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Report to the Rural Services and Wairarapa Committee
from Ian Gunn, Manager, Operations (Wairarapa)

Gravel Extraction Royalties

1. Purpose

To review the gravel royalty fee and the allocation of the royalty to Wairarapa river management schemes.

2. Background

The Operations Department has recently been granted a resource consent to take approximately 300,000m^3 per annum of gravel from the Ruamahanga River system.

As a result, the Department now issues licences to gravel extractors instead of the extractor having to apply for consents. They can be either:

- Short term,
- Annual, or
- Long Term licences

Note that the Department can only suggest extractors take from particular areas. They cannot specify sites or turn the extractors away from their chosen extraction site. Accessibility and location are key factors for the gravel extractors. Therefore, some sites are always in demand, others less so. The staff ensure that the gravel extractors comply with the condition on the licence.

A gravel extractor pays:

- a licence fee ($75);
- a contribution to the cross-section monitoring programme, currently on a pro-rata basis of 8 cents/m^3;
- a supervision fee, on completion of the work, or quarterly;
- a royalty, currently 50 cents/m^3.

Gravel extraction historically has been concentrated close to the areas of demand, e.g. the Waingawa and Te Ore Ore bridges near Masterton, adjacent to the Waiohine River bridge between Carterton and Greytown, and close to Martinborough. At all of these locations, except the Waiohine River, there have been adverse effects from the gravel extraction. These have varied from threatening the stability of a bridge to serious degrade in the riverbed downstream of the gravel extraction area. Therefore, gravel extraction "poorly managed" can have serious long term consequences for the management of a river. Conversely, the build up of gravel on beaches needs to be managed to minimise the risk of damage to river scheme assets. Ripping and clearance of debris off such beaches is part of the maintenance programme on many schemes. Less gravel in a river system means smaller beach buildups.

With the issuing of the long term Ruamahanga River gravel resource consent, the following matters have now been established:

(a) the sustainable yield of specific reaches – some reaches are severely restricted;

(b) conditions to minimise environmental effects;

(c) the ability of staff to identify areas where they would like gravel to be extracted, and in all areas, how the gravel should be extracted to maximise the benefit to the schemes;

(d) ongoing monitoring of the gravel resource to ensure "sustainable" yields are at an appropriate level;

(e) regular compliance checks.

Thus gravel extraction is being managed to maximise the benefit for the river schemes.

However, it needs to be noted that there are some locations which are suffering from the previous effects of over extraction. In addition, there are some areas where gravel is never extracted due to access/location issues. It should also be noted that downstream reaches can benefit from the gravel extraction upstream, e.g. the Lower Wairarapa Valley Development Scheme (LWVDS) benefits from abstraction occurring further up the Ruamahanga River system.

3. Royalties

Royalties are collected on the basis of a blanket licence issued by the Commissioner of Crown Lands in 1972. This licence gives the Council authority to collect a royalty on gravel extracted but specifies that any royalty must be spent on river protection works. No direction is given on how any monies collected should be distributed.

Occasionally royalties are waived, especially when the Council is wishing to stimulate gravel extraction in a specific location. To date this has been of limited success as the royalty is a small component in the total cost of the winning of gravel.

Access and proximity to the market appears to be the main driver for localities to extract gravel. Also gravel can be won from outside of the riverbed as most of the Wairarapa valley is built on river gravels. A significant increase in the royalty would be required to stimulate gravel extraction at the current “non-favoured” sites.

3.1 What should the royalty fee be?

Royalty/levy charges throughout New Zealand vary from no charge to $5 per cubic metre. Many charges are in the range of 50-60 cents per cubic metre.

The gravel use fees applying in the western part of the Wellington Region vary from $1 to $2 per cubic metre dependent on the location. These cover consent fees, consent monitoring and supervision fees. Any net income is used in the maintenance of the particular river.

Given that the royalty fee in the Wairarapa has been fixed at 50 cents per cubic metre for nearly 20 years, it is proposed that from 1 July 2002 the fee be increased to $1 per cubic metre. Such an increase would bring the fee more into line with the western part of the Region.

