

Report 99.601
22 October 1999
File: CP/4/8/1

Report to the Wellington Regional Council
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Review of the Funding Policy

1. Purpose

For the Committee to adopt in principle the funding policy for use in the development of the Council's next long term financial strategy.

2. Background

In 1997 the Council adopted a funding policy to meet the requirements of the amendments to the Local Government Act. The Act requires the funding policy to be reviewed on a triennial basis. We have now completed the first review of the funding policy, so that the proposed funding mechanisms can be used in the development of the long-term financial strategy.

The proposed funding policy is presented to Council for "agreement in principle". Consultation on the funding policy, prior to its formal adoption, will take place as part of the Special Consultative Procedure on the long-term financial strategy and the annual plan in 2000.

As Councillors are aware, the Local Government Act requires the Council to follow a three-stage process in developing the funding policy. This process can be summarised as:

- Consider economic principles (beneficiary pays etc) as the basis for determining the "economically efficient" or theoretical funding mechanism;

- Modify the theoretical funding mechanism in accordance with any legitimate Council policies and other factors;
- Modify the funding result as a result of practical considerations, to arrive at a recommended funding mechanism.

The proposed funding policy is the outcome of work undertaken by officers assisted by a consultant economist (Mr Clement Fisk from Opus) and workshops with Councillors.

3. The Review Process

The development of the Council's funding policy can be seen as a progressive process. Last time the Council was one of the first nine councils to implement the changes to the Local Government Act including the development of a funding policy. Thus the Council was leading the way without other precedents to follow.

The review and development of this second funding policy has given the Council an opportunity to fine-tune its policy document. In particular, considerable attention has been given to improving transparency by clearly showing for each functional area, the different stages of decision making required by the legislation.

Particular attention was paid to the functions of Funding Public Transport Services and Delivering Flood Protection, which are significant areas of Council expenditure. The logic behind each of the three stages of decision making in these functions has been expanded and further developed reflecting better information. For example, for the function Funding Public Transport Services, we have a better understanding that the main reason the Council needs to subsidise public transport services is because of congestion. This is because transport modelling for the new Regional Land Transport Strategy has shown that were congestion pricing possible, there would be less need to subsidise public transport services during peak periods.

Councillors raised in workshops the issue of whether communities could potentially request acceleration of the priority for their flood protection works, if they were prepared to make a greater direct contribution to the costs. The funding policy provides flexibility for the Council to vary the regional contribution. Choice of whether or not to, accelerate a scheme within the priority setting process is a wider policy issue that should be considered in the context of the Long Term Financial Strategy.

Three new functions have been developed for the funding policy to better reflect the Council's activities. Two of these functions, Consents Advice to the Public and Regulatory Compliance, were previously part of wider environmental management functions. Creating these new functions provides greater transparency over the proportion of costs that are realistic to recoup through

user charges. A new function, Democracy, has been created to reflect the funding of the costs of the democratic decision making process.

The proposed funding policy is appended as Attachment One.

4. Overall Result of Funding Review

The overall changes to the funding policy are minor, although the transparency of decision making process in the policy document (the three stage process) has significantly improved. A minor change is recommended to the funding mechanism of one function. The following change is proposed:

- For the function Planning and Monitoring the Transport Network, the 50% discount to the works and services rate for the Kapiti district, is no longer considered appropriate because that area, in common with the metropolitan part of the Region now generates a number of congestion related planning studies. It is proposed that the existing discounts to the Wairarapa and rural parts of all constituent district remains because there are fewer specific planning studies of those areas.

5 Recommendations

- (1) *That the report is received and the contents, including the proposed funding policy in Attachment One, are noted.*
- (2) *That the Council approves in principle the proposed funding policy for use in the development of the long term financial strategy.*

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