2 July 2020

Hamilton City Council's Annual Plan
Private Bag 3010
Hamilton 3240

By email: haveyoursay@hcc.govt.nz

Re. Hamilton City Council Annual Plan 2020/21

1. Recommendations

1.1 Given the current climate due to the COVID-19 pandemic and the economic recession, Property Council Waikato Branch ("Property Council") recommends the following:

(a) Hamilton City Council ("the Council") adopt a lower rate increase of either 2.5 per cent or 3 per cent which will see additional reductions in the budget and an increased debt to revenue ratio (more than the proposed 214 per cent).

(b) The Council focus on core infrastructure such as; upgrades to water services and roads, during the recovery period, and reassess spending on other projects as part of the 10-Year Plan 2021-31.

(c) Investigate alternative funding mechanisms such as user charges, targeted rates, public-private partnerships and special purpose vehicles.

(d) The removal of the Council's self-imposed debt to revenue ratio of 230 per cent, particularly given that the debt to revenue ratio has increased from 250 per cent to 300 per cent. Council taking on more debt will provide greater relief for ratepayers.

(e) Investigate a rates relief package, similar to Auckland Council's, which would not only put the Council in a better financial position in the long-run but would also be more effective at reducing the burden on commercial ratepayers.

(f) Defer or reprioritise four suggested projects within this submission to the value of $478,000.

(g) Leverage the Government's depreciation policy to support ratepayers and the property sector.

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 Property Council's Waikato Branch has 114 businesses as members. The property sector contributes $2.6b or 13 per cent of GDP in the Waikato area and employs 13,980 people. That makes it the region's second largest economic sector.

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2.3 This submission responds to Hamilton City Council's Back on Track Consultation Document and supporting documents. In preparing our submission we sought and received feedback from a selection of our Waikato-based members.

3. Rates

Rate increases

3.1 Ratepayers are facing a very difficult time of unprecedented uncertainty due to the impact of COVID-19 pandemic. On 25 March 2020, we wrote to all local authorities and the Minister of Local Government recommending councils minimise proposed rates increases to a level that is financially prudent. We also recommended the Government extend the debt to revenue ratio to allow for local authorities to increase their borrowing.

3.2 We are disappointed with the Council's Annual Plan which proposes 3.8 per cent average annual rates increase, which is the same as proposed in the 2018-28 10-Year Plan. We have already seen a number of councils committing to zero general rates rise (e.g. Rotorua Lakes Council, Bay of Plenty Regional Council) or proposing to reducing general rates increase (e.g. Tauranga City Council, Hutt City Council, Dunedin City Council, Queenstown Lakes District Council and Southland District Council).

3.3 We propose the Council adopt a lower rate increase of either 2.5 per cent or 3 per cent which will see additional reductions in the budget and Council taking on further debt. Our submission also suggests placing four suggested new projects on hold which would reduce expenditure by approximately $478,000 (See paragraph 6 – Reprioritising). As a result, the Council would take on an additional $447,000 (approx.) of debt under the 3 per cent rates increase or $1.37m (approx.) under a 2.5 per cent rates increase. This would allow for additional savings in the budget which can be transferred towards all ratepayers without compromising core services.

3.4 The last few months have seen economic forecasts change on a weekly, if not daily basis. The Council will be in a better position to reassess rates and spending while developing its 10-Year Plan 2021-31. More certainty on the actual level of reduction in council revenue from development contributions and building and consent applications will be available in the coming months.

Alternative funding mechanisms

3.5 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.

3.6 We support beneficiary pay funding mechanisms, as they are transparent and provide a better understanding and opportunity to engage on where rates are spent. We recommend instead of deferring transport improvement projects, the Council could introduce a targeted rate to help fund these projects and ensure they are prioritised for in the 10-Year Plan. Other user charges the Council should consider is to work with the Government and other regional councils to introduce congestion charging for major roading projects in Hamilton, such as the

Waikato expressway. This will help alleviate funding burdens and is another good example of implementing a user-pay system.

3.7 We also recommend the Council investigate how it could set up Special Purpose Vehicles by using the powers granted under the Infrastructure Funding and Financing Bill. Special purpose vehicles involve debt sitting off the Council's balance sheet which is helpful as councils can leverage debt for additional investment in core infrastructure. It has been successfully implemented internationally and was adopted for greenfield development in Milldale, New Zealand. This would help support investment in growth and infrastructure from new developments.

