REPORT 3
(1215/52/IM)

2012-22 DRAFT LONG TERM PLAN: REPORT OF THE FUNDING AND ACTIVITY REVIEW WORKING PARTY

1. Purpose of Report

This report presents the work and recommendations of the Funding and Activity Review Working Party (FAR) for inclusion in the 2012-22 Draft Long Term Plan. FAR have reviewed the following:

- Revenue and Financing Policy (appendix 1)
- Schedule of Proposed Changes to Fees and Charges (appendix 2)
- Rating Mechanisms (to be included within our Funding Impact Statement) (appendix 3)
- Investment and Liability Management Policies (appendix 4)
- Rates Remission Policy (appendix 5)
- Rates Postponement Policy (appendix 6)
- Performance Measurement Framework (appendix 7)
- Asset Management Plans

Note that all policies will be updated to reflect any decisions made at this meeting before being presented to Council.

2. Terms of Reference

The key purpose of the FAR Working Party is to

a) Guide officers in the review of the Revenue and Financing Policy and other funding and financial policies as they apply to all activities and recommend any changes to the Strategy and Policy Committee
b) Review Asset Management Plans
c) Review the performance measurement framework
d) Provide a governance perspective and strategic overview to officers as they undertake reviews of activities.

The review of the Revenue and Financing Policy has focused on:

- Reviewing the *Guiding Principles* upon which the Council's funding decisions are based (noting the overlap with the Financial Strategy); and having determined that these principles are sound and remain valid:
- Compliance with the Local Government Act 2002;

- Review of the commercial and residential rating differential;
- Reviewing the forecast 2012/13 compliance of each Council activity (e.g. the rates versus non-rates income split) with the Revenue and Financing Policy;
- Reviewing policy related to the funding of new or specific activities (eg. ASB Sports Centre);

In accordance with the Terms of Reference, the Working Party has also reviewed:
- The key elements of our rating mechanisms;
- Amendments to Investment and Liability Management policies relating to the New Zealand Local Government Funding Agency (LGFA), weathertight homes funding, prudential borrowing limits, and the Council's credit rating;
- Rates Postponement policy and Rates Remission policy including the introduction of a remission for voluntary residential metered water rates;
- Performance measurement framework and made recommendations for amendments where appropriate;
- Asset management plans and made recommendations for minor amendments where appropriate.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*

2. *Note the changes to the numbering sequence in Strategy trees which group Council activities, and the minor movement of projects between activity groupings.*

3. *Recommend to Council to include the Revenue and Financing Policy as detailed in Appendix 5 in the Draft Long Term Plan for consultation which includes the following:*

   a) *The general rates differential to be maintained at 2.8:1 Commercial:Base (Residential) for the 2012/13 rating year;*

   b) *Changes to the activity funding ratios as described in section 4.2.1 of this report;*

   c) *Changes to the activity user benefit ratios as described in section 4.2.2 of this report.*

4. *Note that temporary variances with Revenue and Financing Policy activity funding targets are anticipated for the activities described in section 4.2.3 of this report.*

5. *Recommend to Council to include the Schedule of Proposed Changes to Fees and Charges as detailed in Appendix 2 in the Draft Long Term Plan for consultation.*

6. *Recommend to Council to include the Rating Mechanisms as detailed in Appendix 3 in the Funding Impact Statement of the Draft Long Term Plan for consultation (noting the changes to our targeted sewerage, water and stormwater network rates as described in section 4.5 of this report and the introduction of a map to define the Downtown Levy Area as detailed in section 5.1 of this report).*

7. *Recommend to Council to include the Investment and Liabilities management Policies as detailed in Appendix 4 in the Draft Long Term Plan for consultation (noting the changes detailed in section 6 of this report).*

8. *Recommend to Council to include the Rates Remission Policy as detailed in Appendix 5 in the Draft Long Term Plan for consultation (noting the proposed introduction of a remission of Voluntary Residential Metered Water Rates).*

