Property Council New Zealand

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Planning & Engagement Team
Hutt City Council
By email: haveyoursay@huttcity.govt.nz

Hutt City Council Draft Annual Plan 2020-21

1. Recommendations

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

- Reduce the rates increase further by finding additional reductions in the budget and taking on further debt.
- Considers rates relief or rebate options, such as waving late payment fees and allowing delayed rates instalments.
- Freeze the business rates differential transition for a year (option 2), until the Council does a full review of the Revenue and Financing Policy as part of the LTP 2021-2031.
- Abolish the introduction of a separate rating differential for Queensgate Shopping Centre.
- Investigate alternative funding mechanisms such as user charges, targeted rates, public-private partnerships and special purpose vehicles.
- Consider taking on more debt to reduce rates while ensuring key infrastructure projects can continue to progress.
- 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.

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 Wellington Branch has 148 businesses as members. The Property Industry contributed $8.6 billion to the Wellington Economy. This includes a direct impact of $3.3 billion (11 per cent of total GDP) and flow-on (indirect and induced) impacts of $5.3 billion. It employs 17,260 directly which equates to eight per cent of total employment in Wellington. That makes it the region's second largest economic sector.

3. Rates

Rates Increase

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.

3.2 We commend Hutt City Council ("the Council") for reducing its proposed rates increase from 7.9 percent to 3.8 percent. However, we believe the Council could reduce the rates increase further by finding additional savings in the budget and taking on further debt. The Council will be in a better position to reassess rates and spending while developing its Long-term Plan 2021-31 ("LTP 2021-31").

3.3 Both Porirua City Council and Wellington City Council have proposed business rates deferrals to help boost recovery of the city's economy and local business sector. We recommend the Council also consider 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.

Business rates differentials

3.4 In 2012, the Council acknowledged that businesses were unfairly paying almost four times the ratings bills of residential ratepayers and implemented a strategy to reduce the business differential over a number of years.[1] By increasing the differential under option 1 this sets a concerning precedent for future years. Decreasing the business differential has been a gradual, well canvassed policy, giving certainty to property owners and tenants alike.

3.5 We believe the Council should freeze the business rates differential transition for a year (option 2), until the Council does a full review of the Revenue and Financing Policy as part of the LTP 2021-2031 which will include a review of the rating differentials. This will help to limit the rates burden on businesses without dramatically increasing the rates for residential ratepayers.

3.6 Cashflow is a major problem for commercial property owners as many tenants are unable to pay rent. During the COVID-19 lockdown period on average commercial property owners had received only 50.5 percent of the rent due, compared to 90 percent in an average month.[2] Retail tenants were the least likely to have paid their rent (37 percent compared to 89 percent normally). Any reduction in rates will be able to be passed onto tenants, especially those struggling in the retail and hospitality sector.

3.7 Ultimately increased rates on commercial property will be eventually met by the businesses, as market adjustments during the term of a lease will be adjusted so that rent is higher if rates are

[1] Hutt City Council, Long Term Plan 2018 – 2028, page 108.
[2] https://www.newsroom.co.nz/2020/04/17/1131365/retail-rent-take-drops-60-in-april

higher. For a new building, cost of rates will be added when setting new rent, and rates for older buildings are benchmarked as a proportion of new build rent.

3.8 The Council needs to take a more strategic approach. If business rates are too high this could lead to businesses closing or relocating which in turn will result in a reduced rating base. In addition, if businesses close then this will lead to job losses for many residents which further reduces the Council's rating base. High rates are also an issue for attracting business investment, as increased rates and financial costs will discourage businesses from setting up in Hutt City.

3.9 As a matter of principle, Property Council has always opposed the business rates 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 business rates paid is disproportionate to the level of services received.

3.10 Our position on transparency is consistent with the 2019 New Zealand Productivity Commission report on local government funding and financing[3] 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 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.

Queensgate business rates differential

3.12 We would like to outline our opposition to targeting Queensgate Shopping Centre with its own rating differential. There is no basis for separating Queensgate from the rest of the Business Central community as its own rating unit, other than as a way to load a high differential onto the Shopping Centre. We recommend that the Council abolishes the introduction of a seperate rating differential for Queensgate.

