Wellington Chamber of Commerce
Submission to the Wellington City Council on the
Draft Long Term Plan 2018-2028
May 2018

Introduction

The Wellington Chamber of Commerce (the Chamber) welcomes the opportunity to make a submission to the Wellington City Council (WCC) on its Draft Long Term Plan 2018-2028 (the plan).

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

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

We would like to commend Wellington City Council and its officers for the way in which they have undertaken consultation on the plan. The plan plays a critical part to support the growth and performance of both the city and regional economy. We commend the council on the consultation undertaken, particularly the use of online channels to promote engagement. We appreciate effort involved from Council officers in preparing the documents. We also appreciate that, within the specific provisions for implementation of this plan and policies, the devil is truly in the detail.

The Chamber would also like to acknowledge the work that has taken place to date that dovetails into the plan itself, particularly around improving the city's readiness and resilience following the Kaikōura quake. The Chamber is strongly supportive of the future planning and investment contained within this plan.

This submission will address a number of the issues covered in the Consultation Document, generally as per the order outlined there. Not surprisingly, the Consultation Document covers the exact same five areas referred to at the pre-consultation stage: *Resilience and environment, Housing, Transport, Sustainable growth, and Arts and culture.*

To this end, it should be noted that in April 2018 the Chamber put in an extensive pre-consultation submission on the five areas highlighted by the WCC, namely: Resilience and Environment, Housing, Transport, Sustainable Growth, and Arts and Culture. A copy of that submission is attached as an Appendix to this present submission given the degree of overlap between the two and ought to be considered as part of this submission. The pre-consultation submission also looked at different funding options which the WCC might consider.

The Chamber suggests the WCC reads its submission to the Greater Wellington Regional Council (GWRC) on the Long Term Plan 2018-2028 Consultation Document[1], along with its submission to the GWRC on the "Revenue and Financing Policy"[2] (April 2018), as many of the issues raised in those submissions also apply to the WCC 10-year plan.

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

This written submission covers the following key priority areas, with the Chamber comments and consideration of each issue, with further discussion:

- WCC Funding
- Resilience and Environment
- Housing
- Transport
- Sustainable growth
- Arts and Culture
- Conclusion

WCC Funding

Comment

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

[1] http://www.wecc.org.nz/__data/assets/pdf_file/0018/145008/29042018-Wellington-Chamber-sub-to-GWRC-on-the-LTP-2018-2028.pdf

[2] http://www.wecc.org.nz/__data/assets/pdf_file/0019/145009/29042018-Wellington-Chamber-submission-to-GWRC-on-the-Revenue-and-Funding-Policy-April-2018.pdf

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

The Chamber notes the rates increase for 2018/19 is projected to be 3.9 per cent with an annual average[3] increase of 4.1 percent over the next 10 years. However when looking at the funding impact statement figures themselves, we would note that income revenue from rates will increase from $296.8 million in 17/18 to nearly $310.6 million in 18/19. This is an increase of 4.6 per cent over the next year. Over the next ten years the rates income will increase from $296.8 million in 17/18 to $493.9 million in 27/28. This is a percentage increase of 66.4 per cent over the next ten years, or an average increase of 6.64 per cent. Using the figure that the business community currently pays, around 46% of the total rate take, the increased cost to the business community is roughly an **additional $90.7 million** - not including any new targeted commercial rates. For the coming year, it's an extra $6.34 million.

In addition, it is noted that the WCC plans to borrow $664 million to fund capital expenditure over the 10-year period. The Chamber, while not opposed in principle to increasing debt, believes the role of the WCC in a number of activities (including social and affordable housing) could be reduced given the private good nature of some of those activities. Moreover, WCC has a number of assets which could be divested and recycled into more important core services such as water and sewerage infrastructure, which should be at the core of local government activity.

Local government has a vital role to play in advancing the overall well-being of New Zealanders. However, that role is not all-encompassing but needs to be established on a principled basis and properly circumscribed.

The Chamber considers it desirable for local government to focus on the provision of local public goods, since the likelihood is their provision will otherwise be inadequate. There is little incentive for the private sector to provide goods and services where the return on investment is likely to be low or in the worst case, non-existent.

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

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

[3] Based on the indicative additional rates for a suburban residential property with a capital value of $600,000.

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

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

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

The Chamber has ongoing concerns that funding is not apportioned against demonstrable benefit from the groups it is funded from. In particular, we would recommend that the business rating differential is lowered and greater transparency in the detail provided. The current rates burden does not lie where the costs and benefits fall.

As we have previously been on the record in saying, the Chamber is supportive of the additional investment sought from ratepayers with some important and non-negotiable caveats; that for each invest to grow project there must be a robust business case, cost benefit analysis, return on investment and that additional rates raised for 'invest to grow' projects must be ring-fenced to only those projects – not base lined for other activities. The funds should be returned to the ratepayer if they are not used. There must be a clear return on investment articulated. We would welcome further consideration of each proposal with a clear project by project assessment, alongside each investment budgeted and borrowed for.

Recycling of Assets

According to the Wellington City Council Long-term Plan 2015/16 (Section D: Final information – p.2) "Collectively, the city has $6.5 billion invested in physical assets – everything from water, roads and footpaths (network assets) through to libraries and community halls (social assets). We spend around $94 million per year to maintain and renew these assets."

Wellington International Airport is 34% owned by Wellington City Council. This is likely to be valued at around $400 million, roughly the capital cost of a number of big ticket projects that are being pursued under the plan, not to mention further additional increased borrowing WCC plans to undertake over the next 10 years. As Councillor Andy Foster prudently notes, this borrowing will take WCC ratepayers from paying $1 million every two weeks in interest to more than $1 million every five days in repayments at today's rates. The Chamber believes that WCC must look to other options to fund the capital outlay, rather than look to borrowings[4].

While a number of councils obtain significant investment income from revenue-generating assets, the justification for continued local authority ownership is weak.

[4] https://www.stuff.co.nz/business/103598008/john-milford-wellington-should-consider-selling-its-stake-in-the-airport

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

In the Airport's example, unlike other council-owned airports WCC is a minority shareholder, and conversely there isn't a lot of influence the council can exert when it comes to making the asset pay. Last year WCC received just $12.1 million in dividends. The airport company retained most of its earnings for reinvestment. There will be those who say selling an asset that has provided up to $12 million a year of income would be foolish. But by not borrowing, the council would save in loan servicing.

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

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

Wellington Council should be taking a balanced view and maximising the asset base, including recycling assets to achieve the best outcome for all ratepayers. This is not about divestment in and of itself, but about using one asset to leverage for three more – strategic assets that are worthy of such investment without borrowing significantly more or imposing additional taxes to pay for vital infrastructure.

We would also encourage greater transparency of the council's assets themselves, as there is little information available regarding the assets themselves. We note the 2014 Strategic Assets Policy requires an update, and would welcome the Chamber's involvement in the refresh of this policy.

The Business Differential

The business differential set by the WCC is currently 2.8:1, meaning businesses are paying almost 3 times more in rates than households for the equivalent level of capital value. This differential is one of the highest in New Zealand.

Page 61 of the Consultation Document provides a relatively useful comparison of rates projected to apply to residential property, suburban commercial property, and down town commercial property. For a property worth $1 million, the proposed rates for 2018/19 show the stark contrast in property types, with residential projected to pay around $2,600, suburban commercial property around $10,700, and downtown commercial property paying over $12,600. It should be noted that this excludes water consumption which is charged on actual usage.

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

For example, the building that the Wellington Chamber of Commerce occupies a floor within currently pays 85.5% of its total GWRC rates bill for a targeted transport rate alone, seven times more than what is paid for as general rates. This is exceedingly excessive, making up $53,117.42 of the total $62,140.20 rates bill. This is in part due to the building's demarcation as a "down-town levied" dwelling. Looking at the WCC rates bill, 82.76% of the total WCC rates bill or $147,363.50 compromises of the three standard commercial rates, including the business differential, the down town levy and the commercial sector targeted rate.

