Property Council New Zealand

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Submission on Wellington City Council's Draft Annual Plan 2022/23 and Amendments to the Long-Term Plan 2021-31

12 May 2022

For more information and further queries, please contact
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Wellington City Council's Draft Annual Plan 2022/23
and
Amendments to the Long-Term Plan 2021-31

1. Summary

1.1 Property Council Wellington Branch ("Property Council") welcomes the opportunity to provide feedback on Wellington City Council's Draft Annual Plan 2022/23 and Amendments to Long Term Plan 2021-31. We do not support the increase to the rating differential and make recommendations to ensure fair and equitable outcomes for the private sector.

2. Recommendations

2.1 At a high level, we recommend that Wellington City Council ("the Council"):

- Does not increase the rating differential from 3.25 and 3.7; and further, commence a planned reduction in 2022/2023 of the differential until entirely removed over next three annual plans;
- Improve their transparency as to how rates are set, provide the commercial sector with evidence that demonstrates how Council's spending will reflect the 56%/44% split and investigate reducing the general rate proportion;
- Provide evidence that the Council have planned to immediately reduce its expenditure and review its expenditure priorities;
- Consider alternative funding methods such as targeted rates and special purpose vehicles;
- Explain the proposed sludge levy system impact on rates (i.e. confirm that this is a further increase in rates to all ratepayers);
- Amend the proposed sludge levy system from the proposed 60%/40% residential/commercial ratio to a 70% /30% ratio to better reflect the current and future make-up of Wellington;
- Consult with Property Council New Zealand and our value capture member working group when considering funding mechanisms for Let's Get Wellington Moving; and then explain how Council will pay for its share of the project costs;
- Reject the idea of a commuter parking levy, as this will have a significant impact on businesses, individuals and Wellington city. We recommend the Council investigate alternative funding tools such as congestion charging or incentivisation of EV charging installations in commercial parking facilities;
- Make no change to the existing Development Contributions policy until there is further policy consultation and analysis done to the proposed $20 million Environmental and Accessibility Performance Fund working with owner developers to understand what practical implications the proposed changes could have on the sector;

- Keep the current environmental development contribution remission until further policy consultation and analysis can occur on the proposed Environmental and Accessibility Performance Fund; and
- Provide transparent, and concise information explaining what the overall rates increases will mean for different sectors within Wellington and outline direction and indirect benefits each sector receives.

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 Council is the collective voice of the property industry. Property is the fourth largest industry in Wellington. There are around $40.4 billion in property assets across Wellington, with property providing a direct contribution to GDP of $4 billion (10 percent) and employment for 20,640 Wellington residents.

3.4. We connect property professionals and represent the interests of 134 Wellington based member companies across the private, public and charitable sectors.

3.5. This document provides Property Council's feedback on the proposed changes to Wellington City Council's Draft Annual Plan 2022/23. Comments and recommendations are provided on issues relevant to Property Council's members.

4. Rating Differential Increase

4.1. We are extremely disappointed to see that the Council has proposed to increase the rating differential from 3.25 to 3.7. If adopted, this will be the highest rating differential in the country. Property Council has long opposed a rating differential and endorse the Shand's report recommendations that they should be abolished.[1]

Urban Economics Independent Report on Rating Differentials 2018

4.2. In 2018, Property Council commissioned an independent report by Urban Economics on the response to Tauranga City Council's proposed rating differential and economic impact. The report outlined that rating differentials would result in the commercial sector paying a far greater share of 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. The report also found that increased rating differentials would reduce investment in commercial and industrial property 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 outcomes we would like to see in Wellington.

[1] https://ndhadeliver.natlib.govt.nz/ArcAggregator/arcView/frameView/IE12126512/http://www.dia.govt.nz/Agency-Independent-Inquiry-into-Local-Government-Rates-Index

4.3. The report's findings that the commercial sector pay a far greater share of rates than its share of capital value is also likely applicable to Wellington. For example, the rating differentials increase alone will transfer $8.5m of rates from the residential sector to the commercial sector at a time when post pandemic business numbers are decreasing and residential numbers are increasing. This makes little sense for Wellington and will have adverse effects for its business sector.

