Property Council New Zealand

8 June 2020

Wellington City Council
By email: busannualplan@wcc.govt.nz

Re: Submission on Wellington 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 New Zealand ("the Property Council") recommends the following:

- Reduce the rates increase of 2.3 percent (option B) further by finding additional reductions in the budget and taking on further debt.
- Consider extending the rates postponement policy to include rates in the 2020/21 financial year and spreading the deferred payment equally over 3 years.
- Abolish the business rates differential and investigate alternative funding mechanisms such as congestion 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 Businesses 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.

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3.2 We support the Wellington City Council's ("the Council") increase in rates to 2.3 percent (option B). 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 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.[1] 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.

3.4 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 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.

3.5 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 Wellington.

3.6 We commend the Council on proposing a rates postponement policy however we feel this could be extended further. Porirua City Council's proposal to defer the 2020/21 rates payments for 6 or 12 months and spread the deferred payment equally over 3 years commencing 1 July 2021/22. We believe the Council should consider whether it could extend the rates postponement further as this will help ensure flexibility is provided during a time of uncertainty.

Business rates differentials

3.7 Last year the Council increased the business rates differential from 2.8:1 to 3.25:1 to mitigate against residential properties having to pay extra rates increases. We believe the Council should revert to the ratio of 2.8:1 with a plan to abolish the rating differential long term.

3.8 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.

3.9 Under the Local Government Act 2002, Councils must ensure prudent stewardship of resources and undertake a robust cost benefit analysis for fulfilling their functions. On this basis and in the principle of transparency we request that the Council releases a copy of this analysis publicly so that businesses can assess whether the rating differential is fair.

[1] https://www.newsroom.co.nz/2020/04/17/1131365/retail-rent-take-drops-60-in-april

3.10 Our position on transparency is consistent with the 2019 New Zealand Productivity Commission report on local government funding and financing[2] 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.

Alternative funding mechanisms

3.12 Alternative 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.

3.13 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. 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.

3.14 The Council's future plans to fund Let's Get Wellington Moving by adding a one percent compounding rate increase onto ratepayers should be reconsidered. We encourage the Council to work with the Government to introduce congestion charging which will help to fund major transport projects like Let's Get Wellington Moving.

3.15 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 Long-Term Plan 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 167 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 can 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.

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

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 Wellington invests in water infrastructure. Currently most of the funding received by Wellington Water is reactionary, focusing on repairing and upgrading the pipes with little focus on improved capacity. The Council needs to consider whether amalgamating Wellington's water services further by transferring their water assets along with other Council's in the region into a CCO like Watercare. This will help to better utilise the balance sheet, improve capacity and spread the costs of upgrades regionally over generations through debt financing.

5.4 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. However, the Council should consider deferring part of the $8.8m for cycling improvements as this often does not get fully spent.

5.5 We are encouraged by the Council's $3.2m savings target and plans to further review Council costs to ensure all savings have been identified. We recommend further reprioritisation of some operational expenditure to ensure affordability, particularly in a light of COVID-19.

6. Conclusion

6.1 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.

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

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

6.3 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.

6.4 Property Council wishes to thank the Council for the opportunity to submit on the Annual Plan consultation document. We would like to speak in support of our submission at an oral hearing.

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

Yours sincerely,

Paul Robinson

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