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ME HEKE KI PŌNEKE
WELLINGTON CITY COUNCIL

STRATEGY AND POLICY COMMITTEE
21 JUNE 2006

REPORT 3.2
(1215/52/IM)

LONG TERM COUNCIL COMMUNITY PLAN: FUNDING AND FINANCIAL POLICIES

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1. Purpose of Report

This report provides for the adoption of the Council's funding and financial polices as required by the Local Government Act 2002.

2. Recommendations

That the Committee recommend to Council that it:

1. *Receive the information.*

2. ***Either:** confirm its decision to increase the fixed water and sewerage rates from $100 (plus GST) each per annum to $200 (plus GST) each per annum.*

   ***Or:** agree that the fixed water and sewerage rates be set at $100 (plus GST) each per annum.*

3. *Confirm the following policies for inclusion in the Long Term Council Community Plan as they were outlined in the draft:*
   - *Revenue and financing policy*
   - *Investment and liability management policy*
   - *Rates remission policy*
   - *Rates postponement policy*
   - *Policy on partnerships with the private sector.*

4. *Delegate to the Chief Executive Officer the authority to make any minor editorial changes that may be required as part of the publication process.*

3. Background

The Council is required to adopt the following polices as part of its Long Term Council Community Plan:

- Revenue and financing policy
- Investment and liability management policy
- Rates remission policy
- Rates postponement policy
- Policy on partnerships with the private sector
- Development contributions policy.

Each of the policies was reviewed as part of the development of the plan. They were subject to scrutiny by Audit New Zealand and were covered by the unqualified opinion that was issued on the Draft Long Term Council Community Plan. They have been open to consultation as part of the wider process.

Note that the Development Contributions Policy is the subject of a separate report on this agenda.

3.1 Summary of submissions

Submissions on the policies were largely confined to two matters: the rates differential and the proposed change to the fixed rate for fixed targeted rates for sewerage and water activities.

Providing distinct rating classifications for QE2 Covenants and areas used for Wind farms were also raised. The review of classifications has been placed on the forward programme of the Funding and Activity review Working Party.

3.1.1 Rates differential[1]

20 submissions were received on the proposed shift of the rates differential between the residential and commercial sector. The majority of submissions were opposed to the transition proposed for the coming year. The main argument put forward was tied to affordability and that businesses could claim rebates and pass costs on to users.

Submissions in favour noted the important positive signal that the transition makes to Wellington businesses and those that are attracted here.

Some submitters commented on the need for the commercial sector to fund tourism and other activities that benefited them. This highlights one of the perennial challenges that the Council faces - the need to raise understanding of the funding mechanisms that the Council uses. The current policy is that tourism activities are paid for from the Downtown sector. The response to submitters will cover this fact.

Note that for ease of reference a summary table of the funding targets for each of the Council's activity are provided in appendix one.

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[1] In 2000, the Council voted to alter the rates differential (the rates split) that decides the share of general rates only paid by residents and by businesses. Over a 10-year period, the balance will shift from a point where the commercial sector contributed 7.0 times more general rate (for a property with the same value) to a stage where they will end up contributing 2.8 times more to the general rate than the residential ratepayer by 2009/10.

The general rate is split between the base differential rate, which applies to residential ratepayers, community organisations and rural land, and the commercial, industrial and business differential rate.

During the development of the Revenue and Financing Policy, Council has taken the opportunity to review the rating differential and has concluded that the 2.8 ratio is still appropriate.

The Council also believes it is appropriate to spread the impact of proposed activity funding changes, and that a smooth transition to the 2.8 ratio in 2009/10 continues. The target general rates differential for 2006/07 is 4.4 : 1. This means that for that a commercial ratepayer will have 4.4 times the general rate payable by residential (and other base differential) ratepayers on each dollar of property capital value.

