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Tauranga City Council Draft Annual Plan 2020-21

1. Recommendations

1.1 Given the current climate of COVID-19 pandemic, Property Council New Zealand ("the Property Council") recommends the following:

Rates:

- a. Delay the proposed rates increase until the Long-Term Plan ("LTP") 2021-31, and instead minimise rates increases for the Annual Plan 2020-21.
- b. Investigate rates relief or rebate options, such as waving late payment fees and allowing delayed rates instalments for all.
- c. Maintain the Uniform Annual General Charge ("UAGC") as it currently stands.
- d. Abolish rates differentials and make a better use of alternative funding tools; or delay the proposed rates differential increase until the LTP 2021-31.

Focus on core services:

- e. 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 LTP 2021-31.
- f. Balance the requirement to exercise fiscal responsibility with the need to continue to invest in key infrastructure projects.
- g. Identify and support private sector programmes and projects that can be fast tracked once restrictions are eased.

Debt-to-revenue ratio:

- h. Investigate alternative funding methods to enable delivery of much needed infrastructure.

Depreciation:

- i. Leverage the Government's building depreciation policy to encourage investment in industrial and commercial buildings.

Development Contribution Policy:

- j. Defer development contribution payments for this financial year to accurately reflect the Government's support package.

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 [Tauranga City Council's Draft 2020-21 Annual Plan: Consultation Document](#), [Supporting Financial Information](#), [Draft Revenue and Financial Policy](#), [Draft User Fees and Charges](#) and [Draft Development Contributions Policy](#).
- 2.4 In preparing our submission we sought and received feedback from a selection of our Tauranga-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. At a time of economic downturn and uncertainty it is particularly important that Tauranga 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

Rates increase

- 3.1 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 of 7.6 per cent 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.
- 3.2 On 25 March 2020, Property Council wrote to all local authorities and the Minister of Local Government recommending councils minimise proposed rates increases. This will mean delaying non-essential spending in the Annual Plan 2020-21 until the LTP 2021-31, in which case councils will be in a better position to reassess rates and spending.
- 3.3 We have already seen Bay of Plenty Regional Council commit to zero general rates rise. Further to this, Environment Southland, Waikato Regional and Christchurch Councils are also considering a rates freeze.¹ We recommend Tauranga City Council do the same to help ease the financial burden on all ratepayers.
- 3.4 Additionally, we recommend considering rates relief or rebate options, such as waiving late payment fees and allowing delayed rates instalments. This will help ensure flexibility is provided during a time of uncertainty. It will also allow property owners to provide rent relief to their tenants.

¹ Where does your Council stand on a rates freeze? Retrieved from https://www.taxpayers.org.nz/rates_dashboard?utm_campaign=200401_ratesfreeze_update&utm_medium=email&utm_source=taxpayers

The Uniform Annual General Charge

- 3.5 The UAGC will reduce from \$600 (20 per cent of this year's total rates) to \$305 (10 per cent of next year's total rates). The fixed charge was originally proposed to move from \$600 to \$475 (15 per cent of this year's total rates). This proposal means that owners with more expensive properties (both residential and commercial) will pay relatively more than those with lower-value properties.
- 3.6 Property Council continues to oppose the reduction of the UAGC as it would only reshuffle ratepayer contributions onto the commercial and industrial sector.² It means that reducing the UAGC by 10 per cent requires other rates to increase by 10 per cent.
- 3.7 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. Therefore, the commercial sector would be cross-subsidising residential ratepayers. We recommend maintaining status quo.

Commercial rates differentials

- 3.8 The commercial differential is likely to increase to 1:1.3 on 1 July 2020. We oppose the commercial rate differential as a rating tool due to the lack of transparency of funding. In particular, 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.
- 3.9 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.
- 3.10 Our position on transparency is consistent with the 2019 New Zealand Productivity Commission report on local government funding and financing³ which found that "councils' rating practices are too often not transparent." The report recommends councils should make better and more transparent use of their rating and other funding tools.
- 3.11 Our position of abolishing rates differentials is also consistent with Central Government's 2007 Local Government Rates Enquiry 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 abolishing rates differentials and making a better use of other funding tools. Alternatively, we recommend delaying the proposed rates differential increase until the LTP 2021-31, given devastating impact of COVID-19 on all rate payers.

² [Property Council's submission on Tauranga City Council's LTP 2018-28.](#)

³ Local government funding and financing. Retrieved from <https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/>

- 3.12 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.

4. Focus on core services

- 4.1 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.
- 4.2 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.
- 4.3 The Council is planning to spend \$244 million on capital projects in 2020-21. 65 per cent of capital budget is focused on wastewater, drinking water, stormwater and roads. Property Council is supportive of the delivery of these projects, as they are needed for the city to function. For example, the biggest project, Waiāri water supply, will improve the quality of the environment, while serving a growing population.
- 4.4 We are also supportive of the Council’s “capital adjustment” of \$44 million to recognise the uncertain future of capital projects. However, we recommend further reprioritisation of some capital expenditure to ensure affordability of the capital programme, particularly in a light of COVID-19.
- 4.5 We recommend that the Council postpones some its proposed capital investment, such as the Adams Centre Expansion (\$5.4 m) and the Greerton pool rejuvenation (\$1.1m). 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 and similar projects once the restrictions are eased. The Council will be in a better position to do so when developing the LTP 2021-31.
- 4.6 Additionally, it is important the Council is 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 to be prepared for both recession and recovery in equal measure.