Rates details

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

View rates breakdown

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

Differential and targeted rating should be permitted only where a clearly identified community (such as a remote rural area) is provided with a distinctly different level of public goods from that of other ratepayers and the differential or targeted tax reflects the difference in the level of services. There should be an objective test in respect to 'benefits received' to ensure consistency of approach. However, in general, rates differentials, if used at all, should be used sparingly and not, as some councils have done, as a general revenue raising device, on unprincipled and unsubstantiated grounds.

Sometimes business sector differential rating is used on the unsubstantiated grounds that the sector benefits proportionally more from council services. A number of reports have found such thinking to be groundless, yet councils continue to apply significant differentials simply because they can and not on any principled economic basis. Where councils have agreed to reduce such differentials, the reduction has generally occurred at a snail's pace, councils being mindful of not upsetting residential ratepayers who enjoy the advantages of a lower rates' burden courtesy of the business sector.

In the past, and indeed to a certain extent still today, a number of people have argued that businesses are advantaged relative to residential ratepayers because they can deduct rates for income tax purposes and claim a credit for GST paid on rates. Reputable economists have discredited these claims for the following reasons. First, a firm can only claim a tax deduction for rates because its income is subject to tax. Nobody could seriously argue it is an advantage to be subject to income tax. Second, a GST registered person or firm can claim a credit for GST paid on inputs because supplies (outputs) are subject to GST. But the net GST collected is paid to Inland Revenue so there is no advantage for businesses.

The dangers of inappropriate differentials can be found in the GWRC's "Revenue and Financing Policy" proposals regarding the funding of public transport.

The following is an abstract from the Chamber's submission to the GWRC on what is proposed (April 21018):

> *"… the GWRC considers will spread public transport rates more evenly across the region. While initially sounding convincing, the proposals then state that a weighting (rating differential) will be introduced to reflect the so–called benefits for each group of ratepayers. Proposed differentials, as outlined in the consultation document, vary but a differential of 8.0 is proposed for Wellington CBD businesses (with the next highest being 1.5 for other businesses, excluding in the Wairarapa). This proposal in respect to Wellington CBD businesses is quite simply, appalling!*
>
> *Before commenting specifically on the differential, the Chamber would point out that goods and services of a largely private good nature (such as public transport) should ideally be principally paid for by users. On the other hand, goods that clearly meet the definition of public goods are generally best funded by ratepayers, if they benefit a region, or by central government (taxpayers), where they constitute a national public good (e.g. national defence systems).*

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

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

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

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

It should be noted that businesses already face considerable financial demands, including commercial rating charges, down-town levies etc. This proposal by the GWRC is simply another inappropriate cost imposition on CBD businesses."

Introduction of a tourism targeted rate

The Chamber's concerns are well on the record[5] with respect to a 'tourism targeted rate' or a 'bed tax'. From the Council documents we have reviewed we understand that the "targeted accommodation rate" won't have a rates impact in year one and two, but that the collection of rate/impact on rates would be 2.8 per cent in 2020/21 – just three years away. There are no details yet, so we can't work out what the impact on the accommodation/tourism sector will be, but there seems little doubt that if the rate goes ahead that impact will be significant.

We are very encouraged that the Council agreed to consult further on the proposal, and possibly broaden the impost, it's still not clear what the targeted rate might be spent on. With possible negative and perverse consequences like seen in Auckland, the council needs to think this whole idea through very carefully indeed. We would invite the Council to include the Chamber in such discussions.

Resilience and Environment (p.12)

"Investing in core infrastructure, looking after the environment and making our city more resilient against future shocks" (Consultation Document p.11)

[5] https://www.stuff.co.nz/business/102098229/targeted-rate-could-choke-off-needed-hotel-investment-in-wellington

The Chamber notes that under this section of the Consultation Document (p.13) the WCC is proposing to increase investment – and levels of service – in our "three waters" infrastructure by improving water storage and wastewater capacity and upgrading storm water infrastructure.

The Chamber supports this increased investment and therefore supports Option 1 (the preferred option – p.16).

Discussion

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

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

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

The economic perspective of risk stresses two ideas:

a. more resources, including time and money, are needed to reduce risk; and

b. people (through their actions) have a desired level of risk that is well short of zero, because of what they must give up in terms of increased cost or for other desirable considerations.

It is not a case of eliminating risk, to do so would be to effectively close down all productive activity.

It is important to understand there is an optimal amount of resource which should be utilised in reducing risk of failure in, say, earthquake-prone buildings, just as there is an optimal amount of resource that should be spent on crime prevention, health interventions etc. The sobering and undeniable fact is that resources are limited and risk cannot be completely eliminated, not even at great cost. In this respect the WCC's press release accompanying the release of the Consultation Document (Sunday 15 April 2018) was mischievous in stating that: *"I want a city that can withstand anything nature throws at it".*

While risk reduction may be possible, beyond a certain point the marginal cost of taking action becomes progressively greater, while the potential returns decrease. It is therefore in

companies' and individuals' interests to invest in risk minimisation strategies up to the point at which the marginal cost equals the marginal benefit.

Often market-based mechanisms for determining risk will be far more effective than council-controlled outcomes and will fairly reflect the actual risk associated with hazards. For example, in a competitive insurance market, individuals and businesses seek competitive quotes when dealing with hazardous situations. In some cases insurers may be unwilling to insure a building at all if the situation is considered too hazardous. This approach naturally incentivises people to assess the costs and benefits of building in areas where natural hazards have been identified.

With greater and more precise information, local councils will be able to more accurately determine the nature of the risk and whether individuals and businesses can manage the risk.

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

Insurance companies are already re-pricing risk. Riskier, more earthquake-prone buildings are attracting higher premiums and this will automatically lead to building owners either strengthening their buildings or demolishing them. Tenants are now also much more aware of risk when deciding where to rent. Regulatory requirements on top of this situation – giving building owners time limits to upgrade or demolish – are proving extremely costly and difficult for some building owners - including local councils and smaller communities with older, heritage or low-yield buildings – to meet, despite some assistance from local and central government.

The Chamber considers there is a strong case for paying compensation to building owners for required upgrades since the benefit is more to the public at large than to individual building owners. Further, by the stroke of a regulatory pen many buildings will effectively become worthless unless they can be upgraded within the timeframes proposed. Another good reason why compensation should be paid.

<u>Housing (p.20)</u>

"Investing in quality and affordable housing to accommodate our growing population" (Consultation Document p.11)

The Chamber notes that under this section of the Consultation Document (p.21) the WCC is proposing to play a greater role in the provision of housing, including social and affordable housing.

The Chamber does not support the WCC getting involved in social and so-called affordable housing given that housing is essentially a private good. This is not an appropriate core role for local government as outlined earlier. Notwithstanding the above, there is a significant role for Council in ensuring developers can provide much needed housing in a timely manner without being unduly constrained by regimented and inappropriate housing regulations (including land supply). Of the 2 Options provided, the Chambers would be more supportive of Option 2 (p.23) although as stated above, the Chamber does not believe it is appropriate for local government to get into housing supply and ultimately expose ratepayers to unnecessary risk for what are, in essence, private goods.

Notwithstanding the above, the Chamber strongly supports freeing up Council owned land for housing, preferably by selling it off in a timely managed fashion to maximise the return to ratepayers.

Discussion

Planners and regulators cannot be expected to keep up with market changes as quickly as market participants can. The Chamber advocates the need for a more market-based approach to housing provision, as a market-based approach is more responsive and flexible than a planning approach. Home-owners and businesses are best placed to make choices reflecting their needs and wants rather than having planners make decisions for them. A basic test of any useful regulatory regime is that it is resilient and can automatically respond to changes in supply and demand conditions. As long as developers pay the economic and environmental costs of associated infrastructure, development should be allowed wherever businesses and homeowners choose to build.

