

# Revenue and Financing Policy

Council workshop  
29 November 2017

## Today's workshop

- Context for the review
- Recap on process to date
  - Summary of 'Stage 1' policy decisions
  - Recap on major policy choices (Public Transport & Flood protection)
- Discussion on overall impact of proposed policy changes
  - Council direction required
- Next steps

Dave

## Review Context

Local Government Act two step process:

**Step 1:** Consider policies in relation to where benefits are accrued



**Step 2:** Consider the overall impact of the outcomes

Dave

Talk about R & F working group;

- Meeting last week
- Assessed the impact
- Made recommendations that form part of this paper

**Stage 1: Consider -**

the community outcomes to which the activity primarily contributes

the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals

the period in or over which those benefits are expected to occur

the extent to which the actions or inaction of particular individuals or a group contribute to the

need to undertake the activity  
the costs and benefits, including consequences for  
transparency and accountability, of funding the  
activity distinctly from other activities

## Policy direction from 'Step 1'

- Retain General rates as main funding source for
  - Parks
  - Most of the Regional Leadership activities
- Retain General rates as funding source for Water Wairarapa debt (~ \$200k year)
- Retain targeted funding for Warm Wellington
- Retain current funding policy for Environment activities

Dave

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Parks

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Retain General rates as funding  
source for Water Wairarapa debt (~  
\$200k year)

Retain targeted funding for Warm

Wellington

**Retain current funding policy for  
Environment, - With some  
administrative tweaks -**

## Two major changes for discussion

- Public Transport rating policy
- Flood Protection funding policy

...and the overall impacts

Dave

You will have seen from the discussion paper that impacts will likely be significant...

Particularly from those most adversely impacted

- Business community
- Wairarapa
  - (Wairarapa businesses)
- Lower Hutt
  - Overall residential cost is down 14%, but over time with Riverlink, they could increase again by a further 30% over the next 10 years under this policy.

As part of the practical considerations for council

## A recap on public transport benefits

- Better land use = better regional economy
- Efficient movement of private vehicles
- Reduced emissions
- Better health & safety
- A more liveable environment

