recreational) is the major activity that creates the need for GW to provide navigational aids and safety services. Polluters create the need for monitoring, regulations and clean up services.
<i>Rationale for separate funding</i>	Separate funding via targeted rates is not sensible for this activity, because Council cannot identify and targeted land owners who would be the major beneficiaries of services for activities on and about water.

Current funding policy

	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
Navigational aids and communications service	60% commercial shipping, (collected by CentrePort)			40%
Education; Enforce maritime safety regulations				100%
Pollution clean-up – oil		95% Maritime NZ		5%
Pollution clean-up – other	100% charge on polluter(s), where GW can identify and charge the polluter(s).			Up to 100%

Impact and assessment current policy

Distribution of benefits – Commercial shipping is the major beneficiary of the harbour safety and signal services.

The risk profile for polluters consists of two dimensions – likelihood and impact. While the likelihood of pollution from commercial shipping is not clear, the impact of a major commercial pollution event would be substantial, because

- commercial ships carry a greater volume of pollutants than recreational boats, because they are so much bigger.
- commercial ships potentially carry a greater range of pollutants than recreational boats, because of the distances they travel, and the harbours they visit.

Equitable – The policy for funding navigation aids and communications services seems inequitable because of the greater level of benefits that commercial shipping receives.

Funding education and enforcement of maritime safety regulations from general rates is also inequitable because the benefits are so unevenly distributed: Ships and boaties benefit but everyone pays. However, without an annual boat registration system, there are not yet easy ways to identify and require recreational boat users to fund their share of the service. In future, the combination of GPS and digital technologies may make this a realistic possibility.

Simple – The policy is relatively simple to administer, although there can be legal challenges in getting polluters to pay for clean-ups.

Transparent – The policy is relatively transparent. Because the user charges on commercial shipping for navigational aids are collected by CentrePort, that contribution is less easy to monitor or track.

Funding options

User charges – It is not possible to exclude commercial or recreational harbour users from using the main navigational aids. Consequently, user charges need to be applied to users who can be easily identified, such as commercial shipping that enters the harbour.

User charges for polluters are an appropriate funding mechanism, where the polluter can be identified and required to pay the charge.

Targeted rates – Targeted rates are not a practical mechanism for this activity.

General rate – General rates are an ideal funding mechanism for the public good component to the work. However general rates are a fall-back option for funding much of this activity. They should be used only because of the administrative complexity and transaction inefficiency of funding the activity by any other means.

Option one – Status quo

Option two – Increase charges on Commercial shipping

- Increase user charges to 75% of the funding for navigational aids and communications services, and reduce the general rate share to 25%
- Maintain status quo funding for education, enforcement and pollution clean-ups.

Recommendation

Option two – retain the current funding policy.

Land management

Council has seven services within the Land Management activity-

- Farm plans – mainly for Wairarapa eastern hill erosion
- Farm environment plans – mainly used for intensively farmed (dairy) areas in Wairarapa and Otaki.
- Wellington Regional Erosion Control Initiative – another hill country programme
- Catchment management schemes
- Soil conservation reserves
- Akura conservation centre
- Advisory services

For the funding analysis, these services can be grouped into three sets-

1. Farm plans, Wellington Regional Erosion Control Initiative, and land management advice– including Council’s commercial consultancy service
2. Catchment services
3. Soil and plant conservation

Farm plans and advice

Funding discussion

<i>Community outcome</i>	Healthy environment
<i>Purpose / rationale for activity</i>	GW seeks to mitigate the environmental impacts of farming, because land management practices can affect soil erosion, soil health water quality, and the health of streams, rivers, and the coast. GW does this with farm plans, farm environment plans, and other advice to landowners and the community Farmers benefit from stabilised soils and reduced erosion.
<i>Who benefits? How are the benefits distributed?</i>	Farming industry gets reputation benefits from clean operations The community as a whole benefits when farmers reduce their nutrient and sediment discharges. Farmers who do not plant tree cover on erosion prone soils.
<i>Does anyone cause GWRC to provide this service?</i>	Farmers who allow stock to graze in riparian areas. Farmers who allow nutrients to leach into waterways
<i>Rationale for separate funding</i>	Because the activity is predominantly focused on services to rural businesses, there are transparency benefits from separate funding.