9. *Recommend to Council to include the Rates Postponement Policy as detailed in Appendix 6 in the Draft Long Term Plan for consultation.*

10. *Recommend to Council to include the Outcome and Performance Indicators as detailed in Appendix 7 in the Draft Long Term Plan for consultation.*

11. *In regard to Asset Management Plans note that:*

    a) *the Working Party has reviewed existing asset levels of service and draft budgets as part of their review of asset management plans and these were used to prepare the draft activity statements*

    b) *Asset Management Plans will be updated to reflect feedback received from the Funding and Activity review working party and any decisions made as part of the 2012-22 Long Term Plan process.*

4. Revenue and Financing Policy

The Revenue and Financing Policy provides detail on the funding of operational and capital expenditure and illustrates which parts of the community contribute to paying for council's activities and why. It does this by explaining the proportion of each Council activity to be funded by user charges, other revenue (e.g. NZ Transport Agency subsidies), rates (targeted and general rates) or borrowings. It has been reviewed with consideration of the following:

- The *Guiding Principles* upon which the Council's funding decisions are based (noting the overlap with the Financial Strategy);
- Compliance with the Local Government Act 2002;
- Review of the commercial and residential rating differential;
- Review of each activity area including consideration of the community outcomes, who benefits and who should pay;
- Reviewing the forecast 2012/13 compliance of each activity area with the Revenue and Financing Policy;
- Reviewing policy related to the funding of new or specific activities (eg. ASB Sports Centre);

In conjunction with the introduction of our Financial Strategy, the principles and basis upon which we currently fund our activities has been reviewed, and is considered to be generally sound and in accordance with the Local Government Act 2002. A few changes have are being recommended and these are described below.

The Revenue and Financing policy compliance is reviewed annually by each activity to ensure that the revenue collected from each of the Council's funding sources is in line with the policy. This avoids large 'one off' increases, particularly in user fees, which would otherwise occur every three years.

This year, the Working Party has focused its review on the general rates rating differential and detailed consideration of the funding of each activity area where:

- fee increases are recommended to retain policy compliance; and/or
- a shortfall or surplus in user charge funding of activity costs exists, which, unless addressed would impact on the rate funding ratio for the activity.

For each non-compliant activity the Working Party generally considered a range of remedial actions, including:

- Increasing user charges to achieve compliance
- Considering options for reducing expenditure without impacting on service levels
- Amending the policy to change the user charge proportion
- Leaving the policy unchanged and noting temporary non-compliance with policy

The review has resulted in changes being recommended to the policy which can be grouped under the following headings and are described in more detail below:

- Commercial and residential rating differential review (section 4.1.1)
- Changes to the activity funding ratios (section 4.2.1)
- Changes to the activity user benefit ratios (section 4.2.2)
- Temporary variances with activity funding ratios (section 4.2.3)
- Changes to rating mechanisms (targeted rate levels) (section 4.2.4)
- Changes to user fees and charges (section 4.2.5)

A more detailed summary of this review and the results is included in Appendix 8 of this report.

4.1 Proposed changes of Key Policy Principles

4.1.1 Commercial and residential general rate differential

General Rates Differential Review

The general rates differential and its impact on Council rates was reviewed to assess whether the ratio of the differential at 2.8:1 is achieving what was intended in 2000/01 when the staged change was initiated, and whether the current differential is appropriate.

Differential purpose

Wellington City Council has operated a differentiated general rating system since 1976 . The Council established the differential on the basis of the following criteria:-

- The historic relationship between various groups of ratepayers and the existing level of the differential.
- The benefits each sector derives.
- The ability of ratepayers within each sector to pay.
- Ensuring that any change to the differential or rate of any change does not impact unreasonably on any particular group of ratepayers.
- To determine fairness, the entire rating system for Wellington City must be considered and it is not appropriate to focus on the differential only.

