WELLINGTON CHAMBER OF COMMERCE

SUBMISSION TO THE GREATER WELLINGTON REGIONAL COUNCIL ON THE LONG TERM PLAN 2018-2028

April 2018

Introduction

The Wellington Chamber of Commerce (the Chamber) welcomes the opportunity to make a submission to the Greater Wellington Regional Council (GWRC) on the Long Term Plan 2018-2028 Consultation Document. This submission is also supported in principle by the Kapiti Chamber of Commerce.

The Chamber of Commerce has been the voice of business in the Wellington region for 161 years since 1856 and advocates policies that reflect the interests of the business community in both the city and region, and the development of the region's economy as a whole. The Chamber advocates the views of its members and obtains that view through regularly surveying members.

For the purposes of this submission, it is important to note that Wellington region businesses contribute significantly to the city and region's rate-take. Businesses pay 46 per cent of the total rates collected by Wellington City Council while making up only 21 per cent of the total rateable property. Regionally, businesses pay around one-third of the region's rates collected by Greater Wellington Regional Council. Further, Wellington businesses pay the highest proportion of rates of any town, city, or region in New Zealand, nearly 50 per cent higher than Auckland and nearly 100 per cent more than in Hamilton. Therefore as the largest contributor to Wellington City's and the Wellington region's rate-take, and paying the highest proportion in the country, businesses have a real stake in what happens with that money.

The Chamber notes that the draft 10 year plan will require an increase in rates of $8 million in 2018/19 and $75 million over the 10 years of the plan. This equates to an average rates increase of 6.7 percent for the 2018/19 year while over the life of the plan, the average annual rates increase will be 5 percent. As has been the case for many years, a disproportionate share of the cost will fall on the business sector.

Although the Wellington business sector pays just under half the city's rates bill and regionally business pay around a third of the region's rates bill, the level of rates paid is often entirely disproportionate to the level of services received. The situation is exacerbated by the generally wide use of business/commercial rating differentials despite strong evidence supporting their removal. Where the council has agreed to reduce such differentials, it has often been tardy in doing so, tending towards incremental change due to “expenditure pressures”.

While rates will likely be the ‘cornerstone’ of local government for some time, they will need to be complemented and possibly eventually displaced by other revenue sources. This is to ensure they better reflect the needs and costs of communities, noting that pricing mechanisms and availability of real-time data is improving by the day. Moreover, rating mechanisms are often a poor measure of costs imposed on (or benefits received from) local government.

The Chamber notes that the GWRC is seeking specific feedback on three areas:

- How to improve the long-term levels of service on the Wairarapa rail line and the Capital Connection
- What level of capability is wanted for the Wellington Region Emergency Management Office (WREMO)
- Whether Greater Wellington should continue leading a programme to establish additional water storage for the Wairarapa.
- The Chamber also notes that the GWRC has put out a concurrent consultation document on changes to the Revenue and Financing Policy in respect to flood protection and funding of public transport. The Chamber has made a separate submission to the GWRC on these issues as requested by the GWRC.

The Chamber would welcome the opportunity to discuss our submission with the GWRC and requests to be heard orally.

This submission will cover a number of the issues covered in the Consultation Document, generally as per the order outlined in the Consultation Document.

The Chamber has also made a separate submission on the GWRC’s Revenue and Funding Policy

<u>Public Transport (p.7)</u>

The Chamber notes that under this section of the Consultation Document (p.7), the GWRC is proposing to progress two issues”

“A single ticketing system” (i.e. a single ticketing system for all public transport in the region, whether by bus, train or ferry). The Chamber supports this proposal as providing a much more seamless and efficient system for users, having been long on the record in support of such a system.

Integrated ticketing needs to be developed across the region’s public transport network in order to allow easier transfer between modes of transport. While there have been encouraging movements in this area of late, integrated ticketing needs to be implemented urgently. We would note that this has been significantly delayed unnecessarily awaiting the outcome of Auckland's implementation of such a scheme. We would support a locally grown, off the shelf product that will achieve the outcomes so desired – seamless and accessible.

