Revenue & Financing Policy Discussion

Overall Impacts

Discussion paper for Council workshop, 29 November 2017

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1. Introduction

Purpose

This paper provides further advice for Councillors about rates funding policy issues for the Long Term Plan. It summarises direction provided by the Revenue and Financing Policy Working Group and is intended to support discussion at the Council's revenue and financing policy workshop on 29 November 2017.

Context for review

Council is developing the policy in two stages in accordance with the Local Government Act.

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

The Revenue & Financing Policy Working Group and Council have considered the Stage 1 material over a number of workshops during the past several months. The major areas identified for alternative funding options were flood protection and public transport.

Stage 2: Consider -

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

The workshop on 29 November will focus on Stage 2 considerations - the overall impacts of the proposed allocations of liability for rates revenue, by rating category, by territorial areas, and by property values.

Next steps

Draft the policy – Officials will draft the policy.

Check the drafting and validate the rating model – Council will get a legal review of the drafting and a technical review of the rating calculation model.

Adopt the policy - Council will consider and adopt its draft Revenue and Finance policy, for consultation (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.

2. Measures for assessing equity

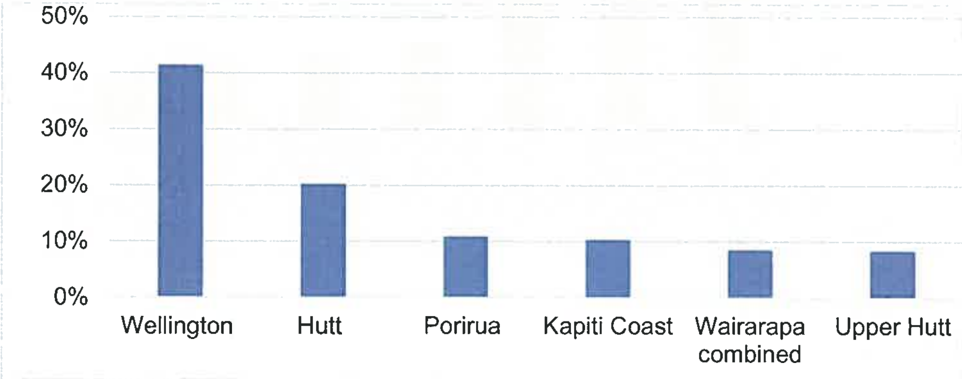
This section is intended to assist Council to evaluate the horizontal and vertical equity of the funding options determined by stage 1 of the review.

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 1 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.

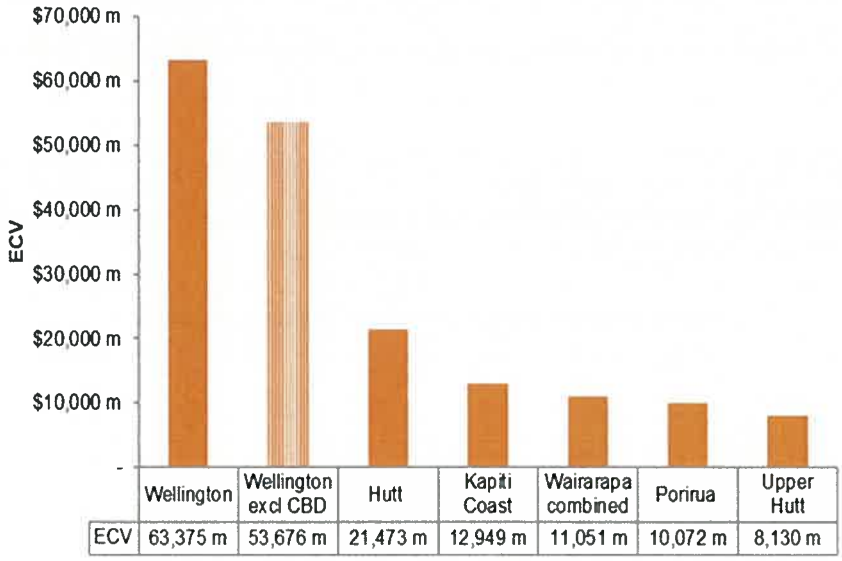
Every year, QV provides GWRC with a figure for each council which is the total equalised capital value for the council. Each council also advises GWRC of the total CV for each of the main rating categories

- 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 2 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 Territorial Authority, 2017/18

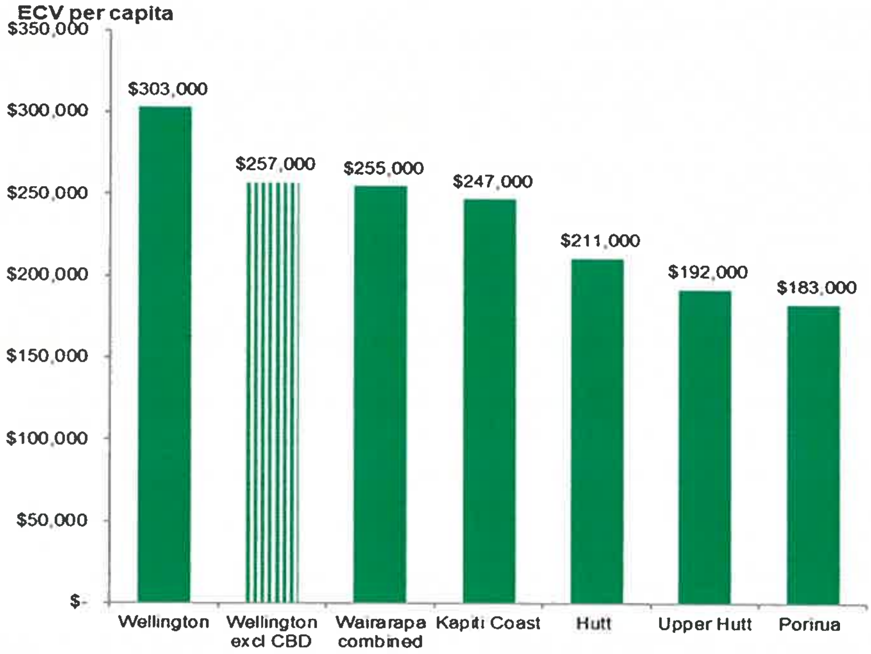


ECV per capita

Combining population and ECV to get ECV per capita us 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.

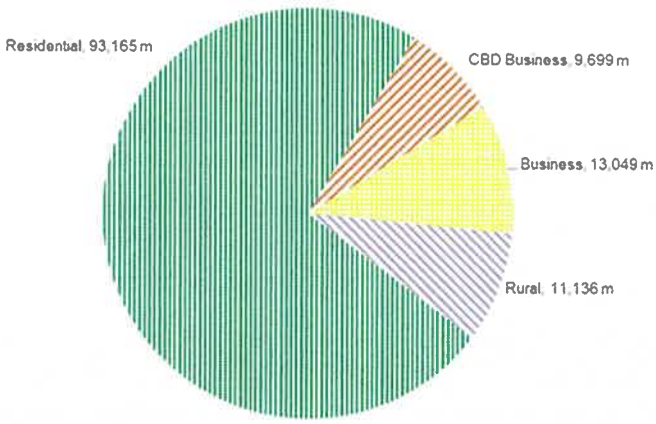
Figure 3 ECV per capita, by council, 2017/18



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



3. Public Transport

Public Transport was identified during the Stage 1 workshops as an area of opportunity for alternative funding policy options. A change from the status-quo rate allocation model is necessary as the current methodology is not supported by the new structure for the Public Transport Operating Model (PTOM) contracts, which come into effect in 2018.