A brief history of the change in the differential

Pre 1987
The value of the Commercial sector had grown to a stage where it accounted for approximately 75% of the valuation base. The commercial sector bore approximately 55 % of the rates burden.

1990's
Following the 1987 share-market crash the value of the city's commercial sector plummeted. To avoid a significant shift in the rates burden from the commercial sector to residential, the Council introduced a Rates Differential. To maintain the share of the rates burden a General Rate differential of 7.1:1 was introduced.

2000
A Rates Working Party was established and considered the differential and how it should be applied. It concluded and recommended to Council that the existing differential was not appropriate having given consideration to factors such as fairness and equity, ability to pay and the ability of the commercial sector to pass on costs.

The Council subsequently agreed to a 10 year transition process starting in 2000/01 to reach a target General Rate differential of 2.8:1 by 2009/10 i.e. a point where the commercial sector would pay 2.8 times more general rate per dollar of capital value than residential ratepayers.

2011
The final shift to the target General Rates differential level was implemented at 2.8:1 Commercial:Residential.

Objective in changing the differential

The Council's adoption of the Working Party recommendation in 2000 accepted that a target differential of 2.8:1 was acceptable.
The objective for changing the differential was that it is based on considerations of 'fairness and equity' and 'the interests of residents and ratepayers' (acceptable to the community as a whole, and promoting Council's strategic outcomes). This change to

2.8:1 effectively retains a similar proportion of the rates paid by each sector, despite the change in capital values.
The decision to gradually adjust the differential over a number of years was reflective of the Council's view that the move from a differential of 7:1 to 2.8:1 in one year would create an excessive burden on the residential sector.

Differential impact on completion of the staged change

In the current year, 2011/12, Commercial property rateable values represent 22.1% of the total rateable value. Commercial ratepayers paid 46% (57.7m) of the General Rate, a subsidy of $30m to the base (Residential), i.e. more than the commercial sector would otherwise have paid with no differential on a straight capital value basis.

In 2012/13 based on the current draft Long Term Plan, with the differential retained at 2.8:1, the residential sector's share of the general rate which is transferred to the commercial sector is $31m.
In 2012/13 year the proportion of capital value between the Residential and Commercial sectors at 78:22%, has not changed since 2000.

The target differential of 2.8:1 set in 2001 was achieved in 2011/12.

Applying the target differential of 2.8:1 in the 2012/13 current draft LTP indicates that the split of total rates between the residential and commercial sector is 56% to 44%.
Based on the direct expenditure of the commercial sector and its share of rates on capital value the commercial sector will be paying an additional 42.9%. This represents the 2000 'modifier'.

In 2001/02 it was recognised that to maintain a target differential of 2.8:1 would result in the modifier rising to 40% compared to the original 'modifier' of 30%.

There has been a lot of variation in the variables that influence the outcome of the differential level since 2001. These include:

- The change in inflation and its impact on costs applied to each sector
- The different increase in rates between each sector
- The increase in use of more targeted rates
- The removal of the Uniform Annual General Charge
- Other factors e.g. the rating of utilities including Council in 2003/04
- A greater increase in overall rates than forecast in 2001

At a 42.9% modifier this is relatively consistent to the 40% noted above which was based on a target differential of 2.8:1.

Current funding legislation

The Local Government Act (2002) sets out the considerations required when funding expenditure, in section 101 (3). After the initial considerations (section 101 (3) a) have been made, which are included in the activity funding reviews detailed below, the differential primarily relates to 101 (3) b.

This states that consideration needs to be given to the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

Is the proposed differential appropriate?

The working party considered the General Rate differential at 2.8:1 for 2012/13.

The working party noted that at 2.81:1 differential the split of total rates is approximately 56% Residential 44% Commercial rates. This is not materially different to the intention in 2001 of achieving a balance of total rates impost of 57% Residential 43% Commercial rates[1].