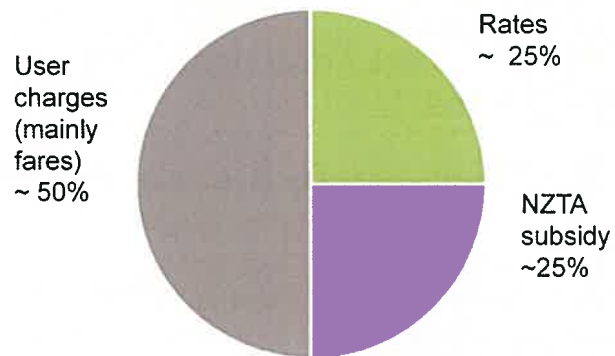


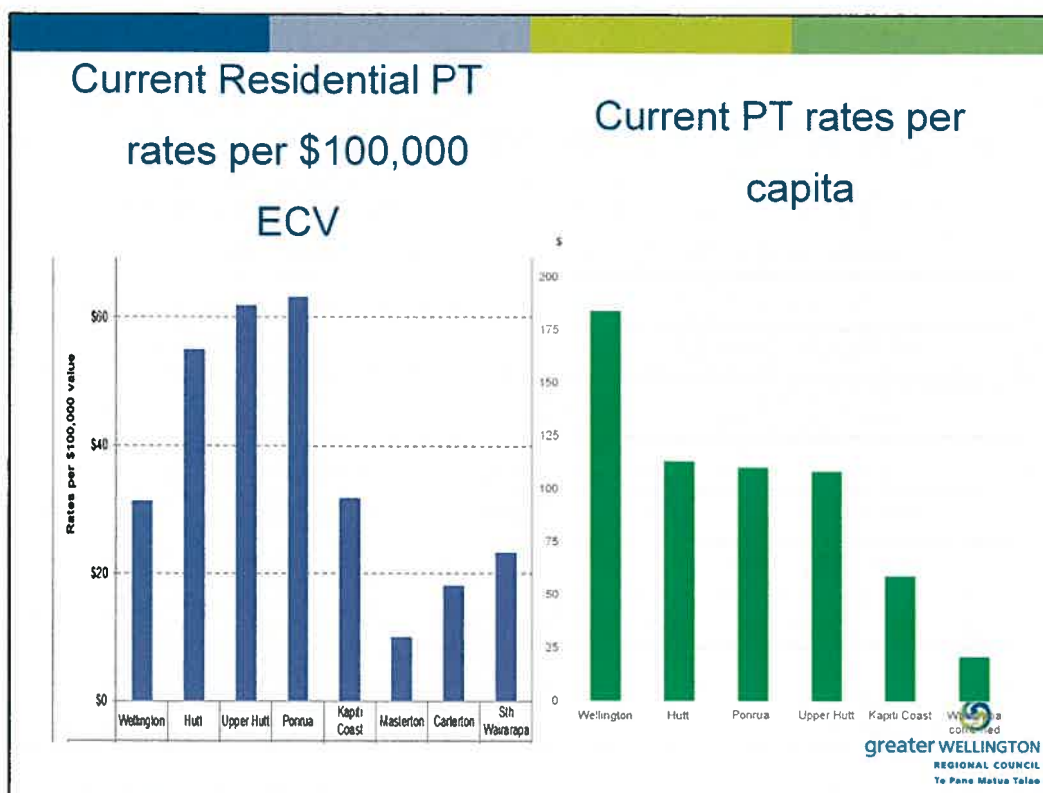
## Public Transport

- Fundamentally changing approach from a congestion to a benefits based model
- Allocates costs at a network level
- Consolidated to one LTP activity – as customers view us
- Use of differentials to reflect levels of public benefit
- Use of Equalised Capital Value within each differential category

# Public Transport

- Broad funding policy stays same





See page 14. Wgtn CBD not included because this is Residential rates

Current calculation model creates this – has very heavy reliance on journey to work data, and allocates rail costs in a very particular way, that has effect of increasing costs for Hutt and Porirua .

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

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 3 shows the per capita impacts.

(The data for the Wairarapa councils is combined in the graph as each is so small that the data barely registers.)

**Important to remember this is not about the benefits for the people who are using the service – this is about the benefits for everyone else - the rest of the region.**

So... let's talk...

## Criteria for assessing new options

- Horizontal equity
- Vertical equity
- Distribution of benefits
- Simplicity (and practical)
- Transparent
- Consistent with PTOM

See page 16

**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, 2007). 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**

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

## Levels of benefit - policy option

- One region
- One PT Network
- All costs allocated to the network
- Differentials recognise benefits for different rating categories

8 Wellington CBD

1.5 Business

1 Residential (Other)

0.7 Wairarapa Residential

0.25 Rural

(proposed for discussion by R & F working group)



See page 19

### 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.

**8 Wellington CBD**

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

**1 Residential**

**0.7 Wairarapa**

**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 this option*

- Broadly consistent with the public benefits of PT
- Recognises benefits to regional CBD
- Recognises benefits to businesses
- Equitable treatment of ratepayers – horizontal and vertical
- Ratepayer funding is consistent with TA / area wealth

