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By Email

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Dear Madam/Sir

Submission on the Review of Local Government Funding and Financing - Issues Paper

Thank you for the opportunity to submit on the Review of Local Government Funding and Financing - Issues Paper. Please find attached Greater Wellington Regional Council's submission on the document.

We welcome any opportunity to contribute to ongoing discussions as the Inquiry continues. If you have any questions on our submission, or wish to discuss any of the matters raised in our submission, please contact Nicola Shorten, Manager Strategic and Corporate Planning by phone on 027 457 8412 or by email to nicola.shorten@gw.govt.nz.

Yours sincerely

Luke Troy
General Manager, Strategy

Greater Wellington Regional Council

Submission on the Review of Local Government Funding and Financing

Issues Paper

Introduction

Thank you for the opportunity to input into the review of local government funding and financing. Greater Wellington Regional Council (Greater Wellington) welcomes the review and we are happy to discuss any of the matters raised in our submission in further detail.

Greater Wellington is mindful of the impact rates increases have for ratepayers. As part of our long term planning processes, Greater Wellington considers the funding requirements of various activities and projects. The timing and scope of projects are optimised to balance cost pressures, limit the rates increase, and maintain a healthy balance sheet. A key challenge is to develop work programmes that can accommodate a range of future states and enhance the resilience and adaptability to change, under models that are affordable to our community.

Overall, Greater Wellington is experiencing considerable changes in how we deliver our business and the levels of service expected by the community. In the public transport area for example, we are seeing customer expectations of higher service levels and rapid changes in technology that are driving an increase in costs. The provision of increased levels of service, modern vehicles with air conditioning, real time information and integrated ticketing are now expected by customers. While better systems can help drive increased performance and productivity improvements, they do come at a significant cost. The current real time information system in Wellington for example, is now ten years old and the technology is obsolete, so there is a need to upgrade to a system that can deliver better predications and use the newest technology to integrate with Mobility as a Service platforms and other apps.

Greater Wellington is also mindful that based on current trends of climate related events, proactive investment in asset resilience for climate change and hazards will require significant investment. It would seem that significant central government funding or additional funding tools to assist local government to improve the nation's capacity for adaptation and mitigation to climate change is required. In Wellington the threat of a major Earthquake is also a real issue. Our response to this is to build resilience into our assets over time, which should enable our assets to resist major damage and also acts to reduce the cost of insurance – this comes at a cost. Insurance costs themselves are escalating and it will not be long before insurance is not available or priced at such a level that insurance cover is not economic. A discussion about funding and funding tools, as well as the concept of intergenerational equity in relation to such matters is timely.

Our responses to each of the questions set out in the issues paper are set out below. In many cases we support the responses from Local Government New Zealand (LGNZ) to the issues paper.

Q1 What other differing circumstances across councils are relevant for understanding local government funding and financing?

Greater Wellington supports the LGNZ proposal that greater recognition could be given to funding and financing pressures based on the type of local authority and their location. There are differences in activities, cost drivers and ability to pay between territorial authorities and regional councils as well as between rural and urban local authorities.

Regions that contain a significant metropolitan area can face significant funding pressures from provision of regional infrastructure services such as flood protection, bulk water and public transport. The pressures on these big infrastructure items are accelerated by the growth of our urban areas and housing intensification.

New Zealand's risk profile due to earthquakes and events over recent years have resulted in significant increases in funding pressure due to insurance costs and replacement standards on key infrastructure. For example, in Wellington the cost of insuring the suburban rail lines increased following the Christchurch and Kaikoura earthquakes and some of this cost is passed onto Greater Wellington through track access charges via KiwiRail.

Transport itself is a major driver of cost pressures for local government. In major metropolitan areas like Wellington, congestion and capacity constraints on the transport network are requiring a change in how local government delivers transport. It is increasingly difficult and expensive to increase roading capacity, there is a desire to significantly reduce carbon emissions and drive growth in public transport patronage through investment in new mass transit systems. Conversely in rural areas like Wairarapa, there are large networks of roads and fewer ratepayers to cover the cost of maintaining these. Regional economic development, e.g. forestry harvest and tourism growth can also put increasing pressure on transport networks, without a related increase in revenue.

Q2 What explains the difference between the amount that councils account for depreciation and the amount spend on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?

Greater Wellington agrees with the LGNZ response to this question.