Current funding policy

	User charges	Subsidies	Targeted rates	General rate
<i>Farm plans</i>	70 %			30%
<i>Farm environment plans</i>	50 %			50 %
<i>Wellington Regional Erosion Control Initiative</i>	30%	40% Crown		40%
<i>Land management advice</i>				100 %

Impact and assessment of the current policies

Distribution of benefits – Landowners are the major beneficiaries and/or exacerbators for these services.

Equitable – The policy appears to be inequitable because it requires a considerable contribution from the community as a whole

Simple – The policy is relatively simple to administer

Transparent – The policy is transparent, but the funding rationale is not.

Funding options

User charges will continue to be a useful and appropriate funding mechanism for these services.

General rate – General rates are an appropriate funding tool for the community's share of the benefit

Option one – Status quo

Option Two – Reduce the farm subsidies

- Retain the funding policy for WRECI while the Crown funding continues. Review the activity and funding if the Crown subsidy reduces or ceases to be available.
- Explore further policy and operational options for reducing the general rate subsidies on agricultural businesses.

Recommendation

Option one, for now, while further work is being done.

Catchment services

Funding discussion

<i>Community outcome</i>	Healthy environment
<i>Purpose / rationale for activity</i>	GW seeks to mitigate the environmental impacts of farming, because land management practices can affect soil erosion, soil health water quality, and the health of streams, rivers, and the coast. Farmers benefit from water and drainage schemes that stabilise soils
<i>Who benefits?</i>	Farming industry benefits from reduced erosion. Rural communities benefit from local catchment schemes that protect local infrastructure (roads, utilities).
<i>How are the benefits distributed?</i>	100% rural communities.
<i>Does anyone cause GWRC to provide this service?</i>	No
<i>Rationale for separate funding</i>	Because the activity is predominantly focused on services to identifiable properties, there are transparency benefits from separate funding.

Current funding policy

	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
Catchment schemes	Whatever charges may be applied		Balance of the funding requirement	Up to 50%

Impact and assessment of the current policy

Distribution of benefits – Landowners are the major beneficiaries and/or exacerbators for these services.

Equitable – The policy appears to be inequitable because it requires a considerable contribution from the community as a whole. In practice the general rate component appears to be applied as 50% and the targeted rates are used to supplement the balance of the funding requirement.

Simple – The policy is relatively simple to administer

Transparent – The policy is not especially transparent; nor is the funding rationale.

Funding options

User charges will continue to be a useful and appropriate funding mechanism for these services, especially where TAs benefit from having their infrastructure (roads, etc) protected.

Targeted rates are an appropriate tool for catchment schemes.

General rate – General rates are an appropriate funding tool for the community's share of the benefit

Option One – Status quo

Option Two – Reduce the farm subsidies

Collect whatever user charges are possible

Increase the targeted rate so that it funds at least 60% of the revenue requirement, after user charges have been collected

Reduce the general rate component to fund the balance of the funding requirement, which would never be more than 40%.

Recommendation

Option Two balances the revenue requirements with the benefits of the services.

Soil and plant conservation

Funding discussion

Council has four Soil Conservation Reserves where it seeks to rehabilitate severely eroded land. It also operates a nursery for plant conservation, and to grow trees (mainly poplars and willows) for various GW activities.

<i>Community outcome</i>	Healthy environment
<i>Purpose / rationale for activity</i>	GW seeks to mitigate the environmental impacts of farming, because land management practices create erosion, and affect the health and quality of streams, rivers, and the coast. The community as a whole benefits from stabilised soils in its reserves.
<i>Who benefits?</i>	The benefits from the Akura Conservation Centre are mostly be to private landowners who plant poplars and willows for erosion and flood control.
<i>How are the benefits distributed?</i>	90% private landowners 10% community as a whole.
<i>Does anyone cause GWRC to provide this service?</i>	Farmers who do not plant tree cover on erosion prone soils.
<i>Rationale for separate funding</i>	Because the activity is predominantly focused on services to rural businesses, there are transparency benefits from separate funding.