The second proposal is ***"Transforming your bus experience"*** (by providing greater coverage and increased capacity), along with greater real time information. Again the Chamber supports this proposal, having been long on the record in support of such a system. We need to ensure that it's not ticketing alone that is integrated, but that commuter communications are as well—seamless notification and easy to use modal updates, to give accurate time arrival estimates enabling commuter choice

The Chamber considers a key focus driving the determination of transport options should be on creating benefits for national economic growth and productivity. Without a strongly growing economy and efficient transport services, New Zealanders can neither hope to achieve the standards of living they aspire to, nor government (taxpayers) fund the types of services, including health and education, New Zealanders have become accustomed to.

The Chamber has been closely monitoring how the improvements to Wellington's transport network have been progressing and has continuously advocated for a more efficient and fit for purpose transport regime, both within the city itself and in relation to the broader movement of freight and people within the Wellington region.

In our recent survey to the Let's Get Wellington Moving (LGWM) Working Group proposals (December 2017), 96.86% (more than 600 respondents) agreed that Wellington's transport system needs further development and investment. While we know there are many views within our membership, the survey saw over half, 54% of respondents, favouring Scenario D (the most comprehensive scenario), with 90% supporting a solution that includes resolving the issues at the Basin Reserve and introducing grade separation.

It is worth noting here the general transport system feedback from our Chambers members which emphasised the following points:

- Ensure there is a balance so there is adequate accommodation for the movement of all modal users, in particular for the movement of goods and services.
- Reduce congestion.
- Ensure the growth and development of Wellington region.
- Encourage use of and ensure that Public Transport is efficient and quick.
- Ensure better access to the Airport both northbound and southbound.
- Ensure better access around the Basin.
- Acknowledge that trade-offs may be 'car parking close to destination' and 'private vehicle access to the inner city'.
- Have a focus on the longer term.
- Ensure that options are future-proofed for mass transit, vehicles and automation.

- While the LGWM proposals stop at the Ngauranga Gorge, we know what happens beyond this area affects the entire Wellington region - getting to, from and around our entire transport network. What happens in the central city is crucial for many commuters living outside it given the central city has the highest concentration of jobs. Many people who live outside Wellington city not only travel to the central city but from and through it for work, leisure, to shop and to get to the airport or hospital. What happens centrally has an impact on people and communities throughout the region. A number of wider regional transport improvements are also required to maximise the efficiency of the entire regional transport network, and we would generally support the development of these routes.

We would also note the Chamber's recent submission to GWRC on the review of the regional land transport plan (RLTP) and refer to the comments made on each of the projects on the priority list. We note that the process of prioritisation by the Committee includes the consideration of NZTA's Investment Assessment Framework, which ought to give effect to the GPS, and that the GPS has been recently updated. The Chamber would encourage the Committee to 'stay the course', given the regional support for the following projects, while taking into account the new Coalition Government's priorities. The Chamber hopes and anticipates these will be well-aligned to the needs of the region.

We would also note the significant contribution required to fund and resource each of the projects within the RLTP. There has been some discussion already about funding pressures on local government, indeed we believe this is to be the case for some of these projects as well. We would encourage a regional conversation that addresses such needs, and the investigation of a mechanism to raise capital and accelerate some of the more strategic and regionally important projects.

On funding, we have long been on the record that targeted rates should reflect the benefits received and should not be unfairly applied to businesses as a revenue raising mechanism. We believe further information could be provided to explain the methodology behind targeted rates, namely, a description of how targeted rates benefit the specific targeted group. We acknowledge the principle for targeted rates to apply to those who will receive the most benefit, however at times it is unclear how it has been determined that the targeted group is the most benefitted party. For example, downtown Wellington city businesses pay 39 per cent of the region's total transport rate. Currently it appears there is an excessive subsidy from Wellington CBD based businesses to other user groups.

For example, the building that the Wellington Chamber of Commerce occupies a floor within currently pays 85.5% of its total GWRC rates bill for this targeted transport rate alone, seven times more than what is paid for as general rates. This is exceedingly excessive, making up $53,117.42 of the total $62,140.20 rates bill. The breakdown of this is below, as an example for the committee.