3.13 Queensgate is home to approximately 138 businesses. These comprise a variety of food, fashion, international brands and entertainment outlets. This includes Lower Hutt owned and operated businesses like the Butler's Chocolate Café and Salute Hair and Day Spa to operate alongside major retail franchises and anchor tenants such as the Pascoes Group, The Warehouse and Countdown.

3.14 As explained above, the recent devastating effects for retail as a result of Covid-19 will have a disruptive, stressful and damaging impact on many of the retail shops for many months, if not years. With the exception of limited essential services in the Centre, Queensgate was closed from 25 March to 27 April 2020. An expectation that retail business at Queensgate should pay a high rates

[3] Productivity Commission inquiry into local government funding and financing. Retrieved from https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/

increase on behalf of the community in light of the strain already faced by these operators is unreasonable, unfair and inappropriate.

3.15 Councils are often not aware that rates bills are paid by tenants, not the property owner. This means that any increases loaded onto Queensgate represent a direct burden on individual tenants. When retail is already struggling, we believe it is not the right time to be increasing business rates differentials when many businesses are struggling financially. The consequences of this could lead to businesses closing.

Alternative funding mechanisms

3.16 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.

3.17 We support beneficiary pay funding mechanisms, as they are transparent and provide a better understanding and opportunity to engage on where rates are spent. For example, the Council should consider introducing metering for both drinking water and wastewater as it will help to reduce usage while also identifying leaks. Currently, the Hutt City has some of the highest usage in the country which is twice as much of Melbourne. Other user charges the Council should consider is a targeted rate for the Riverlink improvements or any CBD rejuvenation. To deal with investment in growth supporting infrastructure from new developments the Council should investigate how it could set up Special Purpose Vehicles by using the powers granted under the Infrastructure Funding and Financing Bill. The Council should also call on the Government to introduce congestion charging for major roading projects like the Cross-Valley Link.

3.18 The topic of 'rates differentials' is of significant interest to our members and we would welcome further discussion and collaboration with the Council on how to abolish rating differentials. We recommend that Council investigates the use of alternative funding mechanisms as part of its full review of the Revenue and Financing Policy in the LTP 2021-31.

4. Debt

4.1 We support the Council's decision to increase its debt levels as this provides rates relief to ratepayers during this difficult time. Given the planned debt to revenue ratio is 131 percent, we believe that the Council should consider taking on more debt to reduce rates. This extra borrowing should be ringfenced for capital expenditure on key infrastructure projects. Furthermore, the Government has 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.

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 recommend reviewing expenditure for the 2020-21 to bolster economic resilience in the face of the current challenge. This would see a focus towards maintaining essential services such as core infrastructure upgrades to water services and roads during the lockdown.

5.2 While we recommend rates minimisation, it is also critical for our economy that key infrastructure projects continue to progress. We also want to emphasise the importance of continuing with existing contracted capital projects and Council's procurement pipeline. It is particularly important to maintain the workforce that will be needed long after COVID-19 has left the headlines. Therefore, 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.

5.3 We support the Council's investment in water infrastructure as this is critical and cannot be deferred. Often councils will look to defer investment in water infrastructure during an economic downturn however, it is important that Hutt City invests in this given that around 60% of the city's water infrastructure needs to be renewed in the next 30 years. We also commend the Council on much of its investment into roading as this provides businesses and employees with the necessary roading network in any economic recovery. In addition, investment in the Riverlink promenade and urban improvements is key to revitalising the city centre to attract people and businesses.

5.4 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 $3 million allocated for "other IT projects" in the city leadership budget. We also question whether the preparatory work on Naenae Pool could be deferred. We see this as non-essential spending at a time when it is closed to the public for an uncertain duration. However, we encourage the Council to reassess spending on these and similar projects when developing the LTP 2021-31.

6. Conclusion

1.1 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.

1.2 Given the current environment of unprecedented uncertainty and in light of the economic forecasting data, we recommend:

- further reducing rates increases;
- freezing rates differentials;
- taking on more debt; and
- focusing on core services.

1.3 The combination of 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.

1.4 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 the Hutt City is shaped, today and into the future. We also wish to be heard in support of our submission.

1.5 Any further queries do not hesitate to contact James Kennelly, Head of Advocacy, via email: james@propertynz.co.nz or cell: 021 779 312.

Yours sincerely,

Paul Robinson

Paul Robinson
Wellington Branch President
Property Council New Zealand