Current funding policy

	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
<i>Soil conservation reserves</i>	100%, paid as cutting rights			
<i>Akura conservation centre</i>	100%			

Impact and assessment of the current policy

Distribution of benefits – The policy allocates costs consistently with the benefits of the services

Equitable – The policy has vertical and horizontal equity.

Simple – The policy is relatively simple to administer

Transparent – The policy is transparent.

Funding options

User charges will continue to be a useful and appropriate funding mechanism for these services.

Option one – Status quo

Recommendation

Status quo

- 100% user charges, paid as cutting rights on the soil conservation reserves
- 100% user charges for Akura Conservation Centre.

Flood Protection

Council's flood protection services are clustered in three river catchments (Hutt, Wairarapa, Kapiti) with almost no flood works needed in other areas. Funding for these services is highly complex, expensive to administer, and not well related to the beneficiaries of the services. It was therefore considered important to explore the funding rationale and options for Flood Protection in more detail for this LTP.

Description and rationale for activity

GWRC provides three activities within the Flood Protection group of activities, and at first glance, they can seem very similar. It is essential to understand what capital and services are actually being funded within each activity, in order to analyse the benefits of the activity and develop meaningful and relevant funding options.

Understanding flood risk (\$2.8m, ~\$1m in capex)

GW collects and creates technical information and analysis about flood risks and flood hazards. It investigates and develops flood management plans, and shares information and advice to TAs so that they can make informed decisions about development in flood hazard areas. Council also provides advice on planning, policy, and environmental enhancement work, mainly to TAs.

Maintaining flood protection and control works (~\$8.3m, all opex)

GW provides and maintains a network of flood protection structures including stopbanks, river works and detention dams, to mitigate the effect of floods. As well as repairing damage caused by floods, we undertake regular maintenance to ensure that flood protection systems and infrastructure continue to perform as planned.

Improving flood security (~\$15m capex in year 1)

GW implements Floodplain Management Plans and river management schemes around these rivers: Ruamahanga, Hutt (including the Riverlink project), Waikanae, Otaki, Waiwhetu, Pinehaven, and Waiohine.

There appear to be some common aspects to these activities. Activities 1 and 3 are both about Floodplain Management Plans (FMPs). Activities 2 and 3 both include the development, installation, and maintenance of flood protection structures. They also both require intensive engagement with affected landowners and communities. Conceptually, these are fairly similar activities, so they are likely to have similar revenue and financing policies.

Funding discussion

Community outcomes

The Community outcomes for all three activities are-

Healthy environment, engaged community, resilient community

Who benefits?

Property owners (private, Crown, TAs, other) and residents in flood hazard zones are the major beneficiaries of these activities. They benefit from

- information about flood hazards
- flood warnings
- flood protection structures that directly protect lives and property, and downstream areas.

Local communities benefit from

- Information about flood hazards to support land use planning
- having their local infrastructure protected (schools, hospitals, roads and emergency lifelines, parks and reserves).

Utilities benefit from

- information about flood hazards
- flood warnings
- flood protection structures that directly protects their infrastructure (electricity transmission, telecoms, etc).

The community as a whole benefits from

- advice about flood emergencies
- any environmental protection that flood protection provides
- protected arterial transport routes, especially in the Hutt City.

How are the benefits distributed?

- Property owners (including utility companies), and residents and flood hazard zones are the major beneficiaries of all these activities.
- Local communities, (including property owners in flood hazard zones) are also substantial beneficiaries of flood protection and control works in their communities.
- The community as a whole receives a relatively small share of the benefits.

Period in or over which benefits are expected to occur

Flood hazard assessments and Floodplain Management Plans provide information and planning benefits for many years. Flood protection and control infrastructure also provides benefits over many years. In this group of activities, some operational activities (clearing vegetation, for example,) may also provide multi-year benefits.

Does anyone cause GWRC to provide this service?

No.

Rationale for separate funding

Because of the substantial private benefits from these activities, and Council's considerable commitment to this group of activities, separate funding provides transparency and accountability benefits.

GW prepares flood hazard assessments, develops Flood Management Plans, and provides flood and hazard advice, including flood emergency advice. Flood hazard assessments and Flood Management Plans provide information and planning benefits for many years.

