Property Council New Zealand

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Auckland Council Draft Long-term Plan 2021-31

1. Recommendations

1.1 Property Council New Zealand Auckland Branch ("Property Council") welcomes the opportunity to provide feedback on the Auckland Council's draft Long-term Plan 2021-31 ("the LTP"). While we support the draft LTP, we have made a couple of recommendations to ensure better and fairer outcomes for all.

1.2 At a high level we recommend the following:

- Ensure that the 'double-dipping' issue does not occur when using special purpose vehicles ("SPVs") enabled through the Infrastructure Funding and Financing ("IFF") Act 2020;
- Consider alternative options for the stated rates increase:
  - increase rates in 2022/23;
  - split the increase over four years and then return post this.
- Adopt Option 1 (Moderately accelerate climate action) as a climate change response;
- Adopt Option 1 (Focus Strategy) as the Council's response to housing and growth;
- Extend the City Centre Targeted rate to 2030/2031 to coincide with the end date of the LTP with a review taking place every three or six years to align with the LTP.

2. Introduction

2.1 Property Council's purpose is; "Together, shaping cities where communities thrive". We believe in the creation and retention of well-designed, functional and sustainable built environments which contribute to New Zealand's overall prosperity. We support policies that provide a framework to enhance economic growth, development, liveability and growing communities.

2.2 Our Auckland Branch has 360 businesses as members. The property industry contributed $22.8 billion in 2016 to the Auckland economy, with a direct impact of $10.5 billion (13 per cent of the GDP) and indirect flow-on effects of $12.3 billion. It employs 53,050 directly which equates to eight per cent of the total employment in Auckland. For every $1.00 spent by the Property Industry it has a flow-on effect of $1.70 to the Greater Auckland region.

2.3 This submission responds to the [10-year Budget 2021-31 Consultation Document] and [Supporting Information Document]. In preparing our submission we sought and received feedback from a selection of our Auckland-based members. Comments and recommendations are provided on those issues that are relevant to Property Council and its members.

3. Key issue 1: Proposed investment package

CAPEX Programme

3.1 Auckland Council ("the Council") is proposing to invest $31 billion over the next 10 years primarily on transport and water infrastructure (75 per cent of the total CAPEX). We support the proposal as investment in core infrastructure is essential for the city to function. We also support the proactive approach the Council is taking to asset renewal (i.e. replacing network pipes rather than waiting until they fail). Events in Wellington last year are a good reminder (collapsing wastewater pipes in Wellington, necessitating the diversion of 100 litres of waste a second into the harbour).[1]

Strategic Infrastructure Funding Direction

3.2 We support the Council's strategic infrastructure funding direction, particularly around collaboration with the Government to explore alternative funding tools, including user charges, targeted rates, public-private partnerships and special purpose vehicles. In particular, SPVs involve debt sitting off the council's balance sheet and is helpful for those council that are approaching their debt limits. It has been successfully implemented internationally and was adopted for greenfield development in Milldale. This tool also became a foundation for the IFF Act 2020, which the Property Council strongly supports. Further use of SPVs would help support much needed investment in growth and infrastructure from new developments.

3.3 We have some concerns, however, in relation to local government implementation of the IFF Act as it enables the local authority to collect development contributions to pay for certain infrastructure, while that same piece of infrastructure is paid for from the multi-year levy. It is important to ensure that the 'double-dipping' issue does not occur at the implementation stage at local government level. We are happy to provide further advice on that if required.[2]

Asset recycling

3.4 The Council is aiming to sell or lease surplus properties and reinvest the proceeds to meet Auckland's critical infrastructure needs. We support the proposal as it provides an opportunity to create funding capacity. It is timely given the pace of the population growth and growing demand for new infrastructure in Auckland.

3.5 As per the Productivity Commission report on local government funding and financing, it is sensible for councils to regularly review their asset portfolio to assess whether their present

[1] Investigation into Wellington's Olympic-sized wastewater spill. Retrieved from https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12298674

[2] See Property Council's submission on the Infrastructure Funding and Financing Bill - https://www.propertynz.co.nz/sites/default/files/uploaded-content/field_f_content_file/200305-pcnz_submission_iff_bill_5_march_2020.pdf

return from assets is better than alternative approaches.[3] As part of this assessment, the Council should explore their options for asset recycling, including through the preparation of business cases.

Debt levels

3.6 The Council aims to increase borrowing to a temporarily higher debt-to-revenue ratio of up to 290 per cent for the first three years, gradually returning to 270 per cent thereafter. We commend on the Council's proposal to increase borrowing as this will help deliver the CAPEX programme, and keep rates, fees and charges at the reasonable level.

Rates

3.7 The Council is proposing to increase the average general rates for 2021/22 by 5 per cent before returning to 3.5 per cent from the following year onwards. This one-off increase would help the Council meet the crisis caused by COVID-19.