Breakdown of rates for 11 Hunter Street for the period 1 July 2017-30 June 2018:

Rates details

Current rating year	1 July 2017 - 30 June 2018
Account number	1803475
Account status	Current
Rates - total charge	$240,196.59
Differential rating category	Commercial
Billing category	K1

▾ View rates breakdown

Description	Method	Rates
Wellington City Council (WCC)		
Downtown Area Levy	Capital Value	$30,845.42
Commercial General Rate	Capital Value	$109,258.23
C I B Capital Value Sewerage Rate	Capital Value	$24,027.37
C I B Sector Targeted Rate	Capital Value	$7,259.86
C I B Stormwater Rate	Capital Value	$6,665.51
	Wellington City Council Sub Total	**$178,056.39**
Greater Wellington Regional Council (GWRC)		
GWRC C I B Regional Strategy Rate - Downtown	Capital Value	$1,836.57
GWRC General Rate - Full	Capital Value	$6,885.04
GWRC Rivers Rate - Full	Capital Value	$14.07
GWRC C I B Stadium Rate	Capital Value	$287.10
GWRC C I B Transport Rate - Downtown	Capital Value	$53,117.42
	Greater Wellington Regional Council Sub Total	**$62,140.20**
	Grand Total	**$240,196.59**

<u>Regional Resilience (p.8)</u>

The Chamber notes that under this section of the Consultation Document (p.8), the GWRC is proposing two programmes:

"RiverLink – a key flood management programme" (A joint project with the Hutt City Council and the National Transport Agency to protect the Hutt CBD, and areas downstream, from the effects of a major flood.) The Chamber supports this programme, but would also point out that issues concerning the appropriate funding of flood protection are outlined in our submission to the GWRC on its Revenue and Financing Policy (April 2018).

"Improving the resilience of Wellington's lifeline services" (Essentially an initiative to improve the resilience of our region's utility networks - electricity supply, communication networks, transport and water supply - to earthquakes.) Again, the Chamber supports this programme.

It is important to ensure key infrastructure (transport, water and waste, energy etc.) is designed in such a way that it can still be functional and resilient if adverse events occur.

While no one is suggesting a gold-plated scenario is appropriate for Wellington (or anywhere else in New Zealand, for that matter), it is important the infrastructure system is designed and delivered in such a way it can still be functional if adverse events strike (e.g. earthquake etc.). Effective risk management strategies are important for New Zealand as a whole (as we have seen in respect to the impact of the earthquakes in the South Island), but particularly for Wellington, where the risks are well known and lessons in building resilience can be taken from other parts of the country.

Notwithstanding the above, it is accepted resources are limited and risk cannot be completely eliminated, not at least without great cost, and probably not even then. While it may be possible to reduce risk, beyond a certain point, the marginal cost of taking action becomes progressively higher, while the potential returns diminish.

As a general principle, individuals and companies should bear the full costs associated with their behaviour (i.e. costs should be internalised) or individuals will over-consume resources if they can shift costs on to third parties. Management of risk is no different in this respect. If individuals are to make rational decisions in respect to risk, they should ideally bear the associated costs (and benefits). However, it is accepted that just about every activity in life has some externalities (either positive or negative) and it is impossible in most respects to totally internalise costs (and benefits) at least without greater cost. The key is to ensure the costs and benefits are internalised to a reasonable degree.

With greater and more precise information, local councils will be able to determine more accurately the nature of any risk and whether or not it can be managed by individuals and businesses.

Given the above, it is important individuals and businesses are fully aware of the risks associated with their actions (or non-actions) to ensure they make informed decisions in respect to the management of risk. This requires soundly-based scientific information to ensure known hazards are successfully managed and individuals and businesses do not simply pass on the costs associated with (in hindsight) bad decisions, ultimately paid for by the wider community (ratepayers generally).

On the subject of regional resilience, we have made further comments with respect to the proposed changes for WREMO further in our submission.

Water Supply (p.9)

The Chamber notes that under this section of the Consultation Document (p.9), the GWRC is proposing three programmes:

"Ngauranga Reservoir seismic strengthening";
"Prince of Wales/Omaroro Reservoir"
"Replace Kaitoke water main on Silverstream Bridge"
The Chamber supports all three of these initiatives.