Current funding policy

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

User charges	*Subsidies*	*Targeted rates*	*General rate*
50%	25% NZTA	25%	0%

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

From this point on, the discussion about Public Transport is focused on the rate funded component of the revenue and financing policy.

Preferred policy option from stage 1 analysis

In recent workshops with the Revenue & Financing Policy Working Group and with Council, a number of rates funding options were explored. Of the options considered, Councillors signalled a preference to take a network based 'level of benefit' approach for the public good components of Public Transport. This represents a fundamental shift from a principally congestion driven approach of the current rating model.

Features of the proposed option

- The region is treated as one geographic entity, served by a single network of public transport services (the Metlink network).
- Cost are allocated at a network level. We do not distinguish bus or rail costs because the public benefits are region-wide, and are not specific to the type of public transport that is provided in a particular area.
- Differential rating is introduced to recognise that different categories (residential, business, CBD, rural) derive different levels of benefit from the network.
- ECV differentials broadly reflect the different relative levels of public benefit that each category receives.

Strengths of this option

- 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 territorial area will pay rates that are consistent with the relative property wealth within that area.

The benefits are public benefits from the existence of the network (and not from any specific journey that is taken).

In previous workshops the following differentials were discussed, which were derived in a series of workshops with economics, policy, finance, and public transport staff, exploring the relative benefits and impacts of public transport:

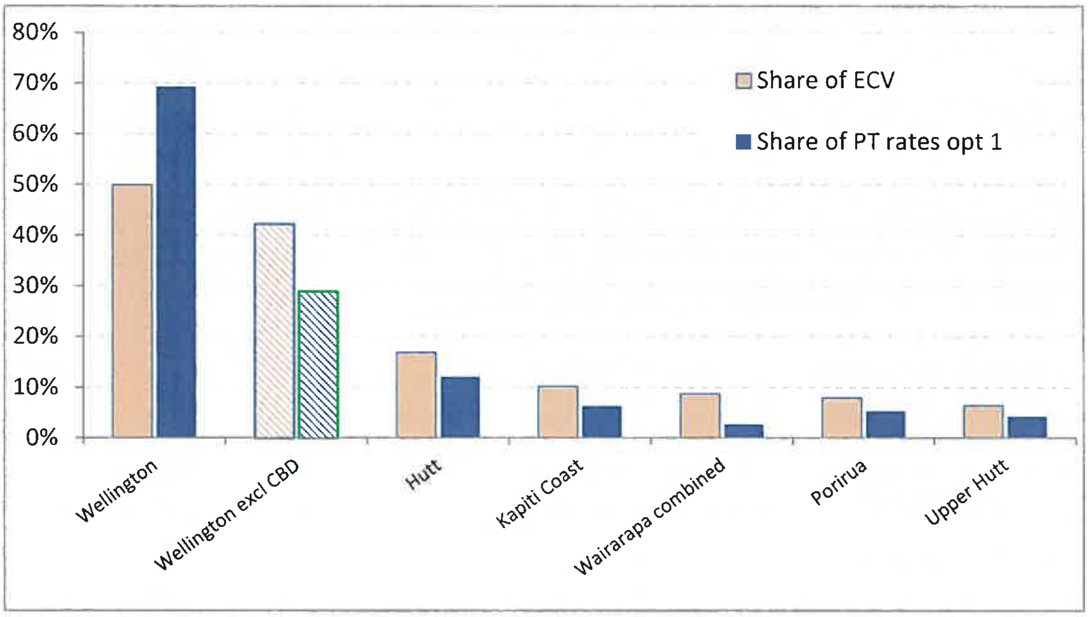
Wellington CBD	9
Business	2.5
Residential	1
Wairarapa residential	1
Rural	0.25

The differentials have subsequently been discussed with the Council's Revenue and Financing Policy Working Group in the context of impact on rate payers. The working group recommended the following ratios for discussion at the Council workshop.

		Revised Option (Option 1)
Wellington CBD	~~9~~	8
Business	~~2.5~~	1.5
Residential	~~1~~	1
Wairarapa residential	~~1~~	0.7
Rural	~~0.25~~	0.25

The shares of PT rates for these options are shown below.

Figure 5 Share of public transport rates and share of ECV, by territorial area using revised option



Wellington City is the only territorial authority (TA) where the share of rates exceeds its share of regional CV, and this is due to the CBD differential. If we exclude the CBD from consideration, the share of rates, relative to the share of ECV is essentially the same for each TA.

Residential impacts

The impacts on residential property are shown in two ways

- PT rates per $100,000 ECV, and
- PT rates for an average value residential property in each territorial area from QV).

The proposed level of benefit funding model smooths out the major differences in PT rates per ECV. The actual PT rates per average value property still vary considerably, depending on the differentials that are applied.

Figure 6 Public transport residential rates, per $100,000 Equalised Capital Value

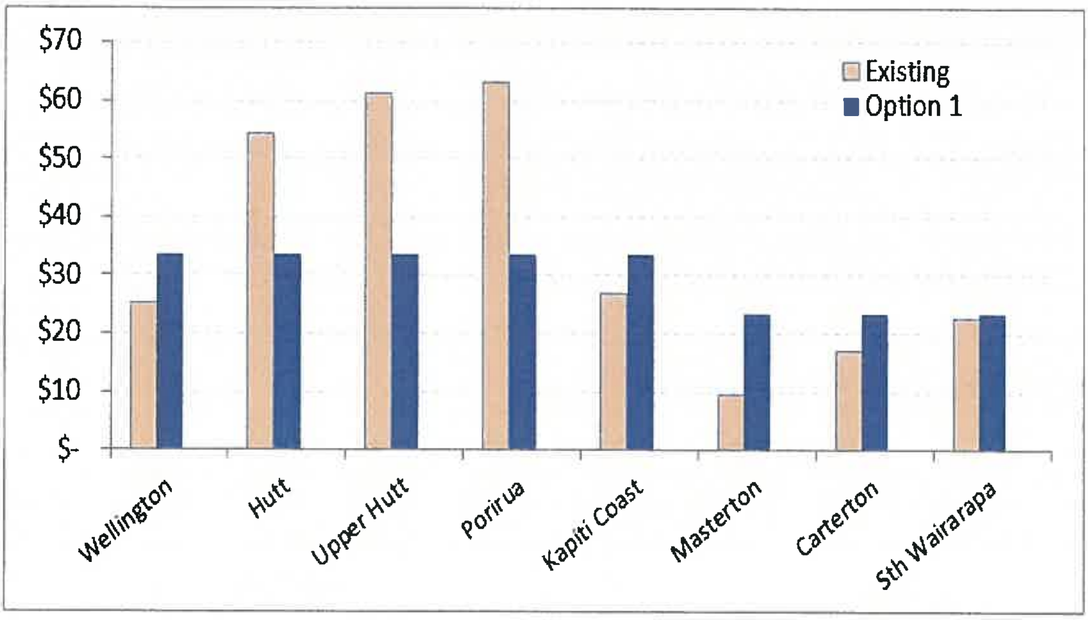
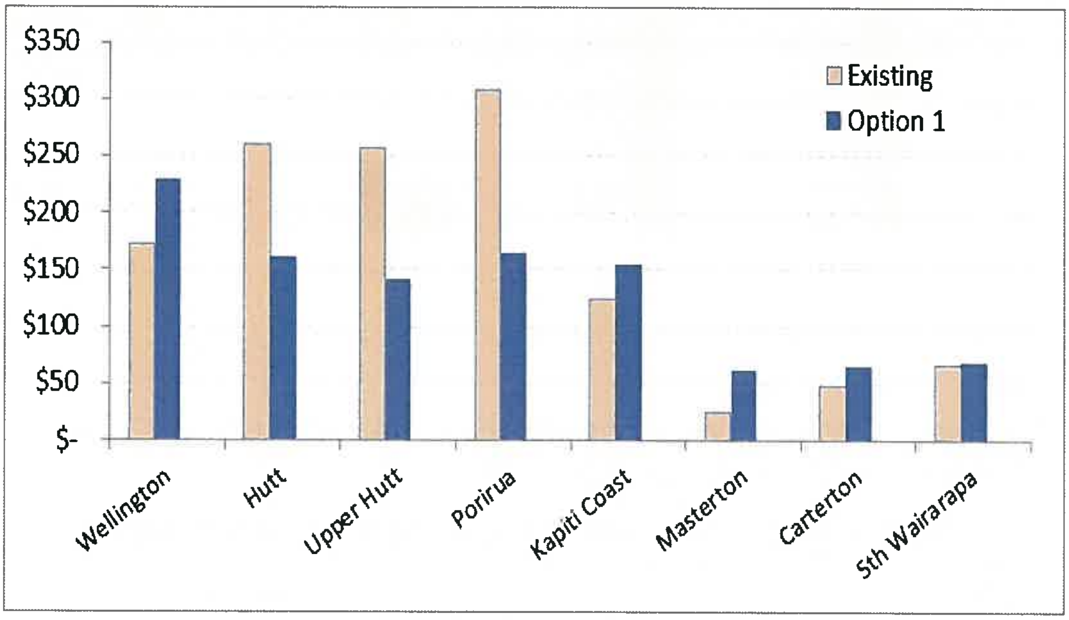