The Chamber considers householders should have greater responsibility for identifying and managing the risks associated with land use, rather than spreading the risks across all ratepayers and in some cases, central government. This would allow for increased housing development and in time should result in increased affordability.

For many years there has been a clear case of regulatory failure with planning causing much of the current cost escalation of sections and the rapid decoupling of land values inside and outside metropolitan urban limits.

The shortage of appropriately zoned and serviced land for both residential and business development has been decades in the making; it is not necessarily the result of current council activity but of successive councils using the 25-year-old Resource Management Act (RMA) in a way contrary to that intended. The Act was to have been enabling. Instead it has been used to restrict.

The real problem is that as long as planners constrain land supply, the price of land zoned urban will remain well above that of the same or equivalent rural-zoned land. Consequently, their many “planning” dislocations and unintended absurdities will continue.

Land use allocation can be developed according to any number of principles but ideally, like any allocation of natural resources, the underlying principles should encourage efficient allocation (i.e. encouraging land use to gravitate to its most highly valued use).

Transport (p.26)

"Investing in transport options to maintain easy access in and out and around our city, promoting alternatives to private car usage, and reducing congestion" (Consultation Document p.11)

The Chamber considers benefitting national economic growth and productivity should be key factors driving the determination of transport options. Without a strongly growing economy and efficient transport services, New Zealanders cannot hope to achieve the standards of living they aspire to, or government (taxpayers) to fund the types of services, including health and education NZ has become accustomed to.

The Chamber has been closely following improvements made to Wellington's transport network and has continuously advocated for a more efficient and fit for purpose transport regime, both for the city itself and for the broader movement of freight and people within the Wellington region.
In our recent survey to the Let's Get Wellington Moving (LGWM) Working Group proposals (December 2017), 96.86% (more than 600 respondents) agreed that Wellington's transport system needs further development and investment. While we know there are many views within our membership, the survey saw that over half, 54%, of respondents favouring Scenario D (the most comprehensive scenario), with 90% supporting a solution that includes resolving the problems at the Basin Reserve and introducing grade separation.

A media release accompanying the launch of the scenarios on 15th November 2017 was headed: "Scenarios aim to move more people without more vehicles." While it is important to accept the analysis undertaken by the LGWM that we cannot solve Wellington's transport problems by just building more roads because we don't have the space, we need to accept there will likely be increased numbers of vehicles entering the city, given increased population, but perhaps more importantly, a number of roading projects currently underway that will facilitate more vehicles entering Wellington city whether officials and planners like it or not.

While the proposals stop at the Ngauranga Gorge, we know what happens beyond this area affects the entire Wellington region - getting to, from and around our entire transport network. What happens in the central city is crucial for many commuters who live outside the central city but commute to work given the central city has the highest concentration of jobs. As the Consultation Document correctly states, many people who live outside Wellington city travel to, from, and through the central city for work, leisure, to shop and to get to the airport or the hospital. What happens in the central city has an impact on people and communities throughout the region. A number of wider regional transport improvements are also required

to maximise the efficiency of the entire regional transport network, and we would support progress on the respective routes.

The Chamber notes that under this section of the Consultation Document (p.21) the WCC, with its "Cycling Master Plan" (and the introduction of weekend parking fees), is proposing that cycling should have a greater role to play.

The Chamber is opposed to Option 1 in respect to the "Cycling Master Plan" but, on balance, supports the introduction of weekend parking fees. Option 2 would see the WCC delivering the Cycling Master Plan over a longer period of time (35-year period) and retaining free weekend parking. The Chamber is opposed to Option 2.

Outlined below are the Chamber's thoughts on the Cycling Master Plan and also the proposals to introduce weekend parking fees (p.29)

Discussion

As previously noted, Wellington's transport problems cannot be solved simply by building more roads, there in not the space. However, there is also little likelihood the number of cars entering Wellington will diminish any time soon. Therefore, recognising the inevitable, the Chamber has grave reservations the Cycling Master Plan could prove a practical solution to Wellington's traffic woes!

Cyclists - Cost contribution and ACC levies

In a submission to the WCC on its Draft Cycling Framework (2015), the Wellington Chamber of Commerce stated that:

"On the topic of costs, the Council will know from previous submissions that the Chamber advocates for fiscal responsibility by the Council and would encourage the Council to prepare a clear business case and cost benefit analysis with a good return on investment, before applying the $40 million funding to these projects. As part of this business case, the Chamber would suggest that the Council consider a user-pays system or a cyclist registration system which would see the costs, even if a small contribution, of the project passed on to those who will most benefit. The introduction of such a system would be critical for the Chamber's support of the overall proposal."

In our 2015/16 LTP submission we again suggested the introduction of some form of user pays or contribution system "such as bike parking discs or through a localised bike registration system."

In addition to the above, the Chambers also notes many road users, principally cyclists, effectively pay nothing towards the cost of on-road accidents (apart from those adjudged as being work-related, e.g. cycle couriers), while motorcyclists continue to be grossly subsidised by motor vehicle owners. The Consultation Document clearly advocates for greater use of

cycling and other transport modes, such as walking. However, it is important the risks and costs associated with alternative transport modes are clearly understood and internalised to the users, rather than funded by other transport modes.

Over the past few years there have been moves to reduce Motor Vehicle Account cross-subsidisation but these have been tentative, to say the least, focusing mainly on removing some of the distortions within each vehicle class (e.g. between small and large motorcycles) rather than dealing with motorists' cross-subsidisation of motorcyclists per se. Given the severity of many bicycle and motor cycle accidents, it is incumbent on ACC to investigate suitable ways to ensure all cyclists also pay their fair share of costs associated with road-related accidents.

ACC, correctly risk rates activities in the Work Account based on actual risk (not fault, as ACC is a no-fault scheme). This means a professional rugby player will pay significant ACC levies for ACC-related claims, given the relatively higher risk of injury to professional rugby players compared with individuals working in less risky environments, e.g. office workers.
A graphic from the ACC 2017-19 Levy Consultation document (see below) makes the degree of cross-subsidisation abundantly clear, something ACC itself acknowledges.

"……most of the funding for motorcycle injuries still comes from levies paid by other road users. The graphic below shows that in 2017/18 levy period, when the overall costs associated with motorcycle-related injuries are expected to be $131 million, only $28 million will be funded directly from levies paid by motorcyclists. The remaining $103 million will be funded by other motor vehicle owners. On average this adds $30 to the rego for all other vehicle types"

While the levy applying to actual claims costs would be relatively high (relative to current subsidised rates), we nevertheless consider rates should be more progressively based on risk. However, it is acknowledged that it might take a number of years to achieve true risk-based levies for motorcycle owners.

Continuing to cross-subsidise motorcyclists and cyclists or any other road users through increased levies on motorists, when it is possible for the former to pay for their behaviour, is both unjustified and defeats many of the principles the ACC Board states are upheld in the levy setting process. Of more fundamental concern, this cross-subsidisation tends to defeat the important object of greater transparency provided for in the Accident Compensation (Financial Responsibility and Transparency) Amendment Act which the previous Government promoted as a game changer in respect to ACC levy setting transparency.

The second part of Option 1 is: *"replace free on-street parking in the city centre during the weekend with a discounted ($2.50 per hour) user pays weekend parking fee".*

As the Discussion Document correctly states, "free" weekend parking was put in place some years ago to support the Wellington retail sector, as malls in Porirua and Lower Hutt offered free parking. In order to offset any resulting parking revenue losses, a special rate (Downtown Targeted Rates) of $1.4 million is charged to city centre businesses. According to the WCC, the special rate is not fully recovering lost parking revenue through the special rate. The reality is the weekend 'free' parking isn't actually free either – its paid for by all Wellington CBD businesses, even those that don't benefit from it and who aren't open on the weekend.

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

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

Public carparks, by contrast, are still largely in the nature of a private good and users can be charged for using them.

But while the beneficiaries of "free" public carparks will principally be the users of the service, it is accepted there are others who will also benefit, for example, from potentially more people coming into Wellington to shop. This might benefit the local shops, although the benefit will more likely be on the margin.