Of great concern to the Chamber is the resilience of Wellington's water infrastructure. We have been long on the record with respect to this matter. As recently reported, Wellington faces up to 100 days' water loss should an earthquake occur. This is a hugely significant risk for Wellington, its businesses and citizens alike.

First and foremost, human life is dependent on water supply. From the Chamber's perspective, Wellington's business community would be detrimentally harmed should a major event affecting water infrastructure occur. Wellington's commercial existence is somewhat reliant on an eco-system built around central government.

In the event of a significant water infrastructure disaster, government would likely be relocated, and with it would go a large proportion of the consumers who fuel the local business community. Government aside, without water, businesses must cease to operate for health and safety reasons. It is imperative that the region's water infrastructure be invested and developed to ensure readiness and resilience.

Freshwater Quality and Biodiversity (p.10)

The Chamber notes that under this section of the Consultation Document (p.10), the GWRC is proposing three programmes:

"Whaitua committees and catchment communities"
While the Chamber supports this in principle, it is important to understand the potential trade-offs required in setting water allocation and quality limits, along with the implications for the property rights of landowners and others (see below).

"Regional pest and predator control" The Chamber supports this programme.

"Managing sites of significance through the key Native Ecosystem programme" The Chamber has no particular comment on this.

"Maintaining healthy waterways" The Chamber supports this programme.

As a general principle, individuals and companies should bear the full costs associated with their behaviour (i.e. costs should be internalised) or individuals will over-consume resources if they can shift costs on to third parties. Management of water, and perhaps more importantly, water quality, is no different in this respect. In order for individuals to make rational decisions about water use, they should ideally bear the costs (and benefits) associated with specific water use options.

Economic externality arguments are particularly prevalent in relation to the quality of water after it has been used for various purposes. For example, the degradation of lakes and rivers as a result of non-point source pollution (waste run-off).

Many of the environmental externalities associated with irrigation are complex and the links between sources (cause) and effect not well understood. It is often difficult to identify, observe and measure the effects from individual sources and link them to resultant changes in environmental conditions.

It is important to set water quality standards at appropriate levels. If standards are too high, there may be wasteful over-investment in pollution control and a reduction of output and value from water use. But if standards are low or non-existent, environmental damage may result and cultural and recreational uses may suffer.

Effectively, many water quality issues are the same as those relating to water allocation in general: setting appropriate allocation limits and dealing with the over-allocation represented both by potentially unacceptable effects and/or the inability of new users/dischargers to undertake a specific activity.

Economic Development (p.11)

It is no coincidence that those countries with the highest increase in economic growth rates and in particular, the highest per capita incomes generally, are able to address environmental issues and develop technologies aimed at improving both environmental and social outcomes. Economic growth provides countries with choices those with low levels of growth simply do not have.

The importance of an enhanced and fit for purpose infrastructure as a key driver of economic growth, enhanced productivity and competitiveness, and social well-being is well established. Good infrastructure can also deliver a more cohesive society. By ensuring, for example, global connectedness and the ability to move people efficiently between home and work and business-produced goods and services from farm gate and factory to the point of embarkation, good infrastructure creates clear economic and social value for NZ. This applies equally to urban and rural environments and to national and local environments.

An emphasis on improving economic growth is fundamental if Wellingtonians, in the future, are to have the sort of lifestyle and standard of living most aspire to.

There is the potential for the Wellington Port to act as a crucial hub linked to the interisland ferries, the railway station and other related infrastructure. Given seismic activity particularly affected port activity means careful consideration must be given to ensuring links to the port are enhanced and resilient to, in particular, such natural risks (e.g. earthquakes). Again, lessons can probably be usefully learned from other ports which suffered significant damage as a result of earthquakes (e.g. Lyttleton), along with best practice approaches to dealing with access issues.

The port is key to connecting New Zealand’s North and South Islands. There is therefore an ongoing need to improve roading and rail access furthering the movement of shipping cargo, and we encourage working towards a solution. As noted above, the port should be an effective hub linked to the interisland ferries, the railway station and related infrastructure.

In its deliberations and discussions with various groups, the Chamber has found collaboration between central and local government is not necessarily at the level it should be (although the reasons for this are not necessarily obvious or always the same). Within regions, agencies assisting in regional development are often fragmented, lacking in scale and often have ill-defined or even non-existent objectives. Either that, or objectives that cannot be measured to determine if ratepayers and taxpayers are getting value for money.

