Property Council New Zealand

21 April 2020

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Dunedin City Council Draft Annual Plan 2020-21

1. Recommendations

1.1 We are facing a global pandemic with New Zealand currently in lockdown due to COVID-19. Given the current climate, Property Council New Zealand ("the Property Council") recommends the following:

Rates increase:

a. Delay the proposed rates increase until the 2021-31 Long Term Plan ("the LTP"), and instead minimise rates increases for the 2020-21 Annual Plan.
b. Investigate rates relief or rebate options such as waving late payment fees and allowing delayed rates instalments for all.

New Zealand Local Government *Funding Agency ("LGFA"):*

c. Do not proceed with option two under which the Council does not join the LGFA as a guarantying local authority unless the existing facilities to borrow have exhausted any headroom.
d. Consider taking on more debt, especially for capital expenditure to ensure key infrastructure projects continue to progress to maintain the workforce that is needed long-term.

e. Explore asset sales option to relieve pressure on rates.

Focus on core services:

f. Focus on core infrastructure (such as upgrades to water services and roads) during the lockdown and recovery period.
g. Balance the requirement to exercise fiscal responsibility with the need to continue to invest in key infrastructure projects.
h. Identify and support private sector and Local Government programmes and projects that can be fast tracked once restrictions are eased.

Depreciation:

i. Leverage the Government's building depreciation policy.

Proposals for LTP 2021-31:

j. Remove the proposal to investigate rates differential and consider alternative funding mechanisms such as user charges, targeted rates, public-private partnerships and special purpose vehicles.
k. Take a coordinated approach for the provision, development and delivery of key infrastructure projects.
l. Redesign George street as a two-way upgrade in a manner that will synchronise with any Octagon redevelopment to ensure development of local businesses.

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 legislation that provides a framework to enhance economic growth, development, liveability and growing communities.

2.2 The Property industry contributes over $3.1 billion in 2016 to the Otago economy, with a direct impact of $1.4 billion (14 per cent of the GDP) and indirect flow-on effects of $1.7 billion. It employs 8,150 people directly which equates to 8 per cent of the total employment in Otago. For every $1.00 spent by the Property Industry it has a flow-on effect of $1.27 to the Otago region.

2.3 The Otago region's building stock is worth $43.5 billion. Commercial property makes up $7.5 billion or 17 per cent of the building stock, which includes offices, retail, hotels and industrial buildings, and residential property makes up $36 billion or 83 per cent. In 2016, within the Otago region there is 5.4 million m2 of commercial building floorspace (6 per cent of the national floorspace).

2.4 This submission responds to Dunedin's Annual Plan Consultation Document and Proposed Amendment to the 2018-28 10 year plan. We also took into consideration Overview of the Draft Budget for 2020-21. In preparing our submission we sought and received feedback from a selection of our Dunedin-based members. Comments and recommendations are provided on those issues that are relevant to Property Council and its members.

2.5 We have also given a significant consideration to the impact of COVID-19 on our members and on New Zealand's economy. At a time of economic downturn and uncertainty it is particularly important that Dunedin City Council ("the Council") adjusts its Annual Plan 2020-21 to the rapidly changing environment in a light of the impact of COVID-19 pandemic.

3. Rates increase

3.1 The Annual Plan budget has increased more than the Council had planned for in the 10-year plan, where they set a rates limit of an average 5 per cent over nine years. Last year's rate rise was 5.3 per cent, and in this year's draft budget it is 6.5 per cent.

3.2 We understand that the rates increase is mainly in response to the higher costs of growth and the lower revenue from the Green Island Landfill. Rates contribute to the long term needs of the city and we recognise the need to continue to fund infrastructure investment. However, ratepayers are facing a very difficult time of unprecedented uncertainty in light of the impact of COVID-19 pandemic. The Council's proposed rates increase will not only affect our members but New Zealanders as a whole. Therefore, we call on the Council to keep their ratepayers in mind when finalising the Annual Plan and adjust it to a level that is financially prudent in the current environment.

3.3 On 25 March 2020, we wrote to all local authorities and the Minister of Local Government recommending councils minimise proposed rates increases. We recommend the Council do the same to help ease the funding burden on all ratepayers. This will mean delaying non-essential spending in the Annual Plan until the LTP 2021-31, in which case the Council will be in a better position to reassess rates and spending.

3.4 We have already seen Christchurch City Council commit to zero general rates rise and Environment and Southland Queenstown Lakes District Council are also considering this option. We have been notified that Dunedin City Council has also signalled to drop 2020-2021 Annual Rates increases due to the COVID-19 outbreak. We commend the Council on their intention to do that to ease the financial burden on the ratepayers.

3.5 Additionally, we recommend considering rates relief or rebate options, such as waving late payment fees and allowing delayed rates instalments. This will help ensure flexibility is provided during a time of uncertainty.