However, the targeted rate currently applies to all businesses within the targeted region meaning many CBD businesses currently pay the targeted rate for no personal benefit at all.

Free parking therefore is a direct subsidy for those currently able to access "free parking" on weekends, funded by the business community, often with little or no relationship to the person using the free carpark.

The free car parking issue also has implications for private sector investors in car parking facilities and makes it difficult to plan ahead with any degree of confidence if WCC policies are going to change.

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

On balance, and in principle, the Chamber would support the introduction of charging for weekend parking, AND at the same time, the removal of the current Downtown targeted Rate of $1.4 million for city centre businesses currently, and unjustifiably in most cases, subsidising free car parking.

We would strongly encourage officers to thoughtfully consider proposals as part of a wider CBD parking strategy and look to model pricing and time allocations based on the 'smart' parking data information that WCC has heavily invested in, as well as looking at other examples of how cities use their parking more flexibly in the weekend and after hour times. The Chamber would be interested to know how the parking charges in Auckland (where you can pay longer in some places) have taken and whether these ought to be considered for some places in Wellington/evening parking, for example for Friday night parking, and possible looking to extend this to a Saturday night, perhaps looking at a flat rate.

At the time free weekend parking was introduced there were serious attraction issues for people to come into the city, which is why it made some sense to have the down town levy (paid for by all businesses, not just hospitality and retail) pay for customer's parking. Now, we have the opposite issue – people want to visit and be in the city. There is no doubt there are limited city parks, in part a result of traffic resolution changes and earthquake damage, but it is clear that there is demand and need to ensure better turnover. Paid parking helps ensure there is fair turn-around of spaces.

On the issue of car parking shortages, the Chamber was disappointed in the recent outcome of the Whitmore Street traffic resolution, given there were viable options to retain car parking while introducing greater safety and traffic flow improvements. As we said in our submission to WCC on the matter, the Chamber will not support the removal of any more carparks until the council has a CBD-wide strategy to mitigate the concerns and also takes satisfactory steps to address the current parking shortage.

Sustainable growth (p.32)

"Investing in economic projects that stimulate growth and diversification, and planning for population growth in ways that recognise the city's special character" (Consultation Document p.11)

The Chamber notes that under this section of the Consultation Document (p.34) the WCC is proposing (under Option 1) to increase the level of service in planning for growth (Strategic Planning, Comprehensive District Plan Review and Streamlined Consenting). The Chamber supports this increased investment and therefore supports Option 1 (p.16).

The second option concerns the key project of continuing with the proposal to develop a Movie Museum and Convention Centre on land adjacent to Te Papa. The projected construction cost is $165 million, with $25 million of funding support requested from central government.

The Chamber has actively supported the concept of a Movie Museum and Convention Centre but is concerned about apparent cost escalation over time.

While earlier costs associated with this project were projected to be lower and some involvement of the private sector would lower costs further, this appears to have changed with the ratepayer now seemingly projected to bear most of the burden (with strictly limited funding possible from central government).

The Chamber considers there is plenty of opportunity for the WCC to divest some of its asset base (e.g. share in the airport) and recycle it to pay for the Movie Museum and Convention Centre.

Notwithstanding the above, the Chamber would wish to see a lot more detail on how the Movie Museum and Convention Centre will be funded and the payback period for same (the business case) before actively supporting this proposal.

Discussion

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

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

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

Notwithstanding the above, Council's role in sustainable growth should be ensuring barriers to growth, particularly regulatory barriers, are removed as far as possible, enabling the private sector to invest in sustainable development.

There is a two-fold problem with WCC investment in sustainable growth:

First, it may tend to crowd-out private sector investment;

Second, and perhaps even more importantly, it does not eliminate but simply transfers risk from the private sector to ratepayers or in some cases taxpayers.

Given the above, WCC should confine itself to ensuring remaining blockages to growth are reduced as far as possible, focusing rather on the core public good aspect of local council activity e.g. water, sewage and transport.

Notwithstanding the above, the Chamber believes local government has a crucial role in local and regional economic development and that within this there is a role for entities such as economic development agencies (EDAs).

In practice, the local government sector takes a variety of approaches to economic development. Some councils confine themselves to facilitation and advocacy, while others fund the generic promotion of cities/districts/regions and/or business and tourism.

The Chamber's view is that local government should focus on providing a better business environment in terms of the efficient and effective provision of infrastructure, regulation and public services, keeping the rates burden down. The emphasis should be on removing or reducing barriers to growth and development rather than picking winners for special treatment.

Generic promotion of business and tourism should be undertaken with the consent of business and tourism interests and funded by those sectors through targeted rates. Where economic development agencies are funded through targeted rates and/or business differentials, the funding sector(s) should be represented in both governance and decision-making when determining how the money will be spent.

We do not favour WCC providing support and services to business, especially in competition with the private sector. With EDAs, the starting point should be a focus on the future platform from which businesses might operate; economic development agencies should not step into a business development role that competes with the private sector. If there are gaps in the market, they should look to partner with the private sector rather than compete.

Where economic development agency activity extends beyond the "future platform" and specific sectors are pursued, this should be done in association with the sector. Some agencies are more activist in providing business support and/or picking winners, including providing services directly to businesses and/or running events often in competition with the private sector. If services are provided or business development pursued, this should be done in partnership with the private sector or in a way that helps the private sector build its capability in the region.

The Chamber notes that New Zealand-wide, several hundred million is spent on regional development but with little information as to whether ratepayers are getting value for money or, more importantly, whether what EDAs are doing is crowding-out private sector initiatives.

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

The Chamber believes local EDAs should be encouraged to build scale and capability through shared services within the macro region and/or regions with compatible geographical areas. This might be something the Local Government Commission (LGC) could help to facilitate.

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

<u>Arts and Culture (p.40)</u>

"Investing in arts and culture to maintain our position internationally as a vibrant, edgy capital" (Consultation Document p.11)

The Chamber notes that under this section of the Consultation Document (p.42) the WCC is proposing (under Option 1) to invest in earthquake strengthening Council cultural facilities so they can support the arts and culture sector. These are St James Theatre ($11.5 million), Town Hall ($88.7 million), Wellington Museum ($10 million) and other venues ($7.5 million).

The Chamber partially supports Option 1, but questions the upgrade of the Town Hall. The Chamber is concerned about the potential cost escalation of this project over time to date and the potential payback, compared with the upgrade of the other facilities mentioned above.

<u>Discussion</u>

The Chamber believes there is some role for local government in advancing arts and culture as long as this role is not all-encompassing but is established on a principled basis and properly circumscribed. Any activity should relate directly back to the purpose statement in the Local Government Act 2002. As set out above, WCC must ensure it is not taking on, or investing in, too many non-essential activities, exposing ratepayers to unnecessary risk and costs.

Council must meet the current and future needs of communities for good quality infrastructure, local public services, and the performance of regulatory functions in a way that is most cost-effective for households and businesses.

The Chamber considers it desirable for local government to focus on the provision of local public goods, since the likelihood is their provision will otherwise be inadequate. There is little incentive for the private sector to provide goods and services where the return on investment is likely to be low or in the worst case, non-existent.

With this in mind, the Chamber supports efforts to maintain Wellington's reputation as the arts, cultural and events capital. A good example of this may be the dual purpose convention centre/movie museum project. The Chamber has previously said it sees the benefit of projects that increase visitor numbers in the region and strengthen Wellington's cultural attractiveness. We are also conscious that feedback from the WCC/Chamber Business Forum,

held in March 2014, wanted Wellington to 'sweat its assets more', referring to the city's exhibitions and museums. Therefore consideration needs to be given to what will encourage an increase in bed nights and other tourist spending: adding more buildings to the offering or simply providing more exhibitions?

