

Property Council New Zealand

Submission on Draft Tauranga City Council Long-Term Plan Amendment and Annual Plan 2022-2023

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Tauranga Submissions
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Draft Tauranga City Council Long-Term Plan Amendment and Annual Plan 2022-2023

1. Summary

1.1 Property Council New Zealand Central Region Branch (“Property Council”) welcomes the opportunity to provide feedback on the Tauranga City Council’s [Tauranga City Councils Draft Long Term Plan Amendment and Annual Plan 2022-2023](#). We have made a list of recommendations to influence better and fairer outcomes for all.

2. Recommendations

2.1 At a high level, we recommend that Tauranga City Council:

Long Term Plan Amendment

- Adopt the Civic Precinct Masterplan – Te Manawa Taki o Te Papa by enacting Option 1;
- Consider transparent funding mechanisms for any potential future funding shortfalls for the Civic Precinct such as targeted rates, user pays or Special Purpose Vehicles (SPVs);
- Adopts a SPV funding mechanism for both the Transport System Plan and the Tauriko West development; and
- Work with Property Council to identify ways to improve the affordability of the Tauriko West SPV’s annual levy to residents.

Annual Plan

- Remove the commercial rates differential for both general rates and the Transport Targeted Rate and instead make use of more transparent alternatives such as targeted rates, user pays, public-private partnerships and SPVs; and
- If Tauranga City Council is unwilling to remove commercial rates differential, instead we recommend the Council maintain the status quo rating differential, Option 4, for both the general rates and the Transport Targeted Rate.

Cumulative cost pressure on commercial sector

- Consider the cumulative cost pressure on the commercial sector as a result of proposed TCC policies and actively explore ways to reduce the cost to business where possible.

3. Introduction

3.1 Property Council is the leading not-for-profit advocate for New Zealand’s most significant industry, property. Our organisational purpose is, “Together, shaping cities where communities thrive”.

- 3.2 The property sector shapes New Zealand’s social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand.
- 3.3 Property is the largest industry in the Bay of Plenty. There are around \$97.4 billion in property assets across the Bay of Plenty, with property providing a direct contribution to GDP of \$2 billion (13 percent) and employment for 11,730 Bay of Plenty residents.
- 3.4 Property Council is the collective voice of the property industry. We connect property professionals and represent the interests of 72 Bay of Plenty based member companies across the private, public and charitable sectors.
- 3.5 This document provides Property Councils feedback on [Tauranga City Councils Draft Long Term Plan Amendment and Annual Plan 2022-2023](#). Comments and recommendations are provided on issues relevant to Property Council’s members.

Long Term Plan Amendment

4. Civic Precinct

- 4.1 Tauranga City Council (“TCC”) has proposed, as part of the Long-Term Plan Amendment, the introduction of the Civic Precinct Masterplan – Te Manawa Taki o Te Papa. TCCs preferred approach to the Civic Precinct Masterplan would see the investment of \$303 million into Tauranga’s centre city (Option 1). This investment would see the development of a range of community facilities, a town plaza and various waterfront amenities.
- 4.2 We applaud TCC for this significant investment in the future of Tauranga. The Civic Precinct Masterplan is a bold step, that will put Tauranga on the part to rectifying decades of underinvestment in civic amenities, especially in the CBD.
- 4.3 We strongly endorse the proposed adoption of Option 1 for the Civic Precinct Masterplan. Investment in the Civic Precinct project will encourage the vitalisation of the entire central city area. TCCs investment will also provide certainty and confidence to business to consider future investment in developments across the CBD and adjacent suburbs.
- 4.4 We note that TCC is proposing to fund the proposed Civic Precinct through \$152 million in borrowings as well as \$152 million from other sources, such as the potential central government grants and the sale of non-core council assets.
- 4.5 We would like to see the provision of greater details and transparency from TCC on the funding of the Civic Precinct. In particular, we are interested in greater transparency regarding the proposed use of other, non-borrowing, sources as well as what TCCs approach would be if other funding did not become available. We look forward to future engagement with TCC on the development of the Civic Precinct.
- 4.6 We are broadly supportive of TCCs approach to financing the development of the Civic Precinct. We support the proposed sale of non-core council assets and welcome central government co-funding. In the event of a funding shortfall for the Civic Precinct, we recommend that TCC utilise funding models that are transparent to ratepayers, in line with the legislative principle of the *Local Government Act 2002* and *Local Governing (Rating) Act 2002*. Property Council supports funding models such as targeted rates, SPVs and user pays set ups.