5. Debt-to-revenue ratio

- 5.1 Tauranga will continue to require significant capital investment over the coming years. However, the Council has almost reached 250 per cent debt-to-revenue limit, which will restrict their ability to keep borrowing. Therefore, we recommend the Council make a better use of other funding and financing tools.⁴ Alternative funding tools are beneficial as they more accurately reflect the rating base to allow the city to grow and the Council to deliver much needed infrastructure.
- 5.2 Suggested funding tools may include infrastructure bonds, value capture rating models, tax incremental funding, Public-Private Partnerships and Special Purpose Vehicles. For example, Special

⁴ Local government funding and financing. Retrieved from <https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/>

Purpose Vehicles could be a suitable option for high-growth councils approaching their debt limits as this financing tool for new development involves debt sitting off a council's balance sheet. It has been successfully implemented internationally and was adopted for greenfield development in Milldale, New Zealand in 2018. This tool also became a foundation for the Infrastructure Funding and Financing Bill, which Property Council supports.⁵

6. Depreciation

- 6.1 Central Government has recently 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. Development Contribution Policy

- 7.1 Changes to the development contribution funded works resulted in changes to development contribution fees (e.g. an increase in the Citywide Development Contribution levy of 16 per cent; Wairakei development contribution increase of 10 per cent). Further to this, the citywide development contributions fee (which is paid on building consents) is likely to increase significantly in the 2021-22 financial year. An early estimate is that this increase could be \$5,000 to \$9,000 for each new residential dwelling.
- 7.2 Although we encourage the Council to identify expected changes now for future developers, we are concerned that multiple increases will only result in housing unaffordability by effects of development contributions being passed onto the end buyer. This directly contradicts one of the LTP 2018-28's priorities of managing Tauranga's housing affordability and affordability challenges. Further to this, the proposed increase over the next two years would likely deter development at a time when the Council is trying to keep businesses going and accommodate growth while recovering from the impact of COVID-19.
- 7.3 Earlier this month, the Government announced that Infrastructure Industry Reference Group ("IIRG") is putting forward to Ministers projects from the private and public sector that are 'shovel-ready' or likely to be within six months.⁶ These new projects will be in addition to and build on the Government's \$12 billion New Zealand Upgrade Programme and existing Provincial Growth Fund infrastructure investments.
- 7.4 On 9 April 2020, the Property Council sent a letter to the Council encouraging to submit infrastructure projects that could be deployed as part of this Government stimulatory package. This includes:
- Papamoa East Interchange, Te Tumu and Rangiora land infrastructure in the Eastern corridor
 - Tauriko West land infrastructure and SH29 realignment in the Western corridor
 - Te Papa peninsula intensification, public transport network & social housing
 - SH2 Northern Link construction
 - Tauranga/Mount commercial ferry links

⁵ [Property Council submission on Infrastructure Funding and Financing Bill](#)

⁶ Government seeks infrastructure projects. <https://www.beehive.govt.nz/release/government-seeks-infrastructure-projects>

- Hewletts Road/Totara Street/SH2 upgrades
- City & port rail link re-alignments
- Civic amenities e.g. museum, performing arts, convention centre
- City centre domain stadium
- Community facilities e.g. homeless shelters
- Elizabeth Street Upgrade.

- 7.5 We are supportive of the comprehensive application to the IIRG that the Council has provided. These projects have to be prioritised as they will provide much needed stimulus to the sector in Tauranga, with flow-on job retention and creation in the wider Bay of Plenty and New Zealand economy.
- 7.6 The Government's recent announcement presents an opportunity to raise additional capital to deliver projects. It means that councils would not necessarily need to increase development contributions to be able to deliver the capital programme.
- 7.7 Given the above discussion, we recommend the Council defer development contribution payments for this financial year. This is particularly important given the devastating impact of COVID-19 on the sector. The Council will be in a better position to review the Development Contribution Policy as part of the LTP 2021-31. We welcome further discussion and collaboration with the Council to provide input from the commercial sector to inform development of the policy.

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
 - maintaining the UAGC as it currently stands
 - abolishing rates differentials
 - making a better use of alternative funding tools, when appropriate, and focusing on core services
 - leveraging the Government's depreciation policy to support ratepayers and the property sector
 - deferring proposed development contribution increases to accurately reflect the recent Government's support for 'shovel-ready' projects
 - delaying the proposed development contribution increase until the LTP 2021-31 in which case the Council will be in a better position to reassess its budget and capital programme.
- 8.3 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 accommodate growth and provide much needed infrastructure in the future.
- 8.4 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 Tauranga 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 Tropicova, Senior Advocacy Advisor, via email: natalia@propertynz.co.nz or cell: 021863015.

Yours sincerely,



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