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INTRODUCTION

This funding policy has been prepared to meet the requirements of the Local Government Act 1974. The Council's activities can be described by a tiered structure: **significant activities** (eg. Environment Management), **activities** (eg. Managing Resources) and **functions** (eg. Consents Management). The decision making process underlying the funding policy has three stages and these are described below.

A glossary of terms used in this document is provided in Appendix One. Further details of the funding policy process are provided in Appendix Two.

Stage 1: Theoretical Allocation of Costs

In this stage, the costs associated with each function are allocated to the beneficiaries in proportion to the benefit received. This allocation is based on economic principles and results in an "economically efficient funding mechanism".

The four important principles are:

- a) **intergenerational equity** - cost of expenditure to be recovered at the time the benefits of the expenditure accrue
- b) **public/private good split** (for definitions see Glossary below) – private goods should be funded by a user charge and public goods by rates.
- c) **beneficiary pays** - costs should be recovered from the direct beneficiaries in a manner that matches their direct benefit
- d) **exacerbator or polluter pays** - people that cause costs to be incurred (e.g. generate pollution) should be liable for those costs

Stage 2: Modifying the Theoretical Model

In this stage, the Council can adjust the theoretical allocation to take account of considerations specified in the legislation. The considerations are an obligation to act in the interests of residents and ratepayers, fairness & equity (e.g. impacts on lower socio-economic group); lawful Council policies; legislative constraints and any significant adjustment issues.

Stage 3: Selection of Funding Tools

The Council then needs to determine a practical funding mechanism or arrangement to achieve the allocation that resulted from stage 2. The selection of the mechanism takes account of the lawful options available, efficiency and effectiveness of the mechanism and the transparency of the resulting rating system.

Significant Activity	Activity	Function
Democracy	Democracy	Democracy

Description

The function of democracy is the democratic decision making process. It includes leadership, representation and decision making at a political level and support to elected Members. This function also includes general advocacy for the regional community.

Council Involvement

This is the core governance and advocacy function of the Council.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

Democracy is a public good, benefits accrue to, or are shared by, the entire community. The primary beneficiaries are the people, communities and organisations in the Region. The Council acts in the best interests of the Wellington Region as a whole.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	The people of the Region benefit through representation at a regional level and involvement in regional decision making. They also benefit by having an advocate for the regional community

Economically Efficient Funding Mechanism

Funding by way of a regional rate on the population and organisations in the Region.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The Local Government Act 1974 and many other statutes govern Council's democratic process. These define Council's role and prescribe what the Council may do to fulfil its obligations.

The Council has a known number of Committee meetings over the year concerning the significant activities of the Council. Accordingly, those significant activities should fund a proportion of the costs in accord with the number of meeting days spent on each significant activity. The residual should be charged to the general rate.

STAGE III: Funding Mechanism

Current Funding Policy & Funding Mechanism Issues

There is no existing Funding Policy. In 1999/00, costs were funded, 70% by way of a regional general rate on capital values (CV), 20% by a charge on Transport and 10% by a charge on Bulk Water. Other activities funded by rates do not meet a share of the costs.

While the Economically Efficient Funding Mechanism implies a regional income tax or an equal tax on each person and organisation, none of these are legally open to the Council. The appropriate option is for a regional rate on property values. The Council rating system is based on Capital Values.

Recommended Funding Policy

The significant activities should fund a proportion of the costs in accord with the number of "meeting days" members of a Committee spent on the significant activity. The residual should be charged to the general rate.

Transitional Arrangements

No transition is needed.

Significant Activity	Activity	Function
Regional Stadium	Region Stadium	Regional Stadium

Description

This function is to service and repay a \$25 million contribution to the Stadium Trust to facilitate the planning, development and construction of a Regional Stadium in Wellington.

Council Involvement

The Council funds this function because there are benefits to the Region beyond the direct private benefits that accrue to individuals from attending events. The Council is thus funding the indirect benefits.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

The regional stadium is a club good – a private good where members club together to fund a facility. This assessment and the resulting funding mechanism take account of the direct and indirect impacts. Since the direct beneficiaries are those attending events at the stadium and they are paying for this, the Council is funding the indirect benefits.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	Indirect economic, option, prestige and tourism benefits.
Individual	private benefit from attendance at events at the stadium

There are significant intergenerational equity considerations as the facility will be available for future generations.

Economically Efficient Funding Mechanism

The loan by the Council to the Stadium Trust is funded by a commercial loan, which is serviced by a 100% works and services (stadium purposes) rate on the indirect beneficiaries.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The funding of the Council's \$25 million contribution is governed by the Wellington Regional Council (Stadium Empowering) Act 1996. This Act empowers the Council to contribute up to \$25 million to facilitate the planning, development and construction of a stadium. The empowering Act states:

“Section 4(3)

The rate shall be made as a uniform rate in the dollar on every rateable property in each constituent district or part thereof; or

On a differential basis in accordance with Part V of the Rating Powers Act...”

“Section 4(5)

Council must satisfy itself that any rate is fair and reasonable and takes into account the benefits that accrue directly or indirect to any property or constituent district.”

The degree of benefit derived from the multi-purpose regional stadium by any category of property in different parts of the Region has been assessed. This excludes private benefits that accrue through attendance at events. The Council has decided that the weighting of the benefits derived from the stadium, and the degree of benefit, are:

- 70% - benefits arising from flow-on economic activity from the Stadium through increased business and employment opportunities.
- 20% - benefits arising from the opportunity to attend events at the Stadium which would not otherwise be held in Wellington.
- 10% - other benefits arising from publicity for the Region, civic pride, critical mass in tourism, promotion of increased participation in sport and physical leisure and ability of the Region to attract new residents and businesses.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 100% works and services (stadium purposes) rate. The rate was struck across the Region on a differential basis to reflect the benefit derived from the provision of the Stadium to different classes of ratepayer in the different parts of the Region.

The Council took into account the following features for different parts of the Region:

- Net equalised capital value
- Types of employment by industry
- Average travel times to the Stadium
- Population
- Average household incomes

For reasons of intergenerational equity and transparency this funding requirement was met by way of a loan over 20 years fully serviced and funded by a works and services rate. Ratepayers are made fully aware of their annual contribution to the provision of a stadium, and those who benefit over the life of the asset, contribute to it.

Recommended Funding

100% works and services (stadium purposes) rate

The rate to be struck across the Region on a differential basis to reflect the benefit derived from the provision of the Stadium to different classes of ratepayer in the different parts of the Region.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Environmental Management	Developing Policies and Plans

Description

This work focuses on developing and implementing the Regional Policy Statement and preparing and implementing the Regional Plans. The regional plans are: Regional Coastal Plan; Regional Plan for Discharges to Land; Regional Air Quality Management Plan; Regional Freshwater Plan; and Regional Soil Plan. This work also involves consultation with iwi.

Council Involvement

It is a requirement for the Council to develop a Regional Policy Statement and a Regional Coastal Plan under the Resource Management Act 1991. It may develop further plans.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a public good because the policies and plans are for the Region and people can not be excluded from benefiting. The beneficiaries are the people and organisations within the Region.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	Benefits through the sustainable management of the region's resources.

Economically Efficient Funding Mechanism

100% general rate

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The Council is required to produce the Regional Policy Statement and the Regional Coastal Plan and empowered to produce the Regional Plans under the Resource Management Act 1991.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 100% general rate.

Recommended Funding

100% general rate.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Resources	Consents Management

Description

This function has two components: a resource consent processing service for those who apply to use resources; and a compliance monitoring service. Resource consents processing comprises a number of procedural steps. These include: assessing the application; notifying the public (some consents only); holding pre-hearing meetings; conducting a hearing (when necessary); issuing or declining a consent; and defending decisions in the Environment Court.

The compliance monitoring component checks compliance with consent conditions for those who hold a resource consent and involves taking necessary enforcement action. This compliance monitoring is important for effective resource management.

Council Involvement

The Council is an authority for processing consents.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a private good; beneficiaries are clearly defined and can be charged. Consent holder activities need to be monitored and thus they cause the monitoring component to be provided.

Beneficiaries/ Exacerbator	Benefit/ Cost
Applicants	Benefit by getting their consent application processed
Consent Holders	Drive the costs as their activities need to be monitored

Economically Efficient Funding Mechanism

100% user charge as applicants and consent holders cause the services to be provided.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

Section 36 of the RMA enables the Council to set "actual and reasonable" user charges. The maximum charge may not cover all the costs incurred in compliance monitoring.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

This is a new Funding Policy, it was previously part of a wider Managing Consents Funding Policy.

Recommended Funding

Resource consent processing service:

90% user charges

10% general rate (costs of appeals etc.)

Compliance monitoring service:

50% user charges

50% general rate (investigations and legal costs)

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Resources	Consents Advice to the Public

Description

The function advises the public on Council's plans, the consent process, the environmental management options open to them and the consequences of those options.

