Property Council New Zealand

1 July 2020

Tauranga City Council
Private Bag 12022
Tauranga 3143
By email: submissions@tauranga.govt.nz

Tauranga City Council (Revised) 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:

Rates:

- Introduce rates relief or rebate options, such as waving late payment fees and allowing delayed rates instalments for all ratepayers.
- Maintain the Uniform Annual General Charge ("UAGC") as it currently stands.
- Abolish rates differentials and make a better use of alternative funding tools.

Capital programme:

- Further reprioritise capital projects to ensure investment in core infrastructure.

Depreciation:

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

Development Contribution Policy:

- Defer development contribution fee increases for this financial year.

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 Revised Draft 2020-21 Annual Plan: Consultation Document, Revised Supporting Financial Information and other supporting documents. 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.

3. Council's response to COVID-19

3.1 We commend Tauranga City Council ("the Council") response of reducing rate increases to cushion the impact of COVID-19 by revising the draft Annual Plan 2020-21 ("Annual Plan"). While we are supportive of the Council's proposal to reduce general rates increase and take on more debt, there is more the Council can do to ensure better and fairer outcomes for all. The sections below outline our recommendations for the Council to consider.

4. Rates

Rates increase

4.1 Ratepayers are under significant financial pressure 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 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 reduce general rates increase (e.g. Hutt City Council, Dunedin City Council, Queenstown Lakes District Council, Southland District Council).

4.2 The Council is proposing an overall rate increase of 4.7 per cent which is a significant reduction from the previously proposed 7.6 per cent increase. We support the proposal and recommend the Council prioritise delivering essential services to the community and investing in core infrastructure (see section 5 – Focus on core infrastructure).

Rates relief and reduced penalties

4.3 Further support could be provided for residential ratepayers and smaller to medium businesses who are facing hardship. A number of councils have committed to rates relief and reduced penalties (e.g. Auckland Council, Hamilton City Council and Christchurch City Council). We recommend considering targeted rates relief or rebate options, such as waiving late payment fees and allowing delayed rates instalments. This will provide additional targeted relief for ratepayers who can demonstrate that they are facing hardship.

The Uniform Annual General Charge

4.4 The Council proposes to reduce the UAGC from $475 (20 per cent of this year's total rates), as indicated in the Long-Term Plan ("LTP") 2018-2028 to $296 (10 per cent of next 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.

4.5 Property Council continues to oppose the reduction of the UAGC as it would only reshuffle ratepayer contributions onto the commercial and industrial sector.[1] It means that reducing the UAGC by 10 per cent requires other rates to increase by 10 per cent.

4.6 We strongly oppose the shift of the rating burden onto the commercial property sector given that the UAGC funds general council services that predominately benefit residential ratepayers. This means, the commercial sector would be cross subsiding the residential ratepayers. Shifting the financial burden onto the commercial and industrial sectors at a time where many businesses are facing hardship is problematic and could likely have flow on effects into local employment if no rates relief package is

[1] Property Council's submission on Tauranga City Council's LTP 2018-28.

developed. We recommend the Council halt the proposed reduction of the UAGC until it is in a better position to reassess the local economy and council finances in the development of the LTP 2021-31.

Commercial rates differentials

4.7 The Council is proposing that businesses continue to pay $1.20 in general rates for every $1 paid by homeowners for properties of the same value. It means that the median residential ratepayer would see a 1 per cent increase compared to 11 per cent - $9.32 a week - for the median commercial ratepayer, and up to 24 per cent for top-value ($25m plus) properties. We strongly oppose the proposal due to a number of reasons which are outlined below.

4.8 The Council's rationale for the proposal is that Tauranga's commercial ratepayers contribute far less to the city's rates income than those in other major New Zealand cities. However, concluding that other councils have implemented a commercial differential and that these differentials are higher than the one proposed is not a transparent reason to support a rates differentials in Tauranga.[2] This would require an assessment of the specific factors facing each council, and their reasons for implementing a differential, which would need to be compared to Tauranga's situation. This has not been undertaken by the Council. For example, Auckland Council is reducing their commercial rates differentials by increasing the proportion of rates paid by the residential sector.