Clearly, local government amalgamation is off the political radar for the foreseeable future but there is significant potential for the sharing and choreographing of services, ensuring ratepayers are getting value for money but also ensuring the private sector is not crowded-out.

The Chamber notes that New Zealand-wide, several hundred million is spent on regional development but with little information on whether ratepayers are getting value for money or, more importantly, what Economic Development Agencies (EDA's) should be doing that does not "crowd-out" private sector initiatives. In principle, EDA's ought to focus on the macro-economic levers that will grow the region as a whole, not on growing businesses themselves.

Not only must EDAs be joined up in a more coordinated fashion, their role and key Performance Indicators (KPI) must be rigorous, measured and clearly understood by ratepayers. Current indicators, e.g. measures of GDP per capita per region, do not necessarily relate well to EDAs' degree of involvement (or lack of it).

The Chamber believes our own local EDA, the Wellington Regional Economic Development Agency (WREDA), should be encouraged to build scale and capability through shared services within the macro region and/or regions with compatible geographical areas. This might be something the Local Government Commission (LGC) could help to facilitate.

The Chamber also considers The Treasury (perhaps assisted by the Office of the Auditor General and/or the NZ Productivity Commission) should develop a set of benchmark indicators relevant to the role of EDAs. The Chamber could assist in testing these indicators.

Further, the Chamber continues to be concerned that Wellington rate payers are paying twice for the economic development of the region, through Wellington City contributing to WREDA through both the Wellington City Council and Greater Wellington Regional Council rate take. The Chamber supports a proportionate reduction being made to the Greater Wellington targeted rates or a greater contribution be made by the other councils proportionate to regional benefits.

<u>A long-term solution for the Wairarapa rail line and Capital Connection (p.14)</u>

The Chamber notes the Consultation Paper provides for two options (p.15):

"Option 1A – Our Proposal" - while outlined in some detail in the Consultation Document, this option would essentially provide for new trains for the Wairarapa line and Capital Connection with the assumption that central government will fund 90 percent of the outlay. This belief is based partly on the assumption that the Government intends to give greater priority to public transport, rail in particular.

"Option 1B – Alternative: Using Existing Train Carriages" - again while outlined in some detail in the Consultation Document, this option would essentially provide no funding for new trains on the Wairarapa or Capital Connection in the short- to-medium term. Essentially it is assumed replacement carriages will be required. The alternative delays funding for new trains for around 7 to 10 years according to the Consultation Document.

While the Chamber supports a much more joined up and efficient regional transport service, it should be noted that in our submission on the GRWC Revenue and Funding Policy (April 2018), the Chamber stated in respect to the GWRC Public Transport Proposals that (amongst other things):

"……the Chamber would point out that goods and services of a largely private good nature (such as public transport) should ideally be principally paid for by users. On the other hand, goods that clearly meet the definition of public goods are generally best funded by ratepayers, if they benefit a region, or by central government (taxpayers), where they constitute a national public good (e.g. national defence systems).

The distinctive features of public goods are first, non-payers cannot easily be excluded from receiving the benefit others pay for (that is, public goods are susceptible to free riding) and second, one person's consumption does not reduce others' consumption opportunities. These are known as the non-excludability and non-rivalry characteristics of public goods.

Public transport, by contrast, is still largely in the nature of a private good, where users can be charged for using it.

While the beneficiaries of subsidised public transport will principally be the users of such services, it is accepted there are others who will also benefit, for example, from potentially fewer private vehicles on the road, possibly reducing congestion and improving travel times.

Similarly, there will perhaps be some minor benefits for businesses in the CBD in that an effective and efficient transport sector could provide certainty (although past experiences with public transport make this debatable) for their employees and other individuals travelling to and from the central city. However, as stated earlier, the principal beneficiary is the user of such services and hence, as a largely private good, it is they who should pay the majority of the costs associated with public transport use."