This activity requires more than \$2 million in operating costs each year, which seems high for an activity that is largely about planning.

GW provides and maintains a network of flood protection structures including stopbanks, river works and detention dams, to mitigate the effect of floods. As well as repairing damage caused by floods, we undertake regular maintenance to ensure that flood protection systems and infrastructure continue to perform as planned.

Current funding policy

	<i>User charges</i>	<i>Subsidies</i>	<i>Targeted rates</i>	<i>General rate</i>
<i>Understanding flood risk</i>				100 %
<i>Maintaining flood protection and control works</i>	Charges on TAs wherever possible		Balance (up to 50%) targeted by scheme. Some on land value and some on capital value	Up to 50%, ECV (In practice, always very close to 50%)
<i>Improving flood security</i>	Charges on TAs wherever possible		Balance (up to 50%) targeted by scheme. Some on land value and some on capital value	Up to 50%, ECV (In practice, always very close to 50%)
<i>Flood warning service</i>				100 %

Impact and assessment of this policy

Equitable - The revenue requirements are not well aligned with the distribution of benefits.

Distribution of benefits - The policy is not well aligned with the benefits from this activity.

Landowners and residents in floodplains and flood hazard areas are the major beneficiaries of this activity, but they do not provide most of the funding.

- Ratepayers in Wellington City provide 50% of all general rate funding for flood protection in the Wairarapa, Hutt and Kāpiti. That is about one quarter of Council's total flood protection funding for the whole region although the regional Council funds no flood protection schemes within the area.
- The ratepayers in Porirua provide 7.9% of the general rate funding for Flood Protection and receive almost no benefit.
- The ratepayers in the Wairarapa pay 8.7% of the general rate funding, and receive a substantial proportion of the public benefits – roads, access to schools, hospitals, services, etc.
- Hutt City ratepayers provide up to 50% of the Hutt river scheme funding, for their local scheme, and slightly less than 17% of the General rate funding (ie, 17% of 50% = 8.5%), for regional flood protection in Wairarapa, Otaki, and Hutt, just like all other ratepayers. They are also the beneficiaries of substantial expenditure, because Hutt City is the largest city in New Zealand to be situated on a floodplain.

Simple - The policy is not simple, because river management schemes are complex and relatively expensive to administer.

- There are multiple river management schemes, each with their own method of categorising properties.
- There are up to 12 different categories of risk or protection for each targeted rate within each river management scheme.

- Council must prepare and provide an annual report to each scheme. (The smallest scheme aimed to collect \$2218 from targeted rates in 2017/18.)
- Every year, GWRC needs the assistance of several TAs to review the land ownership within each scheme, to ensure that the right rates are being charged. These reviews are not always a high priority for the affected TAs.

Over time, Council plans to move the river schemes into flood management plans, (e.g., Te Kauru and Waiohine), which will improve flood protection and reduce the administration costs.

Transparent - The policy is not transparent because of -

- the complexity of the targeted rate allocations
- the opaque funding rationale

Funding policy issues

This section discusses the major policy issues for flood protection funding-

- The equity of subsidies
- Adverse effects of subsidies
- Community benefits

The equity of subsidies

Flood protection provides a service to households, businesses, hospitals, schools, and TA infrastructure such as roads that occupy the protected flood prone lands. This protection is captured in property prices in the flood hazard areas. Funding from general rates is therefore a subsidy from the rest of the region to property owners whose properties are protected or benefit from some flood mitigation.

In contrast, the wealth effect for property owners who fully fund their own flood protection is likely to be neutral – they face a higher rate bill but are compensated by obtaining higher property valuations. Put another way, they have higher property values because they do not face the risk of flooding that they would otherwise be subject to.

Adverse effects of flood protection subsidies

A rate subsidy for flood protection encourages distortions in the property market, encouraging greater residential and commercial uses of flood prone areas. Because flood protection cannot be perfect, subsidies encourage a riskier distribution of housing in the region. While trying to mitigate flood risks, Councils end up creating an incentive for more development in flood prone areas, putting additional reliance on the efficacy of the flood protection structures.

