Absolutely Positively
Wellington City Council

Me Heke Ki Pōneke

29 August 2019

New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Re: SUBMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING DRAFT REPORT

Wellington City Council (the Council) thanks the Productivity Commission for the opportunity to respond to the *Local Government Funding and Financing Draft Report.*

The Council has welcomed further inquiry into the funding and financing arrangements for local government, providing a submission in response to the Commission's Issues Paper that preceded this report. The submission outlined the key cost drivers and pressures currently being experienced by local government, in the Wellington context.

On reviewing the Commission's findings in the draft report, it is clear that other councils have shared some of our concerns, particularly in regards to the cost pressures relating to population growth, tourism and climate change adaptation. Although the draft report's recommendations go some way towards offering solutions for these growing issues, the Commission has remained silent on other equally significant cost pressures that impact councils' ability to respond to their residents growing expectations, while remaining financially viable.

The Council disagrees with the Commission's finding that the current property rating system is broadly sound on the basis that it is "simple and economically efficient". The Council argues that economic efficiency does not equate to economic sufficiency, and there remains a need for the Commission's recommendations to offer practical options to diversify and increase the funding streams available to councils, rather than primarily suggesting process improvements.

This submission has been developed in two parts: the first, Council's response to the overall findings of the Commission's report; the second, a summary of Council's position on each of the Commission's recommendations.

Where appropriate, the Council has provided answers to the Commission's questions within the content of these two sections. However we would like to separately acknowledge the Commission's question regarding the impacts of Treaty Settlement arrangements on local government. As noted in our previous submission, Council considers that the costs of these arrangements do not outweigh the significant opportunities and benefits that are provided through our strong relationships with local Iwi.

We thank you for the opportunity to provide feedback on the draft report and hope that consideration is given to the points raised in this submission in the development of the Commission's final report.

Yours sincerely

Justin Lester
MAYOR

Wellington City Council
PO Box 2199
Wellington 6140
New Zealand
Phone +64 4 499 4444
Fax +64 4 801 3138
Wellington.govt.nz

PART ONE: Wellington City Council response to the Commission's findings

Our current context

Wellington City is facing significant and fundamental change. Like other metropolitan cities, we are anticipating strong population growth. With a projected additional 80,000 people due to call Wellington home in the next 30 years, the Council has turned its focus to preparing our city for this influx of residents. Unlike our other metropolitan counterparts, Wellington faces significant constraints as to where and how the city develops. Wellington's form and location, surrounded by sea and hills and shaped by powerful seismic forces, requires that the development of key infrastructure for the future is adaptable and responsive to the impacts of both climate change *and* earthquakes. This incurs an additional (and ever increasing) level of cost that has not been accounted for in the Commission's findings regarding cost pressures.

These cost pressures are not only on the horizon, they are here and now. The city already has a deficit of key infrastructure: we need an additional 4000 homes added to our housing supply to see all Wellingtonians well housed, congestion on our roadways continues to increase and many buildings around the city remain closed following the November 2016 earthquakes. Our Central Library and Civic Administration Building are two of those affected, and with the wider Te Ngākau- Civic Precinct vulnerable to the impacts of climate change and future earthquakes, significant costs have been predicted in building resilience in this area. The impacts of these issues are felt by our residents on a daily basis, and they expect action.

In response, the Council has approved an ambitious, but necessary programme of work through *Our 10 Year Plan 2018-2028.* The plan focuses on resilience and the environment, housing, transport, sustainable growth and arts and culture. The most significant initiative in the plan is *Let's Get Wellington Moving (LGWM)*, a joint investment from the Council, Greater Wellington Regional Council and the New Zealand Transport Agency in the transport infrastructure that will connect Wellington more efficiently to the wider region. This infrastructure will act as a backbone to the future resilient development sites that will accommodate our growing population.

While the LGWM programme of work has received significant funding from central Government, both the Council and Greater Wellington Regional Council must also contribute a combined $2.6 billion to cover the capital, operating and financing costs of the initiative. This is the most substantial commitment of Council funds that Wellington has seen, the benefits of which will be received by future generations and those outside of the boundaries of our city and region. The funding source of Council's proportion of the investment is currently undefined and although Council has not yet met its borrowing limits, there is not the capacity to fund this project on borrowings alone. As such, there is a need to approach the funding of this programme with tools outside of the scope of the Commission's recommendations.

A particular consideration for Council in funding such projects is the equitable distribution of the cost of these investments, the benefits of which are experienced by ratepayers to differing degrees. The tools of the current property rating system provide limited scope to accurately account for this.