The Chamber considers the GWRC should arguably receive better guidance on the use of available funding tools to ensure greater consistency, underpinned by an economically principled approach to funding council activities. There should also be greater clarity in distinguishing among the following:

Appropriate pricing and user charges for local authority services. Charging for the use of private goods and services would bring greater efficiencies. For example, while some councils charge for water and waste on a user-pays basis, many still fund such activities out of general rates, sending strictly limited signals to consumers as to the real costs associated with their behaviour.

Taxes imposed on a subset of a local authority's ratepayers to fund local public goods of clear benefit to subset members. There may be isolated cases where levying additional rates (taxes) on a particular class of ratepayers is appropriate, for example, where specific local public goods benefit a clearly defined subset of ratepayers such as schemes to control floods.

An appropriate tax to fund local public goods of benefit to all residents. The administrative costs of council operations could fall into this category, along with other public goods such as footpaths and street lighting.

Charges justified as internalising external costs imposed on people or firms. For example, these could include emission charges.

Improving the capability of the Wellington Regional Emergency Office (p.16)

The Chamber notes that under this section of the Consultation Document (p.16), the GWRC is consulting on 2 options:

"Option 2A – Our proposal" – essentially provide the WREMO additional regional funding so they can build their capability around coordinating efforts to improve regional resilience.

"Option 2B – The Alternative" - essentially provides the WREMO with a reduced amount of additional funding which the GWRC Consultation Document suggests would mean the region would be less prepared to manage a major event and its aftermath.

Conceptually, the Chamber believes increased funding is a no-brainer given the wider Wellington region needs a coordinated plan in respect to emergencies, particularly acknowledging many emergency events (e.g. earthquakes) will very likely have impacts well-beyond an immediate Council area. It therefore makes sense to have a collaborative and integrated emergency management regime over the entire region. The Chamber believes Councils' own agendas and patch protection needs to be set aside to ensure the region has an effective management plan to deal with any potential emergencies.

The Chamber would be keen to also understand how review recommendations following major events are implemented and how GRWC and agencies are held to account – such as the 2016 quake and storm events. We believe that WREMO ought to have a major role in the response to these, and more generally, be more empowered to act as the central point of coordination.

Continuing to lead the investigation of water storage options in Wairarapa (p.18)

The Chamber notes that under this section of the Consultation Document (p.19), the GWRC is consulting on 2 options:

"Option 3A – Our Proposal" - essentially provide for additional funding to continue managing the programme and complete investigations, this being in addition to existing commitments.

"Option 3B – The Alternative" – As an alternative, the GWRC could withdraw its programme funding now. However, the GWRC considers this would likely mean the project stalls although other organisations might decide to provide ongoing funding and leadership.

The Chamber considers there are strong arguments for the further development of storage as a means of supplementing current water supplies, given seasonal variations in need and also the nature of water flows and provision. While there is no argument about the logic and benefits of storage, obviously there are contentious issues regarding where and how storage should be built, the cost (particularly the capital cost), rate of return, and who should pay.

The arguments over funding to some degree revolve around the issue of whether storage facilities are private or public goods or whether they incorporate aspects of both.

As previously noted, the distinctive features of public goods are, first, non-payers cannot easily be excluded from receiving the benefit that others pay for (that is, public goods are susceptible to free riding) and, second, one person's consumption does not reduce the consumption opportunities of others. These are known as the non-excludability and non-rivalry characteristics of public goods.

Goods with both characteristics are likely to be undersupplied by private firms or not supplied at all.

Notwithstanding the above, most goods and services provided do not have public good characteristics. They are provided by firms and funded from the revenue raised. They are termed private goods in the sense the benefits accrue directly to the individual paying for the service, while others can be excluded from the benefits of the service provided.

Water storage can either be an almost pure private good at the one extreme or a pure public good at the other, with varying degrees in between. Many dams and storage facilities developed in New Zealand over the years have elements of both.
Three broad potential funding options are practicable for funding storage:

- full Crown funding from general taxation where the storage is purely a public good; or
- a mix of funding from third parties (i.e. local ratepayers (or possibly a targeted rate for flood protection, for example), the Crown, and users (i.e. applicants – most likely electricity generators and irrigation providers)); or
- the applicant (user) of the storage.

Trying to differentiate between the amount of storage which could be considered of a public good nature would likely be fraught with difficulty and not easily resolved. It is virtually impossible to determine with any accuracy the precise nature of the public - private good split.