Council Involvement

The Council funds the function to meet its requirements to provide general advice and information to the public on Resource Management.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

The advice and information is a private good because users request the advice be provided. They are easily identified and could be charged.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	An indirect public benefit is an informed public leading to appropriately managed resources.
Individual	Gain a private direct benefit, information on the Council's policies and the consent process.

Economically Efficient Funding Mechanism

. 100% user charge as users request the advice be provided.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The advice is general, not specific, and if there was a charge, people may not seek advice or information. The advice given may not result in a consent application (i.e. chargeable work). If the advice was not taken then there could be mismanagement of resources, affecting the regional community. Accordingly, the Council considers this function should be provided at no cost because of the environmental and community benefits.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

This is a new Funding Policy, it was previously part of a wider Managing Consents Funding Policy. In 1999/00, the function was funded 100% general rate.

Recommended Funding

100% general rate

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Resources	Monitoring the State of the Environment

Description

This function monitors and investigates the state of the environment. It does the following: monitors resource levels, flows and quality; maintains a database of information; carries out targeted studies into significant resource issues; and publishes annual monitoring reports and 5 yearly reports on the state of the environment. In catchments where resources are under pressure from consented activities, consent holders make a small contribution to this monitoring in recognition that their activities result in a need for a greater level of environmental monitoring.

Council Involvement

The Council is required, under the Resource Management Act 1991, to monitor and report on the state of the environment.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a primarily a public good. The majority of the work is undertaken to benefit all in the community as the information is used by the Council to make and report on policies and plans. Around 20% of the work is associated with monitoring resource use effects in areas under pressure. The effects of the activities of consent holders in those areas have to be monitored and they should pay.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	The function enables the making and monitoring of policies and plans, which are of regional benefit.
Consent holders in catchments under pressure	Their resource use has put the catchment under pressure. Around 20% of the work is associated with monitoring resource use and environmental effects in areas under pressure.

Economically Efficient Funding Mechanism

80% general rate; 20% user charge to cover monitoring the effects of consent holder activities in areas under pressure.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

Monitoring and reporting on the state of the environment is a requirement under the Resource Management Act 1991 and the power to set charges is in section 36 of the Act.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 80% general rate, 20% user charge.

Recommended Funding

80% general rate, 20% user charge.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Resources	Regulatory Compliance

Description

The regulatory function investigates complaints, checks compliance with the regional plans and policies (rather than compliance with consents) and where non-compliance is found it may take enforcement action. This function also includes the assessment of potentially contaminated sites and rehabilitation options and investigations into hazardous waste.

Council Involvement

This complements other resource management functions. It is the policing of the Council's policies and plans.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

The general policing of compliance is the community's assurance that the environment is being appropriately managed. It thus produces a public good regional benefit. However, the enforcement activity, where private firms and individuals have caused problems that the Council has to address, is a private good.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	Knowledge that compliance with regional plans is being monitored and where appropriate concerns are being addressed.
Individual or firm	The problems they have caused are addressed.

Economically Efficient Funding Mechanism

100% user charge where non-compliance with a plan or consent is shown as the users have caused the problem to be rectified.
General rate where an investigation shows compliance or where costs cannot be recovered from the Exacerbator.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

In practice, the legal costs of enforcement action far exceed fines recovered.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

This is a new Funding Policy, it was previously part of the wider Monitoring the State of the Environment Funding Policy.

Recommended Funding

100% general rate, less any cost recovery from legal action.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Emergencies	Managing Emergencies

Description

This work focuses on maintaining a regional emergency management organisation, investigating hazards and promoting hazard mitigation.

Council Involvement

The Council is required under the Civil Defence Act 1983 to provide and maintain a regional civil defence organisation and associated activities.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is primarily a public good as while individuals and businesses will benefit in an emergency, this service is about being prepared for an emergency and people can not be excluded from benefiting.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional and National Communities	Maintenance of a response capability; knowledge of hazards; and measures to mitigate and contain harmful effects.
Individual	Users of hazard information gain knowledge of hazards that directly affect them and learn how to mitigate the effects

Economically Efficient Funding Mechanism

After the Government grant, which recognises the national benefit
100% general rate

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

There are no legal constraints or fairness issues. However, sales of hazard information are negligible, as the market is insignificant.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 100% general rate after deducting the Government grant of \$38,000.

Recommended Funding

After the Government grant,
100% of the remaining funds required should be met from the general rate

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Harbours	Navigation Aids and Communications Services

Description

This work focuses on the provision of navigational aids such as harbour lights etc. and a 24-hour radio service (Beacon Hill) to monitor shipping movements and broadcast navigational warnings.

Council Involvement

The WRC has a statutory responsibility under the Local Government Act 1974 and the Maritime Transport Act 1994 to provide navigational aids.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

These are private goods but also club goods.

Beneficiaries/ Exacerbator	Benefit/ Cost
Commercial shipping; commercial fishing owners and operators	Avoid natural and other hazards (e.g. collisions) and enjoy a direct commercial benefit.
Recreational users	Avoid natural and other hazards (e.g. collisions) and enjoy a direct personal benefit.

Economically Efficient Funding Mechanism

100% user charge on the beneficiaries

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The WRC has a statutory responsibility under the Local Government Act 1974 and the Maritime Transport Act 1994 to provide navigational aids. CentrePort collects the user charge from commercial shipping on the Council's behalf.

It is not feasible to stop non-payers from benefiting from the navigational aids. The Maritime Safety Authority has investigated a number of systems for charging non-commercial uses and found them to be impractical. The inequity between commercial and non-commercial users cannot be addressed.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was
90% from user charges on commercial shipping
10% from the general rate for non-commercial users.

Recommended Funding

90% from user charges on commercial shipping
10% from the general rate for non-commercial users.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Harbours	Pollution/Emergency Response Services

Description

This work focuses on the drawing up and the maintenance of the oil pollution response and transfer plans, management of the clean-up of marine oil spills in the regional coastal waters out to twelve miles. There are two cost components:

- i. the standing cost of the preparedness and mitigating role
- ii. the costs of cleaning up pollution in the regional harbours

Council Involvement

The Council has a statutory responsibility under the Local Government Act 1974 and the Maritime Transport Act 1994 to provide pollution management in coastal waters out to twelve miles.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is primarily a private good and a club good. There are two aspects, the preparedness component plus the clean harbour, shellfish etc. to be met from all harbour users and the cleaning up component to be met by the polluters concerned.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	A clean marine environment and shorter duration of pollution
Commercial and recreational harbour users	Avoided delays and loss of business
The "Polluter"	Pollution cleaned up

Economically Efficient Funding Mechanism

100% user charges (commercial and recreational harbour users)
with pollution clean up costs fully recovered from the polluters as they caused the problem

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The Council has a statutory responsibility under the Local Government Act 1974 and the Maritime Transport Act 1994 to provide pollution management in the regional coastal waters. It is considered that the real risks come from commercial users, as they are the ones who can generate significant oil spills and they generate the need for costs to be incurred. The Maritime Safety Authority pays the direct standing costs (no overheads) on behalf of all shipping. The Authority also provides the capital items (equipment etc.). It is not feasible to levy recreational users.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was:

for Standing Costs:

- i. 5% general rate (for recreational users)
- ii. 95% user charge (paid via the Maritime Safety Authority as an agent for all shipping)

for Pollution Clean up Costs:

- i. costs fully recovered from the polluter

Recommended Funding

Standing Costs:

- i. 5% general rate (for recreational users)
- ii. 95% user charge (paid via the Maritime Safety Authority as an agent for a11 shipping)

Pollution Clean up Costs:

- i. fully recovered from the polluter (any costs that can not be recovered to be funded by the general rate)

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Environmental Management	Managing Harbours	Enforcing Maritime Safety Regulations

Description

This work focuses on: preparing policies and plans for use of the harbour; maintaining safety and compliance with relevant legislation relating to recreational use of coastal waters and regional harbours; providing advice to recreational users; and authorising special events in the harbours.

Council Involvement

The WRC has a statutory responsibility under the Local Government Act 1974 and the Maritime Transport Act 1994 to maintain safety and ensure recreational users are law-abiding in the regional harbours and coastal waters.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a private club good for the benefit of recreational harbour users.

Beneficiaries/ Exacerbator	Benefit/ Cost
Swimmers and all users	Benefit from effective management of the harbour and marine environment including safe waterways.
Recreation users	Avoid hazards and suffer less from congestion of waterways

Economically Efficient Funding Mechanism

100% user charge on recreational users.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The WRC has a statutory responsibility under the Local Government Act 1974 and the Maritime Transport Act 1994 to maintain safety and ensure recreational users are law-abiding in the regional harbours and coastal waters.

However, while recreational users should pay, it is not practical to collect user charges or a general levy from recreational users or swimmers because the transaction costs are too high. Accordingly, it needs to be treated as a public good (as it is not feasible to identify and charge users).