However, as we have said previously, care will need to be taken. WCC has a very good record with events attractions to-date but as competition from other cities increases, Wellington needs to be more strategic about how - and which - events it attracts. Wellington must avoid entering into a bidding war. With its central location and domestic flights, Wellington has a genuine advantage without resorting to an expensive attraction budget. Often relatively low-key events can be lucrative. We support continued tourism promotion and investment in key recreational and cultural attractions.

Conclusion

As businesses are the largest contributor to Wellington City's and Wellington region's rate-take, and paying the highest proportion in the country, businesses have a real stake in what happens with that money. The Chamber has outlined a number of considerations in respect to the Council's five priority areas. The Chamber welcomes the opportunity to discuss our submission with the Council.

APPENDIX 1:

Wellington Chamber of Commerce
Submission to the Wellington City Council on the 10-year Plan
pre-consultation activity
April 2018

Introduction

The Wellington Chamber of Commerce (the Chamber) welcomes the opportunity to make a submission on the Wellington City Council (the Council) 10-year Plan pre-consultation activity.

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

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

The Chamber notes that the Council is seeking feedback on 5 issues on their pre-consultation activity, notified through the consultation and engagements tab on the Wellington City council website.

While the Chamber obviously welcomes the opportunity to have input before a draft 10-year plan goes out for wider consultation, it is disappointed that the pre-consultation provides little or no context for the 5 issues raised nor, perhaps more importantly, is there any discussion on the appropriate role of local government nor funding arrangements, both of which are crucial in the Chamber's view to ensuring that Council involvement in infrastructure and potential delivery of services is efficient. This is despite previous feedback provided to the Council on the "pre-pre" consultation exercise, undertaken over the December to January break.

The pre-consultation simply states that the following are the Council's priorities:

"Transport *- we needs a balanced, efficient and reliable transport system. It must work well with our natural and built environment, reduce congestion and pollution, and cope with rising numbers of commuters.*

Resilience and environment *- The November 2016 earthquake highlighted the importance of resilience. We are also vulnerable to the effects of climate change, in particular rising seas levels. We need to be stronger and better prepared.*

Arts and culture *– We need to secure our reputation as a centre of arts and culture. Cities compete globally for talent, and to continue to attract and support the best creative people and businesses, we must build on our strength and improve what we offer.*

Sustainable growth *– While our economy is in better shape than it was 3 years ago, we are still behind the New Zealand average and other major cities. We need to keep investing in areas that boost our economy, while also managing the impact of this growth. We must plan for a bigger population without losing the city's special character.*

Housing *– We want everyone to have access to quality affordable housing. With 50,000 to 80,000 more people expected to move here over the next 30 years, we need to find ways to increase and improve Wellington's housing stock."*

Given the above, the Chamber will also specifically include sections on the context of local government and funding arrangements, as it is important that these issue is addressed in an economically rational manner. As mentioned above, as the largest contributor to Wellington City's and Wellington region's rate-take, and paying the highest proportion in the country, businesses have a real stake in what happens with that money.

The Chambers would welcome the opportunity to discuss our pre-consultation submission with the Council. And the Chamber also looks forward to making submissions on the 10-year plan when it is released.

For ease of reference, this submission is divided into several sections, namely:

- *The context of local government*
- *Local government funding tools*
- *Transport*
- *Resilience and environment*
- *Sustainable growth*
- *Housing*
- *Arts and culture*

Section 1: The context of Local Government

Local government is an important part of New Zealand's economy. The 78 local authorities make up 4% of GDP. Local government is funded from a mixture of sources, with rates still being the predominant source of income. Currently, local government operating revenue amounts to around $9.4 billion annually. Over $5.5 billion (well over half) comes from rates.

The size of local government demands that it is financially responsible, transparent, and accountable to ratepayers.

Local government has a vital role to play in advancing the overall well-being of New Zealanders. However, that role is not all-encompassing but needs to be established on a principled basis and properly circumscribed.

The purpose statement under the Local Government Act 2002 required local government to focus on economic, social, environmental and cultural issues (the four "well-beings") and arguably resulted in a number of councils taking on, or investing in, too many non-essential activities, exposing ratepayers to unnecessary risk and costs.

More recent amendments to the Act (December 2012) removed the focus on the four well-beings and introduced instead a new purpose statement, namely: to meet the current and future needs of communities for good quality infrastructure, local public services, and the performance of regulatory functions in a way that is most cost-effective for households and businesses.

While there will always be debate around the words used in the purpose statement, the clear intention is that local government should stick to core activities to the extent practicable, with the emphasis on providing the goods and services (including infrastructure) that only local government can provide.

The Chamber considers it desirable for local government to focus on the provision of local public goods, since the likelihood is that their provision will otherwise be inadequate. There is little incentive for the private sector to provide goods and services where the return on investment is likely to be low or in the worst case, non-existent.

Section 2: ***Local Government Funding Tools***

The Chamber notes that several reports have identified problems with the future funding of local government infrastructure both in high population growth areas and areas where populations are either stagnant or declining and the rating base does not provide adequate funding.

In some respects this is a nice problem to have and shows that the NZ economy is delivering growth and employment opportunities for New Zealanders. However, such infrastructure does have to be funded. The 64 million dollar question (or should that now be the 64 billion dollar question) is how?

The business sector in Wellington pays just under half the city' rates bill and regionally business pay around a third of the region's rates bill, with the level of rates paid often entirely disproportionate to the level of services received. The situation is exacerbated by the generally wide use of business/commercial rating differentials despite strong evidence supporting their removal. Where the council has agreed to reduce such differentials, they have often been tardy in doing so, tending towards incremental change due to "expenditure pressures". Or conversely, other rating charges that fall on the business sector have been introduced or increased, with no or little reduction overall.

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

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

Appropriate pricing and user charges for local authority services. Charging for the use of private goods and services would bring greater efficiencies. For example, while some councils

charge for water and waste on a user-pays basis, many still fund such activities out of general rates, sending strictly limited signals to consumers as to the real costs associated with their behaviour.

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

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

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

Rates, including targeted and differential rating.

Rates increases have many of the problems outlined in respect to regional fuel taxes (see below), including little relationship to the beneficiaries of transport networks. They would also impact adversely on the business sector given the significant rates differential the Wellington Council currently applies.

The business differential set by the Wellington Council is currently 2.8:1, meaning businesses are paying almost 3 times more in rates than households for the equivalent level of capital value. This differential is one of the highest in New Zealand.

Differential and targeted rating should be permitted only where a clearly identified community (such as a remote rural area) is provided with a distinctly different level of public goods from that of other ratepayers and the differential or targeted tax reflects the difference in the level of services. There should be an objective test in respect to 'benefits received' to ensure consistency of approach. However, in general, rates differentials, if used at all, should be used sparingly and not, as some councils have done, as a general revenue raising device, on unprincipled and unsubstantiated grounds.

Sometimes business sector differential rating is used on the unsubstantiated grounds that the sector benefits proportionally more from council services. A number of reports have found such thinking to be groundless, yet councils continue to apply significant differentials simply because they can and not on any principled economic basis. Where councils have agreed to reduce such differentials, the reduction has generally occurred at a snail's pace, councils being

mindful of not upsetting residential ratepayers who enjoy the advantages of a lower rates' burden courtesy of the business sector.

In the past, and indeed to a certain extent still today, a number of people have argued that businesses are advantaged relative to residential ratepayers because they can deduct rates for income tax purposes and claim a credit for GST paid on rates. Reputable economists have discredited these claims for the following reasons. First, a firm can only claim a tax deduction for rates because its income is subject to tax. Nobody could seriously argue it is an advantage to be subject to income tax. Second, a GST registered person or firm can claim a credit for GST paid on inputs because supplies (outputs) are subject to GST. The net GST collected is paid to Inland Revenue so there is no advantage for businesses.

Divestment of Assets

According to the Wellington City Council Long-term Plan 2015/16 (Section D: Final information – p.2) "Collectively, the city has $6.5 billion invested in physical assets – everything from water, roads and footpaths (network assets) through to libraries and community halls (social assets). We spend around $94 million per year to maintain and renew these assets."