It is also suggested that this charge be fixed until at least the next Long Term Financial Strategy review after the forthcoming one, i.e. it will be fixed for at least 4 years.

3.2 Current Policy of Royalty Allocation

The allocation of royalties was last reviewed by the Committee in 1993 (Report 93.78W). At that time it was agreed to increase the royalty allocated to each river scheme by 20% to the amounts set out in the attached Table 1. The basis of this allocation is unclear.

At the same time, approval was given to set up a contingency fund for unallocated royalties. The purpose of this fund was to enable any excess royalty income from year to year to be retained for river management works instead of being added to any Council surplus for that particular year. The contingency fund has also acted as a smoothing mechanism as the income from royalties varies from year to year.

The contingency fund is under the control of the Divisional Manager and from time to time royalty money has been allocated to specific river management works to protect community assets where there has been no obvious source of local funding.

Over the years since 1993, $427,000 has been collected in royalties and $294,000 allocated to schemes, as in attached Table 2. As a result, the contingency fund now comprises over $130,000. This fund has doubled in the past year because of a change in the collection process, i.e. previously royalty fees were paid when the gravel was "sold through the gate”. Now the royalty is paid as the gravel is removed from the river and this has resulted in a one-off “windfall”.

Since 1993 the Upper Ruamahanga Scheme has received 33% of the royalties although 31% of the gravel has come from this river. The Waingawa River scheme has received a significant contribution to its annual works programme. The Lower Wairarapa Valley Development Scheme (LWVDS) and the Waiohine River have received substantially lower royalty allocations.

A lower contribution to the LWVDS can be argued because it does receive a “benefit” from the gravel extracted upstream in the Ruamahanga River system. Stopbanks are constructed over much of the LWVDS area. Thus maintaining the level of the riverbed is a key to the viability of this scheme. Any build up of gravel would reduce the effectiveness of the stopbanks. In the LWVDS, gravel build up is occurring in the watercourses where no upstream gravel extraction is occurring, e.g. Turanganui River, Tauherenikau River.

3.3 How could the royalty be allocated?

The blanket licence does require the Council to allocate any royalty funds to “river protection works”. At the simplest level it could be argued that the royalties should be allocated straight to the scheme where they were won. In essence this is what has been occurring. What has not occurred is a regular review of the gravel extraction volumes to see if the rationale for allocation should change.

As the management of gravel extraction has become more sophisticated it is clear that:

(1) some reaches receive considerable benefit from gravel extraction, e.g. Tauherenikau, eastern and western tributaries to the LWVDS.

(2) other areas are restricted in their gravel extraction volumes because of “over extraction” in previous years.

(3) the LWVDS receives a benefit from gravel extraction upstream in the Ruamahanga River system.

(4) the Council has limited control over the location of preferred sites for gravel extraction.

Thus the rationale of the royalty being spent where the gravel is won is weakened.

It is also apparent that gravel extraction on its own cannot contribute significantly to “river protection work”. Instead gravel extraction needs to be part of an extensive programme of river protection works. Thus a river scheme needs to be “investing” in its river management on a consistent basis. During the 1990’s many of the river schemes were under-funded largely because river scheme rates were not increased to compensate for the loss of government grants. Also there may have been a tendency to allocate royalties to those schemes where ratepayers would not contribute their "fair share" to the management of the river schemes. In the case of the Waingawa River, royalties have been used to ensure that the scheme got "off the ground".

As well as being a period of under investment in the river schemes, the 1990's have seen an increased frequency of large flood events. This has resulted in the funding basis of the river schemes being reviewed to make them more robust. The Waiohine and Waipoua River schemes have already been reviewed resulting in increased annual work programmes and a changed rating basis. The Upper Ruamahanga scheme is currently being reviewed. It is therefore timely to review how royalties are allocated.

An alternative method of royalty allocation may be to allocate the royalties on the basis of either:

(a) the rating income contributed by the ratepayers of the scheme; or
(b) the total expenditure in the annual works programme. See table below.

