Property Council New Zealand

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Auckland 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 recommends the following:

(a) Auckland Council adopt a 2.5% rates increase which will see additional reductions in the budget and taking on further debt.

(b) 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 Long Term Plan 2021-31.

(c) Investigate alternative funding mechanisms such as user charges, targeted rates, public-private partnerships and special purpose vehicles.

(d) Leverage the Government's depreciation policy to support ratepayers and the property sector.

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 provides a framework to enhance economic growth, development, liveability and growing communities.

2.2 Property Council's Auckland Branch has 360 businesses as members. The property industry contributed $22.8 billion in 2016 to the Auckland economy, with a direct impact of $10.5 billion (13 per cent of the GDP) and indirect flow-on effects of $12.3 billion. It employs 53,050 directly which equates to eight per cent of the total employment in Auckland. For every $1.00 spent by the Property Industry it has a flow-on effect of $1.70 to the Greater Auckland region.

2.3 This submission responds to Auckland Council's Emergency Budget 2020/21 Consultation and Auckland Council's Emergency Budget 2020/21 Supporting Information documents. In preparing our submission we sought and received feedback from a selection of our Auckland-based members.

3. Rates

Rate increases

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. We also recommended the Government extend the debt to revenue ratio to allow for local authorities to increase their borrowing.

3.2 We commend Auckland Council ("the Council") in developing the Emergency Budget 2020/21 ("Emergency Budget") which provided a great amount of detail as to the proposed rating options of a 3.5% increase and a 2.5% increase.

3.3 The proposed capital expenditure under a 3.5% rates increase is $2.28b and under a 2.5% rates increase is $2.22b. We support the proposed 2.5% rates increase as it allows for additional savings in the budget without significantly compromising core services.

3.4 The last few months have seen economic forecasts change on a weekly, if not daily basis. Council's forecasted reduction in revenue for May 2020 shows that we can already rule out the Council's pessimistic scenario which assumed we would have two more months at alert level 3 or 4. The Council will be in a better position to reassess rates and spending while developing its Long-term Plan 2021-31, as more certainty on the actual level of reduction in council revenue will be available in the coming months.

Alternative funding mechanisms

3.5 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.

3.6 We support beneficiary pay funding mechanisms, as they are transparent and provide a better understanding and opportunity to engage on where rates are spent. We support the Council's proposal to review public transport fare structures and concession fares for next year alongside charges for some park and ride facilities. Other user charges the Council should consider is to work with the Government to introduce congestion charging for major roading projects in Auckland, such as the East-West Link. This will help alleviate funding burdens and is another good example of implementing a user-pay system.

3.7 We also recommend the Council investigates how it could set up Special Purpose Vehicles by using the powers granted under the Infrastructure Funding and Financing Bill. This would help support investment in growth and infrastructure from new developments.

Debt

3.8 We support the Council's decision to increase its debt levels as this provides rates relief to ratepayers during this difficult time. Both the 3.5% and 2.5% rates increase will see Council increase their debt to revenue ratio to 290% in 2020/21, before dropping to 270% in 2021/22. The Government has indicated that the debt to revenue ratio limit will increase beyond the current 250% cap, which is an indication that the Government supports councils increasing their debt during this period. Furthermore, clarification from the Local Government Financing Authority CEO has said that there is headroom for local authorities to borrow more to combat COVID-19.[1]

Rates postponement for ratepayers impacted by COVID-19

3.9 We support the Council's proposal to allow for ratepayers who are financially impacted by COVID-19 to defer up to $20,000 of their 2020/21 rates per property until 30 June 2021 and give a further 12 months to pay off the balance. The proposal will provide additional financial relief for residential ratepayers and smaller to medium businesses who are facing hardship.

4. Core services

4.1 While we recommend the 2.5% rates increase (instead of a 3.5%), it is also critical for our economy that key infrastructure projects continue to progress. For example, continuing with existing contracted capital projects and the Council's procurement pipeline that are considered core services.

4.2 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.

Water

4.3 We support the Council's investment in water, wastewater and stormwater. Under a 3.5% rates increase or 2.5% rates increase, the capital projects expenditure in water infrastructure is the same. 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 Watercare may need to invest $50m - $180m in water supply infrastructure sooner than anticipated to ensure Auckland does not run out of drinking water. Thus, it is important to ensure that the minimum deferrals occur in relation to water, as water infrastructure is paramount to Auckland.

Transport

4.4 We also commend the Council on much of its continued investment into roading and its commitment to continue the construction of the City Rail Link, as this provides businesses and employees with the necessary roading network in the CBD during the economic recovery.

4.5 Under a 2.5% rates increase an additional $40m of capital expenditure in transport would be deferred. This mainly includes delayed planning work for future walking and cycling projects, and a reduction in Auckland Transports planned renewals. Although we are supportive of this, we are concerned that the deferral of delivering any remaining local road sealing and local board programmes is of concern. Further clarity is required from the Council on which areas and plans are affected. However, we recommend that this work is either incorporated under

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[1] https://www.newsroom.co.nz/2020/03/31/1107573/councils-and-government-seek-debt-response-to-crisis

the 2.5% rates increase by the Council taking on more debt, or that this work is prioritised in next years Long Term Plan.

5. Depreciation

5.1 Central Government has 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 the Council the option of depreciating buildings moving forward, to free up some capital, which then can be spent on essential services and infrastructure. We recommend leveraging this option as it will encourage investment in industrial and commercial buildings.

6. Conclusion

6.1 We commend Auckland Council for revising its Annual Plan and delivering the Emergency Budget. We recommend Council:

- Adopts a 2.5% rates increase;
- Focus on core infrastructure such as water and transport, particularly in the recovery phase;
- Investigate and adopt alternative funding mechanisms; and
- Leverage the Government's depreciation policy to support ratepayers and the property sector.

6.2 Property Council members invest, own and develop property across Auckland. We wish to thank Auckland Council for the opportunity to submit on Emergency Budget as this gives our members a chance to have their say in how Auckland is shaped, today and into the future.

6.3 Any further queries do not hesitate to contact Katherine Wilson, Senior Advocacy Advisor, via email: katherine@propertynz.co.nz or cell: 027 8708 150.

Yours sincerely,

Andrew Hay
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Property Council New Zealand