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 100% general rate

Recommended Funding

100% general rate.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Regional Transport	Managing the Transport Network	Planning & Monitoring the Transport Network

Description

This function has two components. It funds:

- i. location specific studies and policy development relating to land transport services and transport infrastructure in the region
- ii. production of the Regional Land Transport Strategy and servicing the Regional Land Transport Committee.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a public good, benefits accrue to, or are shared by, the entire community or, for specific studies, local communities. The primary beneficiaries are the people and organisations in the Region and/or the local community.

Beneficiaries/ Exacerbator	Benefit/ Cost
National Community	The direct beneficiaries in the national community are those who use the Wellington Region land transport system
Regional community	The regional community gets a planned land transport system that supports the economy
Local communities	Local communities are direct beneficiaries from specific studies undertaken for their community

If land transport planning were not functioning then this would be reflected in reduced capital values. While planning has significant intergenerational equity aspects, it continues from year to year at a similar level. Accordingly, it is not funded from loans, because of the transaction costs, but on a pay as you go basis.

Economically Efficient Funding Mechanism

After a nationally funded road user contribution reflecting the national interest 100% WRC funding from a general rate on capital value.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

Preparation of the Regional Land Transport Strategy is a legal requirement under the Land Transport Act 1993. A strategy is current for 5 years and has to be reviewed every 2 years.

Although future benefits are derived from this function, it is funded as an operational activity as it continues from year to year at around the same level. Accordingly, costs are charged in the year they are incurred.

There are more specific studies of the metropolitan area and now of Kapiti, because of the greater traffic problems, than there are of the Wairarapa. In general, rural capital values are significantly higher than urban capital values. It is not possible to distinguish between lifestyle blocks and farms. If rural capital values were not discounted then their relative contribution would exceed their relative benefit.

STAGE III: Funding Mechanism

Current Funding Policy & Funding Mechanism Issues

In 1999/00 the Funding Policy was:

- i. after the nationally funded road user contribution
- ii. 100% WRC contribution via a works and services rate set for each constituent district according to equalised capital values and then within a district by that district's capital values with capital values discounted as follows: 50% Kapiti; 25% Wairarapa; and 50% rural for all constituent districts

Recommended Funding

- i. after the nationally funded road user contribution reflecting the national interest
- ii. 100% WRC contribution via a works and services rate set for each constituent district according to equalised capital values and then within a district by that district's capital values with capital values discounted as follows: 25% Wairarapa; and 50% rural for all constituent districts

Transitional Arrangements

The change is minor.

Significant Activity	Activity	Function
Regional Transport	Funding Public Transport	Funding Total Mobility

Description

This function funds the provision of transport services to people with disabilities. Regional Councils throughout the country fund Total Mobility to varying degrees.

Council Involvement

The Council funds Total Mobility because people with disabilities, given the nature of their disability, are often not able to benefit from public transport services.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a private good because the individuals that use it can be identified and charged.

Beneficiaries/ Exacerbator	Benefit/ Cost
People with disabilities	Obtain transport services
Family and friends	Less need to "taxi" people with disabilities.

Economically Efficient Funding Mechanism

100% user charges

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

Regional Councils have been funding Total Mobility to varying degrees since it was set up in 1954. The funding of Total Mobility is based on the desire to ensure that people with disabilities have equity of access to transport.

The cost of providing services exceeds the ability of people with disabilities to pay. In principle, the Government should fully fund this social service. Transfund NZ funds the national community benefit from the scheme.

In general, people with disabilities are a consistent proportion of the population. Accordingly, the amount to be collected from a community for Total Mobility should be allocated by relative population, or using actual costs where known. That amount should then be collected on a uniform charge. It is not possible for a Regional Council to levy a uniform charge.

People in rural areas use the service but not as much as people living in the urban areas. In recognition of this, a rural weighting of 50% was selected. Commercial organisations do not benefit to the extent that people benefit and their contribution is set at 10%.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was as follows:

50% user charges - collected and held by the providers

50% community (national and regional) which is funded

i. 40% nationally funded road user contribution

ii. 60% contribution from the Council via a works and services rate

a. 90% from residential and rural ratepayers by capital value (50% rural discount)

b. 10% from commercial properties in each community

Recommended Funding

- 50% user charges - collected and held by the providers
- 50% community (national and regional) which is funded
- iii. 40% nationally funded road user contribution
- iv. 60% contribution from the Council via a works and services rate
 - c. 90% from residential and rural ratepayers by capital value (50% rural discount). The amount from each community set by relative population, or using actual costs where known.
 - d. 10% from commercial properties in each community

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Regional Transport	Funding Public Transport	Funding Public Transport Services

Brief Function Description

Funding Public Transport Services has four components. This function:

- i. plans, tenders, contracts for and monitors the provision of public transport services;
- ii. provides information about public transport services (e.g. Ridewell)
- iii. funds the provision of public transport in the Wellington Region (where a contribution is necessary to make services viable);
- iv. funds the provision of a public transport infrastructure: bus shelters; interchanges etc.

Council Involvement

The Council is involved in providing public transport services because of market failure and the need to provide social services.

STAGE I: ECONOMIC EVALUATION

Introduction

There are two reasons why the Council is involved in providing public transport despite the fact that public transport is a private good. They are:

- i. market failure in that road users in the Region do not pay a price that reflects the congestion and environmental costs they impose on others. Congestion is a regional (Auckland and Wellington) rather than a national problem. Road use in the Region is thus cheaper than it should be. Accordingly, there is not a level playing field and people are not in a position to make informed choices as they do not face the costs of their decisions.

This is a matter for consideration in stage 1

- ii. social issues in that there is a need to meet the needs of the transport disadvantaged.

This is a matter for consideration in stage 2 (fairness & equity)

Theoretically, in a perfect world road users would pay for the costs they impose on others and the transport disadvantaged would get directly targeted assistance. Currently, neither of these two is within the Council's control.

Benefit/ Exacerbator Assessment

The direct beneficiaries of public transport are the public transport users who get transported to their destination. There are two significant direct disbenefits where users of congested roads cause the costs to be incurred. The disbenefits are congestion and pollution. The vehicles operated by road users cause both of these. The polluter pays principle of the Local Government Act 1974 is quite clear - these people should pay for the costs they cause.

In addition, subsidising public transport has a positive externality in that there is less requirement for family and friends to taxi the transport disadvantaged. There is a small positive externality from the amenity value, but it is very localised.

Beneficiaries/ Exacerbator	Benefit/ Cost
Public transport users	Directly benefit by getting transported to their destination plus lower fares, more frequent services, better service quality
Road users on congested roads	Directly benefit by getting a less congested road (faster travel) Directly cause the problems of congestion and pollution.

How Benefits are reflected

Private beneficiaries can be easily identified. The benefit to public transport users is transport to their destination. This is a private benefit and they should pay the costs of this transport.

The benefit to users of congested roads, from public transport, is faster travel because there is less traffic on the road. This is a private benefit. The road users should pay a congestion charge that reflects the benefit gained by getting a road user off the congested road in that time-period.

Pollution is caused by vehicles and is very much worse in congested areas because of the stop and start nature of congested traffic. While people in the Region benefit from reduced emissions, the cars generate the emissions. However, if poor road design or poor traffic management causes the congestion, then the road operator should also pay for the emissions because their actions have added to the problem.

The Local Government Act clearly states that people who exacerbate the costs should pay. Thus, road users should pay for congestion and pollution.

Distribution of Benefits across Time/ Intergenerational Equity

No capital costs are incurred in providing this item and the benefits from operational expenditure accrue at the time of expenditure

Summary of Stage 1

Public transport is a private good. However, because of market failure (no congestion pricing) people are not able to make the appropriate transport mode choice. If congestion pricing was introduced then the costs of public transport should be collected from the users.

Economically Efficient Funding Mechanism

A congestion charge should be levied on users of congested roads and then the costs of the public transport should be recovered 100% from the users of the public transport services.

STAGE II: LEGAL, FAIRNESS AND OTHER ISSUES

introduction

- . A number of issues arise from stage 1
 - it is not possible to levy a congestion charge
This is considered under Legal Constraints below
 - services for the transport disadvantaged are not covered.
This is considered under Fairness & Equity below.
 - if ratepayers in some areas had to pay for the services consumed in their area then they may not be able to afford the rate burden
This is considered under Fairness & Equity below

The Council's Strategic Transport Model shows that congestion pricing would remove completely the need to fund congestion relief services from the Council. However, the service mix would change and not all social services would be covered.

Legal Constraints

While the Council has the ability to calculate the congestion charge (and has done so) there is no legal framework for the Council to levy, or to have others levy a congestion charge on motorists. Accordingly, the funding needs to come from a surrogate for users of congested roads.

Fairness and Equity Issues

Transport Disadvantaged

There is a significant fairness issue in terms of the transport disadvantaged. Services need to be provided for people less than 16 years, the lower socio-economic group and people unfit to drive but not those with a disability (people with disabilities are covered by the Funding Policy for the Total Mobility scheme). Accordingly, there is a need to provide "social public transport services".