3.8 We understand the Councils' rationale to lift Auckland up to the level required to allow for the budget and delivery of key projects and services. However, ratepayers are under significant financial pressure due to the ongoing impacts and uncertainties of COVID-19 (especially last two lockdowns in Auckland). Therefore, we recommend Council to consider alternative options for the stated rates increase:

- a delayed rates increase in 2022/23;
- split the increase over 4 years and then return post this.

3.9 These options will ease the funding burden on ratepayers in the post-COVID-19 recovery we now find ourselves in. In particular the increase in cost at a time that businesses are struggling from the lockdowns would be less impactful if this were spread to future years.

4. Key issue 2: Responding to Climate Change

4.1 We support additional investment to accelerate climate change actions (Option 1 in the Consultation Document). This option would provide $152 million of additional financial investment to accelerate Council's contribution to the regional climate change goals.

4.2 Significant investments will be required to adapt to climate impacts and make infrastructure across Auckland more resilient to climate change. Given the impact of COVID-19, Auckland's businesses and communities will need significantly more support from the council and central government to become resilient to impacts of climate change. When compared with the two other options, Option 1 is more affordable.

5. Key issue 3: Responding to housing and growth

5.1 We support the Council's decision to focus resources on a few key locations (Option 1 in the Consultation Document) to enable an opportunity for a more efficient infrastructure investment. We are also supportive of the Council's intention to make a use of the IFF Act as

[3] New Zealand Productivity Commission. (2019). Local government funding and financing: Final report. Retrieved from https://www.productivity.govt.nz/assets/Documents/a40d80048d/Final-report_Local-government-funding-and-financing.pdf

that would enable timelier provision of local infrastructure underpinning housing and urban development. However, as mentioned above in para 3.3, it is critical to ensure that the 'double-dipping' issue does not occur.

6. Key issue 5: Protecting and enhancing environment

6.1 The Council is proposing to extend and increase the Water Quality Targeted Rate until June 2031, providing an additional $150 million. The recovery budget is also proposing to extend the Natural Environment Target Rate from 2028 to 2031.

6.2 Property Council supports targeted rates as an alternative funding and financing tool. Funding mechanisms such as targeted rates support the principles of transparency and objectivity in legislation (Local Government Act 2002 and Local Governing (Rating) Act 2002). This is a beneficiary pay model, meaning those who benefit or use the service contribute towards it. For example, money collected via targeted rates are ringfenced to a project or geographic area that will benefit from the funding. We support beneficiary pay funding mechanisms, as they are transparent and provide a better understanding and opportunity to engage on where rates are spent.

7. Rates

Business Rates

7.1 The Council considers that business rates are too high compared to residential rates. Therefore, the average increase in rates for residential ratepayers will be slightly higher at 5.34 per cent, and the average increase in rates for business ratepayers will be slightly lower at 3.52 per cent.

7.2 We strongly support the Council's position. The rating system should be as fair and equitable as possible to all ratepayers to accurately reflect the costs paid in relation to the benefits received from rates expenditure. However, this is not always the case, with commercial ratepayers often cross-subsidising residential ratepayers by paying a higher proportion of rates, while receiving lower proportion of benefits.[4]

Extending the duration of the City Centre Targeted Rate

7.3 We support the extension of the end date of the City Centre Targeted Rate to 2030/2031 financial year to coincide with the end date of the LTP. This would provide more certainty for those who pay the targeted rate and would best align with city centre projects established in the LTP. We recommend this is reviewed every three or six years to align with future LTPs.

7.4 We support the city centre targeted rate being extended to fund city centre projects set out within the City Centre Masterplan Refresh. Property Council's submission on the Masterplan Refresh recommended greater connection between Wynyard Quarter with Britomart and Aotea Square to allow the waterfront to flourish. We also supported the proposed streetscape work and laneway developments (e.g. High Street) and recommended more engagement with city centre users to identify future pedestrian friendly areas within the CBD are developed. We are pleased to see where the City Centre Masterplan Refresh has landed and are particularly

[4] Urban Economics. (2018). Economic Evaluation of Tauranga City Council Proposed Rates Differential Policy.

supportive of Grafton Gully and Boulevard. We wish to see more public transport connections developed to better access Wynyard Quarter and the waterfront.

8. Development Contribution Policy

8.1 The Development Contribution policy will be further updated separately from the LTP, informed by final decisions on the capital programme. Our members can offer substantial assistance with drafting the policy and we would like to formally request we be consulted.

9. Conclusion

9.1 We support the LTP in principle. To ensure better and fairer outcomes for all, we have made a couple of recommendations, including alternative options to rates increase.

9.2 Property Council members invest, own and develop property across Auckland. We wish to thank Auckland Council for the opportunity to submit on the LTP as this gives our members a chance to have their say in how Auckland is shaped, today and into the future. **We also wish to be heard in support of our submission.**

9.3 For any further queries contact Natalia Tropotova, Senior Advocacy Advisor, via email: natalia@propertynz.co.nz or cell: 021863015.

Yours sincerely,

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