Depreciation is a mechanism to allocate the historical cost (or revalued assets value) as an annual charge over the life of the asset where expenditure on replacement assets is 'lumpy'. The assumption that asset replacement is 'like for like' does not reflect inflation, new technologies, standards, materials or demands.

We also agree with the LGNZ response that the depreciation discussion in Box 3 has a number of assumptions that are incorrect and/or rely on the Financial Strategies of individual councils.

The depreciation calculation follows the public sector accounting standards, which is not necessarily focussed on providing future financing for capital. A wider discussion is needed around robust asset management plans and future funding strategies in line with the principles of intergenerational equity, financial prudence and affordability.

We note however that Greater Wellington does not fund depreciation of assets. The majority of our capex is funded through debt, which is paid back over an appropriate time period for the associated asset. We regard this as a more efficient method of funding asset renewal whilst taking account of inter-generational equity.

Regardless of the method of rating or debt funding for infrastructure investments, there is a need to balance investment in assets and services with affordability. Life cycle costs need more recognition in decision making, including up front asset creation/acquisition costs as well as consideration of on-going opex and renewal costs. Large capex investments need managing from an affordability perspective and with organisational capacity to manage the workload.

Q3 In what ways are population growth *and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?*

Population growth and continuing economic growth are presenting new challenges for our region, in particular housing affordability and transport. The infrastructure necessary to support growth is costly and often exceeds the community's ability/willingness to pay. Greater Wellington agrees with the LGNZ response that the current range of funding and financing tools available appears to result in existing residents and businesses subsidising the cost of new development to a level that is not sustainable.

We agree with the LGNZ comment that the rate of growth is the critical issue. Rapid population growth is more about the 'step change' in services provided, where above a certain level significant investment is required in new bulk infrastructure. Changing lifestyle choices can also mean increased funding pressures, for example in our region we have seen a growth in people living in areas further away from employment centres (for lifestyle or affordability reasons) yet commuting into our regional CBD – for instance Wairarapa and Kapiti. This necessitates significant expenditure on transport services to provide sufficient capacity and the levels of service demanded by customers.

Population growth and decline are location specific. Small rural councils with declining populations face significant financing issues to supply infrastructure to the community that cannot afford it. In some instances these Councils are unsustainable and need to have higher subsidies from central government via higher Funding Assistance Rates (FAR) from NZTA or grants. They need to attract residents, and they tend to do this by making the infrastructure and facilities attractive, which can be expensive. High growth areas face similar issues. They often have an insufficient rating base to fund future expansion, but this is more of a timing and equity issue. Financing tools that are better able to align the costs of growth with the beneficiaries of growth are required.

Q4 What are the implications of demographic changes such as population ageing for the costs faced by local government?

Our Long Term Plan projects the region's population to increase from around 504,000 in 2017 to 538,000 by 2027 and 596,000 by 2047. This represents population growth of 0.06 percent per year. The ageing of the baby boom generation and increased life expectancies means those aged 65+ will make up a larger proportion of the region's population. However, boomers are starting to give way to millennials. The inter-generational differences between the millennials and baby boomers are clear; the sharpest differences in the "asset gathers" versus "lifestyle minimalists" characteristics being location- two out of three millennials live in cities, whereas about half of all baby boomers live rurally.

Greater Wellington, along with other councils in the region will need to adapt the services we deliver to respond to changing population and demographics across, and in specific parts of, the region.

We need to think about when and how we deliver services - particularly in the public transport, parks and environmental management areas - to suit the changing and diversifying cultures, ethnicities, lifestyles, interests, tastes, and expectations. An aging demographic, for example, is likely to see greater use of public services be it transport or facilities because these are lower cost options (such as subsidised gold cards) compared to private cars.

Q5 To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?

Tourism growth does not have a significant impact on Greater Wellington. For us, the pressures are experienced as demand for parks and open space amenities like toilets and car parking facilities, where there are limited mechanisms for cost recovery. Camping in designated sites in Greater Wellington’s regional parks network incurs a user charge, however, in peak season the park ranger time required to collect fees and otherwise manage campers means that the park ranger services are unable to be provided elsewhere. To mitigate this impact, Greater Wellington seeks (and incurs the cost of) alternative service solutions such as contract cleaners and automated fee collection facilities.