The impact of the differential on the community well-beings and particularly the ability to pay of the relevant sectors was assessed. This included the rates impost as a proportion of household incomes and as a proportion of profitability across the commercial sector [2] and it was concluded that:

- The intention of the differential shift on these affordability ratios has been achieved
- The current ratio of rates payment between the sectors that was intended to be achieved in 2001 has been met
- The current affordability of rates for each sector is similar
- The current affordability of rates for each sector is fair and equitable

Therefore the working party noted that the current differential is appropriate

It was also noted by the Working Party that the General Rate differential is recommended to be reviewed again at the time of the next rating valuation in 2013/14. This was recommended to check whether there is any shift in the relative proportion of capital value between the Base (including Residential) and Commercial sectors. There is a possibility of the proportion of the total rateable value shifting between sectors due to market movements for a number of possible reasons which may include:

- Pressure on the commercial sector's return on capital
- The 'intensification' of use of office space moving from 25+m2 per person down to approximately 16m2 per person
- The increased incidence of vacant office space and the relationship to workforce growth, the quality of the buildings, and any change in use (e.g. conversion to residential apartments)
- The incidence and impact of known weather-tight homes and it's effects on the residential sectors rateable values
- The market driven response to earthquake prone buildings and the relative earthquake resilience compared to the building code requirements.
- The introduction and market response to energy efficiency rating of Commercial and/or Residential buildings.

[1] Pg 38 200/01Rates working party report, and pg 39 2001/02 Funding policy working party report (18-28 Feb 2001)
[2] Market Economics Consultancy report December 2011

4.2 Detailed Activity Reviews

4.2.1 Proposed changes to the activity funding ratios

Following the review of each activity area with consideration of the community outcomes, who benefits and who should pay, the Working Party recommends the following changes to the policy funding ratios.

Activity	Comment
3.1.2 Convention Venues	Decrease from 55% to 5% non-rates income to reflect change in the way this activity is delivered
4.1.5 Access and support for community arts	Increase from 0% to 10% non-rates income, in line with expected levels of revenue
5.1.8 ASB Sports Centre	New activity 25% user charges
5.1.9 Municipal Golf Course	New activity 50% user charges
5.2.6 Community Centres and Halls	Increase from 2% to 5% user charges to align with historic and expected revenue levels
7.1.1 Transport Planning	Increase from 0% to 15% non-rates income in line with historic and expected levels of NZTA revenue
7.1.4 Passenger transport network	Decrease from 70% to 65% non-rates funding, reflecting increasing costs but mainly fixed income
7.1.6 Network-wide Control and Management	Increase from 25% to 30% non-rates funding in line with historic and expected levels of income
7.1.3 Cycle Network	Decrease from 5% to 0% non-rates funding
7.1.7 Road Safety	Increase from 25% to 30% non-rates funding in line with historic and expected levels of income
6.2.4 Regulator – Building Control and Facilitation Weathertight Homes	New activity 100% rates funded

4.2.2 Proposed changes to the activity user benefit ratios

Following the review of each activity area with consideration of the community outcomes, who benefits and who should pay, the Working Party recommends some minor changes to user benefit ratios where the level of public benefit has changed for an activity:

Activity	Comment
5.1.8 ASB Sports Centre	New activity 80% individuals and 20% whole community
5.1.9 Municipal Golf Course	New activity 60% individuals and 40% whole community

6.2.1 Building regulation and facilitation	Individual benefits reduced from 100% to 80% Whole community benefits increased from0% to 20%
6.2.2 Development control and facilitation	Individual benefits reduced from 75% to 60% Whole community benefits increased from25% to 40%

4.2.3 Proposed temporary variances with activity funding ratios

There are a small number of activities for which the Working Party recommends temporary variance to and/or stretch funding ratio targets. For these activities the Working Party considers that the targets are appropriate but that for specific and acceptable reasons full compliance is unlikely to be achieved in 2012/13:

Activity	**Comment**
1.1.2 Civic Information	Main income from GWRC contract. Continue to look for opportunities to generate income by delivering services to paying customers (1% gap)
2.1.2 Botanical Gardens	Retail sales expected to pick up once economic situation improves (1% gap)
2.4.1 Sewage collection and disposal network	Trade waste is progressively being partially treated, so it was considered inequitable to significantly increase fees (above 6.4%) to cover increasing depreciation from the asset revaluation.
2.4.2 Sewage Treatment	Continue with minor non-compliance (1% gap) and look for more opportunities to reduce expenditure and increase income
4.1.3 Arts and Cultural Festivals	Sponsorship income likely to increase in future years when economy recovers. Permit temporary non-compliance (3% gap)
4.1.5 Access and support for community arts	Permit minor non-compliance (1% gap) noting the policy changes highlighted in section 2.2.3 above
5.1.10 Recreation Programmes	Permit temporary non-compliance (14% gap) as additional funding from SPARC for ocean water sports programme is for 3 years only
5.1.3 Synthetic turf sports fields	Temporary non-compliance (4% gap) until the 3 year price discount for Capital Football and Island Bay United AFC has been upheld
5.3.1 Burials and cremations	Temporary non-compliance (3% gap) allowing officers to complete work considering the future of burial and cremation services

5.3.3 Public Health	Temporary non-compliance (3% gap) until impact of proposed legislative changes are known
5.3.5 Wellington Emergency Management Office	Permit temporary non-compliance (3% gap) as impact of consultation work around regional CDEM services are not yet known
6.2.1 Building Regulation and Facilitation	Continue with stretch target (2% gap), noting the fee changes highlighted in section 2.2.2 above
6.3.1 Development control and facilitation	Temporary non-compliance (1% gap) noting the fee changes highlighted in section 2.2.2 above
7.1.1 Transport Planning	Income derived from NZTA funding only (2% gap)
7.1.2 Vehicle Network (combined with Port and Ferry Access)	Income derived from NZTA funding only (3% gap)
7.1.4 Passenger Transport Network	Income derived from NZTA funding only (1% gap)
7.1.6 Network-wide Control and Management	Income derived from NZTA funding only (2% gap)
7.1.3 Cycle Network	Income derived from NZTA funding only (1% gap)
7.1.5 Pedestrian Network	Income derived from NZTA funding only (1% gap)
7.2.1 Car Parking	Surplus from parking fees subsidises transport infrastructure projects (125% gap)

4.2.4 Proposed changes to rating mechanisms (targeted rate levels)

The Working Party proposes the following changes to the Council's rating mechanism from 2012/13 following the review of our water, wastewater and stormwater activities:

- **Targeted water rates**

The water distribution network, collection and treatment activity is fully funded through the targeted water rate. The targeted rate for water is apportioned with the aim of achieving a 60 percent: 40 percent split between properties incorporated under the Base differential and the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy.

The Working Party have reviewed the cost increases in this activity and recommend the following increases to the rating mechanisms for 2012/13:

Targeted Water Rating Mechanism	Current (excluding GST)	Proposed for 2012/13 (excluding GST)
Water consumption charge for properties with a water meter	$1.715 per cubic metre	$1.784 per cubic metre

Annual administrative charge for properties with a water meter	$100.00	$103.50
Fixed charge for base (residential) sector properties without a water meter	$119.75	$127.25
New connection charges for new residential properties	$60.00	$62.00
New connection charges for new commercial properties	$200.00	$207.00

The balance of the recovery will flow through the base (residential) water rate levied via a rate per dollar of capital value.

- **Targeted stormwater rates**

The targeted stormwater rate pays for the cost of the provision of the stormwater collection/disposal network for the city. Stormwater rates are funded by the Commercial and the non-rural Base (residential) sectors based on the relative capital value of each sector. The apportionment is 77.5 percent to the non-rural rating units incorporated under the Base differential and 22.5 percent to the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy. No changes to this apportionment are proposed for 2012/13.

