Property Council New Zealand

7 April 2021

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Hamilton City Council Long-term Plan 2021-31

1. Recommendations

1.1. Property Council New Zealand Waikato Branch (“Property Council”) welcomes the opportunity to provide feedback on the Hamilton City Council’s (“Council”) Long-term Plan 2021-31 (“the LTP”). We have made a list of recommendations to influence better and fairer outcomes for all.

1.2. At a high level we recommend the following:

Approach to development of the LTP

- Ensure future Council’s consultations do not include extensive public holidays to allow a full one month to provide feedback as required by the Local Government Act 2002;

Infrastructure Strategy

- Consider alternative funding tools, such as user charges, targeted rates, public-private partnership, asset recycling and special purpose vehicles (“SPVs”) to successfully deliver the CAPEX programme;

Financial Strategy

- Consider alternative methods to fund water services and District Plan changes (e.g. the IFF Act; Government regional allocation of three waters funds for councils);
- Consider alternative options for the stated rates increase to ease the funding burden on ratepayers in the post-COVID-19 recovery:
  - increase rates in 2022/23;
  - split the increase over four years and then return post this.

Growth Funding Policy

- We consider the Growth Funding Policy as an unnecessary impediment to development, and should be discontinued;

Development Contribution Policy

- Make sure the Urban Design Panel plays its role in ensuring good quality design outcomes following the CBD Remission amendment to encourage development of six or more storeys buildings in the CBD;
- Improve the Council’s existing consenting process to ensure it does not discourage intensification in the CBD;

- **<u>Do not</u>** include community infrastructure into Development Contribution ("DC") fees and consider alternatives tools, such as rates, targeted rates, SPVs;
- Amend the proposal for the phased transition to higher DC charges to exclude an option for the Council to amend changes at any time;
- Review the DC policy to include the industrial sector given its role in driving business to Hamilton.

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 policies that provide a framework to enhance economic growth, development, liveability and growing communities.

2.2. Property Council's Waikato Branch has 114 businesses as members. The property sector contributes $2.6b or 13 per cent of GDP in the Waikato area and employs 13,980 people. That makes it the region's second largest economic sector.

2.3. This submission responds to Hamilton City Council's Long-term Plan Consultation Document and other supporting documents. In preparing our submission we sought and received feedback from a selection of our Waikato-based members. Comments and recommendations are provided on those issues that are relevant to Property Council and its members.

3. Consultation timeframe for the Long-term Plan

3.1. We wish to express our disappointment that our request to extend public consultation on the draft LTP was declined by the Council. While a consultation period of 5 March – 7 April 2021 technically meets the requirements under the Local Government Act 2002 (S 83), it does not provide a minimum of one month under normal circumstances for a public consultation given the extensive Easter Holidays during this period. Having an extended holiday in the middle of the consultation period does not provide equal opportunities for all to provide detailed and thoughtful feedback. We strongly recommend the Council take this into consideration when planning consultation processes in the future.

4. Infrastructure Strategy

<u>Capital programme and strategic infrastructure funding direction</u>

4.1. Council is proposing to invest $2.5 billion over the next 10 years in capital projects (primarily transport and water infrastructure). We support the Council's strategic infrastructure funding direction, particularly around three waters (e.g. stormwater improvements, additional funding for water treatment plants) and transport (e.g. integrated transport network that supports all forms of transport) as investment in core infrastructure is essential for the city to function.

<u>New funding models</u>

4.2. Hamilton is one of the fastest growing cities in New Zealand, and it will continue to require significant capital investment over the coming years. Therefore, we strongly support the Council's intention to investigate new funding models and partner with others for joint funding opportunities. We recommend the Council make better use of user charges (e.g. water charges and congestion charging), targeted rates, public-private partnerships and SPVs. In particular, SPVs involve debt sitting off the Council's balance sheet and is helpful for those councils 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 IFF Act, which the Property Council supports.[1]

4.3. While we are supportive of the IFF Act, we have some concerns in relation to local government implementation of the Act. The IFF Act enables the local authority to collect development contributions to pay for certain infrastructure, while that same piece of infrastructure is paid for from the multi-year levy. It is important to ensure that the 'double-dipping' issue does not occur at the implementation stage at local government level. We are happy to provide further advice if required.[1]

4.4. We also recommend the Council consider asset recycling as another funding option. As per the Productivity Commission report on local government funding and financing, it is sensible for councils to regularly review their asset portfolio to assess whether their present return from assets is better than alternative approaches.[2]

4.5. The Council currently manages a $4.5 billion portfolio of assets and this is expected to grow significantly over the next 30 years. We recommend the Council review their current asset portfolio. For example, Auckland Council is proposing to sell or lease surplus properties and reinvest the proceeds to meet Auckland's critical infrastructure needs. We support Auckland Council's proposal as it provides an opportunity to create funding capacity. It is timely given the pace of the population growth and growing demand for new infrastructure in Auckland. Hamilton should follow suit, especially given the pace with which it is growing.