See page 16

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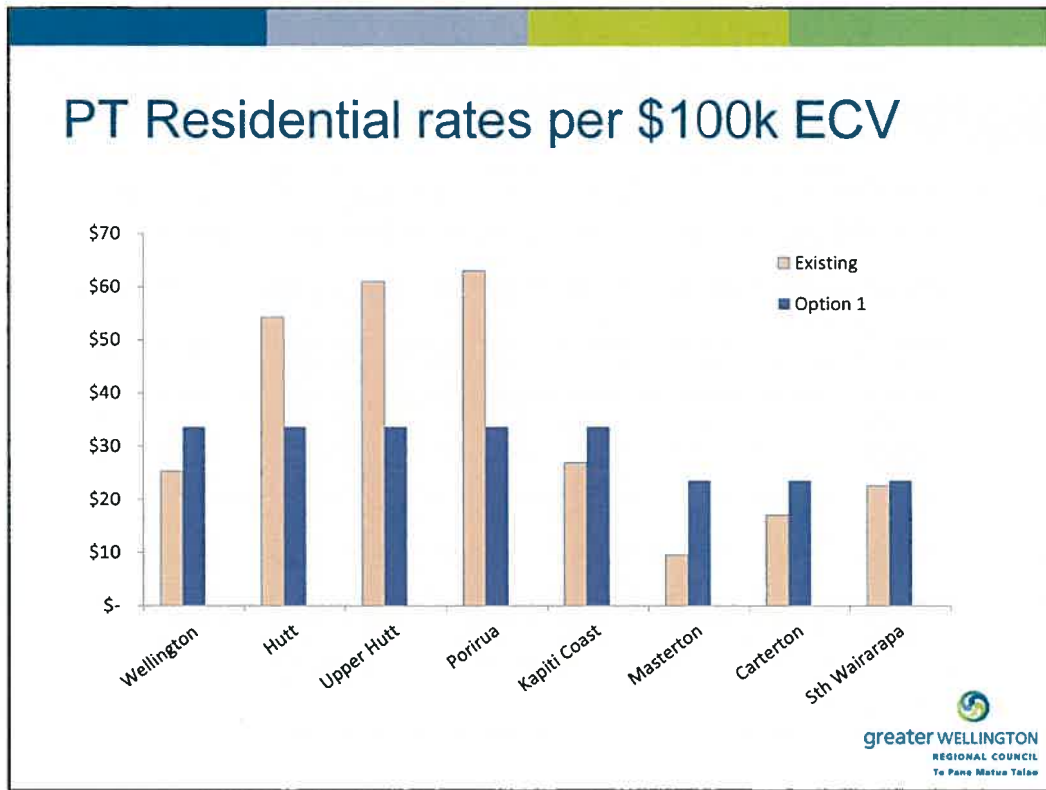
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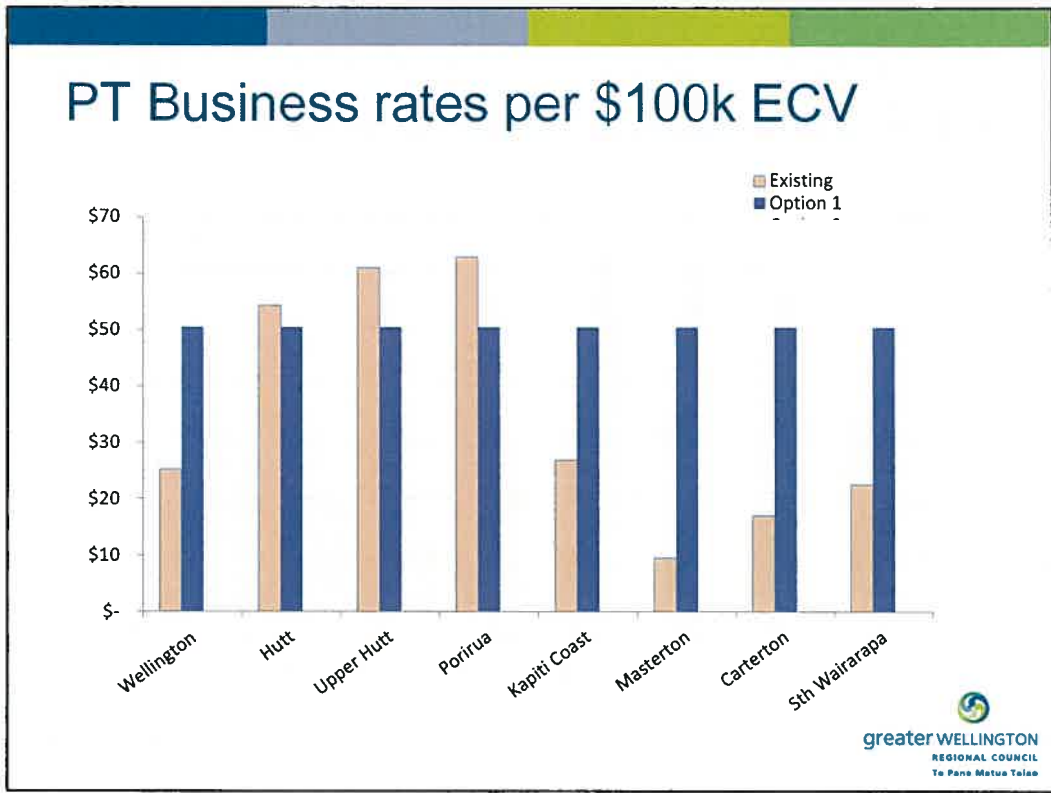