4.2.5 Proposed changes to user fees and charges

This report recommends a range of changes to fees and charges which are detailed in Appendix 2. Any proposed changes not approved will result in the equivalent value of user charge being put back onto our 2012/13 (and out year) rates. A summary of the activities with proposed fee increases are shown in the table below:

Activity	Comment	Average fee increase
2.3.1 Water Network	Fee increases over various water rating mechanisms	6%
2.4.1 Sewage collection and disposal network	Trade waste fee increases	6.4%
2.2.1 Recycling and Waste Minimisation & Disposal	No decision was reached at FAR as questions were raised over sales volumes. Officers recommended a package of fee increases.	Officers recommended average increases of 6% to Landfill charges, 13% to Rubbish bags, (+31c) 5% green waste, and Kai to compost to $7.50 from $6
1.1.3 City Archives	Variable – refer to appendix 2	Various
5.2.1 Libraries network	Reduce price of DVD	Various

	issues that have not issued in 8 months to $2	
5.1.1 Swimming pools (& fitness centres)	Eliminate the current under 5's fee and to charge all children the current standard child fee of $3.50 at Wellington Regional Aquatic and changes to lane hire rates.	Various
5.1.2 Sports fields	General increases	Various
5.1.3 Synthetic turf sports fields	Increase hockey fees for the National Hockey Stadium	10%
5.3.1 Burials and cremations	General fee increases by inflation.	Various
5.3.3 Public Health	General fee increases.	Various
6.2.1 Building Regulation and Facilitation	New fees and general fee increases.	Various
6.2.2 Development control & facilitation	No price based fee changes, only a change in the manner in which building consent compliance checking against the resource consent is charged.	Various
7.2.1 Car Parking	Council staff are investigating options around variable parking charges (decreasing / increases) in some areas of the City at certain times of the day / night / weekends to help control congestion during peak hours.	$0.50 cents per hour

5. Rating Mechanisms

5.1 Proposed change to the Downtown Levy (DTL) Area

As part of the review of the rating mechanisms a review of the area to which the Downtown Levy is applied was conducted. The purpose of the DTL is embedded in our Revenue and Financing Policy and how our activities should be funded. The review of the Downtown Levy Area focussed on the following factors:

- Internal consistency in definition of our 'downtown business area'
- Fairness and equity of our rating system

- Ease of administration and application of the DTL

Following this review it is proposed Council introduce a Downtown Levy Area map which clearly defines the Downtown Levy Area, is published in our rating mechanisms section of the Funding Impact Statements (FIS) within our Long Term Plan and also published on the Council website. The following table highlights the proposed change within the Rating Mechanisms section of our FIS:

Current Wording	**Proposed Wording**
This rate pays for tourism promotion and facilitation of suburban and city centre vitality. It also pays for 70% of the visitor attractions activity and 25% of the provision of galleries and museums activity. The rate is levied on all commercial, industrial and business properties in the downtown area and is calculated on a rate per dollar of rateable capital value. *For the purpose of this rate, the downtown area refers to the area designated as the "Central Area" under the operative Wellington City District Plan.*	This rate pays for tourism promotion and 99% of our retail support (free weekend parking) activity. It also pays for 70% of the visitor attractions activity and 25% of the provision of galleries and museums activity. The rate is levied on all commercial, industrial and business properties in the downtown area and is calculated on a rate per dollar of rateable capital value. *For the purpose of this rate, the downtown area refers to the area as described by the following Downtown Levy Area map: (map to be inserted – see appendix 9)*

Background

The following table shows the changes to the area to which the DTL has been applied since its inception in 1997/98:

Rating year	**Change**	**Downtown Levy Area**
1997/98	Introduction of DTL	Council approved map (which included the District Plan 'Central Area' but extended beyond to capture additional downtown commercial areas)
2003/04	Wording change to Rating Mechanism	'Central Area' under the operative Wellington City District Plan (reduced the area to only businesses within the District Plan boundary)
2012/13	Proposed area change	Per the 'Downtown Levy Area Map' (would include original downtown commercial areas beyond the District Plan boundary, with minor modifications for ease of administration)

