Property Council New Zealand

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Submission on

Tauranga City Council Long-term Plan 2021-31

7 June 2021

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Tauranga City Council Long-term Plan 2021-31

1. Recommendations

1.1. Property Council New Zealand Central Region Branch ("Property Council") welcomes the opportunity to provide feedback on the Tauranga City Council's ("Council") Long-term Plan 2021-31 ("LTP") and other related policies. 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:

Revenue and Finance Policy

- Introduce new targeted rates for stormwater, transportation and community facilities, and to extend the resilience targeted rate to include capital expenditure (Option 1 in the Consultation Document);
- Abolish rates differentials and make a better use of alternative funding tools (e.g. targeted rates, user charges, Public-Private Partnerships ("PPPs"), Special Purpose Vehicles ("SPVs"); asset recycling); **or** consider options to phase in the proposed rates differential increase over time;
- Take on more debt (i.e. up to 300%) to help deliver the capital programme, while keeping rates, fees and charges at the reasonable level.

Fees and charges

- Introduce charges for pre-lodgement application meetings provided applicants get an improved level of service from the Council's staff (e.g. Council's staff have read the applicants draft application prior to the meeting).

Capital Programme

- Consider alternative funding tools, such as user charges, targeted rates, PPPs, SPVs and asset recycling;
- Work with Property Council around implementation of the National Policy Statement on Urban Development ('NPS-UD');
- Make sure a provision of better travel choices to enable more sustainable and economically productive transport options;
- Work with key stakeholders (including Property Council) to identify potential missing transport links to ensure better connectivity throughout the city;
- Allocate more funding for development of the city centre and its revitalisation;
- Ensure accuracy of the data and projection models to deliver the 'Resilience' objective.

Development Contribution Policy

- Ensure that the Council's strategy that 'growth pays for growth' in the Development Contribution ("DC") Policy reflects a beneficiary pays model, rather than overly relying on DC fees;
- Do not include community infrastructure into DC fees and consider alternatives tools;
- Defer the increase of the city wide DCs to 2022 (**noting that clarity needs to be obtained regarding prior funding of the Waiāri Water Treatment Plant).**

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 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 Long-term Plan 2021-31 Consultation Document ('consultation document') 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. Revenue and Finance Policy

3.1. Tauranga is one of New Zealand's fastest-growing cities. By 2053 its population is likely to be 212,000, which is 60,000 more people than they currently have[1]. This means that Tauranga will continue to require significant capital investment over the coming years. Therefore, it is important to ensure that the Council has a robust Revenue and Finance Policy in place. Our recommendations below provide further details around how the Council can achieve that.

Targeted rates

3.2. The Council is proposing to use new targeted rates to improve transportation, stormwater and community amenities. We support the proposal as targeted rates follow 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.

3.3. Given the above, we recommend the Council introduce new targeted rates for stormwater, transportation and community facilities, and to extend the resilience targeted rate to include capital expenditure (Option 1 in the Consultation Document).

Commercial rates differentials

3.4. It was disappointing to see the Council's proposal to increase the commercial differential from 1.2 to 1.6, especially given the devastating impact of COVID-19 on many businesses in the region. This proposal is contradictory to the Council's intention of 'revitalising the heart of the region and providing the right environment to spur local economy and encourage private investment' as putting more pressure on businesses is counterproductive at this point in time and should be deferred 12 months.

[1] Sourced from the Tauranga City Council's Long-term Plan 2021-31 Discussion Document. Retrieved from https://www.tauranga.govt.nz/Portals/0/data/council/long_term_plans/2021-31/files/ltp-consultation.pdf

3.5. Table 1 below illustrates the impact of the proposed commercial rate increases based on capital value.

Commercial:	**Capital Value:**	**Propose Increase in Rates:**
Lower Quartile	$ 550,000	27%
Medium	$ 1,070,000	35%
Upper Quartile	$ 2,140,000	41%
High Commercial	$ 25,626,000	48%

Table 1. Example of the impact of rates increase for a single tenancy low amenity property based on capital value

3.6. We believe the biggest impact of rates increases will be on existing retailers in the CBD. If they are in a multi tenanted building, they will also be hit with the UAGC leveraging up the rates increase. The aggregate increase in total occupancy costs will have a moderating impact on net effective rents, placing an additional headwind on any developer wanting to build in the CBD. These increases are completely contradictory to the Council's proposal of 'revitalising the heart of the region and providing the right environment to spur local economy and encourage private investment'.

3.7. We oppose the commercial rate differentials 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.

3.8. 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 pays 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.

3.9. 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.

3.10. 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 instead work collaboratively with the private sector and the crown to develop alternative funding mechanisms. This includes targeted rates, user charges (i.e. congestion charges), PPPs and SPVs. Therefore, we recommend abolishing rates differentials and making a better use of other funding tools. Alternatively, we recommend considering options to phase in the proposed rates differential increase over time (as indicated in the consultation document).