There may be cases where a dam might have significant benefits for a locally defined population from which contributions could be sought either directly or via a targeted rate. Local flood protection is likely to be a case in point. However, targeted rates should not be introduced lightly.

The key, and perhaps the only satisfactory, test of whether a service is being provided for someone's benefit is whether the individual freely agrees to purchase the service at the given price or to be levied to fund the service. Compulsory payments, extracted without the consent of those on whom they are levied, indicate the levy benefit is not necessarily being conferred on those paying the levy.

Given an overwhelming desire for storage facilities is generally driven by commercial imperatives, e.g. for irrigation potential or electricity generation, storage facilities should generally to be funded by their direct beneficiaries. The development of such facilities should stand or fall based on commercial returns to potential investors. However, each case will need to be examined on its merits as storage options will vary. There may be cases where public investment is warranted.

<u>Future Decisions (p.20)</u>

"Lets Get Wellington Moving" (p.20)

In our recent survey to the Let's Get Wellington Moving (LGWM) Working Group proposals (December 2017), 96.86% (more than 600 respondents) agreed Wellington's transport system needs further development and investment. While we know there are many views within our membership, the survey saw over half, 54% of respondents, favouring Scenario D (the most comprehensive scenario), with 90% supporting a solution that includes resolving the issues at the Basin Reserve and introducing grade separation.

A copy of the Chamber submission is available on its website: *http://www.wecc.org.nz/__data/assets/pdf_file/0003/142797/LGWM-Submission-from-the-Wellington-Region-Chambers-of-Commerce_.pdf*

"Our approach to regional economic development" (p.20)
(See comments above under **Economic Development.)**

"Cross-harbour pipeline" (p.21)

Noting its earlier comments on resilent water supply, the Chamber supports the continued consideration of options for improving water supply, including, but not limited to, the option of a cross-harbour pipeline and harbour bores. As previously stated, decisions to proceed need to be made with a sense of urgency in mind.

"Planning for a new water source" (p.21)

The Chamber notes the GWRC Consultation Document (p.2) statement that projected population growth will result in increased demands on water supply and that the GWRC is looking at alternative water sources.

The Consultation Document also states the GWRC will look at other options that could delay the need to invest in expensive new infrastructure such as promoting water conservation through water metering. But reaching a decision of this kind would require expensive consultation with the four city councils and the wider community.

Conceptually, the Chamber is supportive of a greater use of user-charges for private goods such as water. Charging for the use of private goods and services would bring greater efficiencies.

Currently charging for water out of general rates and supplying users with however much water they like takes no account of the amount of infrastructure cost generated by ratepayers. To a certain extent current funding policies actively encourage waste because effective cross-subsidisation means the full cost of water use is not sheeted home to every household. Water is a good example of clear user-pays pricing principles encouraging greater efficiencies. Where metering has been introduced through a number of NZ councils, it has been very successful in delaying the significant cost associated with new infrastructure investment.

<u>Proposed Rates (p.22)</u>

"Balancing affordability and service" (p.22)

The Chamber notes the Consultation Document (p.22) states the proposals in the draft 10-year Plan require an increase in rates of $8 million in 2018/19 and $75 million over the 10 years of the plan. This equates to an average rates increase of 6.7 percent for the 2018/19 year. In the next three years the average rates increase will be 6.3 percent and over the 10 years of the plan the average annual rates increase will be 5 percent. The increases may be lessened by our growing rating base, population growth being at historically high levels.

The key drivers of the increases are outlined on p.23 of the Consultation Document so are not repeated here. Suffice to say they significantly involve public transport and flood protection programmes.

While the Chamber has submitted separately on the GWRC Revenue and Financing Policy (April 2018), a key issue of concern is not only the amount of rates increase alluded to above, but its proposed distribution, with Wellington CBD businesses bearing the brunt of the increases particularly in respect to Public Transport. (The GWRC has a ridiculous proposal that Wellington CBD businesses have a rates differential of 8).