The activities funded by the DTL are based in tourism promotion, retail support (free weekend parking), visitor attractions, galleries and museums. They bring people into our inner city, adding to its vibrancy and where their spending benefits downtown businesses. Attractions like Te Papa, Carter Observatory and the city's Museums and

Galleries also play vital roles in Wellington's vibrant cultural life and contribute to Wellington's image as a creative city and New Zealand's arts capital. The benefits of these activities flow to the downtown business sector, contribute to the vibrancy of the inner city and have positive long-term benefits for the inner-city economy.

Discussion

The area currently described in our rating mechanisms as subject to the DTL is *"the 'Central Area' under the operative Wellington City District Plan"*. The purpose of the District Plan is to help Council carry out its responsibilities under the Resource Management Act, together with providing an efficient means to outline and manage Council's planning, development and resource management policies. The "Central Area" within the district plan is subject to a wide range of planning controls designed to regulate land use, building development and urban design. The boundary was not intended to be used to define a group of ratepayers and as such does not cover some commercial areas which on the periphery of the boundary which benefit from the activities funded by the DTL. In particular the start of the Oriental Parade/Mt Victoria areas where several motels and hotels are located including the Copthorne Hotel, and the top end of the Terrace where the Mecure hotel is located are currently outside the DTL boundary.

For rating purposes we also need to carefully consider the equity and fairness of our rating mechanisms. Where it is not reasonable to rate commercial properties just beyond the boundary differently to commercial properties sitting within the 'Central Area', from a rating perspective the boundaries should be reviewed. In addition, the current 'Central Area' boundary spans some properties making the administration of the policy difficult in those cases.

For these reasons, a new boundary is recommended specifically for rating purposes that more closely aligns with the downtown commercial activity benefiting from the activities funded by the DTL. The proposed changes in the boundaries are shown on the map in Appendix 10.

Note: Properties being charged the DTL are also charged a GWRC targeted transport rate.

5.2 Review of short stay accommodation

An extensive review of our rating practices for short stay accommodation has been completed and results were reviewed by the working party. The review was initiated after the Motel Association of New Zealand (MANZ) and others raised concerns that Wellington City Council was not enforcing its rating policy in respect of short stay accommodation (less than 28 days). They were concerned that a number of properties were offering short stay accommodation and being charged residential rates instead of commercial rates.

The review involved formally writing to 1927 ratepayers requesting the owner to provide documentation that their property was being used for long stay accommodation, otherwise the property could be charged rates on a commercial basis from 1 July 2011. The results of this are summarised below:

Satisfactory responses	1,528
Some response, no change	164
No response, changed to commercial	67
Properties changed from residential to commercial	168
Total letters sent	1,927
Properties changed from commercial to residential	74
Properties ceasing to offer short stay accommodation	130

As part of the review the Councils rating policy on short stay accommodation was considered along with a number of policies from other councils and a special rate or flat fee for bed and breakfasts (B&B's) could be considered for inclusion in the Councils 2012-22 Long Term Plan. This suggestion has been considered but agreed that due to the small number of property owners this affects, and the non-commercial nature of many of these properties there is no benefit to the Council in proceeding with this. Instead, our current policy allows for a division to be put in place where the total capital value of the rating unit is above $800,000 or minority use(s) account for more than 30 percent of the total capital value of the rating unit. Council will enforce this policy where a more commercial B&B activity is deemed to be taking place.

No changes to the current rating mechanisms are recommended.

6. Investment and Liability Management Policies

A review of the Investment and Liability Management Policies was conducted and the Working Party have recommended changes which are generally editorial in nature, with the exception of proposed amendments relating to the New Zealand Local Government Funding Agency (LGFA), weathertight homes funding, borrowing limits, and the Council's credit rating.