Figure 7 Public transport rates for average value residential property, by territorial area



Business impacts

The impacts by category are shown below. In essence, the model trades off residential and business categories – whatever one category pays, the other does not have to.

Because Businesses benefit from the existence and operation of a public transport network, they are rated with a differential that is greater than 1.

The Wellington CBD functions as a regional business hub, and has been given large differentials because of the benefits it receives from the PT network.

The Business category also faces an increase in PT rates under these options. Figure 8 shows the PT rates paid by the Business category.

Figure 8 Share of public transport rates by category

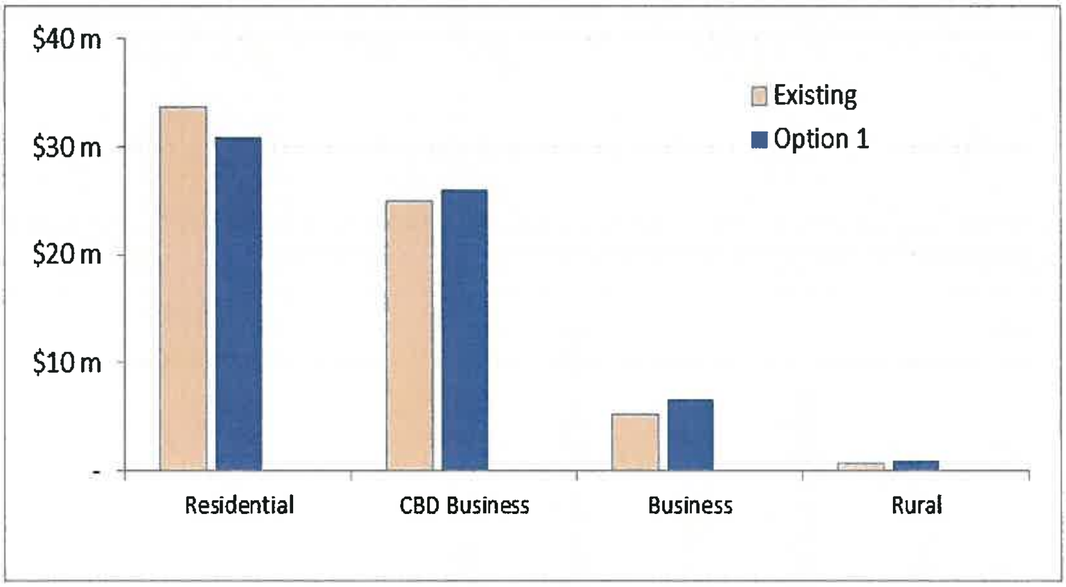
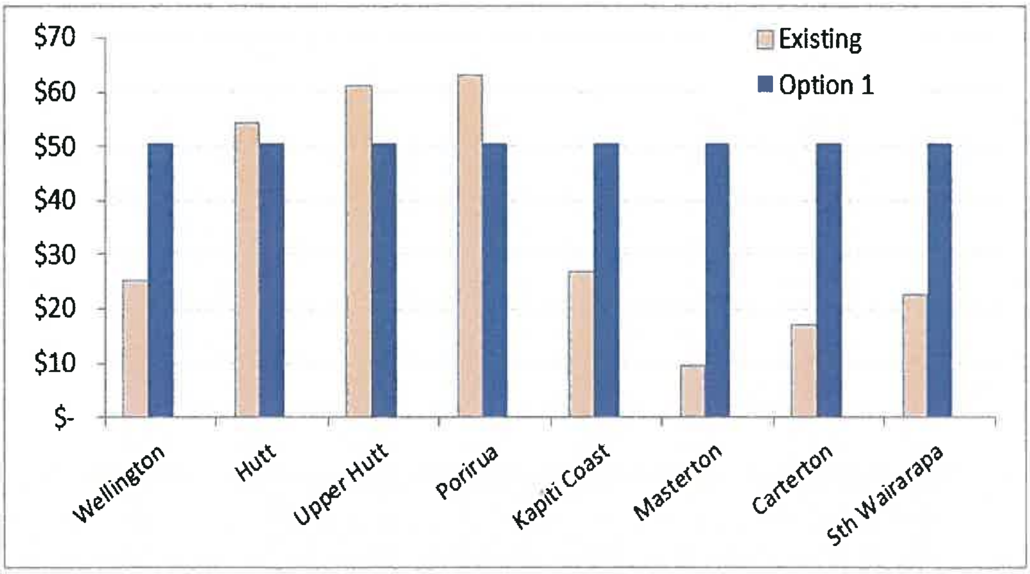


Figure 9 shows that the new options smooth out the wide differences in PT rates hat were paid by Businesses in different parts of the region.