Wellington Airport is 34% owned by Wellington City Council. Of Wellington City ratepayers, the business community owns 21% of the total rateable property, and pays 46% of the total rate-take.

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

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

eliminate risk but transfers it from the private sector (which is often better placed to manage risk) to ratepayers.

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

Other alternative funding mechanisms

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

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

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

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

Greater private sector participation in infrastructure development, operation and service provision should also be considered in this context.

Section 3: Transport

The Chamber consider that one of the key issues which should drive determination for transport options should be on bringing benefits for national economic growth and productivity. Without a strongly growing economy and efficient transport services, New Zealanders cannot hope to achieve the standards of living they aspire to, or for Government (taxpayers) to fund the types of services, including health and education that NZ has become accustomed to.

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

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

Scenario D would deliver the most benefits, including travel time savings and opportunities to regenerate and develop the city, and builds the infrastructure that Wellington needs to make our transport network work. There is a clear need to fix the current issues that under-investment and poor planning has created to date, and gets it right going forward by planning ahead.

To further understand the support for scenario D, members were asked a range of questions, including the potential benefits to their own businesses, along with other businesses in the region. In total, 642 responses were received. The Chamber would be happy to send the Council copy of the survey questionnaire, and Analysis of the Survey results if they would find that helpful.

Chamber members emphasised the following points in the survey responses received:

- Ensure there is a balance so there is adequate accommodation for the movement of all modal users, in particular for the movement of goods and services.

- Reduce congestion.
- Ensure the growth and development of Wellington.
- Encourage use of and ensure that Public Transport is efficient and quick.
- Ensure better access to the Airport both northbound and southbound.
- Ensure better access around the Basin.
- Acknowledge that trade-offs may be 'car parking close to destination' and 'private vehicle access to the inner city'.
- Have a focus on the longer term.
- Ensure that options are future-proofed for mass transit, vehicles and automation.
- There is no doubt a need for a more robust benefit/cost analysis is required to provide for greater transparency and consistency.

One of the media releases that accompanied the launch of the scenarios on 15th November 2017 basically outlined this fact by stating in the title: "Scenarios aim to move more people without more vehicles." While it is important to accept the analysis undertaken by the LGWM that we cannot solve Wellington's transport problems by just building more roads because we don't have the space, we need to accept that there will likely be increased numbers of vehicles entering the city, given increased population, but perhaps more importantly, a number of roading projects currently under way that will facilitate more vehicles entering Wellington city whether officials and planners like it or not.

While what's proposed stops at Ngauranga Gorge we know what happens beyond this area impacts the entire Wellington region - getting to, from and around our entire transport network. What happens in the central city is crucial for many commuters who live outside the central city but commute to work, given that the central city has the highest concentration of jobs. As the consultation documents correctly state, many people who live outside Wellington city travel to, from, and through the central city for work, leisure, to shop and to get to the airport or hospital. What happens in the central city has an impact on people and communities throughout the region. There are also a number of wider regional transport improvements that are required to maximise the efficiency of the entire regional transport network, and we would support the progress of these routes.

Given the need to plan ahead, given lead times for projects – up to 10 years plus for Scenario D, this would suggest that Scenario D is probably the minimum that is required to try and future proof Wellington's transport network to cope with further population growth and associated services which will be required. Ad hoc and minimalist approaches are unlikely to cut the mustard which suggests a bold approach is required, despite the higher price tag associated with a more comprehensive solution such as proposed in Scenario D. Leaving the opportunity for future mass transit (including the possibly of light rail in the future) would seem to make logical sense when implementing the corridor of change as outlined in Scenario D. Scenario A is for all intents and purposes minor tinkering with the status quo, while

Scenario's B and C are only really band-aid approaches to the wider concerns of moving through the corridor from the Ngauranga Gorge through to the airport.

In summary, the Chamber LGWM submission supported the following:

- The intention to prioritise public transport, while ensuring that there is a balance to adequately accommodate movement of all modal users, in particular for the movement of goods and services.
- Reduce speed limits in the central city, while noting that lowering speed limits could actually lead to perverse outcomes and unsafe behaviour, requiring mitigation.
- Prioritise key streets for public transport, walking and cycling where this is appropriate, ensuring that it does not stop the flow of goods and services, or too greatly limits access to the city for all modal users.
- Build an extra Mt Victoria tunnel and separate east-west traffic from other movements at the Basin Reserve to deliver faster and more reliable public transport connections, including mass transit to Newtown and the airport.
- Build a new city tunnel under parts of Te Aro to reduce modal conflicts
- Build an extra Terrace Tunnel to improve access to and from the north and reduce traffic on the waterfront quays and through the central city, making it easier to access the waterfront.
- The need to ensure that the opportunity for future mass transit (including the possibly of light rail) when implementing the corridor of change as outlined in Scenario D of the LGWM consultation papers.

Respondents to the Chamber survey were also asked about how they would fund the project scenarios outlined in the LGWM consultation papers. Suggestions were provided and respondents could answer more than once. Just over three quarters opted for a model that included some form of taxpayer funding. Other funding options were supported, with 48.35% of responses supporting road tolling, 36.58% a regional petrol tax, 33.59% congestion charging, 25.27% divestment of council owned assets and 22% supported an increase to rates. Other responses included incentivising car-pooling, PPPs, council-backed bonds, more efficient public expenditure. Reasons respondents supported a mix of funding options. We believe that this was driven by the view that it was better to spread the additional funding impost most broadly. Respondents also supported changes that would incentivise motorists to switch to mass transit modes or vehicle share. Respondents also accepted that the purported benefits of the scenarios justified the collection of additional funding, such as rates or other levies.

It is noted that in respect to transport, some modes currently pay a disproportionate share of the costs associated with transport, while others pay very little.

In a submission to the Wellington City Council on their Draft Cycling Framework (2015), the Wellington Chamber of Commerce stated that:

"On the topic of costs, the Council will know from previous submissions that the Chamber advocates for fiscal responsibility by the Council and would encourage the Council to prepare a clear business case and cost benefit analysis with a good return on investment, before applying the $40 million funding to these projects. As part of this business case, the Chamber would suggest that the Council consider a user-pays system or a cyclist registration system which would see the costs, even if a small contribution, of the project passed on to those who will most benefit. The introduction of such a system would be critical for the Chamber's support of the overall proposal."

In addition to the above, the Chambers also note that many road users, principally cyclists, effectively pay nothing towards the cost of on-road accidents (apart from those adjudged as being work-related, e.g. cycle couriers), while motorcyclists continue to be grossly subsidised by motor vehicle owners. The consultation documents clearly advocate for greater use of cycling and other transport modes, such as walking. However, it is important that the risks and costs associated with alternative transport modes are clearly understood and internalised to the users, rather than being funded by other transport modes.

There have been moves over the past few years to reduce Motor Vehicle Account cross-subsidisation but these have been tentative, to say the least, focusing mainly on removing some of the distortions within each vehicle class (e.g. between small and large motorcycles) rather than dealing with motorists' cross-subsidisation of motorcyclists per se. Given the severity of many cycle accidents on our roads, it is incumbent on ACC to investigate suitable ways to ensure cyclists also pay their fair share of costs associated with road-related accidents.

While the levy that would apply to actual claims costs would be relatively high (relative to current subsidised rates), we nevertheless consider rates should be more progressively based on risk. However, it is acknowledged that it might take a number of years to achieve true risk-based levies for motorcycle owners.

Continuing to cross-subsidise motorcyclists, or any other road users (e.g. cyclists) where it is practicable for them to pay for their behaviour, through increased levies on other motorists is both unjustified and defeats many of the principles the ACC Board states are upheld in the levy setting process. Of more fundamental concern, this cross-subsidisation tends to defeat the important object of greater transparency provided for in the Accident Compensation (Financial Responsibility and Transparency) Amendment Act which was promoted by the previous Government as a game changer in respect to ACC levy setting transparency.