Currently, 10% of the Council's expenditure is on concessions (elderly and school services). Since concessions may not include services for all those on low incomes, it is estimated that 15% of services qualify as "social services".

The Council also values the contribution of the public transport network to a sense of regional cohesion and integration. Access to public transport assists in integrating rather than potentially isolating communities across the Region. A regional contribution for this value is appropriate.

Ability to Pay

Some areas in the Region may not be able to afford the rate burden necessary to pay for the public transport services they consume. This has to be considered against the need to avoid over taxing the principal destination.

Other Relevant Issues

There is small positive externality from the amenity value, but this is very localised. The Council considers this is captured in the social component.

Summary of Stage 2

The benefits are:

- i. congestion relief 85%
- ii. social 15%, includes amenity
- iii. environmental (included with the congestion relief)

Surrogates

Surrogates for Congestion Pricing

The surrogates open to the Council are very blunt instruments, only loosely related to a congestion charge and themselves introduce a new range of significant issues. These issues include ability to pay and equity between those who travel and those who do not.

- The surrogates considered were: charging people in the district of origin; charging businesses in the district of destination; car park charges; and a general rate across the Region. Choosing between surrogates is essentially a pragmatic decision as no one option is clearly superior.

For example, rating residents in the district of origin as a surrogate for congestion relief raises both ability to pay issues across districts and equity issues between residents in a district (those that commute and those who do not). However, businesses at the destination do “cause congestion” by their location and they do get some employee and retail benefit. Accordingly, some funding should be from businesses in the district of destination.

Surrogates for Concessionary Fares

It is not possible to directly target transport disadvantaged individuals who benefit from concessionary fares. Whilst rating such social costs across the Region seems the fair approach, this implies that all residents have equal access to the services. Accordingly, funding concessionary services from residents in the district of origin and business in the district of destination is proposed as a surrogate.

Incentives

None of the surrogates force road users to face the costs of their decisions. This is the incentive to get people to make the appropriate choice between transport mode. There is an incentive for people to live further away as others meet a component of their travel costs.

The surrogates are all some way away from the economically efficient funding mechanism. It appears that charging a combination of people in the district of origin and businesses in the district of destination may be a reasonable surrogate for users of congested roads. However, it is not clear what the balance between origin and destination should be.

Conclusion from Stage 2

None of the surrogates force road users to face the costs of their decisions. Moreover, they introduce new issues including ability to pay and equity between those who travel and those who do not. These surrogates are pragmatic answers to the need for a funding mechanism. They are some distance away from the economically efficient funding mechanism.

Accordingly, as a pragmatic solution (until congestion pricing is possible), taking into account ability to pay across the Region and equity within a district, the congestion relief and concessionary services should be funded equally by origin and destination. Remaining social services should be rated across the Region because the Council values access to public transport.

STAGE III: Funding Mechanism

Current Funding Policy

In 1999/00, the Funding Policy was as follows:

70% user charges - collected and held by the providers (*note: refers to all services; equals 60% when only contracted services are considered*)

30% national and regional community contribution (*note: refers to all services; equals 40% when only contracted services are considered*). This component is funded:

- i. 50% nationally funded road user grant reflecting the benefits to all road users and the road network
- ii. 50% Council contribution: funded via a works and services rate set as follows:
 - a. (access to jobs) 42.5% from residential ratepayers in the district of origin
 - b. (increased sales) 42.5% from commercial ratepayers in the district of destination
 - c. (less congestion) 10% from residential ratepayers in the district of origin and from commercial ratepayers in the district of destination
 - d. (social) 5% from ratepayers across the Region with a reduction to 50% for Kapiti and a reduction to 25% for Wairarapa (*note: the reduction reflecting lesser number of services available in those areas*).

Funding Mechanism Issues

Rural Vs Urban Benefit

High rural capital values, and the inability to distinguish between farms and life style blocks and residential housing, mean that if a rate was struck uniformly then that rate would be disproportionate to the relative level of benefit that most rural ratepayers receive. Accordingly, a discount factor to 25% is applied to rural capital values. Without this factor, rates paid by rural ratepayers would be disproportionately high in comparison to urban rates.

Social Services

The Council values social services, ie. access to public transport services is important for regional cohesion, so a portion should be rated across the Region. However there would be a disproportionate rating impact on Kapiti and Wairarapa so a discount is required. Accordingly a reduction to 50% for Kapiti and a reduction to 25% for Wairarapa is applied.

Commercial Ratepayers

Some districts do not have a commercial roll, whilst in others the capital value attributable to commercial ratepayers is a small part of the total district capital value. This means that rating commercial ratepayers in the destination district (as a surrogate for congestion pricing and for concessionary fares) is not feasible in some cases. Accordingly, for the Districts of the Wairarapa, Kapiti Coast, Porirua City and Upper Hutt City the commercial and residential ratepayers need to be combined into one category of ratepayers.

Recommended Funding Policy

70% user charges - collected and held by the providers (*60% when only contracted services are considered*)

30% (*40% when only contracted services are included*) community contribution (national and regional), which is funded:

- i. after the nationally funded road user grant reflecting the benefits to road users and social services
- ii. Council contribution: funded via a works and services rate set as follows (with a discount factor to 25% applied to rural capital values):
 - a. (congestion relief) 85% borne equally by residential ratepayers in the district of origin and commercial ratepayers in the district of destination. (For the Districts of the Wairarapa, Kapiti Coast, Porirua City and Upper Hutt City, the commercial and residential ratepayers to be combined into one category of ratepayers.)
 - b. (concessionary) 10% borne equally by residential ratepayers in the district of origin and commercial ratepayers in the district of destination. (For the Districts of the Wairarapa, Kapiti Coast, Porirua City and Upper Hutt City, the commercial and residential ratepayers to be combined into one category of ratepayers.)
 - c. (social) 5% from ratepayers across the Region with a reduction to 50% for Kapiti and a reduction to 25% for Wairarapa.

Note: Where bus services feed rail services, the costs are allocated to the origin and destination districts of the rail.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Regional Water Supply	Collecting, treating and delivering water	Operating and maintaining the bulk water supply system

Description

Collection, treatment and delivery of bulk water to the cities of Lower Hutt, Porirua, Upper Hutt and Wellington.

Council Involvement

The Council is the owner and manager of the bulk water system under the Wellington Regional Water Board Act 1972.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a private good, users are identified and it is a consumable resource.

Beneficiaries/ Exacerbator	Benefit/ Cost
Cities of Lower Hut-t, Porirua, Upper Hutt and Wellington	Supply of high quality potable water, treated to the Ministry of Health Drinking Water Standards

There is significant capital expenditure and thus there are inter-generational equity effects.

Economically Efficient Funding Mechanism

- . Pricing should reflect the fixed and variable costs of supplying each customer. The price should reflect the short run marginal costs of supply and ail other costs.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The Wellington Regional Water Board Act 1972 constrains the ability of the Council to price the services to reflect the costs of supply. The four cities are of the unanimous view that the current charging methodology is the most appropriate for the medium term. This Council is of the view that a form of peak pricing should be adopted to signal the future impacts of peak demand.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was for the costs of operating the water supply system to be apportioned to the cities based on each city's proportion of total water deliveries in accordance with the Act.

Recommended Funding

The Funding policy is prescribed by the Wellington Regional Water Board Act 1972. The costs of operating the water supply system are apportioned to the cities based on the individual city's proportion of total water deliveries.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Managing Forests and Water Catchments	Rural Fire Control

Description

A full rural fire prevention, advice and fighting service in the defined rural fire district which is the Council's responsibility.

Council Involvement

This Council is legally required to manage the fire risk in the rural fire district.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is both a public good (the standing costs of having the rural fire service available) and a private good (when the service is used to fight a fire on an individual's property and thus the individual should pay).

Beneficiaries/ Exacerbator	Benefit/ Cost
Land owners in the rural fire district	Benefit from fire prevention advice
Rural property owners with a fire	Drive the costs as they get their fire controlled
Regional community	Avoid smoke pollution, enjoy lower risk and avoid environmental damage caused by vegetation fires

Economically Efficient Funding Mechanism

- i. **Standing Costs** 100% by levy on the land owners in the rural fire district based on the benefit individual land owners receive from fire protection and their degree of fire risk;
- ii. **Fire Fighting Costs:** recovered from the party concerned as they benefit from the fire being controlled and thus should pay.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The requirements of the Forests and Rural Fires Act 1977 set out how this function is to be provided. The Council owns or manages 80% of the land in the currently defined Rural Fire District. Given the transaction costs of identifying the risk and benefit categories for the remaining 20%, it is not viable to establish a differential rate for the currently defined District to collect the remaining 20 per cent.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00 the funding policy was, standing costs (prevention and preparedness) were funded 100% by the general rate, fire-fighting costs were recovered from the Rural Fire Fund or the party concerned (95%) and 5% from the Council (the general rate).