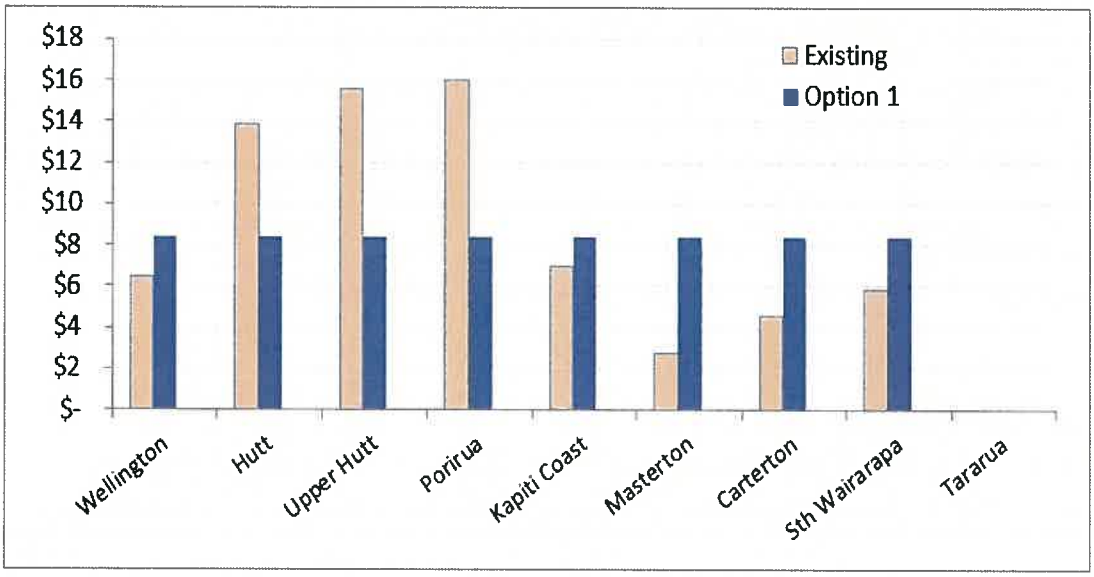
Figure 9 Public transport Business_rates, per $100,000 Equalised Capital Value



Rural impacts

In the current system, rural properties in Hutt, Upper Hutt and Porirua cities paid substantially more PT rates that other rural properties. Under the proposed options, Rural properties, regardless of where they are in the region, now face comparable rates.

Figure 10 Public transport Rural rates, per $100,000 Equalised Capital Value



Current PT funding

The effect of the 2017/18 PT rate policy was to allocate rates based on location, so it not possible to convert 2017/18 to a differentials model - the rates figures were not derived that way. However, to provide a frame of reference, we have reverse-engineered the 2017/18 rate funding to see what the relative shares "differentials" might have been.

Rating area	*"Differential"*
Wellington regional CBD	10.19
Wellington City	1.00
Lower Hutt City	2.15
Upper Hutt City	2.41
Porirua City	2.49
Kāpiti Coast District	1.06
Masterton District	0.38
Carterton District	0.67
South Wairarapa District	0.89
Tararua District	0.00

And then a 75% discount for all Rural properties

Of course, this doesn't include recognition of the benefits to businesses in the centres of the main cities, nor the does it have equitable outcomes for residential or rural properties.

4. Flood Protection

Catchment based approach

In recent discussions with both the Revenue & Financing Policy Working Group and at the Council workshop, Councillors have signalled an interest in exploring a more strongly catchment-based approach to funding for Flood Protection. That approach would lead to treating the region as having six main flood catchments

- Wairarapa
- Upper Hutt
- Hutt city
- Kāpiti
- Wellington city
- Porirua.

Current funding policy

The current policy funds a large proportion of the costs through the general rate.

Understanding flood risk is the activity for investigations (such as hydrological studies) and developing Floodplain Management Plans. The policy is to fund that work up to 100% from general rates.

Maintaining flood protection and control works, and *improving flood security* are operational and capital activities that provide and maintain flood security assets and operational services. The policy is for these services to be funded by up to 50% from general rates. In practice, 50% general rates funding is utilised.

	2017/18 Expenditure	*User charges/ External revenue*	*Targeted rates for Flood protection*	*General rate to fund Flood Protection*
Understanding flood risk	$2.8 million	-	$0.8 million (10%)	$2.5 million (90%)
Maintaining flood protection and control works *Improving flood security*	$17.8 million	$2.6 million (15%)	$7.0 million (39%)	$8.2 million (46%)

Benefits of Flood Protection

There are three levels of benefit from Council's flood protection services:

1. Direct benefits to property owners whose land, assets, and lives are protected.

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

   - flood protection structures that directly protect lives, property, and infrastructure assets

- information about flood hazards
- flood warnings

Property owners (including utility companies), and residents and flood hazard zones are the major beneficiaries of all these activities.

2. 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).

   Local communities, (including property owners in flood hazard zones) are also substantial beneficiaries of flood protection and control works in their communities.

3. 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.

   The community as a whole receives a relatively small share of the benefits.