The differential transition planned through to 2009/10 is as follows:-

	06/07	*07/08*	*08/09*	*09/10*
GR Ratio	4.4	3.8	3.3	2.8

3.1.2 Sewerage and water: fixed targeted rates

46 submissions were received on this proposal. Nine percent were in favour of the change and 91 percent were opposed.

The key points made in those submissions in favour of increasing the fixed proportion of sewerage and water targeted rates from $100 (plus GST) to $200 (plus GST) with an equivalent reduction in the proportion rated on a rate per dollar of capital value basis included:

- That the change went some way to addressing the lack of 'fairness' in the higher level of water and sewerage rates paid by higher value properties irrespective of the amount of water used or sewerage disposed.
- That the Council should go further and make water meters mandatory.

The key points made by those submissions against the change included:

- That it was unfair to increase the rates payable by those who could least afford it.
- That lower value households generally create less demand for water and/or are on lower incomes so have less of an ability to pay.
- That ratepayers who are on a water meter and who are limiting water use will be unfairly impacted by an increase in fixed sewerage charges.
- That it would be fairer to charge on the basis of the number of people living in a household.

4. Discussion: sewerage and water rate

4.1 Background

The report of the Revenue and Financing Policy Working Party presented to the Strategy and Policy Committee in March 2006 acknowledged that the existing methodology for rating a proportion of sewerage and water services on a rate per dollar of capital value basis results in some anomalies. While most commercial properties have water meters and are rated based on actual consumption, all sewerage rates are charged on a rate per dollar of capital value basis.

The Working Party concluded that with the exception of a 'water in - water out' assessment which would require water meters to be installed on all properties, other available options including pan charges or increased uniform targeted rates were similarly 'blunt' funding tools which create their own anomalies.

A review of the basis for splitting the residential sector rates for provision of sewerage and water services was also conducted. The review, while noting that there was a level of subjectivity in determining which costs were fixed and which were variable in nature, concluded that the $100 per rating unit fixed charge for each of these services was generally consistent with the proportion of the fixed costs for these activities.

Given the limited alternatives available, and while not unanimous, the Working Party recommended that the balance (i.e. the variable cost of these activities) continued to be charged on a rate per dollar of capital value basis until such a time as other alternatives such as water metering options and the ability to charge for sewerage on a water-in water-out basis could be further assessed.

At its meeting of 1 March 2006 the Strategy and Policy Committee recommended, for the purposes of Draft Long Term Council Community Plan (LTCCP) consultation, to increase the fixed (uniform) portion of targeted rates for each of water and sewerage activities from $100 plus GST per rating unit to $200 plus GST per rating unit, with a corresponding reduction in the portion of rates collected based on a rate per dollar of capital value.

Generally, the proposed change would mean that rates payable by the average property will stay about the same, while the amount of rates paid for sewerage and water will increase for lower value properties and decrease for higher value properties.

Property Value	Rates before proposed change (1)	Rates after proposed change (2)	Impact of change ($'s)	Impact of change (%)
$200,000	$877	$1,000	+ $123	+ 14%
$400,000	$1,530	$1,551	+ $21	+ 1%
$600,000	$2,182	$2,101	- $81	- 4%
$800,000	$2,834	$2,652	- $183	- 6%
$1,000,000	$3,487	$3,202	- $284	- 8%

(1) Targeted rate for sewerage 60% base (residential sector) 40% commercial sector. Residential sector share based on $100 (plus GST) fixed charge – balance charged on a rate per dollar of property capital value.
(2) Targeted rate for sewerage 60% base (residential sector) 40% commercial sector. Residential sector share based on $200 (plus GST) fixed charge – balance charged on a rate per dollar of property capital value.

4.2 Summary discussion

The proposed change was intended to take into account the increase in the fixed cost proportion of the total cost of providing these services since the fixed charge was introduced in 1996. However it should be noted that the assessment of the fixed cost proportion is largely subjective – in the case of water supply being dependant on whether the cost of water purchase from the Regional Council is considered a fixed or variable component, or a mixture or both. The current rationale assumes it is a variable cost.