**Consistent with PTOM**

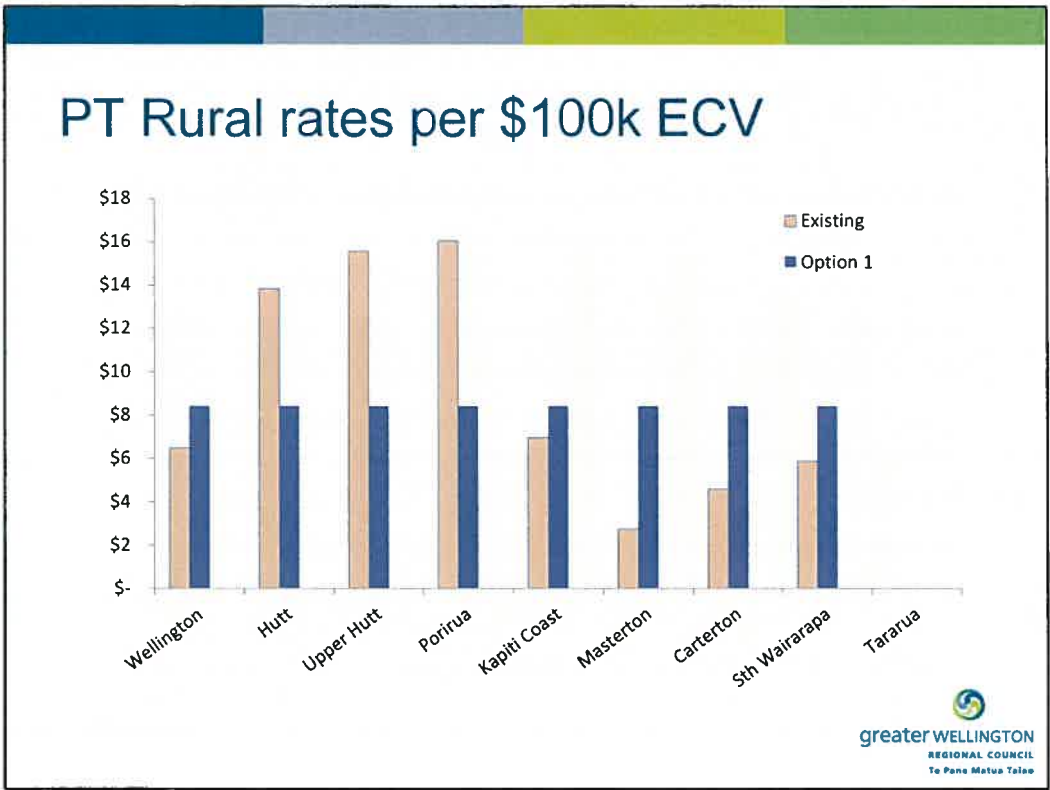
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**Graph shows share of rates per \$100,000 ECV**  
 Note the value \$\$\$ axis...

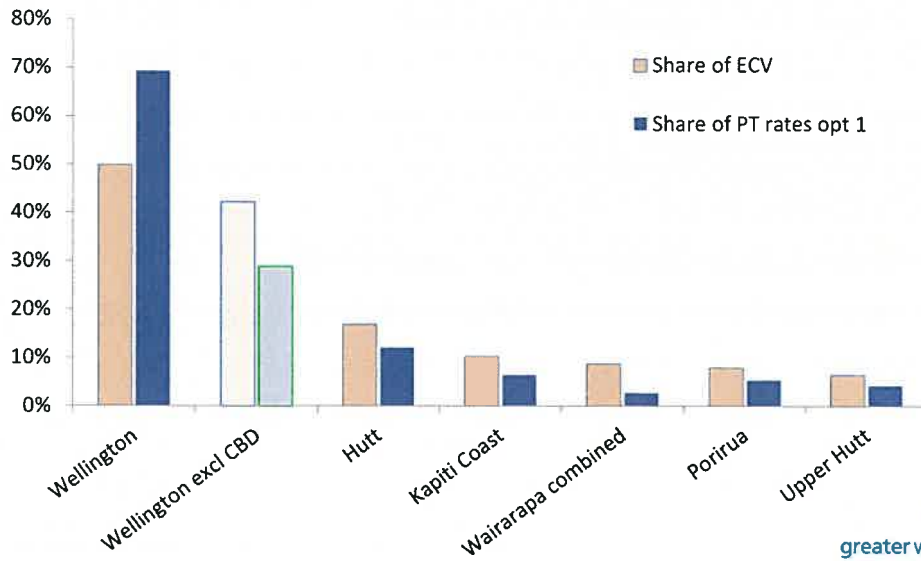


Note the value \$\$\$ axis...



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## Share of PT rates, share of ECV



## Summary of the PT rate impacts

- Rural rates relatively unchanged
- CBD share increases \$1.1m
- Business share increases \$ 1.5m
- Residential share decreases \$2.6m
- Wairarapa increase mainly in Masterton
- Ratepayer funding is consistent with TA / area wealth

Rural rates relatively unchanged

CBD share increases \$1.1m

Business share increases \$ 1.5m

Residential share decreases \$2.68m

Wairarapa increase mainly in Masterton

Ratepayer funding is consistent with TA / area wealth

# Discussion – PT Rates

## Flood protection benefits – Property Owners

Lives are protected



Land and assets are protected



Flood warnings and information about flood hazards means people and property can be protected



**FLOOD WARNING**

FLOODING IS EXPECTED IMMEDIATE ACTION REQUIRED

See page 58

Note Wellington's funding policy...