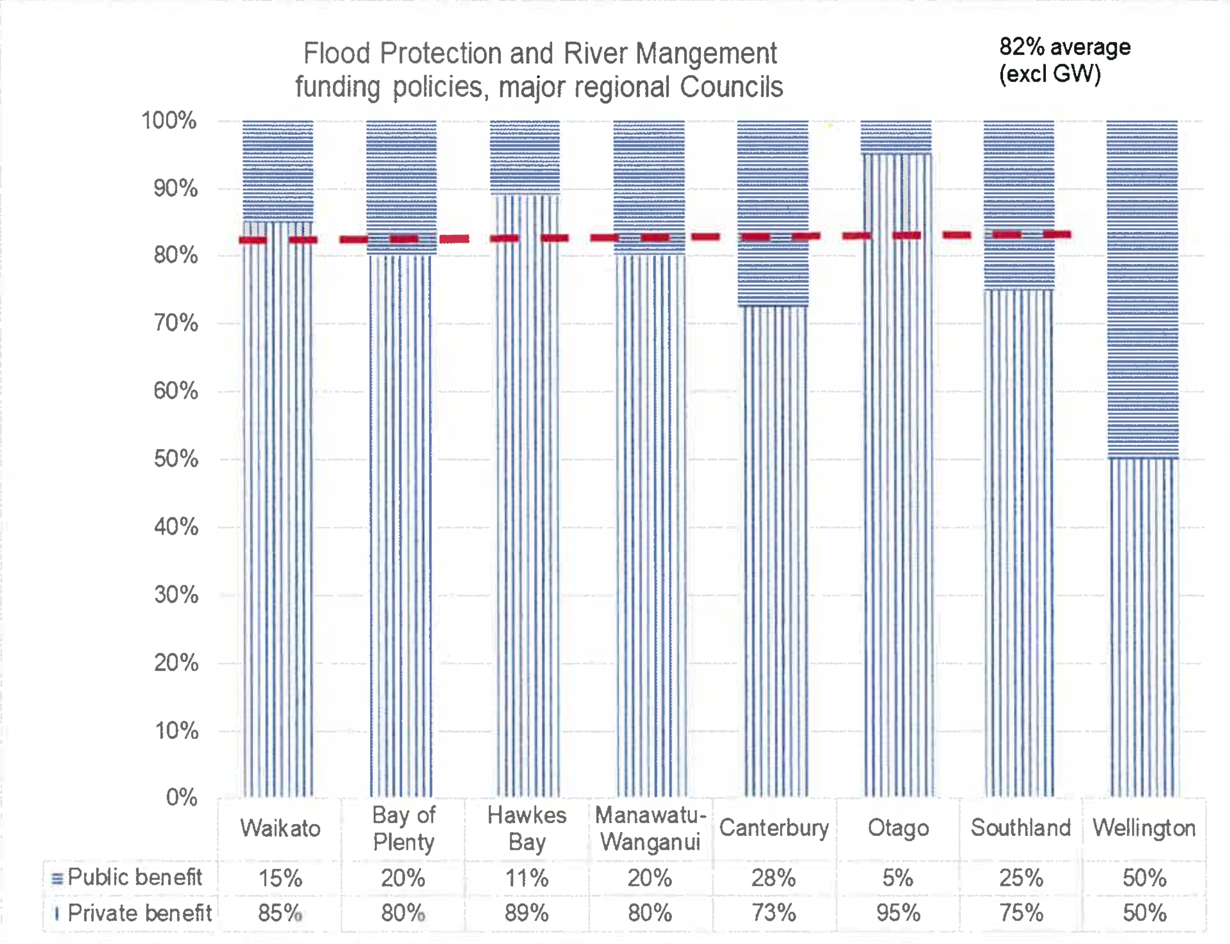
Comparison with other Regional Councils

Other regional Councils have also considered how to fund flood protection. 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 11 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 has a relatively high level of general rates and low proportions of targeted rates for flood protection and control works.

Figure 11 **Flood Protection and River Management funding, selected regional Councils**



Proposal

At the last workshop with Council we were asked to model a 70/30 policy, to provide 70% of the rate funding from protected property (individual river schemes) and catchment rates, and 30% from regional rates.

The proposal is to create two new rates and re-name one existing rate to clarify what each rate is for.

1. **Flood protection - property** - The current targeted river management scheme rates that are already in operation. This rate pays for services and assets that protect identifiable properties
2. **Flood protection - 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 potentially be merged because the property rates have high administration costs and as river scheme rates are rolled up into flood management plans).
3. **Flood protection - region** – A new targeted rate based on ECV on all properties within the region. This rate provides 30% of all Flood Protection expenditure, funding the public good components of a protected region, so that major arterial routes, hospitals and emergency lifelines are protected.

Operating the individual river schemes is administratively complex (and therefore expensive) to operate.

- 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. However, under the proposed policy, river scheme rates for Wairarapa properties that are currently within schemes would remain, because these properties get especial levels of protection.

In urban areas such as Hutt City, the benefits are much more widely distributed, and currently Council has no mechanism for targeting specific properties.

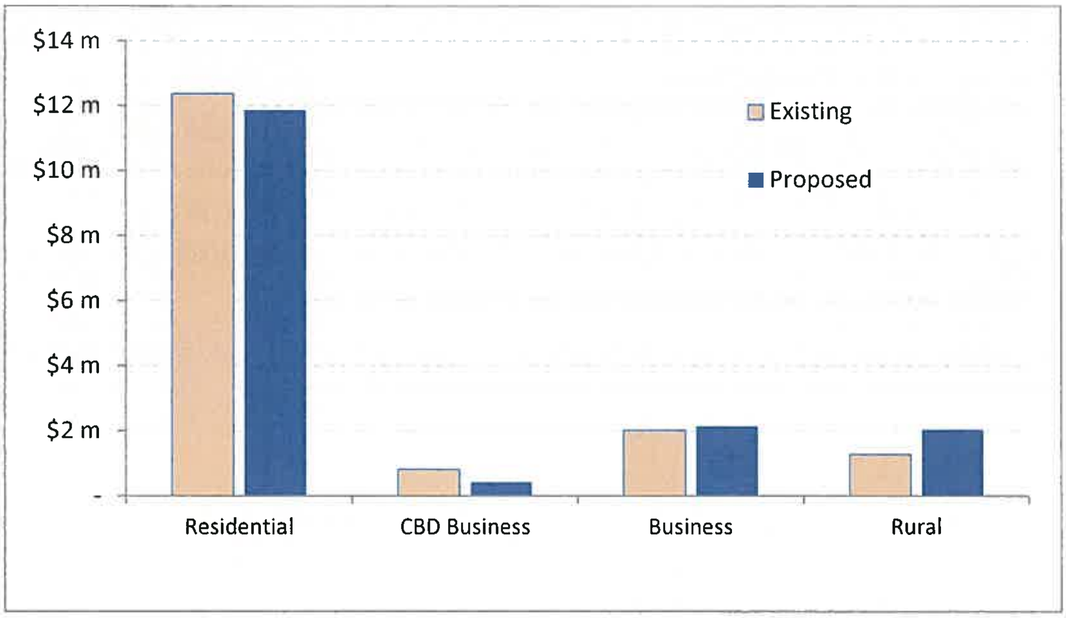
		Targeted rates			
	User charges	***Flood protection – Property***	***Flood protection – Catchment***	***Flood protection – Region***	***General rate***
Understanding flood risk	Charges on TAs wherever possible	Actual costs. Including overheads (as now), targeted by scheme. Some on land value and some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

Impacts of the policy

In the following graphs we show the impacts of the proposed policy changes for flood protection rates. Rates for *river schemes are not included* in this analysis as they are applied to individual properties. Only rates that are applied to every property within a category within a district or city can be included in this level of the modelling.

Below we can see the overall changes to Flood protection rates, by TA. The residential and CBD business shares fall slightly because Wellington and Porirua cities will pay less for catchment-based Flood protection.

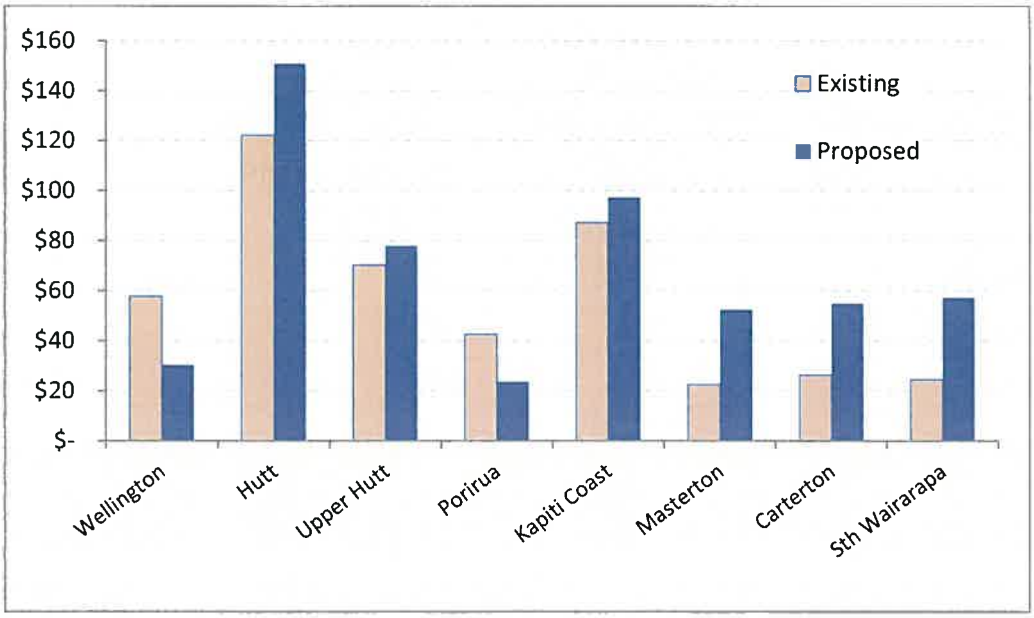
Figure 12 Share of Flood protection rates by category



Residential impacts

Figure 13 shows the overall changes to Flood protection rates, by TA. TAs within a river catchment face increases and TAs with no major rivers (Wellington and Porirua cities) face decreases.