This in turn leads to increased demand for flood protection services – because the service is being subsidised, more people want to be recipients of the subsidy. Therefore, in addition to encouraging more risky property use, the subsidy encourages a higher cost structure for the region.

A large general rate subsidy also mutes price signals about the level of service that the community is willing to pay, leading to the possibility of overinvestment. If flood protection beneficiaries are required to pay something closer to the true cost of the service, they may prefer a lower level of service.

Community benefits

At the same time, the whole community should be expected to make some contribution to flood protection services. Flood protection information and services may protect critical network points that are cheaper to locate on flood prone land that is protected - roads, electricity lines, communication networks, etc). There are other public service providers such as schools and hospitals that may benefit from flood protection, but which cannot be rated directly.

If all the benefits accrue to private landowners then they should potentially be entirely responsible for the provision of flood protection and/or insurance. However, the counter to this hard-line argument is that there are co-ordination issues and free rider problems for private agents to organise effective flood protection. There are valid reasons for council involvement but the funding should still reflect the type of beneficiaries (e.g. targeted rates for private property owners, region-wide rates for public good/network benefits).

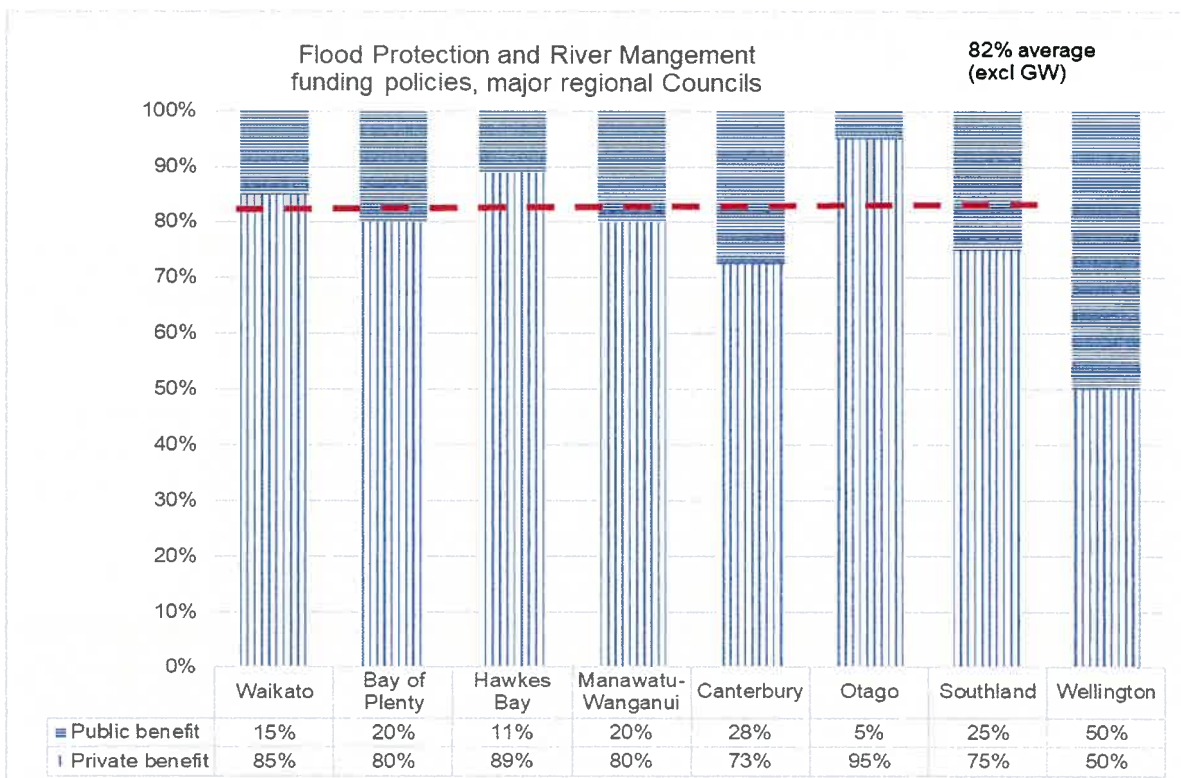
What other regional councils do

Other regional Councils have also grappled with the challenges of a revenue policy for Flood protection, so it is interesting to see how they have resolved the issue. The information from this section was taken from a desktop review of the Revenue and Finance policies published by the major regional councils. Unitary Council were excluded from the analysis because it was not clear that we were comparing apples with apples.