As Wellington city is the hub of the wider Wellington region, during the working week the city supports an additional 82,000 commuters from as far north as Palmerston North through their employment in the

Central Business District (CBD). The Council invests substantially in providing and maintaining services in this area through funding from rates, which those from outside the city do not contribute to. Because the Council does not have the power to capture the benefits of the productivity of our local economy which these workers help drive, ratepayers foot the bill. The application of business differentials is the best current means by which Council can more fairly distribute this burden.

Overall, the Commission has acknowledged most of the significant cost drivers facing local government, but the scale of the costs that these generate has not been adequately quantified and therefore the limited funding tools recommended are unlikely to cover the true costs of these issues. One example of this is in the area of depreciation. The key driver of increased depreciation costs is asset revaluations, which have risen at a rate greater than general inflation, CPI and acceptable rates increases. These cost increases equate to 22% of Council's operating costs, so additional funding streams are required to ensure rates rises can be maintained at affordable levels.

Property rating and user pays

As noted above, heavy reliance on revenue generated from property rates does not sufficiently meet the cost pressures that are experienced by local government, or fairly distribute the financial burden of our investment. Options to reduce this reliance within the current funding framework are limited. Councils cannot easily apply progressive charging regimes and although the Commission predominantly recommends the application of the benefits principle to identify opportunities to implement further user pays options, this principle cannot be applied consistently because there are areas where an end user cannot be adequately targeted. An example of this is, as above, where commuters from the wider region use the services of the CBD on a daily basis, but do not make any contributions to Council. Without access to economic taxes, rates will need to continue to increase to fund the gap. This makes the application of the second step of the benefits principle, consideration for ability to pay, increasingly difficult. These issues considered, the Commission's recommendation for the removal of rating differentials in favour of further user pays charging is untenable in the Wellington context, and as such the Council strongly opposes this point.

Furthermore, the recommendation for local government to target rating on a broad user pays basis is not consistent with progressive taxation principles and section 101(3) of the Local Government Act 2002 (LGA). The Commission's recommendation would increase the use of targeted rates and reduce general rating. This indicates rating on a per unit basis is preferred over land or capital value rating , the latter of which better aligns rating impost to household incomes (for residential rating) and thus supports the requirement to consider ability to pay under the LGA. Further analysis and evidence to justify this recommendation should be provided as it is not consistent with a majority of councils' rating systems which are implemented in consultation with their communities.

Where the use of user pays systems has been possible to date, implementation has been further complicated by increasing demands placed on local government by central Government, either directly through legislation or due to a void created by an absence of central Government funding (e.g. Council's inability to access the Income Related Rent Subsidy for social housing provision). The re-introduction of the four well beings into local government's responsibilities is likely to further increase service level requirements of councils.

In the Council's submission on the Commission's Issues Paper it was noted that there have already been significant additional requirements placed on Council. Under the Building Act 2004, the Council has needed to undertake specific investigations including: non-ductile columns, targeted building assessments following the November 2016 earthquakes and use of aluminium composite panels (ACP) in the wake of the Grenfell Tower Fire. As the building regulatory system is user pays, these additional mandates have created short falls as they have not been accompanied with corresponding funding.

A further example of a significant cost unaccounted for by the provisions of the Building Act is the Council's assumption of joint and several liability in the instance of building failure, most notably in relation to weather tightness issues . Where cases have been litigated, Council has been required to bear significant costs in settling disputes while other involved parties have folded. The user pays model of the building regulatory system disregards these costs, which in turn exacerbates the issue of unfunded mandates under this legislation. There is a need to further explore this issue to ensure costs can be appropriately attributed to all involved parties in such instances.

The Building Act is one of a number of pieces of legislation that set the parameters for how councils must deliver services. The Commission has recognised that further responsibilities added to other pieces of legislation such as the Food Act 2014, Sale and Supply of Alcohol Act 2012 and the Health and Safety at Work Act 2015 (among others) all contribute to the problem of unfunded mandates. However the Commission has failed to offer solutions to address the real costs that have been incurred in the recruitment and training of staff, development of local level policies and following democratic processes necessary to implement these changes.

While the Commission's recommendation for a "partners in regulation" approach between local and central government may go some of the way to reduce such instances in the future there is no recommendation that addresses the current and continuing shortfall that councils have been required to cross subsidise. The Council encourages the Commission to further explore the financial impacts of unfunded mandates in more detail and consider options to address the funding gaps that have been created as a result.