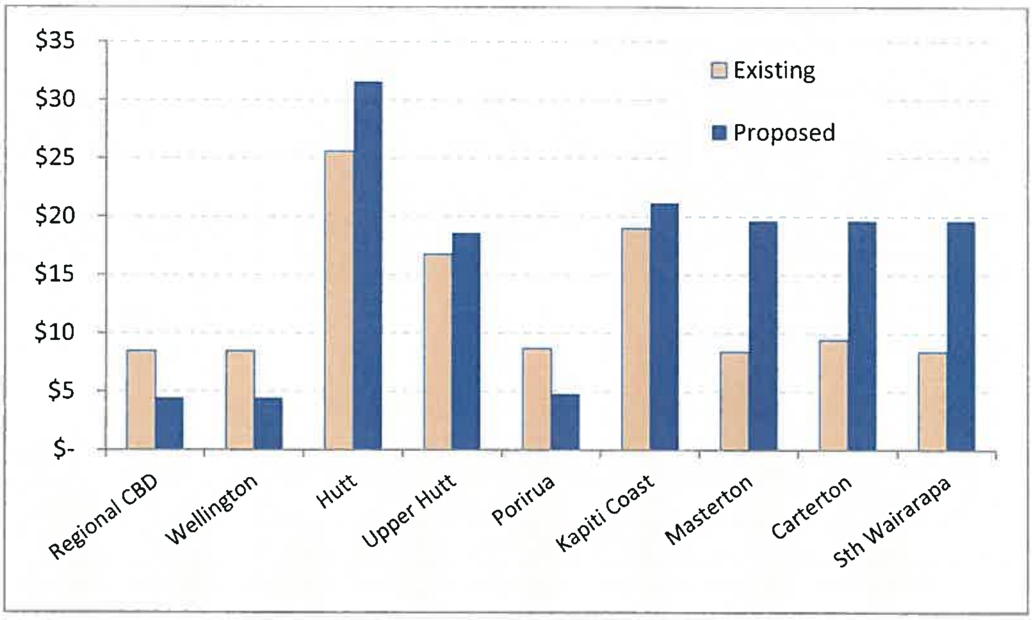
Figure 13 Flood protection rates for an average value residential property, by territorial area



Business impacts

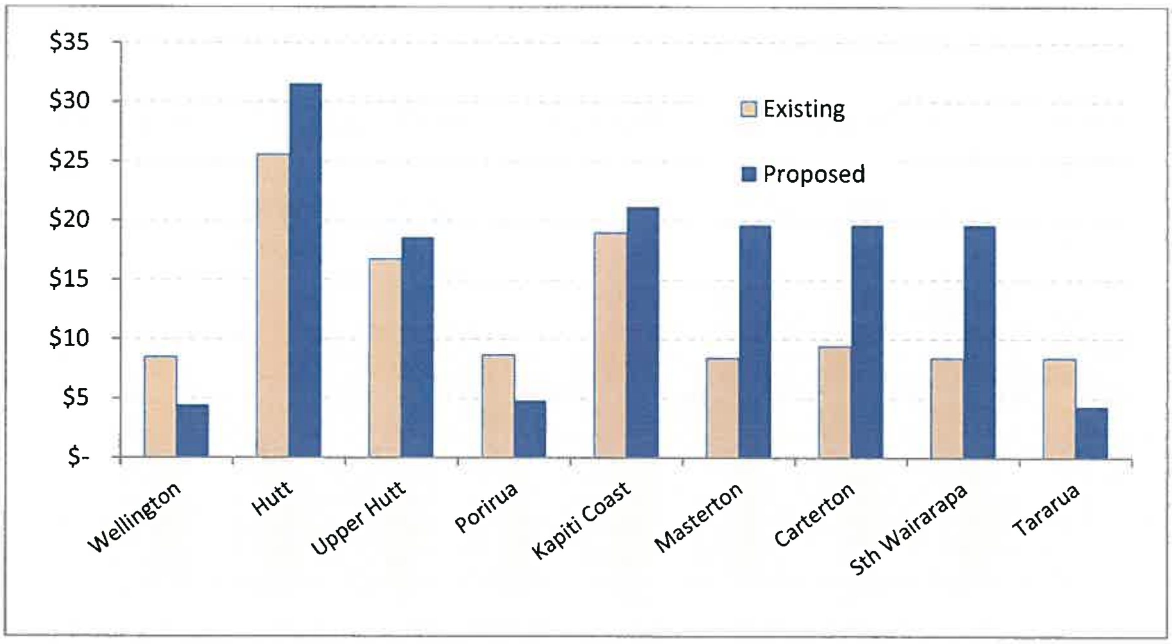
Business rates for Flood Protection will vary according to the level of benefit they receive from Council's flood protection activities. Businesses in flood catchments will pay more and businesses in areas that do have major rivers will pay less.

Figure 14 Flood protection Business rates, per $100,000 Equalised Capital Value



Rural impacts

Figure 15 Flood Protection Rates, Rural per $100,000 Equalised Capital Value



5. Overall Impacts

We have developed a dynamic model so that we can demonstrate the aggregate rating impacts of the new policy options that are under discussion. The model will be available for use at the Council workshop on 29 November. The following graphs show the general and district-wide rate impacts using the revised public transport differentials. We will demonstate other impacts at the workshop.

Residential impacts

The District wide residential rates, per $100,000 (ECV) will change as shown in Figure 16. The rates for an average value residential property are shown in Figure 17.