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

3.11. In its Long-term Plan 2021-31, Auckland Council considered business rates to be too high compared to residential rates. Therefore, the average increase in rates for residential ratepayers will be slightly higher at 5.34 per cent, and the average increase in rates for business ratepayers will be slightly lower at 3.52 per cent. We strongly support Auckland Council's position and believe that Tauranga City Council should follow suit.

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 (see section below).

Alternative tools

3.13. We strongly support the Council's intention to increase their income from all sources – not just rates but other sources of funding also. This will help ensure successful delivery of the capital programme going forward. We recommend the Council make better use of alternative tools such as user charges (e.g. congestion charging), PPPs 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 nationally, for example, in Milldale, Auckland. This tool also became a foundation for the Infrastructure Funding and Financing Act 2020, which the Property Council supports.[1]

3.14. 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] 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. Tauranga should follow suit, especially given the pace with which it is growing.

3.15. It is concerning that there is no mention of the Government's funding for shovel-ready projects in the LTP. We question whether it has been taken into account when the Draft Revenue and Finance Policy was developed.

Debt levels

3.16. We are disappointed with the Council's proposal to keep borrowing at the same level, given that the Government has increased the debt to revenue ratio limit beyond the 250 percent cap to support councils across the country.[3] As per our previous submission, we recommend the Council taking on more debt (i.e. up to 300 per cent) to help deliver the capital programme, while keeping rates, fees and charges at the reasonable level.

3.17. The Council's proposal to maintain maximum borrowing at the self-imposed limit is inconsistent with other proposed Long-term Plans around the country. For example, Auckland Council is planning to

[3] Move to alter LGFA debt covenants to provide more choices for councils welcomed (6 May 2020). Retrieved from https://www.lgnz.co.nz/news-and-media/2020-media-releases/move-to-alter-lgfa-debt-covenants-to-provide-more-choices-for-councils-welcomed/

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. Hamilton City Council is considering resetting Council's net debt-to-revenue limit to 300 per cent for 2021/22 , and then decreasing by 5 per cent each year until 2025/26 where it will remain at 280 per cent from 2026/27 to 2031/32. We believe the Tauranga City Council should follow suit.

4. Fees and charges

Pre-application meetings

4.1. Council is proposing to charge for pre-lodgement application meetings. We support the proposal and expect it will improve quality of the service provided (e.g. better awareness of application reports and plans).

5. Capital programme

Capital expenditure priorities

5.1. Council is proposing to invest $4.57 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. Te Papa Intensification - Water upgrades Cameron Road) and transport as investment in core infrastructure is essential for the city to function.

National Policy Statement on Urban Development

5.2. The Council revealed some challenges they are facing in relation to implementation of the NPS-UD, particularly around the 'sufficient land capacity' requirement. We are currently working with Auckland Council around their implementation strategy of the NPS-UD, and happy to assist Tauranga City Council with their work in this area too, including but not limited to Plan Changes 26 and 27 further submissions.

Transport priorities

5.3. We support the Council's transport investment priorities to deliver increased levels of public transport and active travel options; increased safety; improved accessibility; and support for business growth. However, if the Council's overarching intention is to decrease car dependency and increase use of public transport, cycling and walking to help reduce transport-related greenhouse gas emissions and congestion, a number of factors have to be taken into account.

5.4. A lack of competitive travel options and high car dependency is limiting the ability to achieve a quality compact urban city. Therefore, the Council's focus should also be on making sure a provision of better travel choices for people to enable more sustainable and economically productive transport options. We support multiple public transport modes including trains, buses and ferries. We also support regional public transport such as dedicated public transport routes, additional train services as well as infrastructure to support ferries. More coordinated regional transport and supporting infrastructure help make the city more available to urban fringe communities and in turn encourages development in these areas.

5.5. Public transport that connects key areas of the city is of paramount importance to everybody. Transport options need to be reliable and frequent for users to switch from their private vehicles to public transport.

5.6. It is critical to ensure that work is done to provide better public transport options and enable more connectivity throughout the city. If people are to switch from private vehicles to public transport, services must be well connected, reliable and frequent. We also recommend the Council work with key stakeholders (including Property Council) to identify potential missing links to ensure better connectivity throughout the city.

City Centre investment

5.7. We support the Council's intention to invest in revitalising the heart of the city, spurring the local economy and encouraging private investment. However, as mentioned earlier in our submission, this proposal contradicts with the Council's intention to increase commercial rates differentials (see para 3.4).

5.8. While we support the proposal to invest in the city centre, we believe that more could be done (e.g. more funding). In particular, the proposed $126m is only 2.7 per cent of the CAPEX budget for the next 10 years. Moreover, most of this is already budgeted in the Council's Long-term Plan 2018-2028 (including streetscape works, new central city library, new Council administration building lease).