4.9 The real question is not how much Tauranga's commercial ratepayers contribute relative to other regions, but whether rates differentials is the best tool going forward, especially given the devastating impact of COVID-19.

4.10 What is also needed is a better understanding by the Council of the overall burden on the commercial ratepayers as they have a big role to play in lifting our country out of recession. Particularly, the proposal will increase the burden on existing businesses and may disincentivise new business from coming to Tauranga. Particularly, the Council's proposal on rates differentials is likely to discourage short to medium term investment from the private sector in critical community infrastructure (including additional housing and industrial land supply). This is contradictory to the overarching Government's intention to support local businesses during this time of recession to strengthen the local economy going forward.

4.11 Further to this, the Council's proposal is likely to add to the existing list of issues for the region, such as the growing and soon to be chronic lack of supply of 'build ready' residential land. It also includes implications to values, rents and equality. There is also an undergoing issue of the growing lack of supply of 'build ready' industrial land. For example, average developed values of $500 psm in Tauriko is encouraging businesses to invest elsewhere (e.g. Hamilton), where it is more affordable.

4.12 The Council's is also justifying the use of rate differentials to subsidise lower end residential rates. However, the impact of the proposal will be felt by all members of the community, not only commercial sector. Property owners will be forced to recover these costs through increased lease and rental fees, while business owners will have no choice but to recover these costs through increased costs for products and services. Moreover, there are currently mechanisms with the LGA that are designed to assist with rating relief for lower income families.[3]

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

[3] Rates rebate for low income. Retrieved from https://www.tauranga.govt.nz/living/property-and-rates/rates-rebates-and-remissions/rates-rebate-for-low-income

4.13 We also strongly 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 (i.e. anything from covering current debt to rubbish collection). 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.

4.14 Our position on transparency is consistent with the 2019 New Zealand Productivity Commission report on local government funding and financing[4] 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.

4.15 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. Therefore, we recommend abolishing rates differentials and making a better use of other funding tools (see section 5 – Alternative funding tools).

4.16 Funding mechanisms such as targeted rates and user pay rating systems (e.g. road congestion charges, water use) 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.

4.17 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.

5. Capital programme

Focus on core infrastructure

5.1 We commend the Council's decision to reassess capital programme budget for 2020-21 in a light of COVID-19. 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.

5.2 We strongly support the Council's spending to increase water supply capacity and improve wastewater treatment and disposal infrastructure. 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 water infrastructure is essential for the community's prosperity, health and safety and the environment. We are also supportive of investment in roads and transportation as well as investment to support additional housing for population growth to address housing shortage and housing affordability issues.

5.3 While we support the revised capital programme 2020-21 in general, we recommend the Council further reprioritise some of the capital expenditure to ensure affordability and delivery of the overall capital

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

programme. For example, the Council could look to defer the $1.38m allocated for library renewals. We see this as non-essential spending at this point in time, unless the Council leverages the Government's recent depreciation announcement and can prioritise aspects of the library renewal.

5.4 We also question whether spending of $1.1m on the Greerton pool rejuvenation and $532,000 on the upgrade of buildings on parks and reserves is essential and could be deferred. We encourage the Council to reassess spending on these and similar projects when developing the LTP 2021-31.

Alternative funding

5.5 Tauranga will require significant capital investment over the coming years (e.g. water supply and wastewater projects and opening up new growth areas).[5] We anticipate that additional Crown funding for shovel-ready capital projects will have a significant positive impact on the delivery of much needed infrastructure. However, we recognise the need to continue to fund infrastructure investment and renewal through alternative funding tools. Therefore, we recommend the Council make a better use of alternative funding and financing mechanisms to reduce reliance on general rates funding and ensure rates affordability going forward. This will more accurately reflect the rating base and allow the Council to deliver much needed infrastructure. Our recommendation is consistent with the Productivity Commission inquiry into local government funding and financing.