Scheme Name	Rating Income	%	Total Expenditure	%
LWVDS	509,109	57	968,410	61
Waiohine	212,600	24	222,000	14
Upper Ruamahanga	42,500	5	80,000	5
Middle Ruamahanga	18,800	2	45,000	3
Lower Ruamahanga	42,500	5	80,000	5
Waingawa	35,354	4	140,000	9
Waipoua	34,342	4	54,000	3

Note: Scheme expenditure excludes Waipoua and mid-Ruamahanga Masterton District Council components and the Waingawa buffer zone compensation.

The table shows that the LWVDS dominates because of the size of the programme. It is proposed that the LWVDS not be allocated royalties on this basis. Instead the LWVDS could:

(a) keep all the royalties collected on the Tauherenikau River and western tributaries, ($9,390 based on the extraction over the past 3 years);

(b) reallocate the royalties from the eastern tributaries and the Ruamahanga River because of the "benefits" to the LWVDS of the extraction occurring upstream in the Ruamahanga River system and the benefit of the extraction in the eastern tributaries on the main Ruamahanga River channel.

The table also shows that total expenditure gives the smoothest distribution of income. If the rating income is used, the Waiohine River scheme would dominate the allocation because it is currently paying off a large deficit.

Therefore, the use of total expenditure is proposed as it does indicate the commitment of the scheme to its annual programme of works.

4. Allocation of Contingency Fund

The contingency fund currently has a balance of $133,434. As this amount is considered excessive, it is suggested that the majority be allocated to river schemes so as to leave a more realistic balance of $20,000. It is proposed that 19% of the amount allocated go to the LWVDS to reflect the factors mentioned earlier, and the remainder be allocated on the basis of the relative scheme expenditures. This would result in the allocations in the table below.

Such an allocation would eliminate the current deficits in the Waingawa and Upper Ruamahanga River Schemes and make a significant contribution to the present Waipoua and Waiohine River Schemes deficits.

Scheme Name	Current Annual Allocation		Total Expenditure 2001/02	Proposed Allocation from Contingency Fund	
	$	%		%	$
LWVDS	4,200	16	N/A	19	21,552
Waiohine	3,400	13	$222,000	29	32,895
Upper Ruamahanga Middle Ruamahanga Lower Ruamahanga	9,025	35	$203,751	26	29,492
Waingawa	9,000	35	$140,000	18	20,418
Waipoua	400	1	$ 54,000	8	9,074
TOTAL	$26,025	100	$619,751	100	$113,431

5. Future Gravel Royalty Allocation

Assuming that the royalty fee is increased to $1 per cubic metre as from 1 July 2002, and that on average 100,000 cubic metres of gravel is taken each year, it is suggested that the future allocation of royalties from 1 July 2002 be:

(a) cost of royalty fee collection and supervision, $3,000

(b) amount allocated to schemes in the proportions earlier outlines, $90,000. This amount would be deducted from the cost of the scheme works leaving the net cost to be funded 50% from the Council's general rate and 50% from the schemes, as per the Council's funding policy.

(c) the assumed remaining $7,000 to be added to the contingency fund.

The resulting allocation to the scheme accounts would be as in the following table.

Scheme Name	Current Allocation		Total Expenditure 2001/02	Proposed Allocation	
	$	**%**	**$**	**%**	**$**
LWVDS	4,200	16		19	8,550
Waiohine	3,400	13	220,000	29	13,050
Upper Ruamahanga			80,000	10	4,500
Middle Ruamahanga	9,025	35	45,000	6	2,700
Lower Ruamahanga			80,000	10	4,500
Waingawa	9,000	35	140,000	19	8,550
Waipoua	400	2	54,000	7	3,150
TOTAL					$45,000

All schemes except the Waingawa River Scheme are better off with this allocation than previously. The Waingawa Scheme allocation is $450 less than at present.

6. Communications

It is expected that there will be some interest in this subject by members of the river scheme advisory committees. Therefore it is suggested that the proposed changes for the royalties be discussed with them and any views brought back to the Committee before a final decision is made. It would also be useful to consult with gravel extractors for their views.

7. Recommendation

That the proposed changes to the gravel royalty fee and the royalty allocation to river schemes, as set out in this report, be approved for consultation.

Report prepared by: Approved for submission by:

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