The proposed change also reflects the view of some Councillors that increasing the proportion of fixed charge would better reflect that variability in use of water and sewerage services exists irrespective of a property's value. Consideration of ability to pay issues would be maintained to an extent, by continuing to collect 28% of base (residential) sector water and 25% of sewerage rates based on a rate per dollar of capital value.

The majority of the submissions received against the proposal opposed the increase in the fixed charge on the basis of the imposition of increased rates on those who could least afford it. While the impact of the change cannot be denied, the linkage between capital value and water consumption is tenuous at best, hence the reference to inequity in the existing rating basis by some submitters who supported the change.

If achieving 'equity' (i.e. achieving a close correlation between utilisation of service and rates payable) is the primary aim, one could expect the fixed charge proportion to be nearer to 100%, or that rates were based on a metered system. The current proposal increases the fixed component of residential water rates from 36% to 72%, and for sewerage from 38% to 75%. In the absence of any objective measurement, it therefore follows that the decision around the component of rates made up by the fixed charge, is one of gaining a balance between 'equity' and ability to pay.

As summarised in the table below, comparable Councils have tended towards rating domestic users of water and sewerage services on either a uniform basis or through actual consumption (meters). However this tends to remove the opportunity for Council to consider ability to pay issues in the application of the targeted rate.

Domestic (residential) water and sewerage rating methodology		
Council	*Water rating methodology*	*Sewerage Rating methodology*
Auckland	$30 fixed charge – balance by meter	Meter (water in - water out)
Christchurch	Rate per $ of CV	Rate per $ of CV
Dunedin	Uniform rate or meter	Uniform rate
Hutt City	Uniform rate	Uniform rate
Manukau	By meter	Uniform rate
North Shore	By meter	Uniform rate (pan charge)
Porirua	Uniform rate or meter	Uniform rate (pan charge)
Waitakare	By meter	Rate per $ of LV
Wellington (proposed)*	72% Uniform rate, 28% rate per $ of CV.	75% uniform rate, 25%, rate per $ of CV

* The Wellington (proposed) data is based on a $200 (plus GST) fixed charge per rating unit for each of water and sewerage.

The subjectivity surrounding the rating for sewerage and water services in what are considered fixed versus variable costs for the provision of water and sewerage serve to complicate this funding decision. As does the degree to which ability to pay issues should be taken into account in setting the proportion of rates charged using each funding tool. What is evident is that were residential water rates based on actual water consumption the impact on lower value properties would be greater than that from the change in the fixed portion currently proposed.

The key consideration for Council is therefore whether, recognised the relatively "blunt" nature of both the fixed charge and capital value based funding tools, it is appropriate to make an arbitrary adjustment to the fixed charge proportion to address inequity caused by a rating a significant portion based on capital value and to a lesser extent the increased fixed costs in the of provision of the sewerage and water supply services.

The other alternative, and that recommended by the Revenue and Financing Policy Working Party, is to make no change to the existing targeted rate funding basis, pending a full review of water and sewerage rating mechanisms.

4.3 Summation

The Revenue and Financing Policy Working Party considered the funding mechanisms for both sewerage and water in its 2005/06 review of the Revenue and Financing Policy. The Working Party's recommendation was to make no change to the existing targeted rate funding basis, pending a full review of water and sewerage rating mechanisms.

The Strategy and Policy Committee subsequently recommended consulting with the public through the draft LTCCP on an increase in the fixed (uniform) charge portion from $100 (plus GST) to $200 (plus GST), with a corresponding decrease in the proportion charged on a rate per dollar of capital value basis.

The submissions received have been reviewed by officers who have concluded that all issues raised by the respondents were taken into account by the Working Party in forming its recommendation to the Strategy and Policy Committee.

5. Conclusion

Having completed the special consultative procedure on its funding and financial policies the committee is asked to consider the issues raised and recommend to Council the adoption of the polices.