5. Financial Strategy

Debt levels

5.1. We commend the Council's proposal to increase borrowing to a temporarily higher debt-to-revenue ratio of up to 290 per cent for the first three years, gradually returning to 270 per cent thereafter. This will help deliver the CAPEX programme, while keeping rates, fees and charges at the reasonable level.

Rates

5.2. The Council is proposing a rates increase of 8.9 per cent in the first year, followed by annual 4.9 per cent increases. The 8.9 per cent increase is made up of a 4.4 per cent average increase to the general rate, and the introduction of a new Compliance Targeted Rate which is equivalent to 4.5 per cent average rates rise. The Compliance Targeted Rate will cover increasing costs in water services and the cost of changing District Plan as a result of legislation introduced by Central Government.

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[1] See Property Council's submission on the Infrastructure Funding and Financing Bill - https://www.propertynz.co.nz/sites/default/files/uploaded-content/field_f_content_file/200305-pcnz_submission_iff_bill_5_march_2020.pdf

[2] New Zealand Productivity Commission. (2019). Local government funding and financing: Final report. Retrieved from https://www.productivity.govt.nz/assets/Documents/a40d80048d/Final-report_Local-government-funding-and-financing.pdf

5.3. The Council believes that Hamilton's average residential rates remain lower than other growing cities and neighbouring councils and that the proposed average rates increases are set at the lowest level possible to achieve the capital programme. However, the approach taken by the Council is inconsistent with other proposed Long-term Plans around the country. For example, Auckland is proposing a one-off rate increase of 5 per cent then an increase of 3.5 per cent on average from 2021. Christchurch is proposing an average rates increase for all ratepayers of 4 per cent.

5.4. We understand the Councils' rationale for the rates increase to allow for additional savings in the budget and delivery of key services and infrastructure. However, there are a number of problems with the Government Compliance rate:

- It is set on a differential basis, based on different categories of land. Commercial properties have the highest differential factor (differential of 0.00051347), especially compared to residential (differential of 0.00019396). This results in Commercial rate payers paying disproportionately more per dollar value of their property than residential rate payers.
- It is not clear how the Council has budgeted for a $15.4 million overhaul to the District Plan when the Government has not finalised the changes that will need to be made.

5.5. Ratepayers are under significant financial pressure due to the ongoing impacts and uncertainties of COVID-19. Therefore, we recommend the Council to consider alternative methods to fund the water services and District Plan changes that the Government Compliance rate covers. These include:

- The IFF Act which provides ways to use private capital to fund and finance infrastructure projects, which removes the barrier of council's debt limits (see section 4.2 above).
- Government regional allocation of three waters funds for councils – The Government has provided $761 million for Councils to develop critical water infrastructure. Waikato has been allocated $66.61 million, the second highest in New Zealand after Canterbury.

5.6. We also recommend the Council consider alternative options for the stated rates increase:

- a delayed rates increase in 2022/23;
- split the increase over four years and then return post this.

5.7. These options will ease the funding burden on ratepayers in the post-COVID-19 recovery we now find ourselves in.

Growth

5.8. We strongly support the beneficiary-pays approach the Council has taken when developing the LTP. We support beneficiary-pays funding mechanisms, as they are transparent and provide a better understanding and opportunity to engage on where rates are spent.

5.9. We also support the Council's proposal to use targeted rates as an alternative funding and financing tool. Targeted rates support the principles of transparency and objectivity in legislation (Local Government Act 2002 and Local Governing (Rating) Act 2002) and allow those who benefit or use the service contribute towards it. Money collected via targeted rates are ringfenced to a project or geographic area that will benefit from the funding.

6. Growth Funding Policy

6.1. We recommend the Council abolish its Growth Funding Policy as it is an unnecessary impediment to development. Moreover, we are not aware of any other councils across the country with a similar policy.

7. Development Contribution Policy

7.1. Development Contribution fees and policies can either enable or stifle growth. In this time of economic recovery, we need policies that encourage development.

7.2. We were pleased to be involved in early engagement with the Council on the proposed options for the DC Policy. However, we have concerns with a number of proposals within the draft policy.

One-size-fits all approach

7.3. We note that the Council has taken a one-size-fits all approach when developing the DC policy, which creates limitations. There is a need to provide some flexibility to account for special circumstances and remissions.

CBD Remission

7.4. The Council is proposing to extend the current 66 per cent DC remission in the central city area for a further three years ending 30 June 2024. Between 1 July 2021 and 30 June 2024, developments in the CBD with six or more storeys, will pay no development contributions (being a 100% remission of the standard applicable infill charge).