5.6 Alternative tools may include user charges (e.g. water charges and congestion charging), targeted rates, public-private partnerships and special purpose vehicles. In particular, special purpose vehicles involve debt sitting off the Council's balance sheet and is helpful for those Council's that are approaching their debt limits. It has been successfully implemented internationally and was adopted for greenfield development in Milldale, New Zealand. This tool also became a foundation for the Infrastructure Funding and Financing Bill, which the Property Council supports.[6] This would help support investment in growth and infrastructure from new developments.

6. Debt-to-revenue ratio

6.1 On 30 June 2020, the New Zealand Local Government Funding Agency increased the debt ceiling for local council borrowers to 300 per cent of revenue until 2022. This is an indication that the Government supports councils increasing their debt to either support ratepayers or additional capital projects during this economic period of uncertainty.

6.2 Therefore, we strongly support the Council's proposal to increase level of borrowing up to 250 per cent to invest in vital infrastructure such as roads, wastewater facilities and water pipes. We believe this will ensure key infrastructure projects continue to progress in order to maintain the workforce and drive employment that is needed in the post-COVID-19 recovery.

7. Depreciation

7.1 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

[5] The LTP 2018-28 shows there is nearly $1b of infrastructure to complete

[6] Property Council submission on Infrastructure Funding and Financing Bill. Retrieved from https://www.propertynz.co.nz/sites/default/files/uploaded-content/field_f_content_file/200305-pcnz_submission_iff_bill_5_march_2020.pdf

on essential services and infrastructure. We recommend leveraging this option as it will encourage investment in industrial and commercial buildings.

8. Development Contribution Policy

8.1 The Council is proposing to increase development contribution fees over a two-year period (e.g. an increase in the Citywide Development Contribution levy of 16 per cent; and Wairakei development 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.

8.2 We are concerned that multiple increases will 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. It also contradicts the Council's current Plan Change 26 which seeks to increase housing choice and affordability in Tauranga. The proposed increase would likely deter development as many developers are recovering from the impact of COVID-19.

8.3 The Council is proposing to increase development contribution fees for city wide development as per below:

- Dwellings that are not one or two bedrooms will increase from $9,818.58 to $11,437.61 (incl. GST);
- Two-bedroom dwellings will increase from $6,382.07 to $7,434.47 (incl. GST); and
- One-bedroom dwellings will increase from $4,909.30 to $5,718.82 (incl. GST).

8.4 The proposed model assumes that one person lives in each bedroom, so the more bedrooms there are the more people there are using the necessary infrastructure. However, in many cases there are higher occupancy rates in apartment and townhouses compared to houses. For example, a two-bedroom apartment that is rented will likely have four people living in it compared to a four-bedroom home that may only have two to three people living in it. This is all a case by case basis and where the proposed model may be flawed. For housing to be affordable, it is crucial that section prices are not driven up by development contribution fees.

8.5 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.

8.6 Given the above discussion, we recommend the Council defer development contribution fee increases for this financial year. Developers require certainty and policies that encourage growth. 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.

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 are supportive of the Council's overarching intention to cushion the impact of COVID-19, there is more the Council can do to ensure better and fairer outcomes for all such as;

- introducing rates relief and rebates options for those who are directly affected by COVID-19;
- maintaining the UAGC as it currently stands, and removing rates differentials to provide additional relief to businesses and investigate alternative funding mechanisms;
- further reprioritising capital projects to ensure investment in core infrastructure;
- leveraging the Government depreciation policy; and
- deferring the proposed development contribution fee increases for this financial year.

9.3 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.

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

Yours sincerely,

Scott Adams
Bay of Plenty Branch President
Property Council New Zealand