Recommended tools and approaches

The Council supports the introduction of the funding streams recommended by the Commission as useful tools to help alleviate the specific impending cost pressures that have been identified, but the scale of the funding required to meet these pressures has not been quantified, so it is unclear whether the measures will be sufficient

Therefore the Council believes the Commission should take a strong stance on the legislated use of additional funding mechanisms to address the cumulative impact of these pressures alongside rising public and central Government expectations of councils. The Council's preference would be the provision of a suite of funding mechanisms that could be legislated for automatic application where any council meets specified criteria, rather than ad hoc funding requiring one off applications by councils to central Government. These mechanisms should be sustainable over the medium to long term, providing councils with a level of certainty of income while appropriately limiting central Government intervention and maintaining local government autonomy. Consideration should be given to behavioural incentives for local government delivery that is aligned to national level strategic planning.

The Council suggests that the following tools are considered for inclusion as recommendations in the Commission's final report:

Economic taxes

As noted previously, economic taxes such as GST are the key mechanisms by which the benefits of a productive economy are captured. Local economies are heavily supported by infrastructure that councils provide as a matter of course; however there is no financial recognition of this. New Zealand is unique in this sense as most overseas metropolitan territorial authorities are able to access some level of sales and/or excise tax generated within their area.

The Commission has excluded the possibility of local government accessing GST on the basis that additional funding from central Government could compromise local autonomy and that a redistribution of GST to councils would be difficult to implement equitably. The Council argues that central Government ultimately dictates local government autonomy through legislation, and the prevalence of unfunded mandates is proof of this. Additionally, the difficulty of equitably redistributing GST to Councils could be easily be solved by central Government returning GST generated through rates to the respective councils as a first step in directing economic taxes back to the territories who significantly contribute to their generation. The Council therefore encourages the Commission to consider this in their recommendations.

Means for funding population growth

It is encouraging that the Commission is recommending a system of payment to local authorities to incentivise development based on building work completed, however funding for this will need to be substantial if the payments are intended to meet the needs of councils in funding growth.

The Commission has found that the ability to levy value capture rates, congestion charges and volumetric wastewater charges would give councils the means to better recover the costs of growth, but these measures have not been explicitly included as recommendations. The Council would encourage the Commission to recommend that these measures are made available to all councils by legislation, as part of a wider toolkit of funding options.

Road charges

Although congestion charging is mentioned as an additional option to fund growth, there are no recommendations for any further types of road charges even though there is now legislation for a regional fuel tax for Auckland.

In Wellington, a regional fuel tax would offer a significant funding stream which could be directed towards LGWM. This would provide an appropriate means by which the Council and Greater Wellington Regional Council could generate funds for the programme, while targeting the end user. However it should be noted that as we move towards more sustainable drive types, the effectiveness of fuel taxing as a funding source will reduce so alternative user charging options will need to be considered.

Additionally, legislation currently restricts the charging for on street parking to recover 'reasonable costs' and residents parking to only covering the cost of running the residents parking scheme. There is no additional cost attributed to the "leasing" of street space to accommodate vehicles. Not only does this requirement limit the potential of an additional funding stream for council, it is also counterproductive to the essential behaviour change that will be required to mitigate the effects of climate change in the future.

Other cities globally apply parking levies to influence driver behaviour; reducing congestion while for example generating funding to support public transport infrastructure development and maintenance. As such, the Council encourages the Commission to consider parking levies as a means to further diversify council revenue streams while mitigating the impacts of climate change and population growth.

Funding of central Government mandates

As noted, cross subsidisation through council rates is required in instances where additional regulatory roles and functions are passed from central Government to local government. While a regulatory partnership will reduce instances of this in the future, to truly address this issue there is the need to conduct a review of current unfunded mandates to determine the mechanism by which appropriate funding can be allocated to councils in compensation.

Councils also play a crucial role in enhancing community wellbeing, and this role has been strengthened with the re-introduction of the four well beings into the scope of local government responsibilities. As the level of government closest to the community, councils are often asked to provide services that are not delivered to a sufficient level by central Government. An example in Wellington is the provision of social housing.

Wellington City Council is one of the country's largest landlords. The Council's self-funding social housing service currently offers low income households rental accommodation at 70% of market rate. Tenants of Housing New Zealand and Community Housing Providers are able to access the Income Related Rent Subsidy (which Council cannot), which subsidises rents to 25% of the tenants income, making the accommodation affordable for both the tenant and the provider. As the sustainability of the Council's current social housing model is in question, there is a need for central Government to extend this subsidisation to local government housing providers also, to ensure the councils can continue to support central Government in enhancing the wellbeing of New Zealanders.