Another area affected by tourism is CentrePort, majority owned by Greater Wellington, and the key tourism facility of the Cook Strait ferry. We are currently investigating with key partners the need for a new integrated ferry terminal in Wellington to replace the current facilities which are at the end of their useful life. This will require a considerable capital injection in the order of several hundred mission dollars.

Also see our response to question 41 below.

Q6 Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

Reducing carbon emissions, sea level rise, population growth, increasing community expectations and stricter water quality rules all challenge business as usual ways of working. Recent legislative changes, regulative decisions and changes to strategic priorities and industry best practice that have or are likely to result in additional costs include:

- Three Waters Reform – regulatory arrangements for drinking water, wastewater, surface and coastal waters: will initially mean increasing resources for upgrading water treatment plants to meet potential changes to drinking water standards. But also potential changes to service delivery and economic regulation.
- Changes to the NPS for Freshwater Management - costs for regional councils, giving effect via policy changes to meet higher standards for freshwater quality, and associated science, consultation, hearings and appeal processes.
- Implementation of the NPS-UDC will shape the future growth of the region. The work will have significant implications for our policy approaches through our Regional Policy Statement, Natural Resources Plan and consenting processes.
- National Planning Standards are likely to require a full review of our statutory RMA plans at considerable costs.

- Proposed National Policy Statement for Indigenous Biodiversity: This NPS will be formally consulted on next year. We are currently reviewing the proposed NPS to determine the implications for local government including likely costs. A significant cost will be associated with identifying and mapping significant natural areas and then giving effect to these in plans as they are inevitably controversial.
- Planning, reporting and compliance standards increasing over the last 10 years, for example, Long Term Plans, financial strategies, infrastructure strategies, introduction of public sector accounting standards etc. While all of these are good initiatives that enhance accountability and transparency of the local government sector, it all adds an extra layer of overhead to councils, regardless of size.
- Conflicting objectives between local authorities also raise issues. For example, if a city or district council in the region approves a housing development or infill housing on a floodplain, this can increase the impacts of flooding, which is a regional council responsibility.

The way we work with communities is also changing and this impacts on time and cost. We are increasingly moving towards a co-design approach with communities on specific infrastructure and other projects. Whilst this is clearly the right way to work with our communities it does add considerable pressure on timeframes and costs.

Q7 How is the implementation of the Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?

Settlements are an opportunity for the Crown to settle long standing grievances with iwi. Once agreed and signed, the responsibility for implementation of settlements shifts to agencies including local government. The Crown's policy is to provide one-off establishment costs for the implementation of Treaty Settlement outcomes. These contributions are welcomed; however, councils nationally are engaging in discussions on the true cost to implement settlements and note that the Crown's contributions are often not reflective of the true costs of implementation. We also note that the ongoing financial costs to implement settlements (through the current mechanisms of funding) have shifted from the Crown and become the responsibility of ratepayers. This means that, in regions where there are multiple settled iwi, there are also multiple ongoing costs.

A key reason that settlements are not always fully realised can be attributed to the significant costs associated with implementation. These costs need to be reviewed by the Crown, and the desired outcome of such a review would be that these costs are offset by the Crown and provided equitably to both councils and iwi in order to ensure that both parties are sufficiently resourced to realise settlements.

In our experience, Treaty of Waitangi provisions can require dedicated staff time to service the statutory authority or other less formal governance arrangements. Staff time required is typically much greater than the respective budget or scale of operation would dictate.

Q8 How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

Based on New Zealand's slow response to climate change mitigation, and for the nation to play a responsible role to keep average global temperatures below 1.5^{o}C, a reasonable response to climate change requires the nation to engage in unprecedented levels of preparedness and capacity development for adaptation. Based on current trends of climate related events, proactive investment in asset resilience for climate change and hazards will likely require early and significant investment at levels not previously seen.

From a planning policy and perspective, it would seem that a significant central government programme and appropriate funding to assist local government to improve the nation's capacity for adaptation and mitigation to climate change is required. This will be in addition to the existing asset acquisition and asset management requirements of local government.

A good working example of a central government approach is in the Dutch Delta Programme. A two billion central government funded work programme to adapt to climate change. It includes a structured and managed approach to risk evaluation, costs of asset protection, distributed matched funding for local authorities, asset adaptation planning, and includes comprehensive community consultation. Significantly, the Dutch adaptation to climate change is seen as a current requirement, not a *future* one. The Dutch carefully assess current economic value and ask the community, is this area of land worth significant investment to make it resilient to climate change? The most common answer is 'yes' and as a result an infrastructure investment design is begun. Today the runway of the main national Dutch airport is six metres below sea level. Rather than rely on arguments of current affordability we could ask, how much is a resilient New Zealand worth to us to invest in now?