Debt

3.8 The Council plans to balance the books by 2022/23, one year later than originally planned. Our suggested reduced rates increase of 2.5 per cent or 3 per cent would not impact this. We recommend the Council adopt a lower rate increase and adjust its debt levels as this provides rates relief to ratepayers during this difficult time.

3.9 The Council's self-imposed debt to revenue ratio is 230 per cent with current debt levels for 2020/21 forecasted at 214 per cent. On 30 June 2020, the New Zealand Local Government Funding Agency increased the debt ceiling for local council borrowers to 300 per cent, which is an indication that the Government supports councils increasing their debt during this period. We recommend the removal of the Council's self-imposed debt to revenue ratio or that an increase occurs to fund core infrastructure which helps with providing employment opportunities during this time of economic uncertainty and global recession.

4. Capital programme

4.1 The Council are proposing to defer 14 projects to a later date to make room for four new projects and savings. However, many of the proposed deferred projects link to core infrastructure such as; water management, wastewater and stormwater. For many years, councils across New Zealand have deferred investment in water during an economic downturn which has resulted in the poor quality of water infrastructure we have today.

4.2 In May 2020, Property Council's survey of property owners and developers revealed that 60 per cent of projects in the planning phase are uncertain because of the current economic climate. Our survey revealed that 70 per cent were uncertain in the commercial and industrial space, with 50 per cent uncertain in the residential space (due to social housing being confident they could deliver). These figures paint a picture of the current economic climate and are of a concern.

4.3 Given the above discussion, there is need for central and local government investment in core infrastructure to provide certainty to developers. The Council's proposal to delay investment in water and network infrastructure in core growth areas such as Peacocke and Rotokauri is of great concern as it will likely have flow-on effects of delayed development in the private sector.

4.4 It is particularly important to maintain the workforce that will be needed long after COVID-19 has left the headlines. We recommend the Council balance the requirement to exercise fiscal responsibility with the need to continue to invest in key infrastructure projects as well as existing contracted capital projects to ensure continuity of work post lockdown. This would see the Council reprioritise core infrastructure (particularly in relation to transport and water in growth areas) to create certainty and demand for future development.

5. Covid-19 targeted relief package

5.1 The Council are proposing a new fund of $250,000 to provide support to businesses that can demonstrate hardship. It is disappointing to note that the details in relation to this new fund are not yet available. Our members are interested in knowing the proposed detail of the fund as we can provide meaningful feedback to the Council.

5.2 We support the Council's intention to provide rate reliefs however, in practice it is unlikely to have the intended outcomes. For example, deferring commercial ratepayers until January 2021 (or May 2021 for those with an increase of more than $20,000) is a very short timeframe in which the Council are expecting businesses to recover and be able to repay rates. BNZ June 2020 research cautions that "just being allowed to open doesn't guarantee more activity" and forecasts Q2 GDP will show a huge decline of 18 per cent.[1] It is imperative the Council extend their proposed timeframe to provide meaningful rate relief options for businesses.

5.3 By way of comparison, Auckland Council are allowing for all ratepayers who are financially impacted by COVID-19 to defer up to $20,000 of their 2020/21 rates per property until 30 June 2021 and provide for an additional 12 months to pay off the balance. This is more realistic and requires residential ratepayers to pay off the balance, rather than providing a rates rebate which will cost the Council much more than proposing a deferral scheme.

5.4 We recommend the Council look to adopt a rates relief package, similar to Auckland Council's, which would not only put the Council in a better financial position in the long-run, but would also be more effective at reducing the burden on commercial ratepayers. Furthermore, extending the timeframe (similar to Auckland Council's) in which businesses are required to make rate payments will go a long way in balancing the books and will likely have flow-on effects in relation to employment of Hamiltonians during an economic recession.

6. Reprioritising

6.1 The Council have proposed to reprioritise their plans by adding some new projects, delaying some projects (as per the capital programme) and changing some services. Given the current economic climate of great uncertainty, we would like to see the Council prioritise core infrastructure projects and delay the "nice to haves." As the proposal currently stands, the Council is not striking the right balance between core projects that will promote and maintain employment and non-essential projects.