## Flood protection benefits – Communities and catchments

**Lives are protected**



**Local infrastructure can be protected (schools, hospitals, roads and emergency lifelines, parks and reserves)**



**Local infrastructure can be protected**



**Information about flood hazards supports land use planning**

See page 58

Note Wellington's funding policy...

## Flood protection benefits – Entire Region

Regional infrastructure can be protected (hospitals, roads and emergency lifelines, parks and reserves).



Any environmental protection that flood protection provides



See page 58

Note Wellington's funding policy...

## Flood Protection

- Discussions to date supports a move from (up to) 50% regional rates to 30%
- This aligns rating policy closer to level of benefit received.

See page 54

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.

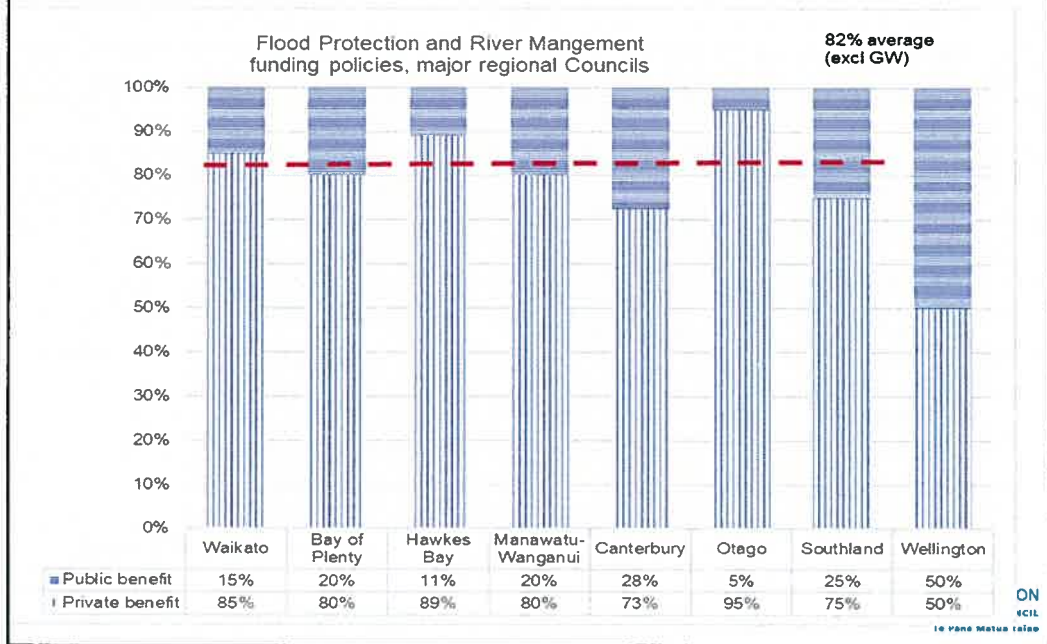
Council must prepare and provide an annual report to each scheme. (The smallest scheme aimed to collect \$2218 from targeted rates in 2017/18.)