New Zealand Local Government Funding Agency (LGFA)
The Investment & Liability Management Policies are amended to record that the Council maintains an 8% investment in the LGFA, and it may borrow from the LGFA on terms which include transactions that maintain the capital adequacy of the LGFA.

Weathertight homes funding
The Liability Management Policy objectives acknowledge that, the Council will borrow to fund the costs associated with weathertight homes issues, and these borrowings will be repaid from future rates revenues.

Borrowing limits
The Council's borrowing limits will be recorded in its Liability Management Policy, in accordance with its approved financial strategy.

Council's credit rating
The Liability Management Policy acknowledges that Council maintains an independent credit rating that verifies its credit quality.

7. Rates Remission Policy

7.1 Policy Review

Officers have completed a review of the Rates Remission Policy. No changes to the existing policy are proposed however some minor editorial changes made and incorporated in the policy in appendix 5 of this report. The introduction of a new remission of voluntary residential metered water rates is considered in section 8.2 below.

7.2 Remission Of Voluntary Residential Metered Water Rates

The working party has considered the introduction of a remission of voluntary residential metered water rates. This remission is to provide some relief to residential ratepayers who have a voluntary water meter for their property and are charged for their water on a usage basis, including water usage arising from a leak from pipes on their property. If this leak were to occur on a neighbouring property without a water meter, no additional charges would be incurred by that property owner. This remission allows the Council to charge the estimated usage arising from the leak at the GWRC bulk water, rather than the normal WCC usage rate. For details of the remission please refer to section 2.4 of the Remission Policy in appendix 5.

The FAR working party recommends the introduction of this remission for inclusion within the Rates Remission Policy as described in appendix 5.

8. Rates Postponement Policy

Officers have completed a review of the Rates Postponement Policy. No changes to the existing policy are proposed however some minor editorial changes made and incorporated in the policy in appendix 6 of this report.

9. Performance Measurement Framework

Performance measures for inclusion in the draft long-term plan were presented to the Working Party for review. The Working Party took a thorough line-by-line approach to reviewing the framework.

Areas for further investigation and refinement that were identified by the working party have been investigated. Where appropriate, adjustments have been made and are presented in the recommended set of performance measures attached in appendix 7.

10. Asset Management Plans

From the water, stormwater and sewage networks, to playgrounds and sportsfields, libraries and recreation centres - the services Council provides are largely delivered through assets.

Detailed planning for these assets is undertaken through asset management plans which articulate existing asset levels of service and programmes required for the long-term management of the asset. Asset management plans provide detail on: asset scope and condition, future demand and capacity, performance measures, risks, lifecycle strategies, significant negative effects arising from ownership of assets, and information on maintenance, renewal and upgrade programmes.

Asset management plans are an important input into the annual and long-term planning processes of Council and are reviewed annually by the Working Party.

Asset management plans were reviewed by the working party as an input into the 2012-22 long-term plan process. The Working Party noted that the AMPs were prepared concurrent to other long-term plan components and would be updated to reflect the feedback of the Funding and Activity Review Working Party, any changes that result from the 2012-22 long-term plan process, and feedback received from Audit NZ from their review of asset management plans.

11. Conclusion

The Funding and Activity Review Working Party has performed its annual review of the Council's Revenue and Financing Policy including a whole of Policy review focussing on the and detailed activity funding reviews and general rate differential. Recommendations of changes to the policy, fees and user charges, and rating mechanisms (targeted water rates) have been made together with agreement of activities where there are variances from policy compliance.

Other changes to Rating Mechanisms including the area to which the Downtown Levy is applied are recommended, and it is noted that the Working Party is comfortable with the results of the short stay accommodation review.

The Working Party has also reviewed the other funding and financial policies (including the Investment and Liability Management Policies, Rates Remission and Postponement Policies) and the Council's Performance Management Framework with changes recommended as a result.

The Council Asset Management Plans have been reviewed and will be updated to reflect the recommendations of the Working Party.

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