Anticipating the increasing effects of climate change and engaging the community is essential. The major, initial, cost implication will be on well resourced, transparent, community engagement on adaptation planning for the effects of sea level rise and increased storminess.

In 2017 Greater Wellington funded a regional climate change impact assessment report based on current IPCC science to 2050. Knowing the likelihood of the region's future climate, is a responsible start, however, it will require considerable centralised and coordinated effort to fully engage communities as partners, allow time for them to digest the changing situation, and make decisions about the necessary changes.

Greater Wellington is demonstrating this kind of innovative approach to climate change and natural hazard risk in its use of extensive and partnered community engagement in the Whaitua (water catchment) community engagement programmes, and our use of an internal Climate Change Assessment Consideration Guide for all decision making. These innovative and involved climate change adaptation practices need to become normal practice across government. Local government requires significant investment in these innovative climate change programmes to become standard practice in addition to the existing asset acquisition and management requirements of local government.

Regardless of how quickly global emissions are reduced, average climate temperatures are set to rise by roughly two degrees by the end of the century. Climate change impacts and the resultant damage and disruption, for example coastal erosion and inundation, surface flooding, slope failures and slips, particularly to coastal communities and those living on floodplains, is likely to be significant and will require careful planning and decision-making with those affected communities.

In Wellington the threat of a major Earthquake is also a real issue. Our response to this is to build resilience into our assets over time, which should enable our assets to resist major damage and also acts to reduce the cost of insurance. Insurance costs are escalating and it will not be long before insurance is not available or priced at such a level that insurance coverage is not economic. Should all generations contribute to the cost of a disaster or only those who are unfortunate to be hit at the time? The building up of contingency funds over time to meet major disaster has merit, while reducing insurance costs over time. These funds can be supplemented by borrowing which can be repaid/ spread over time. Spreading the cost over a long time period by building up funds and borrowing and replacing insurance by contingency funds may be the only option available soon.

Q9 Why is the price of goods and services purchased by local government rising faster than the consumer price index? To what extent is this contributing to cost pressures for local government?

Increasing costs can be attributed to Health and Safety and environmental compliance, comprehensive public engagement processes, Resource Management Act planning and consenting requirements and costs including consultation, hearings and appeal processes, technological advances, workforce skills requirements, increasing costs of construction and inputs such as fuel, steel, aggregate, and the challenges to service delivery due significant shortage of engineering consultants, qualified sub-contractors and skilled labour.

The items in the CPI and council basket of services and capital expenditures have differing rates of inflation. It is not useful to use the CPI as measure for local government rates when rates only make up a small portion of the CPI.

Construction costs have outstripped the CPI due to supply and demand factors principally due to the Christchurch rebuild, including government policies on migration not being followed up on a timely basis to support infrastructure and encouragement of construction workers and the increasing cost of materials. Cost pressures are significant, both in terms of actual cost increases plus costs increases from delay in starting projects due to resource availability.

Q11 Is local government expenditure shifting away from the traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

Greater Wellington agrees with the LGNZ response to this question.

The world is rapidly changing; technological advances, demographics and societal changes, our climate and natural environment, business and funding practices, legislative requirements, workforces skills and capability. How we provide, manage and think about assets and the activities they provide require change over time to ensure ongoing resilience.

We increasingly find that the regional scale is the appropriate scale at which to address inter-connected network issues that relate to the economy, transport, urban areas etc. These issues are not contained exclusively within city and district boundaries. This requires mobilisation at a regional level, working with our TA partners, the private sector and Government.

Q12 Does the scope of activities funded by local government have implications for costs pressures? If so, in what way?

Greater Wellington agrees with the LGNZ response to this question. That is, the scope of services Greater Wellington delivers or commissions is determined in consultation with the community at a level appropriate to maintain and/or enhance the overall quality of life. Of perhaps greater importance is the scale (levels of service), rather than scope.

Ultimately there is no ability to change the overall Council funding envelope. The question that needs to be asked is whether we are doing the right things the right way to meet the needs of a changing and growing region. Are our limited resources being applied in the best way to deliver the region the community wants? What are the options to redirect energy and funding?