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

## Other regional Councils



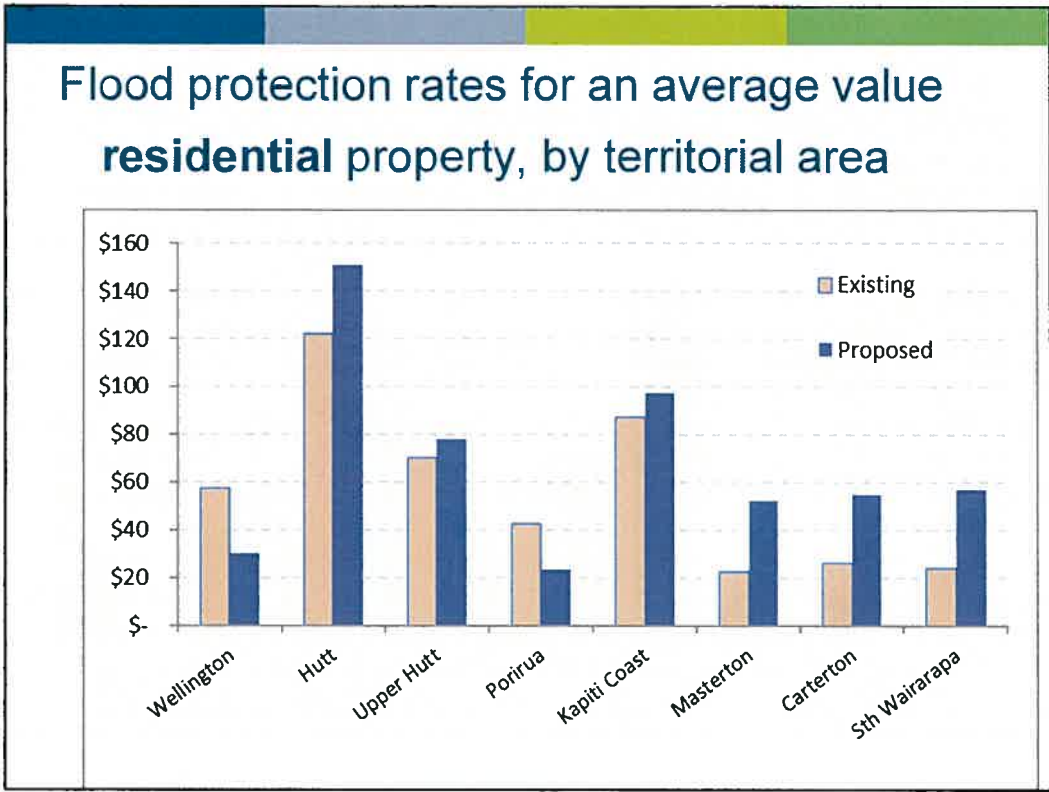
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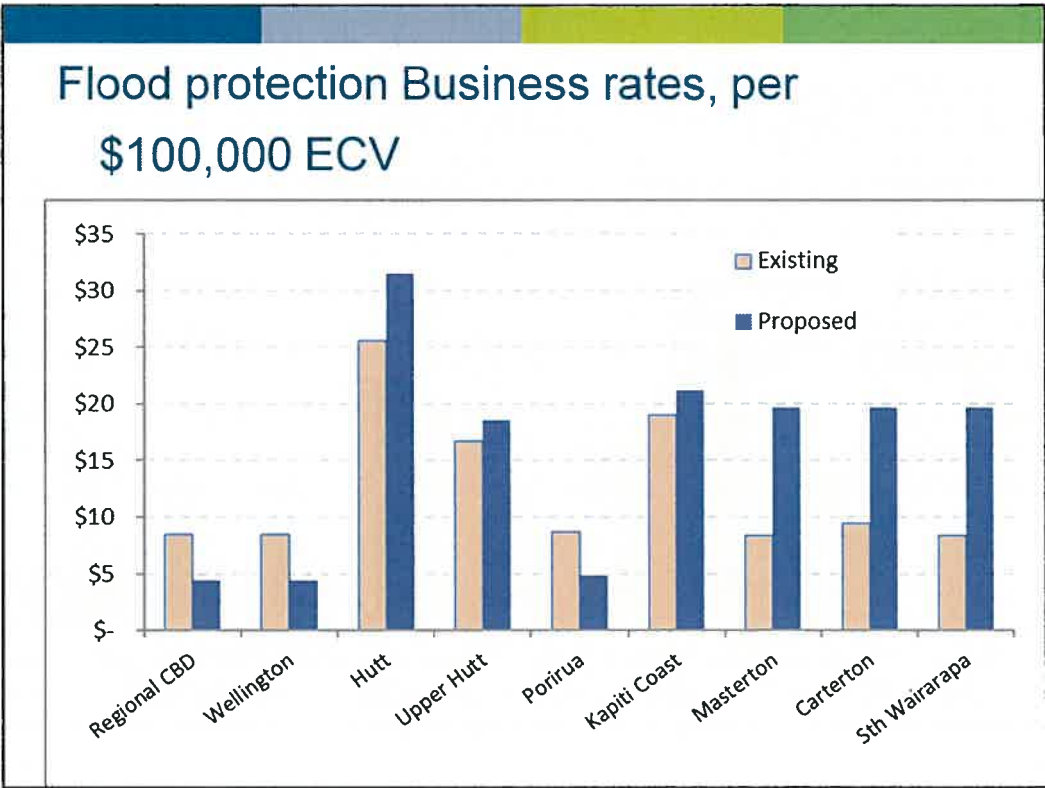
## Proposed policy based on levels of benefit

Retain existing user charges	Charges on TAs where possible
<b>Flood Protection – property</b> River scheme rates as present	Up to 70% funded on catchment basis, between these two rates
<b>Flood Protection – catchment</b> New targeted rate funded by catchment, for public good components of the catchment	
<b>Flood protection - region –</b> New targeted rate based on CV on all properties for regional public good (arterial routes, hospitals, emergency lifelines)	30% across the region