Recommended Funding

Standing Costs (prevention and preparedness) - currently defined rural fire district - 100% general rate

Fire Fighting Costs: recovered from the Rural Fire Fund. or the party concerned where appropriate and where this is not possible from the general rate

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Promoting Sustainable Land Management	Advisory Services

Description

Soil conservation advice and information, sustainable land use investigations (including assessing storm damage and catchment conditions).

Council Involvement

The Council is involved because it wishes to encourage Sustainable Land Management.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is primarily a private good. The property owners caused the problem through past poor land management. Accordingly, as they request the advice they should pay the cost.

Beneficiaries/ Exacerbator	Benefit/ Cost
Private land owners and farm groups	Drive the costs through poor land management and directly benefit through better information, advice and plans leading to sustainable land management.
Regional community	Indirect beneficiaries through sustainable land management
Local authorities, Government Departments	indirect beneficiaries through assessment of storm damage and catchment condition

Economically Efficient Funding Mechanism

100% user charge

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

This is a key component in getting people to move to sustainable land use and agree that soil conservation should be undertaken (other services, e.g. Property Works, that build on these services are provided on a full cost recovery basis). Often it is not the current owner of the land that has caused the problem but a previous owner.

It is Council policy to encourage soil conservation through providing free advice in this area, so a regional contribution is considered appropriate. There is a mutual sharing of information arrangement with local authorities, Crown Research Institutes and Government Departments and no charges are made.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 100% by general rate.

Recommended Funding

100% general rate

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Promoting Sustainable Land Management	Property Works

Description

Soil conservation works through property plans stabilise erosion prone land.

Council Involvement

The Council is involved because it wishes to encourage Sustainable Land Management.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is primarily a private good. The property owners caused the problem through past poor land management. Accordingly, as the service protects their land they should pay the cost. However, there are some indirect private good aspects through downstream protection.

Beneficiaries/ Exacerbator	Benefit/ Cost
Private landowners	Drive the costs through poor land management and directly benefit from stabilised soil and long-term productive asset
Local community	Private benefits (less risk of flooding, and often infrastructure protection) a public benefit (preserved landscapes, enhanced local ecology)
Regional community	An indirect public benefit from preserved landscapes

Economically Efficient Funding Mechanism

70% user charge on the landowners concerned

30% charge on the local authority for infrastructure and downstream protection

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The Council believes that those who benefit most from land management should pay the greater part of the cost. Often it is not the current owner of the land that has caused the problem but a previous owner. It is Council policy to encourage soil conservation and protect land for future generations, so a regional contribution is considered appropriate.

Soil conservation benefits start to accrue 5 to 7 years after planting and the income from the wood lot may take up to 30 years to arrive. Accordingly, landowners do not see a cash benefit for a considerable time and may not make an appropriate decision.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 25% to 35% by general rate and 65% to 75% by user charges.

Recommended Funding

30% regional rate

70% user charge

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Promoting Sustainable Land Management	Sustainability Plans

Description

Sustainability plans target severely eroded land and provide works aimed at an integrated long-term approach to sustainable land management.

Council Involvement

The Council is involved because it wishes to encourage Sustainable Land Management.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a private good because property owners get their property protected and infrastructure owners (the local community) get their assets protected. Because of the more erosion prone condition of the soil, there is an indirect public benefit from avoidance of downstream problems. This benefit is greater than with other, less erosion prone, soil types.

Beneficiaries/ Exacerbator	Benefit/ Cost
Private landowners	Drive the costs through past poor land management and directly benefit from stabilised soil and having a long-term productive asset
Local community	Private benefits (less risk of flooding and other downstream problems, and often infrastructure protection)
Regional community	Indirect public benefit (preserved landscapes, enhanced local ecology)

Economically Efficient Funding Mechanism

40% rate on the local community
60% user charge

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

It is Council policy to encourage soil conservation for erosion prone soil types through sustainability plans, so a regional contribution is considered appropriate. Often it is not the current owner of the land that has caused the problem but a previous owner. The Council believes that those who benefit most from land management activities should pay the greater part of the cost.

Soil conservation benefits start to accrue 5 to 7 years after planting and the income from the wood lot may take up to 30 years after planting. Accordingly, landowners do not see a cash benefit for a considerable time and may not make an appropriate decision.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 35% to 45% by general rates and 55% to 65% by user charges.

Recommended Funding

40% regional rate
60% user charge

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Promoting Sustainable Land Management	Catchment Schemes

Description

This is planting in the headwaters of rivers and some river management to assist with the management of the river downstream. There are 6 rivers protected by these schemes.

Council Involvement

The Council is involved because it wishes to encourage Sustainable Land Management.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a club good providing private benefits for a defined group in the protected area downstream. As good catchment management lessens the flooding risk downstream, catchment schemes are similar to Flood Protection.

Beneficiaries/ Exacerbator	Benefit/ Cost
Private landowners	Private benefit from stabilised soil and long-term productive asset
Local community	Private benefits (less risk of flooding and other downstream problems, and often infrastructure protection)
Regional community	Indirect public benefit (preserved landscapes, enhanced local ecology)

Economically Efficient Funding Mechanism

Majority funded by the local community in the protected area downstream
Remainder recovered from the local district council for lessened flood risk and infrastructure protection

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The Council believes that those who benefit most from land management activities should pay the greater part of the cost. It is Council policy to encourage soil conservation to preserve land for future generations, so a regional contribution is considered appropriate.

Soil conservation benefits start to accrue 5 to 7 years after planting. Accordingly, landowners do not see a cash benefit for a considerable time and thus may not see the benefit from making the investment in sustainable land management.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00 the Funding Policy was, 50% by general rates, 30% to 50% by a scheme rate on the local community and 5% to 20% levy on the local constituent district for road protection (4 of the 6 schemes).

Recommended Funding

Each scheme is considered on its merits within the boundaries set out below

- i. 50% general rate
- ii. 30% to 50% scheme rate for the local community
- iii. 5% to 20% levy on the local district council for road protection (4 of the 6 schemes)

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Promoting Sustainable Land Management	Drainage and Water Schemes

Description

Commercial specialised consultancy service for 16 rural land drainage schemes run on a cost recovery basis. The services include: advice; management; drain maintenance; and asset management programmes.

Council Involvement

The Council is involved because its rating powers enable it to raise funds to pay for the schemes.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

Drainage and water schemes are club goods.

Beneficiaries/ Exacerbator	Benefit/ Cost
Private landowners	Provision of a drainage and or water scheme. This directly benefits those in the scheme.

Economically Efficient Funding Mechanism

Funded by way of a user charge to the organisation or individual concerned. Charges are set on a full cost recovery basis.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

There are no constraints or issues.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00 the Funding Policy was to fully fund by way of scheme rates (user charges). The scheme rates to be set on a full cost recovery basis.

Recommended Funding

Funding of all costs to be by way of a scheme rate (a user charge) on the organisation or individual concerned. The scheme rates to be set on a full cost recovery basis.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Controlling Pest Animals & Plants	Conducting Bovine Tuberculosis vector control programmes

Description

Implementation of the National Bovine TB Strategy in the Region.

Council Involvement

The Council is the Regional Vector Control Manager for Bovine TB, under contract to the Animal Health Board.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a private good, but a club good, with significant externalities because while working on one farm, it is impossible for the surrounding farms not to be free riders. All bovine meat producers club together (through the Animal Health Board) to fund control of Bovine TB.

Beneficiaries/ Exacerbator	Benefit/ Cost
All private landowners farming cattle & deer	Direct private benefit - reduced loss through disease, both on the farm and in the market place
Private landowners farming cattle & deer where control operations are being carried out	Bovine TB controlled on their farm and in their area
Bovine product processors	Indirect private benefit - avoided loss of business
Regional & national communities	Indirect public benefit - damage avoided to its ecosystems

Economically Efficient Funding Mechanism

30% from landowners where the work is being carried out and surrounding landowners
70% from the Animal Health Board.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

Farmers may ask the Council to undertaken additional work and this is undertaken on a full cost recovery basis.

The Council considers there are regional and national ecological benefits from protection of regional flora and fauna. Accordingly, a regional contribution is considered appropriate.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00 the Funding Policy was 50% (the maximum Animal Health Board contribution), 30% general rate, 20% Bio-security (Bovine TB) rate (80% of costs are paid by ratepayers on whose property the work is being undertaken and 20% by ratepayers on surrounding properties).

Recommended Funding

The maximum contribution from the Animal Health Board (usually 50% costs).

Balance to be funded:

60% general rate

40% Bio-security (Bovine Tb) rate to be funded according to differentiated land area rates set by the Council, such that for rural properties of 10 hectares or more:

- i. 75% to 100% of the rate is to be paid by ratepayers occupying operational properties; and
- ii. 0% to 25% of the rate is to be paid by ratepayers occupying non-operational properties

Note: The specific cost recovery formula is set by the Council by special order and the per hectare rate as part of the annual rating resolution.