5. Use of IFF Funding

- 5.1 TCC has also proposed, as part of the Long-Term Plan Amendment, applying for the creation of a two SPVs under the Infrastructure Funding and Financing Act (“IFF Act”), in order to fund:
- 5.1.1 The ‘Transport System Plan’, a \$200 million series of transport improvement projects.
 - 5.1.2 Infrastructure for the Tauriko West urban development project.
- 5.2 Property Council supports, in principle, the SPV funding model as set out in the IFF Act. SPVs makes the cost of new infrastructure more transparent, improve intergenerational equity by spreading the cost over a sustained time period and also unlock additional investment in much needed infrastructure.
- 5.3 We support the proposed intent of TCC to apply for the establishment of an SPV to fund the ‘Transport System Plan’. We consider it critical that Tauranga has a reliable, efficient and effective transport network that enables people and goods to get around the city with ease. Furthermore, we are pleased to see the proposed offset of the cost of the SPV levy with reduced targeted rates, to reduce the cost of new infrastructure to ratepayers across Tauranga.
- 5.4 Property Council supported the use of the IFF Act to fund the required infrastructure and services for the Milldale development in Auckland. The Milldale SPV raised around \$50 million for the development’s infrastructure, along with a \$33.5 million capital contribution from Auckland Council. The Milldale SPV is funded by annual levy on properties of \$650 for apartments and \$1000 for houses, spread over a time period of 30 years. Milldale, as a pilot program, successfully highlighted the potential for SPVs to unlock new greenfield development that otherwise might not have occurred. We congratulate TCC for looking to adopt this model to develop Tauriko West and agree with TCC that a SPV could be an effective mechanism to fund the required infrastructure and services.
- 5.5 However, we would stress to TCC the importance of annual levies being both affordable and sustainable for households that buy into the Tauriko West development. We are concerned that this is not the case under current proposals. We recommend that TCC works with Property Council to identify potential solutions, that would see a more affordable application of an SPV for the Tauriko West development.

Annual Plan 2022-2023

6. General Rates Increase

- 6.1 TCC has proposed a slightly higher increase in general rates than forecast in the [Long Term Plan 2021 - 2031](#). The new increase for the 2022-2023 year is now 13.7%, as opposed to the previously forecast increase of 12.4%.
- 6.2 Inflation has more than doubled from the projections that the Long Term Plan was based on. Annual CPI inflation was 6.9% to April 21 21022, whereas projected inflation was 2.9% in the Long Term Plan.
- 6.3 We understand the impact of ongoing inflationary pressure on local government budgets and are comfortable with the proposed increase, given the current financial climate and the increased capital expenditure proposed by TCC.

7. Commercial Rate Differential

- 7.1 Looking forward, commercial ratepayers face a difficult business environment. Local businesses in Tauranga are dealing with a range of external hindrances, including the ongoing disruption of COVID-19, rising inflation, labour shortages, higher interest rates and increased costs from central government.
- 7.2 We are extremely disappointed to see that TCC has proposed further increases to the commercial rate differential. The draft Annual Plan for 2022-2023 proposes raising the rate differential from 1:1.6 to 1:2.13, with implementation occurring over a two year period. This is an additional increase to that of the 2021-2031 Long Term Plan. Collectively, the changes proposed in both the Annual Plan and the Long Term Plan, would see commercial ratepayers paying close to double the rating differential compared to three years ago. This is a significant cost onto the office, retail & industrial property sectors as in most cases in commercial leases, rates are an OPEX cost passed on to tenants at a time where all those sectors are struggling under the ongoing changes & negative effects of Covid-19. Now is not the right time to increase the rating differential.
- 7.3 The use of rating differentials has been consistently opposed by Property Council. Rating differentials are collected as general rates, leaving businesses unable to identify where the additional funds raised by differentials are spent. As such, we firmly believe that the use of rating differentials lacks basic transparency and charges commercial rate payers at a degree disproportionate to the level of services provided to commercial ratepayers.
- 7.4 We support the use of transparent, beneficiary pays funding models for local government. Examples of these models include targeted rates, user-pays, and special purpose vehicles (SPVs). These alternatives meet the legislative principles of transparency and objectivity for funding local government set out in both the *Local Government Act 2002* and *Local Governing (Rating) Act 2002*. Our approach is also consistent with the recommendation of the New Zealand Productivity Commission that local government should adopt a more transparent approach to rating tools and other funding sources¹.
- 7.5 The proposed increase to rating differentials, along with the planned increase in general rates, would significantly increase the costs faced by local businesses. Figure 1, shown below, illustrates the impact of the proposed revenue policies on commercial property in Tauranga. In comparison residential rates are merely increasing by 9.2%, for the median value property.

Figure 1: Indicative increase in commercial property rates by quartile

Commercial:	Capital Value (2021):	Increase %:	Increase \$/pw
Lower Quartile (25%)	\$865,000	24%	\$18.55
Median (50%)	\$1,630,000	24%	\$30.21
Upper Quartile (75%)	\$3,320,000	27%	\$61.50
High Commercial (99%)	\$41,783,000	27%	\$715.82

¹ Local government funding and financing. Retrieved from <https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/>