Tolling and congestion charges

The Chamber has long supported moves to allow tolling, public private partnerships (PPPs), and other investment options for urgently-needed high cost road transport for which there is significant community support. The Independent Inquiry into Local Government Rates recommended that central government remove legislative barriers to the funding of transport projects through the use of tolls[6]. Furthermore, as noted earlier, 48.35% of Chamber responses supported road tolling as part of the LGWM survey mentioned earlier.

Tolling would likely ensure that people (particularly road users) could seriously question the value of particular projects since the cost would be transparent and up-front. This would put more heat on decision-makers to ensure only efficient transport options made the grade rather than 'nice to have' projects.

There can be misunderstanding on the nature of tolling in respect to congestion charging and tolling in respect to paying for new roads. Tolling for new roads and congestion charging are, in effect, two totally different concepts and need to be treated as such rather than lumped together.

In effect, congestion charging is a system of charging users to effectively manage demand (the same as peak pricing in respect to the electricity sector). This pricing strategy makes it possible to manage congestion without increasing supply. Market economic theory, which encompasses the congestion pricing concept, believes that users will be forced to pay for the negative externalities they create, making them conscious of the costs they impose upon each other when consuming during peak demand. It is not, as such, a pricing mechanism that should necessarily be used to pay for new roads. This has been one of the main concerns of road users and taxpayers around the world in the use of congestion charging regimes.

Notwithstanding general support for tolling as the most efficient mechanism for funding new roads, we would oppose the use of tolling on existing roads to subside new roads, because to all intents and purposes this would be double taxation (paying twice for assets that have arguably already been paid for). Tolls should apply only to new roads so that the public and road users are well aware in advance of total costs and understand the trade-offs required for infrastructure development. Fudging cost through the use of a wide range of funding mechanisms well beyond tolling new roads (e.g. rates hikes, regional fuel taxes etc.) waters down the signals that should be sent to road users as to the true costs associated with various transport options.

[6] *Funding Local Government*, report of the Local Government Rates Inquiry (August 2007). See discussion on pages 157-158 of the Report and Recommendation 21.

Regional fuel taxes

Regional fuel taxes have significant problems, potentially raising compliance issues for business (particularly in seeking the claim refunds for diesel used for industrial purposes), while regional boundaries could affect suppliers of fuel by encouraging some businesses to avoid the tax by refuelling outside the boundary. Moreover, there is the possibility that not all the fuel tax will be available for roading projects with some going to other transport options. Greater clarity is required as to how the money collected would be spent. We believe robust processes and consultation are needed to ensure that any funding spent be soundly based.

Fuel taxes (and also rates) would not necessarily signal to motorists the costs associated with new infrastructure but rather blur them significantly. This is unlike tolling, where the costs would be front of mind for the motorist rather than hidden and not necessarily paid for by those benefitting most from the roading network.

Furthermore, using national fuel taxes only in one region would undermine a key policy of ensuring tax neutrality and would benefit that region at the expense of all other regions.

Despite their significant weaknesses outlined above, in the absence of tolling, congestion pricing and the like, regional taxes are likely to be better than expanding the rates tax. Rates tax expansion would disproportionally impact on the business sector, principally because of the wide use of rates differentials as outlined earlier.

Section 4: Resilence and Environment

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

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

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

As a general principle, individuals and companies should bear the full costs associated with their behaviour (i.e. costs should be internalised) or individuals will over-consume resources if they can shift costs on to third parties. Management of risk is no different in this respect. If individuals are to make rational decisions in respect to risk, they should ideally bear the associated costs (and benefits). However, it is accepted that just about every activity in life has some externalities (either positive or negative) and it is impossible in most respects to totally internalise costs (and benefits) at least with greater cost. The key is to ensure that costs and benefits are internalised to a reasonable degree.

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

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

Given that markets are generally faster at self-correcting than government intervention, the onus of proof must be on government to prove beyond doubt that the benefits of intervention exceed the costs, including unintended costs associated with regulation (such as cost escalation).

Without sound information based in known science, there will be a tendency for local authorities to take an unduly cautious approach to the management of hazards which may have unintended consequences, including restricting the ability of individuals and firms to engage in productive activity. This is entirely natural given the incentives facing local councils, particularly if liability of adverse outcomes falls back on councils as has been the case in respect to a number of activities. A number of examples to date (some of which are outlined below) would suggest that local authorities are taking a much more precautionary approach to the management of risk and hazards, mainly because of the fact that at the end of the day, if anything goes wrong, individuals and businesses are inclined to point the finger at councils for allowing them to undertaken certain activities and hence compensation for loss (or remedial action) tends to get placed on Councils (ratepayers rather than on the individual and business making particular decisions.

It should be noted that regulators generally have strong incentives to minimise their own risk by imposing higher standards than might arguably be justified. Because regulators do not

bear the costs associated with their decisions (costs will ultimately be passed on to consumers), they may well over-regulate rather than be aware of, or adequately consider, the cost/quality trade-offs consumers are willing to make. Given that each individual is unique, individuals will generally have different risk profiles, with some willing to pay considerable amounts of money to minimise risk while others will want to invest little in reducing real or perceived risk.

The economic perspective of risk stresses two ideas:

c. more resources, including time and money, are needed to reduce risk; and

d. people (through their actions) have a desired level of risk that is well short of zero, because of what they must give up in terms of increased cost or of other desirable considerations.

It is not a case of eliminating risk, to do so would be to effectively close down all productive activity.

Often market-based mechanisms for determining risk will be far more effective than council-controlled outcomes and will fairly reflect the actual risk associated with hazards. For example, in a competitive insurance market, individuals and businesses and seek competitive quotes in dealing with hazardous situations. In some cases insurers may be unwilling to insure a building at all if the situation is considered too hazardous. This approach naturally incentivises people to assess the costs and benefits of building in areas where natural hazards have been identified.

There are a number of instances in the hazard management area where local government controls will not only impact on the property rights of existing landowners but will seriously restrict available land for housing development, increasing the cost of available housing and as a result, rental prices. But it doesn't end there, as concerns about housing prices will ultimately be reflected in higher interest rates as the Reserve Bank attempts to ensure that inflation remains within its target band of 1-3 percent.

Residents in the Kapiti Coast District Council area fought proposals to place new "hazard lines" (from the Lim report) on about 1800 properties along the coast, sparking fears that the lines will affect valuations and insurance.

If implemented, these proposals would not only have seriously impacted on the value of the land in question due to questionable analysis, but by placing restrictions on the ability of affected residents to expand beyond their current property footprint.

Putting aside the debate as to whether the erosion hazard identified by the Council is within the reasonable bounds of probability, even if the erosion eventuates, the risks will largely be borne by people whose residences are on or close to the foreshore. Arguably, the “risks” of further erosion will affect these individuals in the sense that their property values may decline and/or they will no longer be able to secure insurance, at least not without greater cost. It is hard to see how such an outcome (even if unlikely, according to some sources) would involve adverse effects on external parties of such a magnitude as to justify the Council’s draconian response.

Notwithstanding the above, in order for individuals and business to make rational decisions in respect to risk and hazards they need to have sound information in order to assess risk, and how best to manage that risk. Incomplete or sub-standard information is likely to result in sub-optimal decision-making, by individuals, businesses, and insurance companies.

The nature of insurance is to price insurance according to risk while the nature of insurance is to pool risk within similar risk categories. In order for insurance markets to operate effectively, it is important that the nature of risk is well understood so that it can be priced accordingly.

There is no reason why councils should be unnecessarily concerned about hazard issues in respect to land use provided the externalities associated with any adverse event will be internalized as much as possible (e.g. the parties involved in building on flood plains or whatever are responsible for any adverse impacts associated with their behaviour).