4. New Zealand Local Government Funding Agency

4.1 Dunedin City Treasury Limited has historically functioned efficiently. Therefore, we do not support the Council's proposal to join the New Zealand LGFA. We recommend keeping option two under which the Council does not join the LGFA as a guarantying local authority unless the existing facilities to borrow have exhausted all headroom.

4.2 We are aware that fast growing population coupled with the financial constraints might cause significant delay in delivery of the Council's projects. Over-reliance on general rates as a revenue stream (i.e. 57 per cent) may also add to delays in delivery.

4.3 At a time where global recession is likely for all, we recommend the Council consider taking on more debt, especially for capital expenditure. This is to ensure key infrastructure projects continue to progress in order to maintain the workforce that is needed the in long-term. Increasing the Council's debt levels will also provide rates relief to its residents during this difficult time. Debt levels should be considered only to ensure that key infrastructure projects can continue to progress. The Council will be in a better position to reassess debt levels during the LTP 2021-31.

4.4 Further to this, expert opinion should be sought to assess the benefits of asset sales to relieve pressure on rates. It is sensible for councils to regularly review their asset portfolio to assess whether their present return from assets is better than alternative approaches.[1] Therefore, we recommend exploring this option further.

5. Focus on core services

5.1 In a rapidly changing environment, assumptions that underpin the LTP 2018-28 are changing as well. At a time of economic crisis and uncertainty it is significantly important that the Council focuses on its core functions and operates as efficiently and effectively as possible. Therefore, we urge the Council to review its spending for 2020-21 to bolster economic resilience in the face of the current challenge.

5.2 While we recommend rates minimisation, it is also critical for our economy that key infrastructure projects continue to progress. It is particularly important in order to maintain the workforce that will be needed long after COVID-19. Therefore, we recommend the Council balance the requirement to exercise fiscal responsibility with the need to continue to invest in key infrastructure projects. This would see a focus towards maintaining essential services such as core infrastructure upgrades to water services and roads during and after the lockdown.

[1] Local government funding and financing. Retrieved from https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/

5.3 The Council is planning to spend around $117 million on capital projects in 2020-21 Financial Year. This includes peninsula connection, road safety improvements and three waters. Property Council supports the delivery of these projects, as these projects are important for the city's economic prosperity and growth. We also support the collaboration between the Council and the Otago Regional Council to investigate improvements to Dunedin's public transport system, including options for transport trials. This is another opportunity to stimulate the local economic activity.

5.4 We suggest postponing the Council's proposal to invest in property upgrades, such as replacing the Dunedin Public Art Gallery roof and installing new lifts in some of council's buildings. We see this as non-essential spending at a time where these assets are closed to the public for an uncertain duration. However, we encourage the Council reassess spending on these projects once the restrictions are eased. The Council will be in a better position to do so when developing the 2021-31 LTP.

5.5 It is important the Council be prepared to kick start projects once the restrictions are eased. This involves identifying and supporting private sector programmes and projects that can be fast tracked. This will reduce project delivery time and associated costs and help the Council be prepared for both recession and recovery in equal measure.

6. Depreciation

6.1 The Government has recently reintroduced building depreciation deduction claims for property owners with commercial and industrial properties, as part of the $2.8b support package for businesses. It is a substantial boost to help their operating balance sheets. This gives local government the option of depreciating buildings moving forward, to free up some capital, which then can be spent on essential services and infrastructure. We recommend leveraging this option as it will encourage investment in industrial and commercial buildings.

7. Proposals for LTP 2021-31

7.1 Property Council supports a number of priorities set for the next LTP 2021-31, particularly around public transport and climate resilience.

Using rail and Carbon zero 2030

7.2 Growing road congestions coupled with rapid population growth require viable and effective public transport networks. We believe that a multi-model approach must be used in managing current and future transport demand and congestion. These will allow for more efficiency in the wider transport network, providing benefits for businesses and to economic productivity.[2] As seen in most major competitive international cities there is a growing need for mass transit.

7.3 Providing an effective transport network would also enable the Council to achieve its proposed priority of carbon zero 2030. However, this will only be possible if public transport is available, reliable, efficient and cost effective. The Council's proposal to investigate how to reduce emissions, build climate resilience and work toward its target of becoming a net zero carbon city will all help in reaching its targets.

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[2] Property Council New Zealand Manifesto 2017, retrieved from https://www.propertynz.co.nz/sites/default/files/uploaded-content/website-content/building_tomorrows_cities_today.pdf

Rating differentials

7.4 The Council is proposing to look at rating differential as part of the LTP 2021-31. Property Council does not support rates differentials as a rating tool due to the lack of transparency of funding. Rates differentials are collected as general rates and are added to the overall pool of money, making it near impossible for businesses who pay the rating differential to track the total charges and where it is spent. This results in a lack of transparency for commercial ratepayers as it is unclear what their additional rates are funding and whether it is beneficial to their business needs. Often the level of commercial rates paid is disproportionate to the level of services received.