Transitional Arrangements

The change proposed is minor.

Significant Activity	Activity	Function
Land Management	Controlling Pest Animals and Plants	Pest Animal Management

Description

Management and control of pest animals throughout the Region through the development and implementation of the Regional Pest Management Strategies. The pest animals include possums, rabbits, rooks, mustelids, magpies, wasps and feral goats. There are two components:

- i. inspections and monitoring
- ii. control (possums, mustelids, feral goats in Key Native Ecosystems, rooks, rabbits in specified riverbeds. Others on request).

Council Involvement

The Council controls pest animals throughout the Region to protect eco-systems.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

The inspections are Region-wide and are a public good. The control of pests is a private good because the work occurs on defined properties at the property owner's request.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	Reduced spread of unwanted pest damage to ecosystems
Private landowners	Reduced loss of pasture, crops, damage to trees and shrubs and better produce.

Economically Efficient Funding Mechanism

100% general rate for inspections, monitoring and control in specified areas
100% user charge for other control work on private property

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

Some control work is done in areas that concern the Council and/ or the local landowner. In these cases, there may be a mix of cost recovery and general rate.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

This is a new Funding Policy, it was part of the Implementing Pest Management Strategies Funding Policy. In 1999/00, costs were funded 77% general rate, 23% user charges.

Recommended Funding

100% general rate for inspections, monitoring and approved control work
100% user charge for other control work on private land, undertaken on request.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Land Management	Controlling Pest Animals and Plants	Pest Plant Management

Description

Management and Control of pest plants throughout the Region through the development and implementation of the Regional Pest Management Strategies. The pest plants include Old Man's Beard, Wild Ginger and other environmental species. There are three components:

- i. inspections and monitoring
- ii. control (on request)
- iii. control trials.

Council Involvement

The Council controls pest plants throughout the Region to protect eco-systems.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

The inspections are region-wide and are a public good. Control trials are a public good as they identify future management options for the community. Control on private land is a private good.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	Reduced spread of unwanted pest plants. Damage avoided to ecosystems.
Private Landowners	Eradication of unwanted pest plants.

Economically Efficient Funding Mechanism

- 100% general rate for inspections, monitoring and control trials.
- 100% user charge for control work on private land.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

Some eradication work is done on areas that concern the Council and or the local landowner. In these cases, there maybe a mix of general rate funding and cost recovery.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

This is a new Funding Policy, it was part of the Implementing Pest Management Strategies Funding Policy. In 1999/00, costs were funded 100% general rate, negligible income from user charges.

Recommended Funding

- 100% general rate for inspections, monitoring and control trials.
- 100% user charge for control work on private land, undertaken on request.

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Flood Protection	Providing Flood Protection	Planning for Flood Protection

Brief Function Description

Research and planning associated with the general management of rivers and floodplains including the investigation of flood hazards, identifying and refining risk alleviation options, defining environmental issues and preparing floodplain and/or river management plans. The function also provides advice on the use and protection of flood and erosion prone land.

Council Involvement

The Council plans for flood protection to decide how best to protect life and property in the floodplain and to preserve or enhance the environment and amenity values of river corridors.

STAGE I: ECONOMIC EVALUATION

Benefit/Exacerbator Assessment

Flood Protection Planning is an integral component of Flood Protection works and the beneficiaries and benefits are the same. Planning for flood protection is a private good but it is also a club good, where ideally the people and property owners on the floodplain could club together to fund the planning in the same way as they could club together to fund the works.

The direct beneficiaries of planning can be identified. They are the residents, businesses and owners of infrastructure located on the floodplain. They benefit from the planning of the long-term management of the risk to property and infrastructure. The large majority of indirect beneficiaries are localised in the economic catchment. They indirectly benefit because they are on or adjacent to the floodplain and their lives are integrated with that area.

Beneficiaries	Benefit
Ratepayers in the floodplain	The direct beneficiaries are the residents and businesses in the area directly affected by the planning and subsequent works through avoiding the risk of floods and potentially through increased property value
Infrastructure providers	The direct beneficiaries are also owners of infrastructure (telephone, roads, rails etc.) who avoid damage to their assets.
Ratepayers in the economic catchment	The main indirect beneficiaries are the rate payers in the surrounding economic "catchment", which is adjacent to the floodplain, through their integration with the area affected by the flood protection scheme
Regional community	The regional community also indirectly benefits through protection of their means of access around the Region. However this benefit should be addressed through the owners of the infrastructure the direct beneficiaries).

Economically Efficient Funding Mechanism

The economically efficient funding mechanism is to treat planning as an integral part of delivering flood protection, with the same funding mechanism because the beneficiaries are the same. Therefore the direct beneficiaries on the flood plain (residents, businesses and owners of infrastructure) should pay the majority of costs and the indirect beneficiaries in the economic catchment also making a contribution.

Future generations will benefit from implementation of the plans. The planning work should be funded by loans and the loans repaid over time.

STAGE II: LEGAL, FAIRNESS AND OTHER ISSUES

Legal Constraints, Fairness and Equity Issues

Legal Constraints

The Council has a general duty to avoid or mitigate natural hazards, Resource Management Act 1991. In addition, the Council has operational discretion as to how it plans to discharge these duties.

Other Regional Considerations

Valuing safety and security - The Council values all residents and businesses in the Region understanding the risk of flooding and therefore being able to avoid or mitigate the associated effects. Flood protection planning assists in raising awareness of the risks of flooding.

Sense of community – The Council values a sense of cohesion and integration across the Region. Preparedness for the risks of flooding assists with integrating rather than potentially isolating communities across the Region

Fairness And Equity

Floodplains and affected river management areas have not been designated for some schemes. The existing floodplain plans were all 100% funded by the Regional community through general rates. There is a fairness and equity issue if some ratepayers on floodplains were required to pay for the costs of planning for flood protection works when other plans were funded through general rates.

Summary of Stage 2

- The Council considers that on fairness and equity grounds and because of the value the Council places on other regional considerations, the present policy of funding planning 100% through the general rate, should continue.

STAGE III: FUNDING MECHANISM

Current Funding Policy

In 1999/00, the Funding Policy for Planning Flood Protection is:

Where the amounts are significant: fund the work by way of a loan and repay the loan and interest by 100% general rate; and

Where the amount is insignificant: fund the planning 100% general rate

Recommended Funding

Where the amounts are significant: fund the work by way of a loan and repay the loan and interest by 100% general rate; and

Where the amount is insignificant: fund the planning 100% general rate

Transitional Arrangements

No change.

Significant Activity	Activity	Function
Flood Protection	Providing Flood Protection	Delivering Flood Protection

Brief Function Description

This function consists of the operation, maintenance, on-going asset management, construction and improvement of schemes throughout the region to manage flooding, control erosion and manage a river in its course subject to environmental considerations.

Council Involvement

The Council funds flood protection to protect life and property in the floodplain and to preserve or enhance the environment and amenity values of river corridors.

STAGE I: ECONOMIC EVALUATION

Benefit Assessment

Flood protection is a private good but it is also a club good, where ideally the people and property owners on the floodplain should club together to fund the protection. However others can enjoy the benefits without paying (the free rider problem). Therefore, the Council is involved because its rating powers enable it collect contributions to the costs.

The direct beneficiaries are the residents, businesses and owners of infrastructure assets in the floodplain. Flood protection generates benefits that can be attached to particular persons or groups. The large majority of indirect beneficiaries are localised in the economic catchment. They indirectly benefit because they are on or adjacent to the floodplain and their lives are integrated with that area. There are also some positive externalities from the ecological benefits from river works.

Beneficiaries	Benefit
Ratepayers in the floodplain	The direct beneficiaries are the residents and businesses in the area directly affected by the works through avoiding the risk of floods and potentially through increased property value
Infrastructure providers	The direct beneficiaries are also owners of infrastructure (telephone, roads, rails etc.) who avoid damage to their assets.
Ratepayers in the economic catchment	The main indirect beneficiaries are the rate payers in the surrounding economic "catchment", which is adjacent to the floodplain, through their integration with the area affected by the flood protection scheme
Regional community	The regional community also indirectly benefits through protection of their means of access around the Region. However this benefit should be addressed through the owners of the infrastructure the direct beneficiaries).

How Benefits are Reflected

Private beneficiaries can be identified. The direct beneficiaries are the residents and businesses located on the floodplain whose risk of being flooded is lessened. Residents and businesses benefit by avoiding the effects of flooding including damage to property, associated dislocation, stress and trauma and losses to productive capacity. The owners of infrastructure assets (including Local Authorities) on the floodplain are also direct beneficiaries through avoidance of damage to assets. In theory, land for housing and commercial activities on floodplains should be cheaper because of the risk of flooding. The benefits of flood protection should be therefore reflected in the capital values of the protected properties and infrastructure, as the works make the properties safer and should also result in lesser insurance costs.

Distribution of Benefits across Time/ intergenerational Equity

Significant capital costs are incurred in providing this service and thus there are significant intergenerational equity considerations – future generations benefit from capital expenditure made now.