Taking account of the mix of public and private benefits, **Figure 18** shows that these Councils expect the private beneficiaries of this activity to provide at least 70% of the funding, and most expect even more. The average private benefit funding target is 82%.

GWRC is, therefore, unusual in the high level of general rates and low proportions of targeted rates that it seeks for flood protection and control works.

Figure 18 Flood Protection and River Management funding, selected regional Councils



Funding options

Option one – Status quo

Option two - Level of benefit

Status quo funding for the Flood warning service - 100% from general rate.

User charges (shingle royalties and other charges), and then, for all Flood Protection activities have three targeted rates.

1. Protected property - The current targeted river management rates as already agreed. This rate pays for services and assets that protect identifiable properties
2. Protected catchment - A new targeted rate based on ECV to all properties within major river catchments. This rate funds the public good components of protected catchments, so that roads, schools, lifelines are protected.

Collect 70% of the funding from these two rates - protected property and protected catchment. (In the longer term, these two rates could be merged because the property rates have extremely high administration costs).

3. Protected region – A new targeted rate based on ECV on all properties within the region. This rate funds the public good components of a protected region, so that major arterial routes, hospitals and emergency lifelines are protected.

Collect 30% of the funding from general rates for regional flood protection.

	<i>Targeted rates</i>				
	<i>User charges</i>	<i>Property flood protection</i>	<i>Catchment flood protection</i>	<i>Regional flood protection</i>	<i>General rate</i>
<i>Understanding flood risk</i>	Charges on TAs wherever possible	Actual costs. Including overheads (as now), targeted by scheme. Some on land value and some on capital value	70% of the total funding for the catchment, less the funding from the property rate	30%	
<i>Maintaining flood protection and control works</i>	Charges on TAs wherever possible	Actual costs. Including overheads (as now), targeted by scheme. Some on land value and some on capital value.	70% of the total funding for the catchment, less the funding from the property rate	30%	
<i>Improving flood security</i>	Charges on TAs wherever possible	Actual costs. Including overheads (as now), targeted by scheme. Some on land value and some on capital value	70% of the total funding for the catchment, less the funding from the property rate.	30%	
<i>Flood warning service</i>					100%

Example

Riverlink, which will primarily benefit the Hutt river catchment area, would be funded 30% by the region and 70% by the Hutt catchment. Hutt ratepayers would pay the general rate as their contribution to flood protection funding in other parts of the region.

Strengths of this option

- The activity is funded more proportionately with the benefits.
- The funding will be more transparent.
- Council and participating TAs are less likely to overinvest in flood protection because the beneficiaries will provide clearer signals about the levels of service they are willing to fund.

Transition policy

This option is a substantial change of policy, and would benefit from a transition policy to mitigate the impact of change.

We will prepare transition policy options once we have examined the overall impacts of any revenue and financing policy changes.

Notes

- 1 Clause2, Schedule 10, Local Government Act 2002
- 2 Hyde, R and D Smith (2017) Assessing the value of public transport as a network. NZ Transport Agency research report 616.
- 3 Litman, T (2017) Evaluating Public Transit Benefits and Costs - Best Practices Guidebook, Victoria Transport Policy Institute
- 4 Weisbrod G, and Reno A (2009) Economic Impact of Public Transportation Investment, American Public Transportation Association.
- 5 Lee, SG, M Hickman and D Tong (2013) Development of a temporal and spatial linkage between transit demand and land use patterns. The Journal of Transport and Land Use 6, no.2: 33–46.
- 6 Wallis, IP and DR Wignall (2012) The benefits of public transport – option values and non-use values. NZ Transport Agency research report 471.
- 7 Shand, David A et al (2007), Funding local government / report of the Local Government Rates Inquiry, Pakirehua mō ngā Reiti Kaunihera ā-Rohe, New Zealand. Local Government Rates Inquiry, Wellington, N.Z
- 8 Clause2, Schedule 10, Local Government Act 2002