Earthquake resilience funding

Like climate change, response to the threat of earthquakes must be anticipatory to ensure our city's resilience and, in turn, reduce the cost of recovery after a shock.

Central Government currently offers support to local government for damages to certain horizontal infrastructure after a significant event by way of a 60/40 split of costs, on the basis the Council maintains appropriate insurance.

In Wellington the costs for strengthening buildings and infrastructure is growing steadily as the impacts of the November 2016 earthquakes continue to be uncovered. Since this event there has been a significant reduction of capital value in the CBD as a result of demolition following the quakes, which has eroded the rating base that must share the 40% of recovery costs the Council is required to fund.

To compound this issue, insurance premiums continue to rise as the risk becomes more evident. This creates a situation where the cost of insurance is increasingly unaffordable for the Council, leading to a challenging decision of whether to allocate funding to build resilience or maintain insurance premiums to ensure that central Government continues to support Council in the event of an earthquake under the current 60/40 arrangement.

As the Commission has recommended the development of a Local Government Resilience Fund, the Council would encourage the extension of criteria for accessing the fund to include earthquake readiness initiatives that contribute to city resilience and ultimately reduce future costs.

Part 2: Wellington City Council response to Commission's recommendations

Productivity Commission Recommendation		Council response
R5.1	DIA, LGNZ and SOLGM should work together to improve basic governance, including financial governance, skills and knowledge across elected members. In undertaking this work they should consider a range of mechanisms such as formal training, peer support, mentoring, networking and sharing of resources and best practice; and a variety of delivery platforms. LGNZ should ensure resources and initiatives are well evaluated.	Wellington City Council sees value in developing a wider suite of opportunities for elected members to continually develop governance skills. Offerings will need to be engaging to encourage participation, while also being reasonably priced to ensure all councils can readily access this support for their elected members. The Commission should also consider opportunities for the sector to consider best practices for governance from organisations such as the Institute of Directors.
R5.2	LGNZ should work to achieve greater participation in ongoing professional development by elected members, including new and existing members, to ensure skills and knowledge are built and periodically refreshed.	As above. Offerings will need to be engaging, affordable, and cater to the varying experience of elected members to ensure greatest levels of participation. The Commission should also consider how to best promote governance skills and related experiences in elected member candidates.
R5.3	The Local Government Act should be amended to require all local authorities to have and Audit and Risk Committee (or equivalent means of providing assurance). The Committee should have an independent chair and ideally include at least one other external expert to ensure that they span the necessary skills and experience. Independent members should be appropriately skilled and qualified. Councils should draw on the good practice guidance and resources that are available to develop and run their committees.	The Council has a Finance, Audit and Risk Subcommittee and sees it as a valuable quality assurance tool. While the Commission recommends the committee appoints an independent chair, the Council's committee is chaired by a councillor and three of the seven members are externally appointed. While not meeting the requirements of the Commission's recommendation, this structure provides the necessary balance of perspectives. The Council supports the provision of best practice guidance and resources regarding the establishment and implementation of Audit and Risk Committees but finds amendment to the LGA overly prescriptive.

R5.4	The local government reporting framework (including the financial disclosures, FIS, and performance measures for service delivery) should be subject to a fundamental first principles review. This review would be undertaken by a working group comprising of DIA, the External Reporting Board and representatives of the local government sector and information users. The Auditor-General would be consulted. The review should: • identify financial disclosures of low value to users of financial statements, • examine the mix of financial and non-financial disclosures and recommend a revised framework to provide the most efficient, coherent and accessible way of reporting information for all users. • consider new forms of external reporting, including integrated reporting, to shape changes to the reporting framework	The Council supports a review of the local government reporting framework in principle. While the process of developing local government reports has become increasingly complex and resource intensive, our annual reports have continued to be frequently accessed, with over 2000 external views recorded over the last 12 months. This indicates the value of reporting; however that value is compromised by the provision of complex financial information which isn't readily understood by the general public. We agree that revision of the framework should focus on improving the accessibility of reporting for all users. Additionally with significant infrastructure investment underway, much of which will be delivered over a longer term than current reporting arrangements allow, there is a need to better align reporting frameworks to the delivery of the projects that significantly impact council spending. An integrated approach to communicating financial and non-financial information would assist members of the public to fully understand the true performance of the Council in its service delivery, which in turn will better inform decisions made through planning processes.
R5.5	DIA, LGNZ and SOLGM should work together to promote and encourage council participation in existing performance review and improvement initiatives such as CouncilMARK and the Australasian Performance Excellence Programme. The emphasis should be on learning for continuous improvement rather than as a one-off exercise, and include efforts to boost public awareness to increase demand for their use.	The Council supports the promotion of participation in performance and review improvement initiatives. As a participant in the Australasian Performance Excellence Programme, the Council sees value in the ability to benchmark against other local authorities on an annual basis. We support the approach of promoting (rather than requiring) participation in these initiatives as best practice for continuous improvement In addition to such initiatives, the Council understands that SOLGM is currently developing national benchmarks regarding the four well