Q13 What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?

In addition those pressures already discussed, new technologies, business trends, available skills and capabilities, changing natural environment, changing requirements and rules, uncertainty of funding, and societal changes all challenge current and conventional ways of working.

Q14 How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?

For the first time ever, the past may not provide an accurate indication of the future trends or demand. As discussed above, there are many upcoming changes that will mean additional costs for local government.

Q15 How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?

In addition to the consideration of community outcomes and setting of priorities, Greater Wellington considers long term trends and assumptions as part of the development of our LTP. We then review all of our activities with these factors in mind, as well as the principles of the financial strategy and the impact of the overall plan and proposed rate increases on peoples' ability to pay. The LTP process is effective at understanding these pressures and prioritising them – the difficulty arises from the lack of funding tolls available to local government to apply to these activities.

Q16 How effective are councils' Long-term Plan consultations processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?

Greater Wellington supports the LGNZ response to this question, noting that one limitation is that the Consultation Document is required to "provide a representation of the matters proposed for the LTP" rather than <u>all</u> matters. The legislation makes it unlawful for councils to publish their full LTP, which potentially excludes much of the detail that citizens need in order to comment.

For transport funding there are currently two parallel statutory processes to enable funding. These processes are not well aligned, and this can result in confusion and delay. To access funding from the National Land Transport Fund, activities go through Regional Land Transport Plan (RLTP) and National Land Transport Programme (NLTP) processes under the Land Transport Management Act (LTMA).

The LTMA processes, as well as being poorly aligned to the LTP process, have weak linkages to each other. Projects must be in the RLTP to be included in the NLTP and access subsidies, but the NLTP does not need to consider the strategic objectives or priorities in the RLTP.

Q17 Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?

Greater Wellington suggests that a stronger statutory link between RLTPs and LTPs could help improve the effectiveness of transport funding to improve alignment between the processes used to agree council funding and NLTF subsidies for projects.

We note also that not all decisions that councils' make are made through their long term planning processes – regional councils are also required to develop resource management plans, regional land transport plans, pest management plans etc. These plans are developed through their own statutory processes with considerable community engagement, and they commit councils to certain courses of action. It is only the level of funding for the activity that is therefore determined through the long term plan process as the course of action and options have already been considered through other processes.

Q18 How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

Asset management is used to forecast the expenditure needed to operate, maintain and renew or upgrade assets. This means using practices to manage assets and long term works programmes to deliver strategic priorities and agreed levels of service, in the most cost effective manner, throughout their lifecycle. Asset management is a core business process and integrated with all other business processes.

The point being that best practice asset management already enables efficient and effective delivery of services, within the funds available.

Collaborative initiatives such as the Roading Efficiency Group supported by LGNZ and NZTA can help councils work together to improve asset management and identify what drives cost differences across different councils and how many of these are factors that can be influenced (e.g. council procurement process, contract management) and how many related to the different contexts in which council operate (e.g. erosion prone land, higher cost of aggregate, extreme weather events). There may be scope to take a more collaborative approach across other areas of council business.

A centre of expertise in local government to provide advice on asset management, latest trends, systems technologies etc might be a useful initiative.

Q19 What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?

Greater Wellington currently uses best practice asset management to forecast the expenditure needed to operate, maintain and renew or upgrade assets. This means using practices to manage assets and long term works programmes to deliver strategic priorities and agreed levels of service, in the most cost effective manner, throughout their lifecycle. Asset management is a core business process and integrated with other business processes.

We agree with LGNZ's response concerning the range of options available to councils.

Q20 How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures?

Greater Wellington supports the LGNZ response to this question.

Greater Wellington remains abreast and learns of new practices from other councils through networks and forums, through industry and professional bodies, and through national and international excellence programmes.

Q21 What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

Greater Wellington supports the LGNZ response to this question.

The local government sector has a very special privilege with the ability to set it rates annually. But as with all privileges there is a responsibility attached. The Local Government Act is full of accountability, consultation and transparency requirements to hold councils to account.

For transport, NZTA requires performance monitoring of new expenditure and has a variety of cost efficiency benchmarks for ongoing public transport provision (e.g. cost per passenger kilometre) and operation, maintenance and renewal of roading networks. NZTA grants are conditional on meeting certain performance standards. Where there are serious concerns NZTA may choose to only allocate one year of funding to a three year programme, with the additional years programme conditional on steps to improve productivity.

