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Rotorua Lakes Council Draft Annual Plan 2020-21

1. Recommendations

1.1 Given the current climate of COVID-19 pandemic, Property Council Bay of Plenty Branch (“Property Council”) recommends the following:

- Focus on core infrastructure and essential services during the recovery period, and reassess spending on other projects/services as part of the Long-Term Plan 2021-31 (“the LTP”);
- Maintain the Uniform Annual General Charge (“UAGC”) as it currently stands;
- Shift ownership of three waters to a Council Controlled Organisation (“CCO”);
- Take on more debt, especially for capital expenditure to ensure key infrastructure projects continue to progress; and
- 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 Bay of Plenty Branch has 105 members. The property sector contributes \$1.6b or 14 per cent of GDP of the Bay of Plenty area and employs 8,600 people. That makes it the region’s largest economic sector.

2.3 This submission responds to [Rotorua Lakes Council’s Annual Plan Consultation Document](#), [Public Extra Ordinary Council Agenda 19 May 2020](#) and [other supporting documents](#). In preparing our submission we sought and received feedback from a selection of our Rotorua-based members. Comments and recommendations are provided on those issues that are relevant to Property Council and its members. We have also given a significant consideration to the impact of COVID-19 on our members and on New Zealand’s economy.

3. The Annual Plan’s guiding strategies

3.1 We commend Rotorua Lakes Council (“the Council”) response to cushion the impact of COVID-19. Given the current environment of unprecedented uncertainty, we strongly support the Council’s eight strategies that underpin the revised Annual Plan 2020-21 (“the Annual Plan”). We believe

they will help ensure the Council can keep providing essential services while also helping to keep local economy, local businesses and local people going.

- 3.2 While we are generally supportive of the revised Annual Plan and its underpinning strategies, there are certain aspects of it that could be further reassessed to achieve a wider range of benefits for all. Sections below outline our recommendations for the Council to consider.

4. Capex budget

- 4.1 The Council is proposing to spend \$117m on capital projects in 2020-21. We support the Council's intention to recommence four big projects and fund partnership projects which will create employment and stimulate the economy. In particular, major infrastructure projects, such as; Lakefront development and the restoration of Rotorua Museum may bring tourism back to Rotorua which in turn will grow, strengthen and diversify the local economy. We are also supportive of the Council's staged approach to capital commitments, as it will help mitigate possible projects delivery risk.
- 4.2 While we are generally supportive of the capex budget 2020-21, we recommend the Council further reassess some of the capital expenditure to ensure affordability and delivery of the overall capital programme. This is particularly important, given the significant increase in cost for delivery of core essential services like wastewater, water and refuse collection as a result of additional demand and higher environment and health expectations and standards.
- 4.3 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 support the Council's spending on maintenance and upgrading of water supply and stormwater infrastructure, roads and wastewater.¹ These core services will support the community's prosperity, health and safety and the environment.
- 4.4 We recommend further reprioritisation of some expenditure to ensure affordability, particularly in a light of COVID-19. For example, we believe the Council could defer the \$5.6million allocated for aquatic centre asset renewals (e.g. foyer improvements, changing room upgrades, new ceiling design for the indoor pool area, indoor floor covering).² We see this as non-essential spending at this point in time, unless the Council leverage the Government's recent depreciation announcement and can prioritise aspects of the Aquatic Centre asset renewal. We also question whether spending of \$861,409 on parks structures renewals is essential and could be deferred. However, we encourage the Council to reassess spending on these and similar projects when developing the LTP 2021-31.