Figure 16 District wide Residential rates, per $100,000 Equalised Capital Value

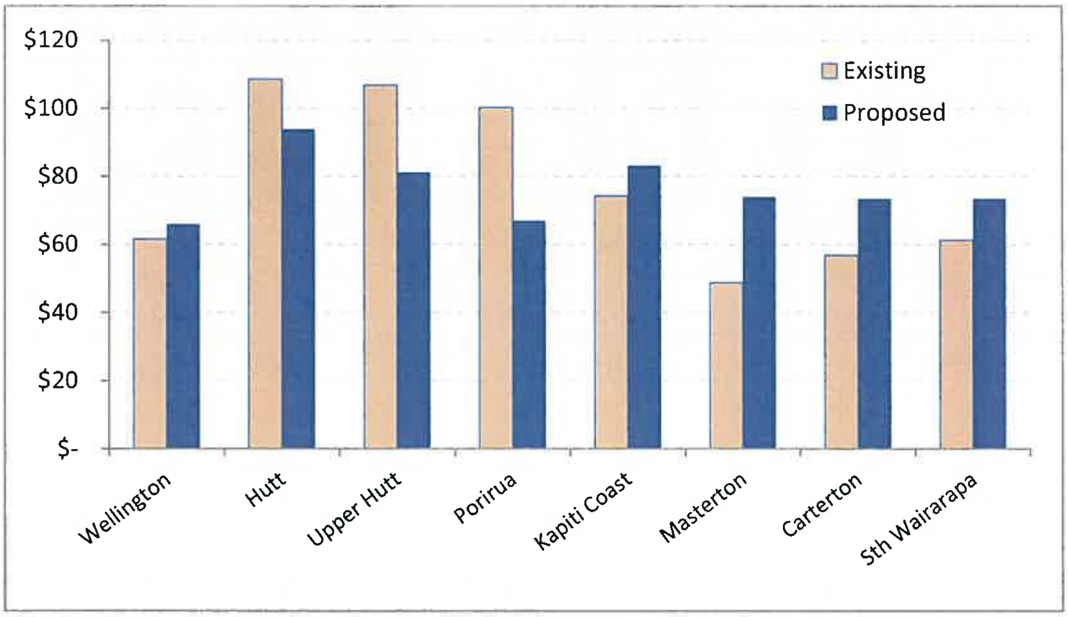
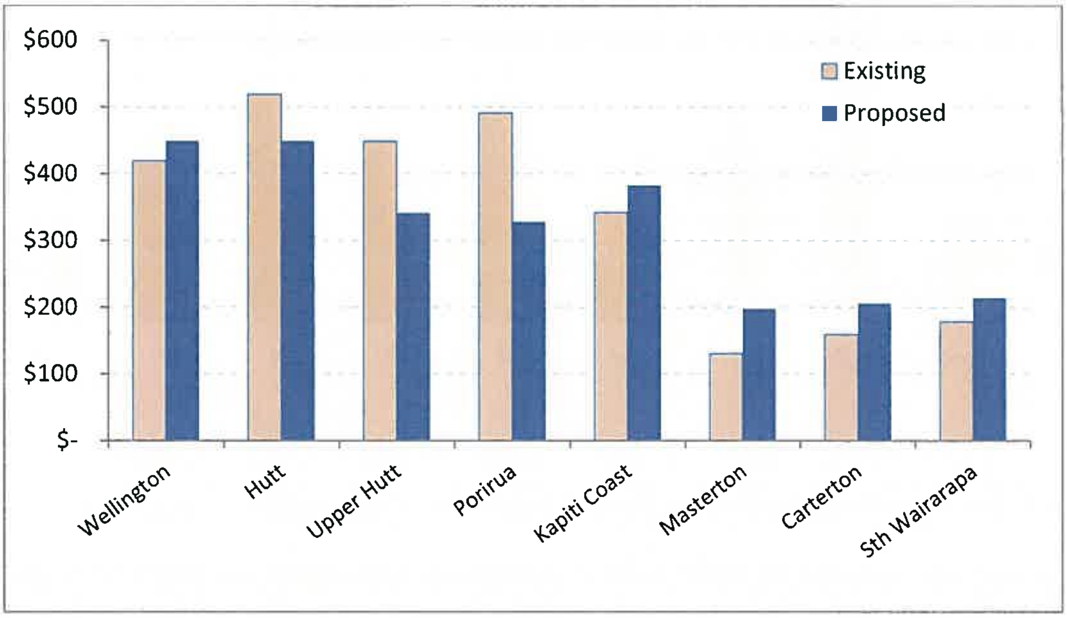


Figure 17 District wide rates for an average value residential property, by territorial area



CBD and Business impacts

Overall, rates increase for the Business sector. This is a combination of PT rates increases and flood protection increases within protected catchments as these two graphs show.

Figure 18 Share of district wide rates by category

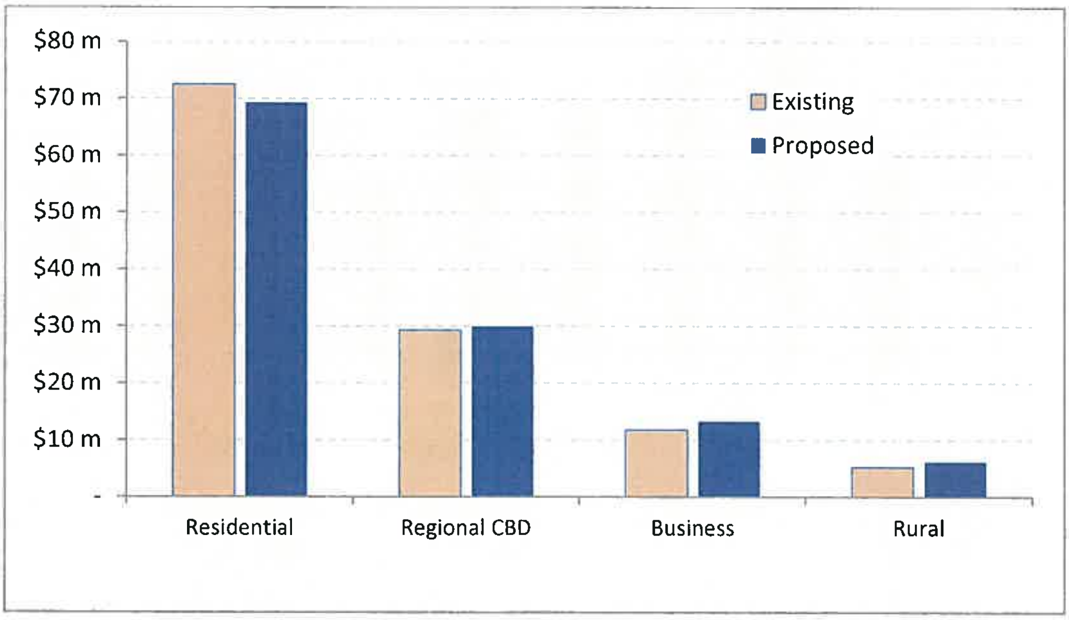
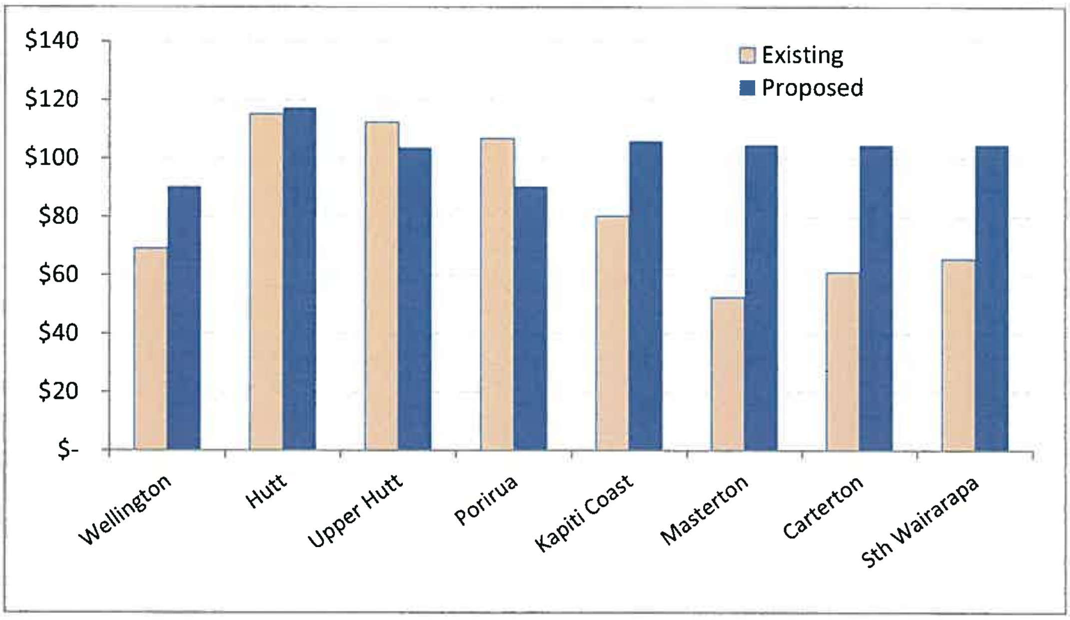
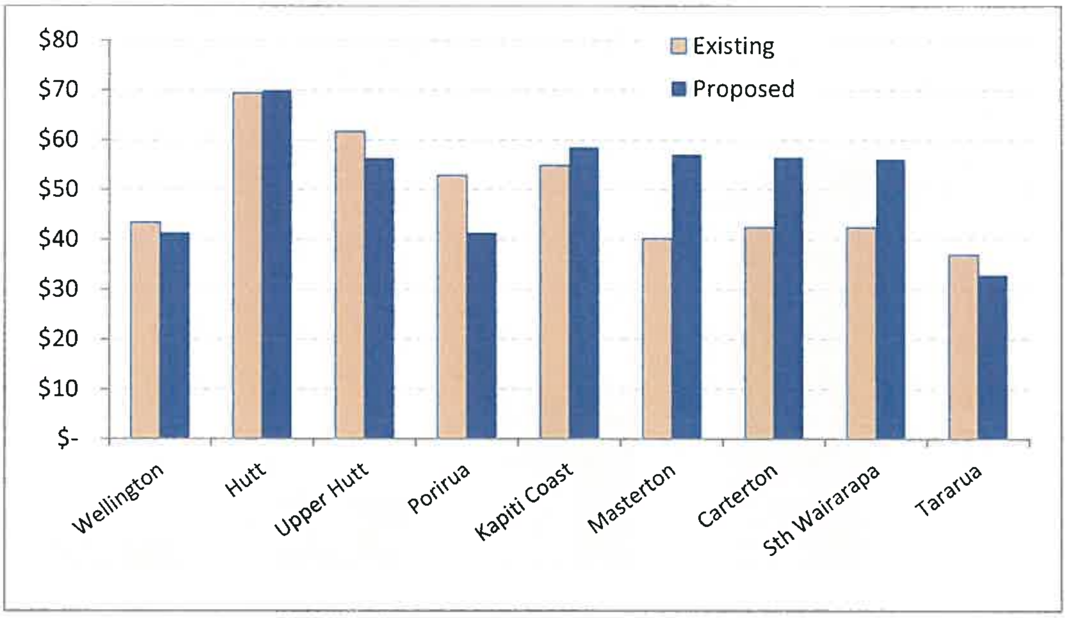