Q22 What are the most important barriers to local government achieving higher productivity?

A significant barrier to improved productivity in the transport sector is the fragmented responsibility between the NZTA, regional councils and territorial authorities. Currently Greater Wellington provides public transport services, while the NZTA and eight territorial authorities in the region provide most of the supporting infrastructure. This creates a number of issues - a few examples include:

- Key areas where increased priority could improve efficiency of bus operations were identified ten years ago, but not implemented as the authority responsible for the road does not directly benefit from improved public transport efficiency
- Some councils require resource consent for new shelters at bus stops, which significantly increases cost relative to those that don't
- The traffic resolution processes to amend bus stops is unnecessarily complex. This makes is challenging to move or create new stops. It has also resulted in a number of stops that are no longer long enough for newer buses to use without obstructing traffic.

Q23 How does local government measure productivity performance? Are these measures useful? If not, what metrics would be better?

Wellington has a GPI (Genuine Progress Index) index which is focused around the well beings. The index is slow moving, however over a medium term progress can be monitored to see the impacts local government (and others) can have on a community given local government targeted initiatives.

In addition to high level indicators like those in the GPI and LTP a number of more detailed operational measures are used to track progress. An example is the annual monitoring report prepared to tack progress against the Regional Land Transport Plan this includes measures such as:

- Variability in peak time travel times
- Mode share
- Transport emissions

Q24 To what extent do councils use measures of productivity performance in their decision-making processes?

Greater Wellington agrees with the LGNZ response to this question.

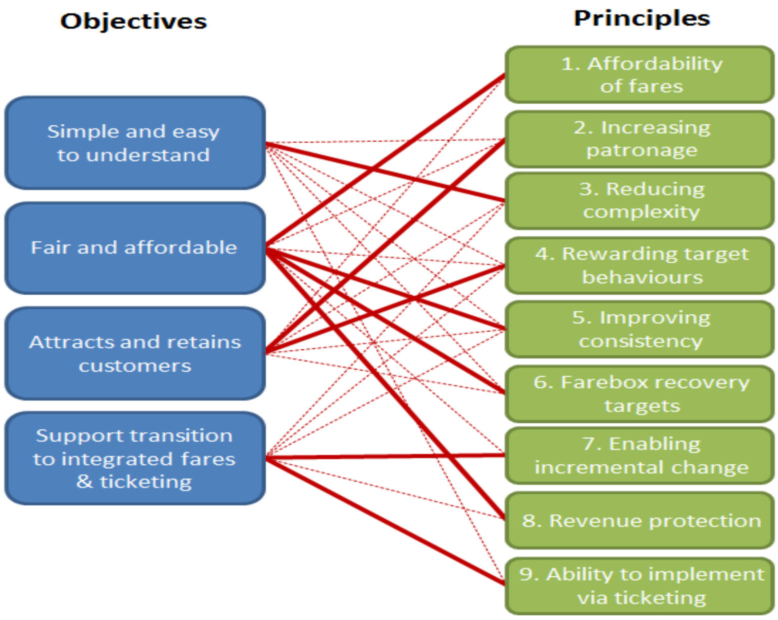
Q25 Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

Greater Wellington agrees with the LGNZ response to this question.

Q26 What measures do councils use to keep services affordable for specific groups, and how effective are they?

Greater Wellington supports the LGNZ response to this question. Council revenue and financing policies determine who should pay based on benefit analysis and other factors, but does not address affordability issues of specific groups.

Affordability of fares for public transport customers is a fundamental consideration for Greater Wellington. Fares are reviewed annually to ensure the right balance is achieved between fares, rates and subsidy from the NZ Transport Agency. More recently, Greater Wellington undertook a fare structure review to examine the fundamentals of the fares according to the following objectives and principles.



Changes to the fare structure were implemented on 15 July 2018 and included several new fare products to improve affordability, including: a 25% new tertiary student discount, a new 50% discount for blind and permanently disabled customers, a new 25% off peak discount for all adult fares, a new integrated rail monthly pass providing free bus connections to rail, and free bus to bus transfers for all passengers using Snapper. The new fares have been extremely well received and have improved fare equity for bus users, particularly in Wellington city who are the greatest users of bus services in the region. The off peak fares have also helped to encourage those who can to travel outside the peak – getting better utilisation of services and improving cost effectiveness.