		beings, and while these are supported, it should be noted that there are complexities that need to be worked through for these to be useful measures.
R5.6	The legislated information requirements for consultation processes should be amended to clarify that consultation documents should describe the reasonably practicable options and include high level information on rates and future levels of service for each option. Terminology on the analysis of options should be consistent across the Act.	These requirements already exist within legislation although it is noted that how they are applied by different councils does vary. As a result, the Council supports the need for further clarification around best practice in this area. The development of flexible templates that can be tailored to local needs would significantly streamline the development of LTP consultation documents and improve consistency of content with legislative requirements. The purpose of consultation documents should also ideally be retested as part of that discussion. The current legislation and audit process means the content and issues profiled in documents for consultation are generally narrow and focused on what is 'different' or 'new' and neglects the rest of the activities and budgets of the Council which is where the majority of the costs lie.
R5.7	The LGA should be revised to clarify and streamline the required contents of LTPs so as to reduce duplication, ease compliance costs on councils and help make them more accessible.	The Council agrees the content requirements of LTPs should be pared back and simplified, with greater focus placed on the strategic purpose of the document. While much of the content should still be included, presenting information at a higher level with a greater focus on risk management would more accurately fulfil this purpose. Further detail could then be incorporated, with more certainty, into the Annual Planning process. The development of a standardised template would significantly streamline the development of LTPs and ensure consistency of content with legislative requirements.
R5.8	Audit should not be considered a substitute for internal QA, which should exist across the whole LTP process, including the use of expert review where appropriate (e.g. for significant decisions).	The Council generally agrees that the audit process of LTPs should not replace internal quality assurance; however an overly rigorous quality assurance process throughout the development of LTPs has the potential to impact resource requirements and timeframes for delivery.

		A clear scope of issues that should be reviewed and addressed internally during the development of LTPs versus those that are within the remit of auditors would give greater clarity of resource requirements at the front end of the LTP process.
R6.1	The Government, LGNZ and SOLGM should work together to develop standardised templates for development contributions policies and council assessments of development contributions charges for individual developments. Councils should be required to use these templates.	Standardised policies and templates regarding development contributions may assist in guiding assessment of development contribution charges, but any templates will need a level of flexibility to cater for local level needs. This aside, the entire development contributions process continues to be complex and requires simplification. Additionally, the development contributions system does not account well for the burden on existing infrastructure caused by brownfield and infill development. Wellington has little greenfield land so these types of developments will be more prevalent as the city expands to meet the demands of population growth. With each additional connection to existing infrastructure that results from these developments, the level of service of the infrastructure decreases until ultimately there is a need for full renewal. As depreciation funding is generated over the life of the asset for replacement to the same capacity (or level of service), there is a shortfall. The proposed incentive payment for building work could alleviate some of this funding gap.
R6.2	The general approach to funding depreciation is satisfactory, however three issues are of concern and require action: 1. Council decisions about the use of cash that 'depreciation funding' can give rise to should be part of formulating their wider financial and infrastructure strategies. 2. Councils should prioritise improving their knowledge of the condition and performance of their assets 3. The Essential services benchmark should be reviewed as part of the wider review. Any review should avoid the implication that	The Council agrees that addressing the areas of concern the Commission has identified may go some way to improve the accuracy of the calculation of depreciation, but does not offer a real solution to address the challenges of funding depreciation. As noted, the most significant catalyst for increasing depreciation costs is asset revaluations, which have risen at rates higher than general inflation and CPI .In order to maintain rates increases at an affordable level, additional funding streams are necessary to fund the gap. Furthermore useful lives of assets also require review. We have evidence that a significant proportion of assets are failing or require