5. Rates

Rates relief

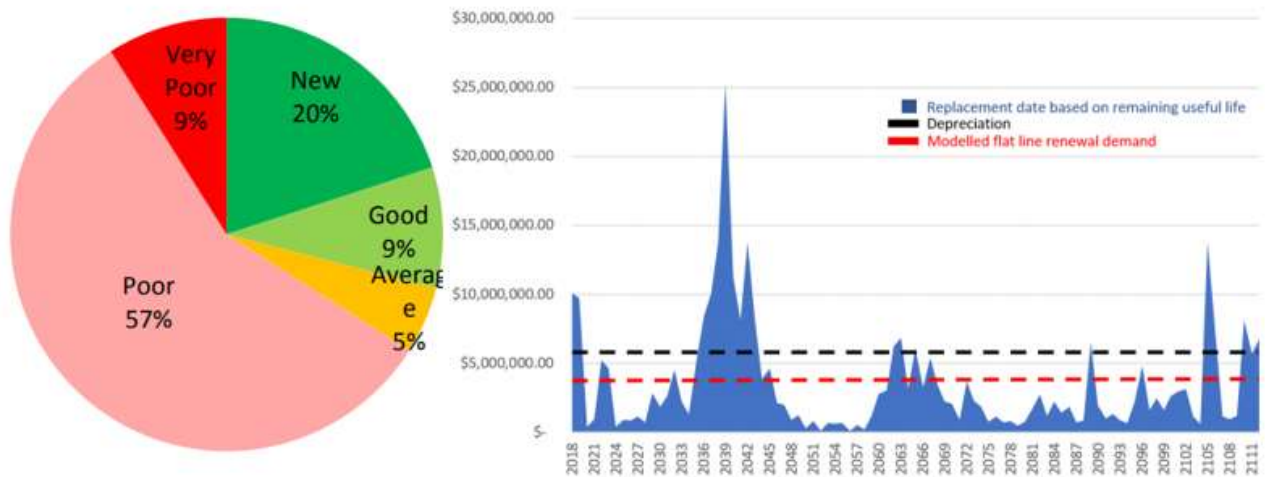
- 5.1 Ratepayers are facing a very difficult time of unprecedented uncertainty in light of the impact of COVID-19. Therefore, we commend the Council on the proposal to keep rates affordable through a zero per cent general rates increase as it will ease the burden on the ratepayers during the crisis.

¹ Note: it is in addition to four big projects, shovel-ready projects and partnership projects.

² Sourced from <https://visiontoaction.nz/projects-home/aquatic-centre-redevelopment/>

- 5.2 The Council is also proposing a 4.7 per cent increase in targeted rates to cover the cost for new essential wastewater, water supply and refuse services. We strongly support the investment in the provision of these services, as it is essential and cannot be deferred.
- 5.3 Often councils will look to defer investment in water infrastructure during an economic downturn. However, it is important that the Council invests in this given that over 60 per cent of the city’s wastewater pipe network in Rotorua, for example, is in poor or very poor condition, and needs to be renewed in the next 30 years (Figure 1).³

Figure1. Condition Summary Analysis & Renewal Demand Profile (Wastewater)



Source: Rotorua Lakes Council’s Long-Term Plan 2018-2028

- 5.4 Further to this, it is estimated that the Council will need to invest over \$80 million over the 30-year period on water supply renewal. We commend on the Council’s decision to prioritise an investment in water infrastructure.

The Uniform Annual General Charge

- 5.5 The Council is proposing to reduce the UAGC by \$25. This option would only reshuffle ratepayer contributions onto the commercial and industrial sector. We strongly oppose the shift of the rating burden onto the commercial property sector given that this funds general council services that predominately benefit residential ratepayers. In essence, the commercial sector would be cross-subsidising residential ratepayers. Therefore, the commercial sector would be cross-subsidising residential ratepayers. We recommend maintaining status quo.

6. Wastewater services – Statement of Proposal

- 6.1 New environmental standards, additional services demand and ageing asset challenges on the wastewater activity have driven the Council to assess alternative ways to deliver the wastewater services. If not managed well, wastewater generated by Rotorua communities can have a

³ The wastewater pipe network in Rotorua dates from the late 1890’s with the bulk of urban type reticulation and treatment occurred during the 1970’s and the 1980’s (source: Rotorua Lakes Council, Long-Term Plan 2018-2028).

significant adverse effect on the quality of the fresh water and the health and well-being of a community.

6.2 At present, approximately 70 per cent of the costs involved in the delivery of the service are associated with a multitude of individual contracts that inhibits any ability to provide an end to end service.⁴ Council is considering three options for the operations of the wastewater services going forward:

- **Option 1 (one 10-year contract):** the Council will retain all strategic decision-making, asset ownership responsibilities and service level setting and control for the duration of the contract. The day-to-day service delivery operations will become the responsibility of the contractor;
- **Option 2 (optimise current method):** the Council will retain strategic control and decision making over the long-term condition of the pipelines network. This includes retaining the status quo with the use and management of the Council's laboratory services and all the asset information continues to be administered by the Council; and
- **Option 3 (status quo):** the Council continues managing the network as is, reduce spending on asset renewals and wait until central government determines the direction of local government in terms of the future management of wastewater.