Figure 19 District wide Business rates, per $100,000 Equalised Capital Value (ECV)



Rural impacts

Figure 20 District wide Rural rates, per $100,000 Equalised Capital Value (ECV)



These overall impacts are also shown in more detail in the tables on the next two pages.

Figure 21 Impacts by location, and by category based on 2017/18 budget

Note. The below table is derived from a dynamic rating model which will be available at the Council workshop on 29 November. The parameters used for the table are based on those in this paper and put forward for discussion by the Revenue & Financing Policy Working group. The model will be available at the workshop.

			District-wide rates per $100,000 ECV				District-wide rates for average CV			
TA/Rating category	Variance $	Variance %	Existing	Scenario	Variance $	Variance %	Existing	Scenario	Variance $	Variance %
Wellington City	**$3.81 m**	**6%**								
CBD Business	$0.72 m	2%	$302	$309	$7	2%	$8,606	$8,817.04	$211	2%
Business	$1.00 m	31%	$69	$90	$21	31%	$1,709	$2,234	$524	31%
Residential	$2.10 m	7%	$62	$66	$4	7%	$419	$449.10	$30	7%
Rural	-$0.02 m	-5%	$43	$41	-$2	-5%	$401	$382	-$19	-5%
Lower Hutt City	**-$2.45 m**	**-10%**								
Business	$0.08 m	2%	$115	$117	$2	2%	$1,881	$1,917	$35	2%
Residential	-$2.54 m	-14%	$109	$94	-$15	-14%	$519	$449	-$70	-14%
Rural	$0.00 m	1%	$69	$70	$1	1%	$457	$461	$4	1%
Upper Hutt City	**-$1.71 m**	**-20%**								
Business	-$0.10 m	-8%	$112	$104	-$9	-8%	$1,849	$1,706	-$144	-8%
Residential	-$1.57 m	-24%	$107	$81	-$26	-24%	$449	$341	-$107	-24%
Rural	-$0.04 m	-9%	$62	$56	-$5	-9%	$402	$367	-$35	-9%
Porirua City	**-$3.03 m**	**-31%**								
Business	-$0.18 m	-15%	$107	$90	-$16	-15%	$1,473	$1,246	-$226	-15%

Residential	-$2.78 m	-33%	$100	$67	-$33	-33%	$491	$328	-$163	-33%
Rural	-$0.07 m	-22%	$53	$41	-$12	-22%	$520	$407	-$113	-22%
Kapiti Coast District	**$1.31 m**	**14%**								
Urban - Commercial	$0.39 m	32%	$80	$106	$26	32%	$865	$1,143	$278	32%
Urban - Residential	$0.85 m	12%	$74	$83	$9	12%	$342	$383	$41	12%
Rural	$0.07 m	7%	$55	$59	$4	7%	$391	$417	$26	7%
Masterton District	**$1.17 m**	**52%**								
Urban Ward	$0.21 m	100%	$52	$105	$52	100%	$388	$775	$387	100%
Urban - Residential	$0.53 m	52%	$49	$74	$25	52%	$130	$198	$68	52%
Rural Ward	$0.42 m	42%	$40	$57	$17	42%	$258	$367	$109	42%
Carterton District	**$0.37 m**	**34%**								
Urban Ward	$0.04 m	72%	$61	$105	$44	72%	$267	$458	$191	72%
Urban - Residential	$0.11 m	29%	$57	$74	$17	29%	$159	$206	$47	29%
Rural Ward	$0.22 m	33%	$42	$57	$14	33%	$328	$437	$109	33%
South Wairarapa District	**$0.55 m**	**31%**								
Urban Ward	$0.08 m	60%	$66	$105	$39	60%	$413	$659	$246	60%
Urban - Residential	$0.11 m	20%	$61	$74	$12	20%	$178	$214	$36	20%
Rural Ward	$0.36 m	32%	$42	$56	$14	32%	$353	$468	$115	32%
Tararua District	**-$0.00 m**	**-11%**	$37	$33	-$4	n/a	$217	$193	-$24	n/a

Totals	**$0.00 m**	**0%**		$93	$93	$0	0%		$596	$596	$0	0%

Appendix 1 Public Benefits of Public Transport

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 efiiciency of economic activity – CBD, other commercial centres
- Keeps horizontal infrastructure costs down
- Less need for land for parking

2 Efficient movement of private vehicles

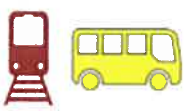
- Congestion relief
- Shorter journey times
- Better journey-time reliability for private vehicles
- Reduces the costs of goods and services to the whole region

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.

Appendix 2 Private and Public Benefits of Flood Protection

Private benefits to property owners

Lives are protected

Land and assets are protected

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

Public benefits to local communities

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

Public benefits to the whole region

Regional infrastructure can be protected (hospitals, roads and emergency lifelines, parks and reserves).	
Any environmental protection that flood protection provides