The second issue of concern, when it comes to balancing affordability and service, is that the Consultation Document makes certain assumptions, which may or may not come to pass. These have not been adequately factored in to the GWRC 10-year Plan. For example, the statement (under Option 1A of "A long-term solution for the Wairarapa rail line and Capital Connection" (p.15 of the Consultation Document) that *"We have assumed that central government will fund 90 percent of the new trains……"* Irrespective of views on whether this is a particularly good use of central government (taxpayer) funds, it does raise questions as to what will happen if central government has higher priorities or decides not to give greater priority to public transport, rail in particular. It is one thing to say central government supports greater use of public transport, it is another to actually hand over the money, given the various pressures on the central government purse.

Divestment of Assets

According to the Consultation Document, the replacement value of key GWRC assets is around $1.5 billion (see Consultation Document p.29).

While a number of councils obtain significant investment income from revenue-generating assets, the justification for continued local authority ownership is weak. Some councils try to justify their exposure as a mechanism to reduce the general rates burden but this potentially puts ratepayers at risk should returns on assets be less than expectations. It also raises the problem of funding expansion for local authority-owned assets, with a potential tension between a council's desire for investment returns in the form of dividends and a company's asset base need for reinvestment and growth. Moreover, given that in general, private sector companies out-perform state-owned companies, logically, the private sector should be prepared to offer a premium on the current valuation of many local authority assets; hence ratepayers would receive a windfall gain from asset sales.

Arguably, local government can obtain debt funding at lower rates than some private sector participants but this does not justify local government involvement in the provision of private good infrastructure. Lower funding rates generally reflect a lower risk because, ultimately, local authorities can call on their ratepayers either to fund any shortfalls or to carry the risks of low investment returns. It is important to accept that local authority funding does not eliminate risk but transfers it from the private sector (which is often better placed to manage risk) to ratepayers.

There would appear to be significant scope for councils to divest themselves of a number of commercial businesses where there is no sound continuing rationale for ratepayer ownership e.g. electricity lines businesses, airports and ports. This would free up significant funds either as returns to shareholders (i.e. ratepayers) or to invest in core local public goods activity. The difficult part is encouraging local councils to voluntarily give up commercial activities, without either covert or overt pressure from central government.

Alternative Funding Options

The public-private partnership (PPP) model is well suited to meeting infrastructure needs – private partners can cover a project's upfront costs while recovering them over time from those who make use of it. Consideration should be given to greater private sector participation in the role of infrastructure development, operation and service provision.

Local councils could also make much more use of debt since existing ratepayers should not be required to fund future users (beneficiaries) who will also derive benefits from current "lumpy" investments such as roads which often span more than the present generation of ratepayers. Clear funding principles based on intergenerational equity are required to ensure funding reflects the real costs and benefits derived from assets which have a long-life and high sunk costs.

Other options could include greater use of council balance sheets to fund new expenditure. It appears councils are currently constrained on debt financing where a local authority owns the infrastructure. In such cases new infrastructure can be debt-funded only on the basis of a multiple of existing income. But the development of long-life assets is not necessarily constrained to the same degree if infrastructure is in a Council Controlled Trading Organisation (CCTO) or other commercial structure.

It might also be possible to provide for more of what are in effect, “government to government” joint funding initiatives, where assets are transferred between government agencies to boost balance sheets, e.g. the Accident Compensation Corporation (ACC) and the New Zealand Superfund purchasing a stake in KiwiBank. It is possible some local government assets could be commercially acceptable to private sector investors. However, given general public resistance and the Government's effective commitment to no more substantial asset sales, “government to government” transfer might be another mechanism officials could explore further.

Greater private sector participation in infrastructure development, operation and service provision should also be considered in this context, along with the potential introduction of infrastructure bonds for new developments where the costs could be spread over the life-time use of assets.

“Water levy” (p.23)

The Chamber considers the rationale provided in the Consultation Document for the increases the GWRC Water levy to the four city councils (Wellington, Hutt, Upper Hutt and Porirua) for the delivery of bulk water seems sound given the need for increased investment in improving water treatment and infrastructure.

Proposed Changes to the Revenue and Financing Policy (p.24)

Note: The Chamber has put in a separate submission to the GWRC on the proposed changes to the funding of flood protection and transport, as the GWRC has requested ***(see Wellington Chamber of Commerce Submission to the Greater Wellington Regional Council on the Revenue and Financing Policy - April 2018).***