In terms of benchmarking of fares with other similar cities with Public Transport, the following link maybe useful for the Commission to consider https://www.greaterauckland.org.nz/2019/01/21/a-fare-comparison/. The last two tables illustrate that fares (per zone) in Wellington are generally cheaper than most other cities for 1-8 zone travel which is generally all bus travel. When using pass products, the longer distances are also very good value when compared to other cities with similar public transport networks.

Q27 How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

Greater Wellington agrees with the LGNZ response to this question

Our response to Q26 also responds in part to this question in relation to public transport.

Q28 Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?

A long term plans set out activities to be undertaken by a local authority, the rationale for it, service levels and funding for a period of ten years. They are also required to contain funding impact statements and revenue and financing policies. The Revenue and financing policy determines the distribution of costs across ratepayers. Greater Wellington would welcome a piece of work being done in this area to ensure that councils are achieving a fair distribution of costs.

Consideration could be given to giving regional councils access to development contributions. This could enable public transport services to be put into new developments early. Currently funding drivers mean that there must be demonstrated demand before services are introduced.

Q29 Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?

Greater Wellington funds its long lived infrastructure investments through debt funding. Ongoing funding for the assets is calculated based on the repayment of the principle and interest costs over the life of the loans. Loan lives are determined by balancing the Financial Strategy principles of intergenerational equity and prudence. For capital expenditure the loan lives are generally set over a slightly shorter period than the actual asset lives, allowing for more operating funding in the remaining years of an asset's useful life for the likely higher maintenance operating costs associated with older assets.

Major programmes of work that have an inter-generational impact can be challenging to fund from debt while still keeping the costs of debt servicing as a component of rates affordable. For example, The Let’s Get Wellington Moving project has identified a programme of transport interventions to respond to the existing challenges and enable further growth through the Ngauranga to airport corridor in Wellington. Conversations are currently underway about how to fund this programme, which will put significant pressure on traditional funding sources (debt funding through rates and pay-go funding from the national land transport fund).

Q30 What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?

Greater Wellington agrees with the LGNZ response to this question.

Q31 How effectively is the existing range of local government funding tools being used?

Greater Wellington agrees with the LGNZ response to this question.

Q32 Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors inhibit the use of these approaches?

It is our experience that changing existing funding tools or levels of targeted rates and user charges can be problematic as usually it means someone will pay more and someone will pay less. This can create resistance from parts of the community.

Q33 What is the rationale underlying councils’ approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?

Greater Wellington agrees with the LGNZ response to this question.

Q34 In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?

There are limits on user charges for transport infrastructure. Greater Wellington currently collects substantial user changes from public transport passengers, and the NZTA Farebox recovery policy (soon to be reviewed) has set a target about the portion of public transport costs nationally it expects to be covered from fare revenue (user charges). However, other forms of transport are treated differently. Currently councils are limited in their ability to implement tolls or road pricing schemes to accelerate investment in new infrastructure, or better manage existing infrastructure (e.g. the ability to implement a congestion charge could help optimise use of the road network) as these must be approved/mandated by central government. This limits the ability to use these tools to fund new transport infrastructure.

Q35 How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What change to the current funding and financing system (if any) are needed to address these factors?

While Council debt is considered low, debt commits future operating revenue by way of the principle and interest payments over time - more debt means committed future expenditure.

Greater Wellington makes long term investments in, for example, bulk water assets, trains, and river management initiatives. These big investments have a significant impact on annual operating commitments as well as increases annual maintenance. While the Council balance sheet and debt profile can manage these investments, the impact on the rates bill is more significant in terms of a percentage increase.

The current changes being explored for rail funding will impact on Greater Wellington's decision making. Growth on the metro rail network means that it is likely new rolling stock will be needed in the short-medium term. There is considerable uncertainty at the moment about how much of this will be funded from the NLTF and how much will come from rates. Current financial assumptions are based on the previous model for Crown loans that are repaid via NLTF and rates, with track assets funded by central government and Greater Wellington paying a track access charge to use these assets. If this model changes it will impact on the long term debt forecasts for Greater Wellington and consequently rates.

Q36 What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?

Greater Wellington agrees with the LGNZ response to this question. Rates are a comparatively blunt instrument, while easy to collect they do not send effective signals about land use, and some types of land are exempt.