	individual councils must invest as much in renewals each year as their depreciation expense.	replacement earlier than their estimated useful life, e.g. asbestos pipes, which exacerbates the cost and funding challenge. We support a review of the Essential Services Benchmark on the basis that renewal expenditure does not always align with depreciation that has been accrued through depreciation funding, so this is not an accurate measure of Council performance.
R6.3	In choosing amongst funding tools councils should emphasise the benefit principle and efficiency in the first instance. They should also balance greater economic efficiency against lower compliance and administration costs. Councils should factor any significant concerns about ability to pay at a second stage of decision making.	While the application of the benefit principle is, in theory, a good approach, it does not adequately identify the local beneficiaries of the Wellington economy, which is significantly supported by investment made by Council. Through the Council's current funding mechanism, the only option to distribute this cost is via property rates, with differentials used to balance the proportion of the burden. With this approach, ability to pay is a growing issue so the legislation of alternate funding tools should be included in the recommendations of the Commission.
R6.4	The Government should consider implementing a system of payments to TAs based on new building work put in place in each TA, to incentivise councils to increase the supply of infrastructure-serviced land.	The Council would support the introduction of a new funding stream to support development. For Wellington it will be crucial that the incentive payment does not only apply to, or overly favour, greenfield development. As noted, much of the development opportunity in Wellington is in brownfield and infill sites. The incentive payment would go some of the way towards reducing the funding gap created by the existing development contributions scheme in regards to these types of developments. To ensure that payments continue to act as an incentive, amounts need to be meaningful and based on a formula that automatically calculates funds for allocation, so that future funds can be forecasted and relied upon.
R6.5	The Government should direct officials to continue to work on expanding the use of Special Purpose Vehicles (SPV) to finance investment in growth infrastructure for	The Council has not yet reached its borrowing limits. However with the closure of the Central Library due to the ongoing impact of the 2016 earthquakes, an uncertain future of Te Ngākau-Civic Square

	fast-growth councils that face debt limits. If needed the Government should promote legislation to enable the placement of debt servicing obligations on existing residents who will benefit.	and the significant programme of investment in Let's Get Wellington Moving, it is unlikely that this will continue to be the case. The use of SPVs is a valid option to consider as councils approach their self-imposed and legislated borrowing limits. If used for significant capital projects, SPVs would reduce the burden of borrowing on the council balance sheet, but ultimately this is not a funding solution. An SPV it is a financing arrangement only and the question of how to fund large projects still needs to be addressed. The Commission should recommend expanding the use of SPVs as a financing tool, alongside further options of funding for councils.
R6.6	In its review of three waters the Government should favour models capable of applying efficient scale and specialisation to help small communities to meet the challenges of maintaining and upgrading three waters infrastructure.	In principle, the Council agrees to this recommendation. Wellington City Council, along with Porirua, Hutt City and Upper Hutt, has three waters services provided by Wellington Water. However there is a need for councils to have the autonomy to determine the type of model that will best serve their community's needs and Council priorities. While cross territory provision may be preferred, the variation in asset condition and service level could create a situation where the collective must cross subsidise underperforming infrastructure, which is in contradiction to the benefit principle. An alternative to achieve an equitable outcome would be for central Government to fund the shortfall experienced by councils with smaller rating bases.
R6.7	The Government should legislate to enable councils in tourist centres to choose to implement accommodation levies to recover the tourism induced costs of providing local mixed-use facilities. Councils in these centres should also make more use of user pays for these facilities where possible.	The Council supports the introduction of levies that are applied to accommodation users through a tax on accommodation nights: either as a fixed rate per night per tourist or as a percentage of the full accommodation charge. While we agree in principle that tourist facilities should be funded where applicable by user pays systems, Wellington's tourism sector is closely linked to the hospitality industry and it is difficult to apply a user pays system to this industry, as locals also engage hospitality services.

		Currently hospitality providers, along with other businesses, pay a higher proportion of rates through differentials. Without this system the only way to truly capture the benefit provided through this industry, and therefore the wider tourism sector, would be through a return of a proportion of GST to Council. The Council suggests that further engagement with the Tourism and Hospitality sectors is carried out to assist in determining a fair user pays system that could be utilised nationally
R6.8	The Government should provide funding from the International Visitor Levy responsible for councils responsible for small tourism hotspots that cannot reasonably recover all of their operating costs of providing mixed-use facilities from user charges or accommodation levies.	The Council agrees that tourism centres should have the ability to access funds generated by the International Visitor Levy, but would not limit this to small centres only. As Wellington is the connection point between the North and South Island, tourist may not stay overnight, but still enjoy all the city has to offer as they pass through on their journey. While smaller tourist hotspots may find it more difficult to meet the costs that tourism generates, it does not mean the additional burden felt by larger tourist centres should not be recognised. The Council encourages the Commission to consider a system of funding through the International Visitor Levy that caters to all levels of need.
R6.9	The benefit principle and maintaining the integrity of local government autonomy should guide the funding of local government activities. This implies central government should generally limit its funding of local government to where there are national benefits. Central government should not expect local government to act as its regulatory agent – the two levels of government should seek a regulatory partnership based on mutual respect and an agreed protocol.	The Council agrees that *consistent* application of the benefit principle should guide both local and central government funding, however in practice this is not the case. For example, land categorised as non-rateable under the Rating Act 2002 benefits from investment made by Council, yet Council is unable recover the cost of services to the land. To address this issue Council recommends that the definition of non-rateable land in legislation should be reviewed inconsideration of the benefit principle, making this type of land rateable, particularly where commercial returns are obtained from the land e.g. Student Accommodation The acknowledgement by the Commission that unfunded mandates are regularly passed to local government provides further evidence that the application of the benefits principle is inconsistent, as local