7.5. We support increased intensification as an option to accommodate growth and meet the changing community needs. However, we have concerns over the quality of these six-storey buildings. The role of the Urban Design Panel will be critical to create good quality outcomes.

7.6. We are also concerned that not many companies would have the capabilities and resources to build six-storey buildings. Given that good capabilities exist to build three-storey buildings in Hamilton and that the gap between remissions for three-storey vs. six-storey buildings is not enough, most developers will continue building three storey buildings (while the Council is trying to encourage development of six-storey + buildings). It is simply because remission and the consenting pathway is just not worth the full remission. Therefore, we recommend the Council review its policy taking this into consideration.

Charging DCs for community infrastructure

7.7. Property Council has long opposed the incorporation of community infrastructure into DC fees. Collecting DCs to fund community infrastructure will result in an increase in development contribution fees charged to developers (ultimately passed on to the tenant or retail purchaser). Increasing DC fees will negatively impact Hamilton as developers are already facing uncertain times. This is particularly concerning as we are in a global recession.

7.8. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer, making housing more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

7.9. In 2018, the Council commissioned Insight Economics[3] to complete an independent report on the likely developer reactions to increased DC charges. The report signalled a number of issues with DCs, which align with our concerns. In particular:

> "**As DCs increase, the cost of land development rise, and thus its profitability falls**…In other words, land developers (who physically pay the DC) will seek to share some of the cost with raw land owners by paying them less for their land…it is unlikely that the resulting fall in land prices will be sufficient to fully compensate them. **As a result, the increase in DCs will also increase the total cost of land development**…"

> "**In summary,** economic theory predicts that the imposition of **higher DCs will impact most, if not all, participants in the wider property market.**"

7.10. Given the above, we recommend the Council consider alternatives such as recovering the costs (or at least a portion of the costs of community infrastructure) through rates or targeted rates over the life of the infrastructure, or through a Special Purpose Vehicle (see para 4.2 above). We believe that these alternatives would improve intergenerational equity and ensure that those who benefit from the community infrastructure help contribute towards it over a longer period of time, reducing the financial burden upfront (i.e. within house prices).

Non-residential caps

7.11. Council is proposing to introduce a cap on non-residential DC charges to enable and incentivise non-residential growth cells. We support DC caps to encourage **both** residential and non-residential developments in Hamilton. They are a means of dealing with inconsistencies across the DC policy. Previously, we have suggested caps that are an average across Hamilton's development areas to ensure caps are meaningful. However, it does not change the fact that if the Council used more realistic demand charges and provided for low demand activities then caps would not be necessary.

Phased transition to higher DC charges

7.12. The Council is proposing to phase any increase in DCs across a three-year period to minimise disruption for developers, and the subsequent slowing of development in some areas. The Council reserves the right to review its policy and corresponding changes at any time. This is concerning, especially given the Council's intention to provide greater certainty to developers. There could be possible implications if this changes with a new Council in the phased transition. Certainty is the key. If it is adopted it should not change. Therefore, we recommend the Council amend the proposal for the phased transition to exclude an option for the Council to amend changes at any time.

Other comments

7.13. It is concerning that the DC policy seems to be focused on housing. We believe there needs to be more focus on the Industrial and Commercial Sector given its role in driving business to Hamilton.

[3] Insight Economics. (2018). Likely Developer Reactions to Increased Development Contribution Charges. Retrieved from https://www.hamilton.govt.nz/our-council/10-year-plan/10Year%20Plan%20documents/Economic%20report%20-%20Likely%20Developer%20Reactions%20to%20Increased%20Development%20Contributions%20Charges%20-%20Insight%20Economics%20Ltd.pdf

The Industrial Sector (Te Rapa and Te Rapa North) has no projected growth, which means that the DCs are simply too high. There is a risk that these high DCs will steer businesses away to other cities, where it is more affordable. For instance, why would 5000sq m Industrial warehouse with only 100sq m office space have to pay higher DCS, given that it does not have a huge impact on infrastructure? This is simply impracticable.

7.14. The DC policy is of significant importance to our members in the Waikato region. It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers. We are keen to continue working with the Council to ensure fairness and equity of charges for all.

8. Conclusion

8.1. We support an overall direction of the LTP, particularly around the capital programme. To ensure better and fairer outcomes for all, we have made a list of recommendations, including amendments to the DC policy, alternative methods to fund water services and District Plan changes; as well as alternative options for rates increases.

8.2. Property Council members invest, own and develop property across Hamilton. We wish to thank Hamilton City Council for the opportunity to submit on the LTP as this gives our members a chance to have their say in how Hamilton is shaped, today and into the future. **We also wish to be heard in support of our submission.**

8.3. For any further queries contact Natalia Tropotova, Senior Advocacy Advisor, via email: natalia@propertynz.co.nz or cell: 021863015.

Yours sincerely,

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