Reliance on rates is not necessarily an economically efficient means of raising funds. Some initial research undertaken at Greater Wellington suggests that a higher reliance on rates is associated with lower levels of economic efficiency. Although a better understanding of this association requires more research, it does suggest that increases in the flexibility of funding options available to regional and local councils could have wellbeing benefits for their communities.

Enabling local government to use a wider range of funding tools, such as road pricing, could help achieve wider outcomes while reducing reliance on rates.

Q37 Under what circumstances (if any) could these be a case for greater central government funding transfers to local government? What are the trade-offs involved?

Greater Wellington supports the LGNZ response to this question.

The assumption that all councils can fund core service and infrastructure requirements on top of significant changes in policy and standards is becoming more challenging.

There is a case for central government transfers to maintain a level of service where there is limited ability to pay. The funding assistance model used by NZTA recognises the differing ability to pay and relative deprivation to provide a high rate of subsidy to some councils.

Q38 Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?

Greater Wellington agrees with the LGNZ response to this question.

Q39 What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?

Greater Wellington agrees with the LGNZ response to this question.

Q40 Are other options available, such as new delivery models, that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?

A shared delivery model could improve the effectiveness and efficiency of infrastructure delivery. Many key local government infrastructure assets cross city boundaries and having different organisations responsible leads to different standards and complex decision making. Wellington Water is an example of a model that was set up to improve the consistency and efficiency of delivering three waters infrastructure.

Transport could also benefit from consideration of delivery models. The Greater Wellington application for local government reorganisation recognised that much of the transport network forms a regional function and drawing together the collective transport resources of all the region's local authorities within a single entity could increase the overall capability and capacity of transport planning and delivery in the region. Work is currently underway to consolidate transport data and analytics resources across the region to reduce duplication, improve consistency and quality of work.

Q41 What are the pros and cons of local income and expenditure taxes?

Greater Wellington agrees with the LGNZ response to this question. We suggest that a local income tax will not address a key issue with local government funding in New Zealand: that the rates tax base does not match the source of demand for services and the communities that benefit from these services. The obvious examples are the demand on services resulting from visitors, in particular commuters and tourists.

A tourism tax is likely to be a disincentive on the tourism industry. In particular it ignores the fact that tourists already contribute a considerable amount to the New Zealand tax base through the GST payments they make while in the country. The underlying issue is not necessarily the amount that tourists are contributing, but the allocation of these funds. The GST paid by tourists goes into the central government funding pool, but there is little recognition of this funding contribution by tourists and no standard method for making some of this funding available to the areas that incur costs related to the increasing demand on local services.

Rather than introducing a new tax on tourists and unfairly reducing economic prospects for tourist based industries, a more useful approach may be to allocate a proportion of GST collected to funding local government activities.

Q42 What are the advantages and disadvantages of a local property tax as an alternative to rates?

Greater Wellington agrees with the LGNZ response to this question

Q43 Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?

Access to other funding tools could assist in the rates burden to local communities. However, setting up additional levy or tax regimes is expensive to set up and manage.

It would be beneficial if more sophisticated tools for pricing road use include the potential to implement tolls, congestion charging and other forms of road pricing were available to local government. In addition to providing an additional source of revenue these can also influence demand. For example, it is extremely expensive to add additional roading capacity in the major metro areas. Pricing congestion, or time and location based road pricing could send demand signals to people encouraging a reduction in congestion and enable more efficient use of existing networks.

Q44 How can the transition to any new funding models be best managed?

Greater Wellington agrees with the LGNZ response to this question

Q45 To what extent does the need for particular funding tools vary across local authorities?

Greater Wellington agrees with the LGNZ response to this question

Q46 To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?

Greater Wellington agrees with the LGNZ response to this question.

Q47 What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?

Major projects can be funded through Public Private Partnerships and joint ventures. Projects of a significant scale are needed to justify this and, while the private sector can bring management expertise, borrowing costs are often higher than for government. Ultimately the risk sits with government, as has been seen in Australia where some Public Private Partnerships have failed.

Q48 If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?

Greater Wellington agrees with the LGNZ response to this question.

Q49 How effective are the current oversight arrangements for local government funding and financing? Are any changes required and if so, what is needed and why?

Greater Wellington supports the LGNZ response to this question.