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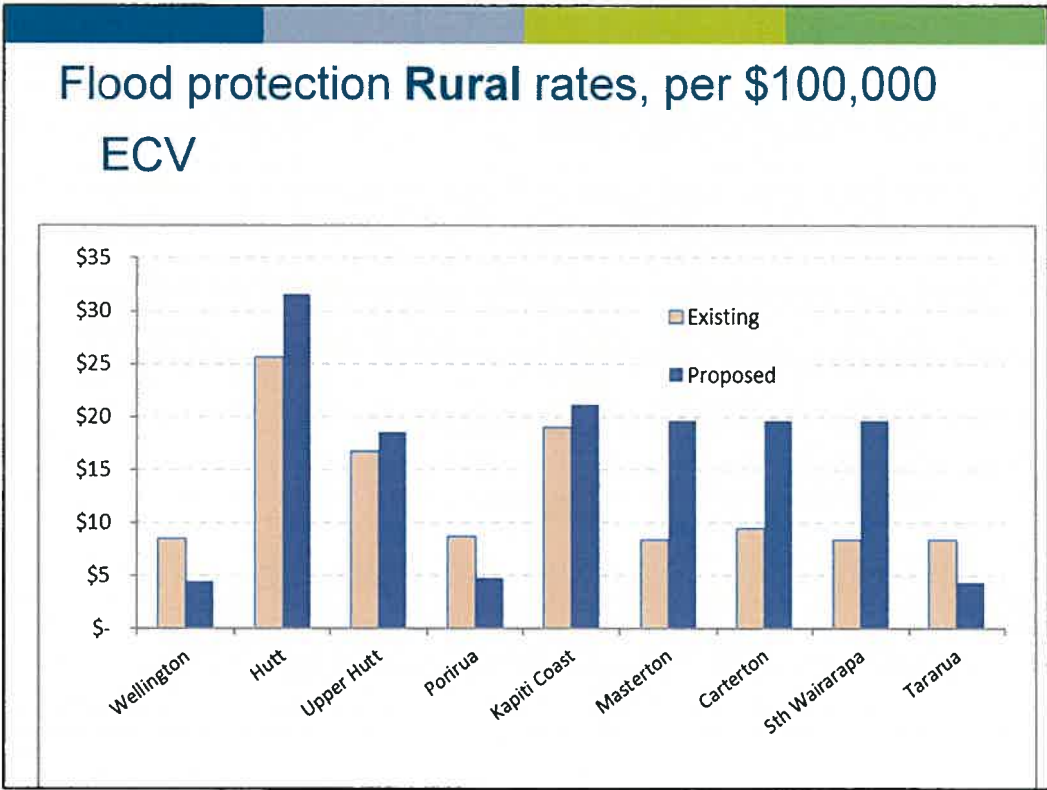


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## Flood Protection

*Regional rate – targeted or general?*

Discussions to date propose three targeted rates:

- Flood protection – property (for river schemes)
- Flood protection - catchment
- Flood protection - region

The purpose is to promote transparency.

Are we still comfortable with this approach?