		government incurs the costs of administering central Government policies. These mandates are proof that local government autonomy only goes so far. Ultimately local government's ability to act with autonomy is determined by central Government legislation. Additionally it is the Council's experience that local government is often called by the public to increase service delivery where central Government services are reduced, for example the reduction in front facing services for central Government agencies has seen increased demand on Wellington's local Citizen Advice Bureau, which is supported by Council. Such changes should not place unnecessary burden on local government. The Council supports a regulatory partnership model, on the basis that appropriate funding also accompanies agreed regulations.
R6.10	Central and local government should strive to achieve a more constructive relationship and effective interface through: • input into policy-making processes • central government engaging in a meaningful dialogue with local government early on in the process of developing new relevant regulations • cooperative approaches to tackling problems while implementing relevant new legislation, regulations or environmental standards • the creation of formal and informal feedback loops to identify problems as they appear and • the spread of information through the system and the sharing of expertise and knowledge.	As noted in response to recommendation 6.9, the Council is supportive of an improved relationship with central Government in the development and implementation of legislation and policy going forward, but there is a need to address existing unfunded mandates. The Council suggests a review of current unfunded mandates, and development of mechanisms to provide appropriate funding where cross subsidisation has been necessary.
R7.1	The Rating Act should be amended to remove rates differentials and the UAGC. Councils should have five years to implement their removal.	The Council strongly disagrees with the Commission's recommendation that rating differentials should be removed, without the provision of alternate funding tools.

		Wellington City acts as the engine room for the wider region and on a daily basis supports an additional 82,000 workers from outside the city, who all benefit from Council's investment. It would be near impossible to capture the benefit that each receive through user charges so ultimately, the rate payer must carry the financial burden. As more of the benefit of the city's economic activity is experienced by the business sector, a rating differential is applied to capture some of the financial benefit that is not received to the same extent by the residential rate payer. The Council agrees that the differential system is a blunt tool that does not truly capture the benefit that is received as a result of Council's support of the Wellington economy. The real benefit is received by central Government through GST. Without access to a proportion of the GST generated in the Wellington City boundary, the removal of the rating differential contravenes the Commission's recommendation to apply the benefit principle.
R7.2	Local government legislation should be amended to require councils to: • match the burden of rates to benefits of councils services as a first step in setting rates • consider ability to pay • set out the reasons for their rating decisions in a clear and transparent manner and • When applying the ability to pay principle, consider coherence and consistency with the income redistribution policies to those of central government. Councils should continue to have the power to determine, on reasonable grounds, the appropriate allocation of rates within their district or region.	The application of the benefit principle is best practice, and an approach that Council already implements when setting rates. Legislating to require councils to apply the principle in a prescriptive manner has the potential to open councils up to the risk of judicial review which would ultimately impact council autonomy to appropriately allocate its own rates. On this basis the Council would not support this recommendation.
R7.3	LGNZ and SOLGM should develop advice for councils on applying the benefit principle (the burden of rates	The Council supports the development of advice to guide local and central government decision making in the application of the