Summary of Stage 1

The conclusion from the economic assessment is that the direct beneficiaries, the residents and businesses on the floodplain and the owners of infrastructure should pay the bulk of the costs as the main beneficiaries. The indirect beneficiaries in the economic catchment should also contribute a portion.

There may be some other indirect benefits to the regional community. While these are likely to be small, stage one does not lead us to a conclusion about the size of such benefits and this is a judgement for the Council to make under stage two. Note the economic assessment assumes that the costs of flood protection works are minimised. Thus, additional requirements that result from the Council's Regional Policy Statement and their associated regional benefits are not taken into account in stage one.

Economically Efficient Funding Mechanism

The economically efficient funding mechanism is:

- i. 60 to 70% from the residents and businesses in the floodplain (direct beneficiaries)
- ii. 20% to 15% from owners of infrastructure (direct beneficiaries)
- iii. 10% to 15% from the economic catchment (indirect beneficiaries)
- iv. 0% to 10% from the regional community

STAGE II: LEGAL, FAIRNESS AND OTHER ISSUES

Legal Constraints, Fairness and Equity issues

Legal Constraints

- . The Council has a general duty to avoid or mitigate natural hazards, Resource Management Act 1991. In addition, the Council has operational discretion as to how it plans to discharge these duties.

It is not possible for the Council to levy local authorities. However, it can levy ratepayers in a local authority's area.

Ability to Pay & Equity across the Region

Residents and businesses in some floodplains may not be able to afford the level of protection they require. Addressing ability to pay would require an element of regional funding. The difficulty with using funding by the region to address ability to pay concerns is that it is a transfer from one group to another. Since flood protection raises property values, residents in the region are paying for services that raise the value of another's property. The Council has decided that it is concerned about the ability of direct beneficiaries to pay for the majority of the costs of flood protection.

Other Regional Considerations

Valuing safety and security - The Council values all residents and businesses in the Region being safe from the risk of flooding and therefore avoiding the associated effects on people of dislocation, stress and trauma and losses to the Region's productive capacity. The downside of spreading costs across the Region can be that residents and businesses on the floodplain do not have the appropriate incentives to weigh up the costs of flood protection works against the level of risk. The Council has decided that it is appropriate for the whole Region to pay for some of the protection for those areas at risk from flooding because of these wider considerations.

Environmental and amenity benefits – Resource management consents and flood plain management environmental strategies for scheme works often result in conditions for ecological or amenity conditions to be met, for example, not disturbing the river during trout spawning and riverbank planting requirements. These regional community conditions or expectations impose costs over and above what would normally be strictly undertaken for flood protection works. The Council has decided that it is appropriate for a regional contribution towards these benefits.

Sense of community – The Council values a sense of cohesion and integration across the Region. Avoiding the risks of flooding assists with integrating rather than potentially isolating communities across the Region. The downside of spreading costs across the Region can be that direct beneficiaries on the floodplain do not have the appropriate incentives to weigh up the costs of flood protection works against the level of risk. The Council has decided, on balance, that it is appropriate for a regional contribution to be made in recognition of this value.

Summary of Stage 2

The Council has decided that because of wider regional considerations (a wish to see all residents and businesses safe from risk; sense of community, ability to pay; and environmental benefits and amenity values) it is appropriate that the Region contributes up to 50% towards the costs of flood protection works through the general rate. The Council considers that the importance of these regional issues to each flood protection works may vary between schemes and that some flexibility is needed for the Council to determine the proportion of funding from the general rate up to a maximum of 50%.

STAGE III: FUNDING MECHANISM

Current Funding Policy And Funding Mechanism Issues

Rates are set on scheme by scheme basis:

For schemes where the cost of defining and maintaining the definitions of groups i. & ii. is considered to be a viable exercise

Capital

- i. 50% to 100% via a works and services rate or scheme rate or direct contribution for the direct beneficiaries (group i.).
- ii. 0% to 50% via a works and services rate or scheme rate for beneficiaries in the economic catchment (group ii).
- iii. 0% to 50% general rate for the community benefit (group iii.)

Operations

- i. 40% to 100% via a works and services rate or scheme rate or direct contribution for the direct beneficiaries (group i.).
- ii. 10% to 40% via a works and services rate for beneficiaries in the economic catchment (group ii).
- iii. 0% to 50% general rate for the community benefit (group iii.)

For schemes where the cost of defining and maintaining the definitions of groups i. & ii. is not considered to be a viable exercise:

Capital & Operations

- 50% to 100% via a works and services rate or scheme rate or direct contribution for both the direct beneficiaries and the beneficiaries in the economic catchment (groups i. & ii.)
- 0% to 50% general rate for community (group iii.)

Current Implementation

In 1999/00, the implementation of the Funding Policy for Delivering Flood Protection is predominately:

Wairarapa – Operations: 50% from the scheme, as the identified direct beneficiaries in the floodplain, and 50% from the general rate.

Western area – Operations: 50% from those in the local authority area as a proxy for both the direct beneficiaries and the economic catchment and 50% from the general rate.

There are instances of Isolated Works support (outside scheme boundaries) of less than a 50% regional contribution, or where a particular beneficiary or beneficiaries gained priority for a flood protection work by a greater than 50% direct contribution.

The current separation in the funding policy of capital works from operations is artificial in practice and is considered no longer applicable.

Feasibility Issues

In practice, it may not be feasible to either precisely identify direct beneficiaries on the floodplain or indirect beneficiaries in the economic catchment, and proxies will need to be used. Also it may not be feasible for the Council to recoup costs from some types of direct beneficiaries and so a proxy may need to be found for these benefits too.

Residents and businesses on the floodplain – In theory, the direct beneficiaries on the floodplain could be defined through a combination of mapping and Council knowledge and judgement. Specific areas would therefore be rated as the direct beneficiaries. The advantage of this approach is that those who receive the greatest benefit pay the most. However this approach is currently not considered to be cost effective in all circumstances. In the future the Council may choose to more precisely define, and also recover costs from, the direct beneficiaries on the flood plain. In the meantime the Council has decided to use the local authority boundary as a proxy for the direct beneficiaries.

Economic catchment – A reasonable proxy for the economic catchment, ie the area adjacent to the floodplain, can be taken to be the local authority.

Infrastructure – Ideally, the owners of infrastructure as direct beneficiaries should contribute to the costs of works. Local authorities as the owners of infrastructure (roads, pipes etc) can contribute specifically for this benefit. However, current legislation means it is not possible for the Council to recoup all the costs from commercial infrastructure providers. In the future it may be possible for the Council to charge these beneficiaries. In the meantime the Council has decided that the indirect beneficiaries, the regional community, should pay for protection of infrastructure.

Community facilities - There are a number of significant properties, for example schools and hospitals, which have a Crown exemption and do not pay rates. Here, there is a considerable risk to both property and life and where many of the lives at risk are not likely to be able to provide their own security. In the future it may be possible for the Council to directly recoup these costs. In the meantime the Council has decided that the indirect beneficiaries, the regional community, should pay for protection of community facilities.

Summary of Stage 3

The Council has decided for feasibility reasons to continue the current practice of not distinguishing between the direct beneficiaries on the flood plain and the indirect beneficiaries in the economic catchment, and to treat these as one group.

Recommended Funding

The Council sets rates on a scheme by scheme basis (combined capital & operations):

0% to 50% general rate from the regional community (for factors including safety of all residents and businesses in the Region; sense of regional community, ability to pay; environmental and amenity values; inadequate contribution from infrastructure owners; and inability to rate community facilities)

The balance of costs (ie 50% to 100%) met via a works and services rate on the local authority area or scheme rate or direct contribution (for both the direct beneficiaries on the flood plain and the beneficiaries in the economic catchment)

Note:

- i. where a utility provider makes a contribution for protection of infrastructure assets the revenue is directly applied to alleviate the scheme's costs
- ii. where a gravel extraction fee applies, the revenue is directly applied to alleviate the scheme's costs.

Transitional Arrangements

No change.

Significant Activity	Activity	Function
Parks and Forests	Managing Regional Parks, Recreational Areas and Trails	Managing Regional Parks, Recreational Areas and Trails

Description

Management (promotion, operation, planning and capital works) associated with the 5 regional parks, recreational areas and trails on Council lands.

Council Involvement

The Council's parks provide major urban areas with recreation opportunities and allow regionally significant landscapes, forests and heritage features to be protected and enhanced.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is primarily a private good because individuals who use the parks get the benefit. There is a public good benefit from preserving significant landscapes, forests and heritage features for future generations. If new parks were purchased then there would be significant intergenerational equity effects.