- 7.6 Alongside this, TCC is also proposing a large increase in the cost of city-wide development contributions as well as a large increase in the rating differential applied to the Transport Targeted Rate. The accumulative effects of rates and fees on the commercial sector is of real concern and will not result in the rejuvenation of Tauranga's city centre.
- 7.7 In 2018, Property Council commissioned an independent report by Urban Economics on the response to TCCs proposed rating differential and its economic impact. We have attached this report in support of our submission, as the report's findings remain relevant to Tauranga today. Please see attachment.
- 7.8 At a high level, the Urban Economics report found that increased rating differentials would result in the commercial sector paying a far greater share of the rates than its share of capital value and that the commercial sector did not receive any greater level of benefit from Council expenditure to justify paying proportionately far more. Urban Economics also found that increased rating differentials would reduce investment in commercial and industrial property in Tauranga and found evidence in economic literature that higher rating differentials are likely to create incentives for businesses to relocate to other jurisdictions. None of these are outcomes we would like to see in Tauranga.
- 7.9 We firmly believe that increasing the commercial rating differential will have a notably negative effect on efforts to revitalise the Tauranga CBD as a vibrant place to live, work and do business. Tauranga's CBD, as a centre, is already struggling. Businesses are facing ongoing COVID economic disruption, reduced customer patronage and historically poor provision of amenities. We urge TCC not to enact policies that will do further harm the CBD.
- 7.10 We therefore recommend that TCC end the disproportionate and inequitable use of commercial rating differentials and make use of other funding options. Alternatively, if Council is unwilling to consider our recommendation, we also recommend that TCC adopt Option 4 in the consultation document, to retain the status quo rating differential and not further increase differentials. We urge TCC that increasing the rating differential now will have significant negative impacts on Tauranga. At a time of increasing costs post COVID-19, now is not the right time.

8. Targeted Transport Rate Differential

- 8.1 In addition to the proposed increase to the rating differential applied to general rates, TCC is also proposing to increase the rating differential applied to the recently introduced Transport Targeted Rate. The draft Annual Plan 2022-2023 proposes applying a rating differential of 1:5 on the recently introduced Transport Targeted Rate.
- 8.2 Under this proposal, a commercial property would pay \$5 towards Tauranga's transport network for every \$1 residential property of the same capital value paid. We supported the introduction of the Transport Targeted Rate in our [2021 submission on the Long Term Plan](#) but we are deeply concerned about the proposed rating differential increase contained within this year's Annual Plan.

- 8.3 The Annual Plan states that in light of commercial and industrial users comprising 52% of daily trips on the Tauranga transport network, it justifies the spend for businesses. However, we staunchly disagree that this is justification for applying a differential of 1:5.
- 8.4 The commercial sector provides immense benefit to Tauranga residents, despite only accounting for 17% of the total property stock by capital value². Business provides employment to local residents, produces the good and services consumed by local residents and enables some of Tauranga's most significant industries. A significant increase to the commercial rating differential applied to the Transport Targeted Rate will increase the cost of doing business in Tauranga. This will serve as a disincentive to future investment in Tauranga and will in all likelihood be passed onto the residential sector in the form of higher prices for goods and services. Urban Economics, in their 2018 report on rating differentials, found evidence that higher rating differentials are likely to create incentives for businesses to relocate to other jurisdictions.
- 8.5 The consequences of a less vibrant commercial sector will directly impact local residents. Reduced future investment by the commercial sector, as well as the prospect of freight dependant business leaving the city, will reduce employment opportunities for local residents. Local residents will also pay higher prices for goods and services.
- 8.6 We are proud advocates for Tauranga and want to see Tauranga as an attractive destination for future investment and development, as well as a hub for regional employment. Increasing the rating differential by this scale will threaten that ambition.
- 8.7 We therefore recommend TCC abolish the transport rating differential.
- 8.8 However, if TCC were to decide to retain rating differentials, we recommend that they maintain the status quo (Option 4) for the Transport Targeted Rate so that the transport differential would be in line with our recommendations for the general rating differential.

Cumulative cost pressures of proposed overall changes

- 8.9 We would like to make a general comment on the proposed financial direction of TCC. Our members understand the need for, and strongly support, increased capital investment in Tauranga's future. However, we are concerned about the financial implications of the Long Term Plan Amendment and Annual Plan for 2022-2023. Along with the proposed increases to city-wide development contributions, the plans represent a significant increase in cost pressure on Tauranga's property sector, with higher rates and higher rating differentials.
- 8.10 All these additional costs come at a crucial, and challenging, time for Tauranga businesses. We recommend TCC to remain mindful of the financial pressure of their proposed policies on commercial property and to actively explore ways to reduce the cost where possible.

9. Conclusion

- 9.1 Property Council supports most elements of the Long Term Plan Amendment, but we recommend that TCC work with Property Council to ensure the Tauriko West SPV is affordable for future residents.

² Please see attached report by Urban Economics.

- 9.2 When it comes to the Annual Plan, we have serious concerns regarding the proposal to significantly raise commercial rating differentials. To ensure better and fairer outcomes for all, we have made a list of recommendations that include scrapping rating differentials or at bare minimum maintaining the status quo level of differentials.
- 9.3 Property Council members invest, own, and develop property in Tauranga. We wish to thank Tauranga City Council for the opportunity to submit on the Long Term Plan Amendment and the Annual Budget 2022-2023, as this gives our members a chance to have their say in the future of our city. We would like to make an oral submission in support of our submission.
- 9.4 Any further enquires do not hesitate to contact Logan Rainey, Advocacy Advisor, via email: Logan@propertynz.co.nz or cell: 021410787.

Yours Sincerely,



Brian Squair

Central Committee Chair