6.2 The Council has added 12 new projects to the Annual Plan. We support the projects which relate to core infrastructure and services along with projects that promote economic development such as; water, transport and rubbish and recycling activities, the economic

[1] https://www.bnz.co.nz/assets/markets/research/BNZ-BusinessNZ-PSI-May-2020.pdf?0e7e3b13a3813e5a6258d2db11bfaf288996e848

development programme (pending details), and funding and financing options for Rotokauri and further Ruakura development.

6.3 Four projects within the 12 new projects listed are not related to core infrastructure and could either be deferred or a wider rebalancing exercise could take place as the Council is in a better position to reassess rates during the 10-Year Plan 2021-31. The four projects have a combined spend of $478,000 of which we do not consider necessary in today's economic climate.

6.4 The project we wish to see rebalanced is:

- the introduction of a living wage for all council staff ($353,000);

6.5 The projects we wish to see deferred include:

- the community-led engagement on options for the Enderley Park Community Centre and Fairfield Community Centre ($35,000);
- extending resourcing for the Council's civic events programme ($40,000); and
- the removal of an old Council house at Ruakiwi Road ($50,000).

Living Wage and extending council resourcing

6.6 A large number of local authorities and businesses across New Zealand have or are looking to; reduce staffing numbers, freeze salary increases, reduce staffing hours and costs, or take pay cuts in order to reduce overall expenditure. BNZ June 2020 market research forecasts more job losses in Q3 than in Q2, due to the Government wage subsidy falling off.[2]

6.7 In relation to the Living Wage, the Council is asking its ratepayers to finance increases to its staffing costs in the face of a global economic recession. Operational savings could be made across whole of Council such as freezing top tier salaries to reduce overall staff operational costs. We recommend the Council better balance their books to lift its wages of its lowest paid staff while freezing salary increases of its top tier staff to ensure no rates increases are related to staffing costs. These small adjustments could be made to the Council's overall staffing costs to not require an increase in their operational spend to provide a rates reduction.

6.8 The Council also propose to extend resourcing for the Council's civic events programme. Extending council resourcing is not appropriate during a global recession, unless the Council can rebalance its books to ensure that no rates increases occur in relation to staffing costs. We recommend this project is either deferred or rebalanced.

Community-led engagement on options for Community Centres

6.9 Savings could be made for community-led engagement projects that do not align with core infrastructure. 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. We recommend deferring this project until the Council is in a better position to reassess rates and spending during its 10-Year Plan.

[2] https://www.bnz.co.nz/assets/markets/research/BNZ-BusinessNZ-PSI-May-2020.pdf?0e7e3b13a3813e5a6258d2db11bfaf288996e848

Removal of old Council house

6.10 We would suggest deferring the removal of an old Council house until the Council is in a better position to reassess rates and spending during its 10-Year Plan.

7. Depreciation

7.1 Central Government has reintroduced building depreciation deduction claims for property owners with commercial and industrial properties, as part of the Government support package for businesses. It is a substantial boost to help their operating balance sheets. This gives the Council 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.

8. Conclusion

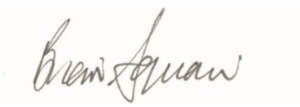
8.1 We are disappointed with the Council's proposal to retain the rate increase in the 10-Year Plan of 3.8 per cent. There is much more the Council can do to ensure better and fairer outcomes for all such as;

- Reduce the proposed rate increase to 2.5 per cent or 3 per cent and take on more debt;
- Revise the proposed rates relief to align with other councils around New Zealand or extend the rate rebate timeframes;
- Reprioritise expenditure to focus on core infrastructure and delay non-essential projects until they can be assessed as part of the 10-Year Plan;
- Remove or increase the Council's self-imposed debt to revenue ratio; and
- Leverage the Government's depreciation policy.

8.2 Property Council members invest, own and develop property in Hamilton's central city. We wish to thank Hamilton City Council for the opportunity to provide feedback on the Annual Plan as this gives our members a chance to have their say in how Hamilton's centre city develops today and into the future. We wish to be heard in support of our submission.

8.3 Any further queries do not hesitate to contact Katherine Wilson, Senior Advocacy Advisor, via email: katherine@propertynz.co.nz or cell: 027 8708 150.

Kind regards,



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