5.9. At $12.6m a year for 10 years, this is not going to change the dial on the struggling city centre. For comparison, New Zealand Transport Agency is spending more on an overpass by Bayfair than the Council is spending on the city centre in the next 10 years.

5.10. Lack of funding is concerning given the Council's objective to support development of the City Centre. For Tauranga's city centre to flourish, it has to have attractive amenities, like many cities around New Zealand have (e.g. international hotels, sports stadiums, like the Multi-Use Arena in Christchurch, conference and performance venues, like the New Zealand International Convention Centre in Auckland). This will require much more substantial funding than just $12.6m a year, as proposed in the LTP. Therefore, we recommend the Council allocate more funding for development of the city centre and its revitalisation.

Resilience priorities

5.11. We support the proposal to invest $296m during the next 10 years on strengthening Council's ability to cope with natural hazards like tsunamis, floods, landslides, erosion and sea level rise. While we support the proposal, it is important to ensure that the Council is using up-to-date data and accurate modelling for their projections.

5.12. In particular, as part of the Plan Change 27 (Flooding from intense rainfall), the Council has undertaken city-wide risk assessments. These included flood modelling of the likely impacts of a 1 per cent AEP intense rainfall event in Tauranga, taking into account recorded rainfall data and flood levels from past events, the contours of the land and the existing stormwater network. It also factored in the predicted effects of climate change on rainfall and sea level rise out to the year 2130.

5.13. In our submission to the Council[4] we expressed our serious concern that the landform data in several instances was significantly and worryingly inaccurate. The implications of this inaccurate modelling are significant and potentially very costly to property owners and developers. This includes many growth areas that have experienced development over the last 10 years.

5.14. Given the above, we recommend the Council do further work to ensure accuracy of the data to model their projections around natural hazards. We are happy to assist in this process.

6. Development Contribution Policy

Growth pays for growth

6.1. The Council's Draft DC policy includes a principal of 'growth pays for growth'. We have concerns regarding this concept. Many of our members see developer's role as responding to growth, rather than creating it. There are many funding and financing levers that the Council should also utilise (as mentioned above) to pay for growth. It should not be solely placed within DC fees.

6.2. Property Council supports a beneficiary pays model and would like to see Council's financial strategy that 'growth pays for growth' reflect a beneficiary pays model, rather than overly relying on DC fees.

Charging DCs for community infrastructure

6.3. 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 Tauranga as developers are already facing uncertain times. This is particularly concerning given the devastating impact of COVID-19 on many businesses.

6.4. 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.

6.5. In 2018, the Council commissioned Insight Economics[5] 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

[4] Property Council's submission on Tauranga City Council's Plan Change 27 – Flooding from intense rainfall. Retrieved from https://mk0propertycounalby9.kinstacdn.com/wp-content/uploads/2021/03/pcnz_submission_on_tcc_plan_change_27_.pdf

[5] 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

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.**"

6.6. 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, SPVs, or through PPPs, as outlined above (see para 3.11) . 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).

Citywide DCs

6.7. Citywide DCs will increase to $28,150 (incl. GST) per household compared to the current charge of $12,200 (incl. GST). As noted in the LTP, this is to fund the Waiāri Water Supply Scheme to ensure a reliable and adequate water supply for our current and future population. We question this allocation of funding as the Waiāri Water Treatment Plant was funded by the Housing Infrastructure Fund (i.e. 10-year interest free loan) back in 2018.[6] Therefore, we highly question the DC increase to pay for this project given that it has not been previously signalled or budgeted.

6.8. The proposed DC increase is significant and will put even more pressure on businesses that are already struggling in the post-COVID environment. There are a number of new projects that are close to being built, and the DC increase will severely affect viability. We estimate there will be approximately 200 builds affected by the proposed DC increase. Developers with pre-title contracts where consents lodged after 1st August 2021 will get caught with $16k of unbudgeted cost. Those developers would not be able to absorb this additional and significant cost and contractually would have difficulty passing it on. Therefore, we recommend the Council defer the increase to 2022 to give time for developers to adapt to any proposed DC increases (**noting that clarity needs to be obtained regarding prior funding of the Waiāri Water Treatment Plant**).

7. Conclusion

7.1. We support certain parts 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 Revenue and Finance Policy (e.g. targeted rates; rates differentials; debt levels); capital programme (e.g. use of alternative tools; transport and resilience objectives); as well as the DC policy (funding of community infrastructure; cityside DCs charges).

7.2. Property Council members invest, own and develop property across Tauranga. We wish to thank Tauranga City Council for the opportunity to submit on the LTP as this 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.**

[6] Major infrastructure funding for Tauranga City Council. (11 July 2018). Retrieved from https://www.beehive.govt.nz/release/major-infrastructure-funding-tauranga-city-council

7.3. 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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