	should reflect the benefits received) in their rating decisions.	benefit principle, particularly where the benefits of council investment cross territorial boundaries.
R7.4	The LGA should be amended to remove the statutory cap (30%) on uniform charges.	The Council supports options to increase uniform charging where appropriate as a tool to increase funding.
R7.5	The Government should work with the sector and providers to develop and implement a National Rates Postponement Scheme. The scheme should: • have a single set of clear and generous eligibility rules • be accessible and have provisions that are easy to understand and work with • have moderate and transparent fees • be nationally promoted	The Council believes there is value in operating a rates postponement scheme, and does so, as a last resort to support those in financial hardship. However the scheme does not provide assistance to the majority of residents who will also feel the impact of increasing rates. It is unclear the impact a more widely available rates postponement scheme would have on the Council's balance sheet as rates continue to rise to meet cost pressures. It is the Council's position that options for additional funding tools that would reduce the total burden felt by rate payers should be further explored before the development of a more accessible rates postponement scheme.
R7.6	The Government should phase out the Rates Rebate Scheme over a defined period, from when an effective national Rates Postponement Scheme is in place. In the meantime the current income abatement thresholds and maximum payments should be maintained.	The Council agrees with the Commission's finding that the Rates Rebate Scheme does not necessarily target those who cannot afford rates. As noted in response to 7.5, replacing the scheme with a Rates Postponement Scheme is not the solution to the issue. The Council encourages the further exploration of additional funding tools before a decision is made on the removal of the rebate scheme.
R8.1	The Government and local government should work together to establish centres of knowledge and guidance about climate adaptation. One should be an up to date source of advice on science and data while	The Council welcomes the establishment of centres of knowledge in relation to climate change but would not limit this to adaptation only. Mitigation measures are critical to reducing the impacts of climate change, so further advice should also be provided in this

	another should provide advice on policy, planning, risk management, legal issues and community engagement.	area. We would encourage close collaboration with local government in developing guidance, to ensure that local needs can be understood and catered for. Our experience has been that it is critical to put communities at the centre of climate change. While councils have a key role, communities themselves need to have direct access to centres of knowledge and guidance also.
R8.2	The Government should review existing legislation and policy to ensure that considerations about climate-change adaptation are integrated and aligned within legislation and policy.	The Council has recently declared a climate change emergency, which requires the consideration of climate change impacts in all decision making. We support government taking that same approach, but would urge that any review of existing legislation and policy implements the "partners in regulation" protocol also recommended by the Commission, ensuring that the funding impacts of any changes to legislation can be considered across both levels of government.
R8.3	National and local authorities should adopt flexible and anticipatory approaches to adaptation – any funding should be conditional on the use of such approaches.	While the Council agrees flexibility is a key principle of climate change adaptation, it is a difficult criterion to include as a funding consideration. Local government relies on community feedback and if a community decides that a certain level of risk is acceptable, the Council must consider this in its decision making. Whether or not such instances should preclude Council from accessing public funding needs to be further tested. As also mentioned, mitigation initiatives are key to reducing the impacts of climate change, so the Council recommends the Commission equally considers these approaches alongside those for adaptation.
R8.4	The Government should provide legal frameworks that give councils more backing to make land use and investment decisions that are appropriate to constantly changing climate risks.	As a harbour city, the Council would welcome legislation that supports the difficult decisions that will be required regarding land use and investment to adapt to climate change. We would encourage the Commission to broaden this recommendation to encompass decisions in relation to resilience in

		general, to account for councils who are also mitigating earthquake risk.
R8.5	The Government should extend the NZTA's role in co- funding local roads to include assistance to councils facing significant threats to the viability of local land transport infrastructure from sea-level rise and more intense storms and flooding due to climate change. The amount of assistance should reflect the size of the threat and each council's rating capacity. Assistance should be conditional on a strong business case and meeting engineering and environmental quality standards, It should only be available to defend existing infrastructure when business cases indicate this option is superior to other options by a significant margin.	The Council supports the extensions of NZTA's co-funding mandate to provide support for local transport infrastructure that is vulnerable to the impacts of climate change. Key transport routes into Wellington are located at sea level and include not only roads but also public transport infrastructure. Additionally roads in Wellington act as barriers between the sea and private property on our coasts, so it is crucial that funding support is available to assist when these important defences are at stake. As above, the Council would encourage the broadening of this mandate to include other resilience issues that must be mitigated.
8.6	The Government should create a new agency and a Local Government Resilience Fund. The agency should work with at- risk councils and co-fund the redesign and possible relocation and rebuilding of wastewater and storm water infrastructure when it is no longer viable due to the impacts of climate change. The new agency should assist regional councils and communities to work out the best way to lessen future flood risks from rivers. This could include moving to a new, more sustainable and best-practice paradigm of giving rivers room and developing multiple innovative uses of river corridors.	The Council would welcome the introduction of a new agency and funding stream to assist in mitigating the impacts of climate change on key infrastructure; however climate change is only one aspect of resilience. Wellington, like other locations, is not only vulnerable to climate change but also damage due to earthquakes. To be truly resilient, we must adapt to both issues which requires significant investment in order to build the necessary resilience in our three waters infrastructure. The Council would encourage the broadening of the mandate of the new agency, and allocation of central government resilience funding, to include other resilience issues that must also be mitigated.