Beneficiaries/ Exacerbator	Benefit/ Cost
National community	Preservation of nationally significant landscapes, forests and heritage features for future generations
Regional community	Preservation of regionally significant landscapes, forests and heritage features for future generations
Individuals	Use of the parks

Economically Efficient Funding Mechanism

50% from user charges for use of the parks; 40% from the general rate for regionally significant landscapes; 10% from the Crown for nationally significant landscapes; any additional land purchased with reserve funds or funded by loans.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

It is not feasible to identify and charge users, funding by a regional contribution is considered appropriate. A specific charge is only feasible for value-added services such as events and camping facilities. In addition, where appropriate, Government funding will be sought to cover areas that affect the national interest over and above that of the regional community.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00 the Funding Policy was 90% general rate, 10% user charges for organised events, leases, license fees and added value services, land purchased with reserve funds or loan funded.

Recommended Funding

After a Government grant:
90% general rate
10% user charges for organised events, leases, license fees and added value services
Land - purchased with reserve funds or loan funded

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Parks and Forests	Managing Forests and Water Catchments	Indigenous Forest Management

Description

Management (policy, planning, capital works and operations) of the indigenous forests owned by the WRC. These forests were acquired for possible use as future water catchments. They also preserve the indigenous forests and provide recreational access. There is a network of roads, bridges, paths and culverts etc. throughout the forests.

Council Involvement

This function maintains an indigenous forest for current and future generations.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

The Indigenous Forests are both a private good, as users benefit and they can be identified and a benefit for future generations (bequest value), which is a public good.

Beneficiaries/ Exacerbator	Benefit/ Cost
Regional community	Native forests preserved as a bequest for future generations and providing a sense of wilderness now (a public good).
Individuals	Recreational users benefit from the ability to enjoy the landscape and the forest in their wild state (a private good).

Economically Efficient Funding Mechanism

50% general rate; 50% user charges.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

The transaction costs of identifying users and collecting the user charges makes any form of cost recovery impractical except for organised events. User numbers are significant in some areas and likely to increase in other areas.

STAGE III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 100% funded from the general rate.

Recommended Funding

100% general rate

User charges for organised events, leases, license fees and added value services

Transitional Arrangements

No change is proposed.

Significant Activity	Activity	Function
Parks and Forests	Managing Forests and Water Catchments	Indigenous Catchment Management

Description

A forestry management service for the catchment forests that are used by the Council's Water Group to collect water.

Council Involvement

This function provides an indigenous forest catchment management service to the Water Group.

STAGE I: ECONOMIC EVALUATION

Benefit/ Exacerbator Assessment

This is a private good because the beneficiary is clearly identified and can be charged.

Beneficiaries/ Exacerbator	Benefit/ Cost
Council's Water Group	Directly benefits from a managed water catchment
Regional community	Small public good benefit from existence of the forests and as a bequest to future generations
Individuals	Direct benefit from recreational use

Economically Efficient Funding Mechanism

100% internal charge to the Water Group (the sole user) after income from user charges.

STAGE II: LEGAL, FAIRNESS & OTHER RELEVANT ISSUES

Legal Constraints, Fairness & other Relevant Issues

It is not viable to identify and charge recreational users and very limited recreational use is allowed because of the risk of contamination to the water supply. However, the Wainuiomata ranger service does provide assistance to the public.

Stage III: FUNDING MECHANISM

Current Funding Policy & Funding Mechanism Issues

In 1999/00, the Funding Policy was 100% by the Water Group. However, 30% of the Wainuiomata ranger service is funded from the general rate.

Recommended Funding

100% internal charge to the Council's Water Group after funding 30% of the Wainuiomata ranger service from the general rate

Transitional Arrangements

No change is proposed.

APPENDIX 1: GLOSSARY

Stage 1 Terms

Term	Meaning
Public Goods	A public good is an economic concept, defined as being a good which is non-rival and non-excludable. Non rivalry relates to the exhaustibility of the resource, thus it means that one person's use does not affect the ability for another person to use it. Non excludability means it is not practical or possible to identify and charge the user and a large number of people can use it at little or no extra cost (eg. street lighting). It also includes goods that are needed but that private markets, due to the inability to make a return, would not provide (eg. a national defence system, a national park).
Private Goods	Private Goods are defined as goods, which are 'rival' and 'excludable'. These are goods where you can identify and charge the direct beneficiaries and where one person's use consumes the product so that another cannot use it.
Club Good	A club good is a private good where some form of co-operation is required for individuals to gain the benefits. For example, flood protection is a club good, where ideally, the people and property owners on the flood plain should club together to fund the protection. (Note, local government is often involved because its ability to collect rates overcomes the free rider problem of others enjoying the benefits without paying.)
Externalities	Externalities are positive or negative spillover effects as a result of an activity, that are not taken account of by those engaging in a private business activity. Because they are spillover effects, the person undertaking the activity does not usually consider them and therefore these costs and benefits are not reflected in market prices. Because they are ignored the person generating the externality does not get any benefit/return or in the case of a negative externality, face the true costs of their activity. Consequently if investment decisions involving externalities are left solely to private individuals there would be under investment (positive externalities) or over investment (negative externalities). Externalities are different from multiplier effects (see below). Note the Local Government Act is explicit about negative externalities such as pollution -the people that cause the costs, the exacerbators, should pay.
Multiplier Effects	Multiplier effects are the indirect (upstream and downstream) effects of any economic activity. These effects always exist regardless of whether something is a public good or a private good. Whilst a community as a whole may benefit from these multiplier effects, it is generally as the result of aggregating private benefits. For example, there are multiplier effects from a firm employing a number of staff who in turn spend money on goods and services which helps generate further employment in a community and other people can then spend money on goods and services.

Intangible benefits	<p>Intangible benefits are indirect benefits that are difficult to quantify because there is no market price for them. For funding policy purposes, a subjective assessment on the size of these indirect benefits can be made, after first considering direct benefits. These intangible benefits include:</p> <ul style="list-style-type: none"> · option value -the value that people place on the option to retain a facility or service for future use. This is a private benefit. · existence value – the value that people attach to the existence of a facility or service even if they never use it (eg a museum). This is a private benefit. · prestige value -this relates to the contribution that a facility or function makes to a feeling of civic pride felt by individuals. This is an externality. · bequest value - the value which future generations may put on an item or the value that the current generation places on leaving something for the benefit of future generations). This is a mix of private benefit and externality.
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Intergenerational Equity Principle	<p>The principle of intergenerational equity is concerned with the spread of costs and benefits over time. Thus to be equitable across generations, ratepayers should pay costs in proportion to when benefits are received. In most situations the most effective way of spreading costs over time is by using debt.</p>
Exacerbator Pays Principle	<p>Also referred to as Polluter Pays. If a person causes a problem then they should pay to fix the problem, i.e. a company which discharges into a river should pay for the costs to have that pollution cleaned up.</p>

Stage 2 Terms

Term	Meaning
Equity	<p>From an economic viewpoint, equity is looked at from two perspectives. Horizontal equity refers to the principle of treating equals, equally, i.e. those in similar circumstances should receive similar treatment from the tax or rating system. Vertical equity refers to the different treatment of those who are in dissimilar circumstances by virtue of having different income.</p>

Stage 3 Terms

Term	Meaning
Capital Value	<p>A method of rating property. The unencumbered market value of the land plus the improvements (these values are independently determined). It provides for rates to be set at a proportion of a property's total value. It is the nearest equivalent to market value.</p>
Differential	<p>This gives a council the ability to vary the level of rating on different categories of property. Recent court cases emphasise the need for correct process and a reasoned approach to differentials.</p>
Land Value	<p>A method of rating property. This is the unencumbered market value of the land at the time of valuation (these values are independently determined at three yearly intervals). This is a rating system that sets the level of rates as a proportion of the land value of a property.</p>

APPENDIX 2: FUNDING POLICY PROCESS

The Council has used a definition of “function” that provides a straightforward and rational basis for:

1. determining costs for each function
 - a. at an appropriate scale in terms of the Council’s activities
 - b. relating to significant activities of the Council
 - c. minimising the costs and difficulty of obtaining the required information
 - d. at a level where full costs can be determined
2. developing a funding policy for each function
 - a. that is transparent
 - b. promoting prudent, effective, and efficient financial management
 - c. enabling a straightforward matching of the cost allocation with the appropriate funding mechanism

The major activities described in the Business Plans have been used to develop the Funding Policy. They are:

<u>Significant Activity</u>	<u>No. Functions</u>
Democracy	1
Regional Stadium	1
Environment Management	9
Regional Transport	3
Regional Water Supply	1
Land Management	2
Flood Protection	2
Parks and Forests	3
Corporate Services including Finance Investment Management	
Total	28

Note: Corporate Services, Finance and Investment Management are considered to be support services for the purposes of this analysis and thus a general charge on all the other services.

Many functions in the Funding Policy have a significant user charge component and the revenue actually earned will depend upon the level of business activity. Accordingly, the Council is of the view that the proportions in the Funding Policy are more akin to targets. The Council is therefore looking to meet the targets on average over three years. The Council expects there to be differences from year to year and clearly significant differences will need to be investigated and addressed. It may be that the Funding Policy will need amendment.