7.5 Funding mechanisms such as targeted rates and user pay rating systems support the principles of transparency and objectivity in legislation (Local Government Act 2002 and Local Governing (Rating) Act 2002). Both these rating systems are beneficiary pay models, 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.

7.6 Our position on transparency is consistent with the 2019 New Zealand Productivity Commission report on local government funding and financing which found that "councils' rating practices are too often not transparent."[3] The report recommends councils should make better and more transparent use of their rating and other funding tools.

7.7 Our position of abolishing rates differentials is consistent with Central Government's 2007 Local Government Rates Enquiry[4] which recommended that in the interest of transparency, rates differentials should be abolished and replaced with alternative funding mechanisms. This includes targeted rates, user charges (i.e. congestion charges), public-private partnerships and special purpose vehicles. Therefore, we recommend the Council follow this advice.

7.8 The topic of 'rates differentials' is of significant interest to our members and the feasibility of their developments. We welcome further discussion and collaboration with the Council to provide input from the commercial sector on ways the Council could alternatively fund projects in the LTP 2021-31.

Capital programme

7.9 In June 2019, the Council voted for a preliminary plan to turn George St from Moray Pl — past the Octagon — to Frederick St into a southbound one-way street. The intention was to create a more pedestrian friendly environment where people thrive, want to repeatedly shop, work, live, visit, do business and meet friends which offers, entertainment, events and is accessible for everyone.

7.10 The global COVID-19 pandemic has created financial instability for many businesses. Our members are concerned that the impact of preventing two-way traffic flow with ample parking along

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

[4] Local Government Rates Inquiry, 2007. Retrieved from http://bullerdc.govt.nz/wp-content/uploads/2014/08/Report-of-the-Local-Government-Rates-Inquiry.pdf

George Street will be catastrophic for businesses and citizens alike. Many business owners will simply lose their livelihood and investments.

7.11 A number of studies showed negative impacts of a conversion to one-way street on business activity, and property values. In some cases, emergency vehicles may have difficulty accessing certain properties.[5] However, the extent of impacts depends on the type of business. Some businesses might be affected, in part, due to the lower storefront exposure the business experiences on the one-way street, as one direction of travel is eliminated. Storefront exposure is also reduced by the increased speed of motor vehicles, whereby the motorist has less time to "read" a storefront or sign.

7.12 By contrast, conversion to two-way street is often associated with positive outcomes in terms of business development.[6] For example, of the 22 cities across the USA identified as having converted their main downtown streets from one-way to two-way, the majority reported positive results in terms of business development.

7.13 Property Council does not support the proposed changes to the George street as it will put many businesses at risk (in addition to the devastating impact of COVID-19).

7.14 We recommend the Council redesign George street as a two-way upgrade in a manner that will synchronise with any Octagon redevelopment to ensure development of local businesses continues. In the long run, it will help stimulate local economy when the restrictions are eased.

7.15 Further to this, the success of the city depends on better planning for infrastructure development. Therefore, we recommend taking a coordinated approach for the provision, development and delivery of key infrastructure projects. For example, delivery of the projects, such as the Octagon and George Street refresh should be aligned and synchronised when implemented.

[5] Are we strangling ourselves on one-way networks? Retrieved from https://nacto.org/wp-content/uploads/2015/04/Are-We-Strangling-ourselves-on-one-way-networks_Walker.pdf

[6] Converting Downtown Streets from One-Way to Two-Way Yields Positive Results. The Urban Transportation Monitor. (Brovitz, T. 2000).

8. Conclusion

8.1 At this time of uncertainty, the Council must balance the requirement of exercising fiscal responsibility with the need to continue to invest in key infrastructure projects. We hope that the Council is willing to adapt and adjust to help soften the economic impact of COVID-19 on many of its ratepayers.

8.2 Given the current environment of unprecedented uncertainty, we recommend delaying rates increases, focusing on core services, taking on more debt, exploring asset sales option and leveraging the Government's depreciation policy to support ratepayers and the property sector. These actions are necessary to assist all ratepayers during the economic impact of COVID-19, as they have a big role to play in lifting our country out of recession during these uncertain times. We also recommend keeping option two under which the Council does not join the LGFA as a guarantying local authority unless the existing facilities to borrow have exhausted any headroom.

8.3 We wish to work closely with Dunedin City Council when looking to develop the LTP 2021-31. As part of the process, we recommend the Council take a coordinated approach for the provision, development and delivery of key infrastructure projects and remove the proposal to investigate rates differential and consider alternative funding mechanisms. These include user charges, targeted rates, public-private partnerships and special purpose vehicles.

8.4 We would like to thank the Council for the opportunity to provide feedback on the Annual Plan as it gives our members a chance to have their say in how Dunedin is shaped, today and into the future. We also wish to be heard in support of our submission.

8.5 Any further queries do not hesitate to contact Natalia Tropotova, Senior Advocacy Advisor, via email: natalia@propertynz.co.nz or cell: 021863015.

Yours sincerely,

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