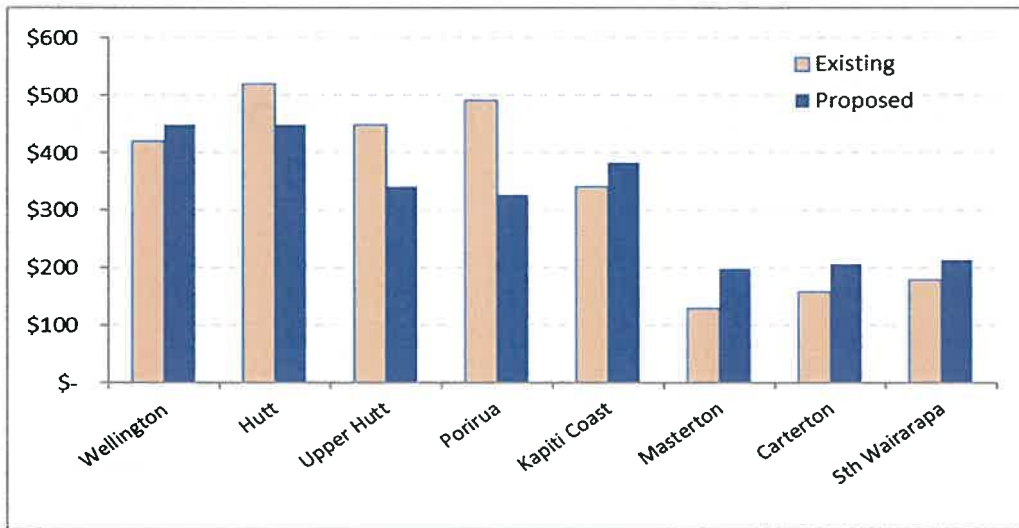
Dave

Horizons

# Discussion - Flood Protection rates

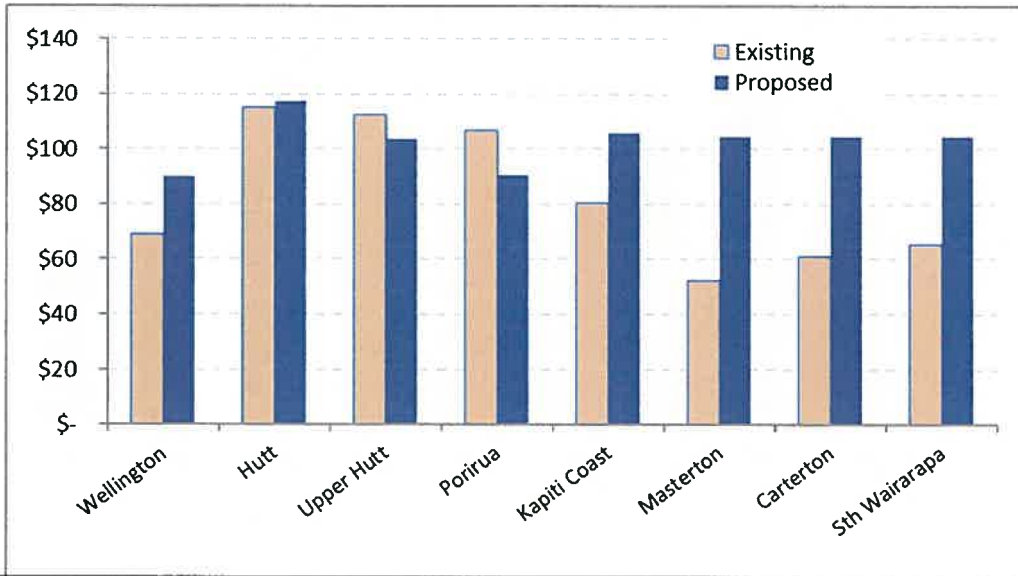
## Overall impacts

District wide rates, average value **Residential** property, by TA



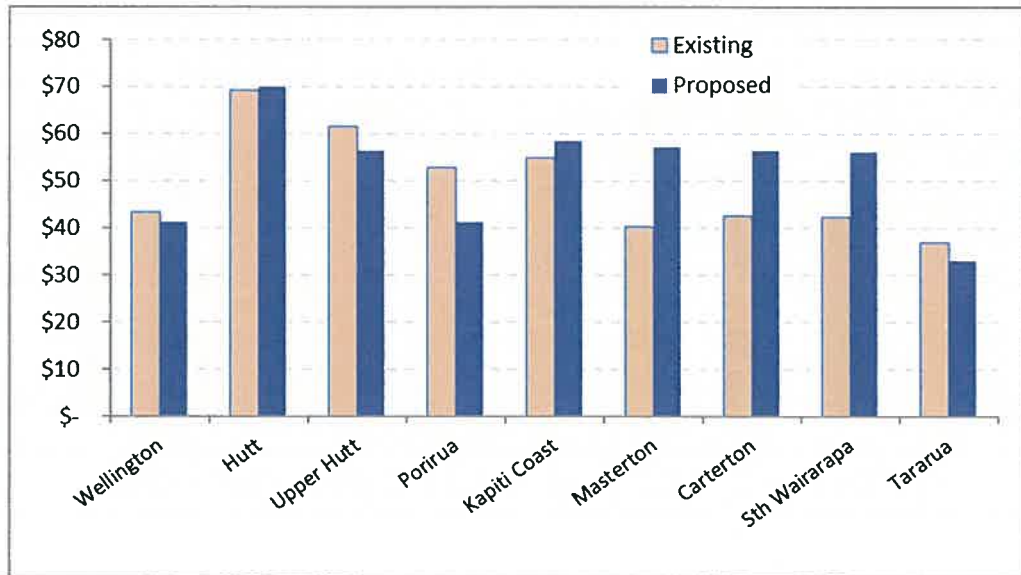
# Overall impacts

District wide rates, Business rates, per \$100,000 ECV



# Overall impacts

District wide rates, Rural rates, per \$100,000 ECV



## Discussion: Overall Impact

Discuss the policies  
The consultation – documents, supporting info, etc  
The implementation

## Discussion: Transition

Discuss the policies  
The consultation – documents, supporting info, etc  
The implementation



## Next steps

- Agree policy in principle
- Draft the policy
- Legal and rating model technical review
- Adopt draft policy
- Consult