This general principle has been upheld in a decision of the Environment Court where essentially the property-owners wished to build a house on land which could be prone to flooding. The view of the court was that:

> *“We have thought carefully about the way in which Mr and Mrs Holt have said they understand and will accept the risk of flooding of their property at 96 Stornoway Street, Karitane. We do not believe they are being foolhardy in proposing to build and live in a house on the property, but have assessed the probabilities rationally. There comes a point where a consent authority should not be paternalistic (at least not under the RMA) but leave people to be responsible for themselves, provided that does not place the moral hazard of things going wrong on other people.”*[7]

[7] Judge Jackson and Commissioner Manning in the case of Otago Regional Council v Dunedin City Council and BS and RG Holt [2010] NZEnvC 120, page 4.

Notwithstanding the above, the importance of having sound information to assess risk and manage hazard is fundamental. With greater and more precise information, local councils will be able to more accurately determine the nature of the risk and whether or not those risks can be managed by individuals and businesses. Any role of local councils in the management of risk and hazards need to be clearly targeted at those issues clearly identified where the costs and benefits are not internalised. Many current examples, as outlined above do not meet this test.

Earthquake risk and readiness

While it goes without saying that the "benefits of regulation must outweigh the costs" if regulation is to be justified, it is also important to analyse not only total costs and benefits (including potential unintended costs and/or benefits) but also where these expected costs and benefits might fall. For example, if the benefits are widely dispersed but the costs fall disproportionately on one group (in this case building owners), there may be a case for compensation for that particular group or at least for the provision of a reasonable length of time in which to change systems, processes or whatever may be causing significant externalities. Therefore, the impact of regulations on particular industry sectors and firms within sectors needs careful consideration.

Insurance companies are already re-pricing risk. Riskier, more earthquake-prone buildings are attracting higher premiums and this will automatically lead to building owners either strengthening their buildings or demolishing them. Tenants are now also much more aware of risk when deciding where to rent. Regulatory requirement on top of this situation – giving building owners time limits to upgrade or demolish – are proving extremely costly and difficult for some building owners, including local councils and smaller communities with older, heritage or low-yield buildings – despite some assistance from local and central government.

The Chamber considers that there is a strong case for paying compensation to building owners for required upgrades since the benefit is more to the public at large than to individual building owners. Further, by the stroke of a regulatory pen many buildings will effectively become worthless unless they can be upgraded within the timeframes proposed. Another good reason why compensation should be paid.

Energy

A number of countries and companies are looking at different alternatives to traditional supplies of energy such as micro grids and virtual power plants for areas at risk from natural disaster or operating at the fringe of the grid, where infrastructure costs are prohibitive. Other approaches such as testing battery storage systems and advanced solar inverters are also taking place as trials in parts of Australia and also Japan. No doubt other countries will

also be investigating in such alternatives as a means of managing risk, whether that be in relation to natural disasters (earthquakes, floods etc) or to manage growth in isolated areas.

It is noted that locally, energy generator and retailer, Contact Energy, has joined forces with Wellington Electricity and the Council to install solar and battery systems in a number of homes so residents can continue to use electricity even if the electricity grid suffers an outage.

The technology will allow the resident to harness the power of the network of solar generation and batteries and be rewarded for the energy they produce when the electricity grid is under pressure at peak times. It could also be used as a community asset in case of emergencies such as a major earthquake.

Water

Of great concern to the Chamber is the resilience of Wellington's water infrastructure. As recently reported, Wellington faces up to 100 days' water loss should an earthquake occur. This is a hugely significant risk for Wellington, its businesses and citizens alike.

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

In the event of such a significant water infrastructure disaster, government would likely be relocated, and with it would go a large portion of consumers which fuel the surrounding business community. Government aside, without water businesses must cease to operate for health and safety reasons.

Ports

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

The port is a key connector as the interisland hub, connecting New Zealand's North and South Islands. There is also an ongoing need to improve roading and rail access to the port in order to enable this movement of shipping cargo, and we encourage that a solution be worked

towards. There is potential for the port to act as a crucial hub given how it is linked to both the interisland ferries, the railway station and other related infrastructure.

Section 5: Sustainable growth

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

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

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

Role of Economic Development Agencies (EDAs)

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

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

The Chamber notes that New Zealand-wide, several hundred million is spent on regional development but with little information on whether ratepayers are getting value for money or, more importantly, what EDAs should be doing that does not "crowd-out" private sector initiatives.

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

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

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

<u>Section 6:</u> <u>Housing</u>

Planners and regulators cannot be expected to keep up with market changes as quickly as market participants can. The Chamber advocates the need for a more market-based approach to housing provision, as this is more responsive and flexible than a planning approach. Home-owners and businesses are best placed to make choices reflecting their needs and wants rather than having planners make decisions for them. A basic test of any useful regulatory regime is that it is resilient and can automatically respond to changes in supply and demand conditions.

The Chamber considers that as long as developers pay the economic and environmental costs of associated infrastructure, development should be allowed wherever businesses and homeowners choose to build.

The Chamber considers householders should have greater responsibility for identifying and managing the risks associated with land use, rather than spreading the risks across all ratepayers and in some cases, central government. This would allow for increased housing development and in time should result in increased affordability.

For many years there has been a clear case of regulatory failure with planning, causing much of the current cost escalation of sections and the rapid decoupling of land values inside and outside metropolitan urban limits.

The shortage of appropriately zoned and serviced land for both residential and business development has been decades in the making; it is not necessarily the result of current council activity but of successive councils using the 25-year-old Resource Management Act (RMA) in a way contrary to that intended. It was to have been enabling. It has been used to restrict.

The real problem is that as long as planners constrain land supply, the price of land zoned urban will remain well above that of the same or equivalent rural-zoned land. Consequently, their many "planning" dislocations and unintended absurdities will continue.

Land use allocation can be developed according to any number of principles but ideally, like any allocation of natural resources, the underlying principles should encourage an efficient allocation of resources (i.e. encouraging land use to gravitate to its most highly valued use).

Section 7: Arts and Culture

The Chamber believes there is some role for local government has to play in advancing arts and culture, so long as the role is not all-encompassing but needs to be established on a principled basis and properly circumscribed. Any activity should directly relate back to the purpose statement under the Local Government Act 2002. As set out above, council must ensure that is not taking on, or investing in, too many non-essential activities, exposing ratepayers to unnecessary risk and costs.

Council must meet the current and future needs of communities for good quality infrastructure, local public services, and the performance of regulatory functions in a way that is most cost-effective for households and businesses.

The Chamber considers it desirable for local government to focus on the provision of local public goods, since the likelihood is that their provision will otherwise be inadequate. There is little incentive for the private sector to provide goods and services where the return on investment is likely to be low or in the worst case, non-existent.

With this in mind the Chamber supports efforts to maintain Wellington's reputation as the arts, cultural and events capital. A good example of this may be the dual purpose convention centre/movie museum project. The Chamber has previously said that we see the benefit of projects to will increase visitor numbers for the region and strengthen Wellington's cultural attractiveness. We are also conscious that feedback from the Business Forum, held in March 2014 with the council, gave the feedback that Wellington need to 'sweat its assets more' regarding our exhibitions and museums. With this in mind, we consider whether adding buildings or simply exhibitions to the offering will encourage the increase to bed nights and other tourist spending.

However, care will need to be taken. The council has a very good record with events attractions to-date but as competition from other cities to host events increases, Wellington needs to be clever in how and which events it attracts. With Auckland having recently announced increased expenditure on events attraction, Wellington must avoid entering into

a bidding war. With Wellington's central location and domestic flights, Wellington has a genuine advantage without resorting to an expensive attraction budget. Often relatively low-key events can be lucrative. We support continued tourism promotion and investment in key recreational and cultural attractions.

Conclusion

As businesses are the largest contributor to Wellington City's and Wellington region's rate-take, and paying the highest proportion in the country, businesses have a real stake in what happens with that money. The Chamber welcomes the opportunity to discuss our pre-consultation submission with the Council. And the Chamber also looks forward to making submissions on the 10-year plan when it is released.