6.3 We support the Council's proposal to reassess management of Rotorua's wastewater network infrastructure as there is a need to change the way these services are currently managed and operated. In particular, the Council's Infrastructure Strategy 2018-2048 indicated that changes to wastewater services delivery are required, given the issues of ageing network, population growth, evolving compliance obligations, climate change and cost uncertainty.⁵ There are, however, certain aspects of the proposal that should be reassessed to ensure better service delivery in the long-term perspective.

6.4 There have been significant historic under-investment by councils across New Zealand resulted in a number of issues that currently face the wastewater services. For example, earlier this year wastewater pipe collapsed in Wellington, necessitating the diversion of 100 litres of waste a second into the harbour.⁶ Further to that, more than half of wastewater pipes in Porirua is in a poor/very poor condition. A recent annual report cautioned that, if there was a large rupture of

⁴ Rotorua Lakes Council Annual Plan 2020-21: Consultation Document. Retrieved from <https://indd.adobe.com/view/022f0c0a-edde-4dbb-817b-0d20b91c6092>

⁵ Rotorua Lakes Council's 30 Year Infrastructure Strategy 2018-48. Retrieved from https://www.rotorualakescouncil.nz/our-council/council-publications/10YearPlans/Documents/LTP-2018_to_2028/30%20Year%20Infrastructure%20Strategy%202018%20to%202048.pdf

⁶ Investigation into Wellington's Olympic-sized wastewater spill. Retrieved from https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12298674

the Ohariu fault, the city could be without clean water for up to four weeks, and without storage for much longer⁷. Current water restrictions in Auckland is another example.⁸

6.5 Therefore, we recommend the Council consider shifting ownership of three waters to a CCO. This will help better utilise the balance sheet, improve capacity and spread the costs of upgrades regionally over generations through debt financing. A CCO will also be able to volumetric charges and leverage off the assets to support infrastructure upgrades. This option would provide greater flexibility in terms of borrowing and, therefore, will likely enable better water infrastructure going forward. Further to this, we recommend an appointment of a CCO to run three waters as soon as possible as they would have to start programming construction now.

7. Debt-to-revenue ratio

7.1 We support the Council's proposal to use debt to cover reduction in fees and charges and support recovery projects (\$30m), including one-off \$1m debt funding to support Rotorua Airport.

7.2 The Annual Plan maintains maximum borrowings below the self-imposed limit of 2.25x. However, 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 and drive employment.

7.3 Furthermore, the Government has recently indicated that the debt to revenue ratio limit will increase beyond the current 250 percent cap, which is an indication that the Government supports councils increasing their debt during this period. The Council will be in a better position to reassess debt levels during the LTP 2021-31.

8. Depreciation

8.1 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 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 Porirua's \$2b water bill 'a wake-up call for councils' on under-investment'. Retrieved from <https://www.rnz.co.nz/news/political/410051/porirua-s-2b-water-bill-a-wake-up-call-for-councils-on-under-investment>

⁸ Auckland Council announces water restrictions. Retrieved from <https://ourauckland.aucklandcouncil.govt.nz/articles/news/2020/05/council-to-make-decision-on-water-restrictions/>

9. Conclusion

- 9.1 Property Council commends the Council on the proposal to adapt and adjust the Annual Plan 2020-21 to help soften the economic impact of COVID-19 on the ratepayers, while ensuring provision of essential services and delivery of core infrastructure projects.
- 9.2 While we support the Annual Plan in principle, there are further changes that could be made to achieve a wider range of benefits for all in the long-term. Given the current environment of unprecedented uncertainty, we recommend:
- focus on core infrastructure and essential services during the recovery period, and reassess spending on other projects and services as part of the LTP 2021-31;
 - maintain the UAGC as it currently stands;
 - shift ownership of three waters to a CCO;
 - take on more debt, especially for capital expenditure; and
 - leverage the Government's depreciation policy to support ratepayers and the property sector.
- 9.3 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. These actions will also enable the Council to better support the recovery and provide essential services and much needed infrastructure now and in the future.
- 9.4 Property Council would like to thank the Council for the opportunity to provide feedback on the Annual Plan 2020-21 as it gives our members a chance to have their say in how Rotorua is shaped, today and into the future. We also wish to be heard in support of our submission.
- 9.5 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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