Rating proportion

4.4. The Council claims that the proposed adjustment will keep the overall increase in rates for both the commercial and residential sector, on an even level. Because residential values increase greater on average than commercial values, increasing the differential will reduce the impost on residential ratepayers relative to their increases in capital value. However, the proposal to increase the rating differential to maintain a general rate split of 56%/44% (residential/commercial) will result in the commercial sector paying much higher than its share of capital value. We ask that the Council provide the commercial sector with data illustrating the total increase in residential capital values and the total decrease in commercial capital values (along with the total capital value of residential property and commercial property) which has formed the basis on the proposed adjustment to the rating differential.

4.5. Rates collected from rating differentials need to show direct benefit to businesses. The additional rates that businesses pay through rating differentials should be separated and specifically allocated to projects that support the commercial sector. We strongly urge that the Council provide the commercial sector with evidence that demonstrates how Council's spending will reflect the 56%/44% split. For example, what services will the commercial sector receive as a benefit?

4.6. We are concerned that average commercial values in Wellington have only increased by 36% compared to 60% for residential. This highlights a wider issue in Wellington's built environment. It also raises questions that over the coming years, if commercial sector upgrades occurred and values rose higher than residential, would the rating proportion shift back towards the residential sector paying more if their house prices did not increase? Additionally, where commercial building values have increased above 36% (due to upgrades, seismic strengthening, or environmental benefits) these businesses will be faced with having to pay more than the average rates increase of 8.9%.

Flow on effects for Wellington businesses, residents and visitors

4.7. The proposed increase will have a flow-on effect on all members of the community, not only the commercial sector. Property owners will be forced to recover these costs through increased rental levels, while business owners will have no choice but to recover these costs through increased costs for products and services. It is also unclear what the additional rates are funding and whether it is beneficial to the business needs.

4.8. Furthermore, an increase in rates will mean that building owners may not be able to invest in improving their business, carrying out maintenance and upgrades. This will not see existing businesses nor Wellington's built environment flourish, especially in a time when people are returning to the CBD and businesses are needing to reopen to survive.

Property Council Member Survey

4.9. Following a survey from our members, 85% opposed the increase to the rating differential while the remainder were split between agreed and neutral (See **Attachment A**). Many felt that businesses have already been disproportionately affected by the current proportional rating split and continual rate increases for the commercial sector. An increase to the rating differential will only further exacerbate this inequity.

4.10. It is important that both the commercial sector and residential sector pay a fair proportion of the total rates take, as it is often that the level of commercial rates paid is disproportionate to the level of services rendered.

4.11. Member comments highlighted that with COVID-19 lockdowns and working from home, many commercial spaces have been sparsely occupied. We find it very difficult to understand how the Council can justify the rating differential increase during these conditions.

4.12. To put it in perspective, the below example of a commercial property with a similar CV from one member property in Auckland and one in Wellington. The below information highlights that the Wellington property pays approximately 3.2 times the equivalent rate in Auckland (based on 2021 rates). Of interest, if the commercial property in Wellington converted to residential apartments, the rates bill would reduce to $82,824.

Destination	**CV**	**Rates**
Auckland	$15,250,000	$80,364.18
Wellington	$16,250,000	$262,410.00

4.13. The above example illustrates the significant cost of doing business in Wellington. Continual increases on the commercial sector runs an imminent risk of driving away the private sector (in particularly head offices) to relocate their offices and/or establish hybrid or digital offices post COVID-19. The Council needs to understand that this risk will become a reality due to the financial pressures and cost of doing business in Wellington.

Rating solutions

4.14. We recommend decreasing the percentage split of the total general rates. As discussed above, the current percentage split is 44% commercial and 56% residential ratepayers. This is much higher than in other cities in New Zealand. For example, Auckland businesses currently pay 31.33%, with this eventually dropping to 25.8% as their analysis showed that their previous rating split was inequitable.

4.15. Similarly, we do not believe that Wellington's proposed percentage split of general rates is equitable. The Council has not investigated the general rating split and what specific benefits the commercial sector receives. This is particularly important to assess as we are within the post-recovery period of COVID-19 with the city still months or years away from worker capacity.

4.16. We support the use of transparent, beneficial pays funding models for local government. Examples of these models include targeted rates, user-pays and special purpose vehicles. These alternative models 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 sources[2].

4.17. We firmly believe that increasing the rating differential will have a notably negative effect on efforts to revitalise the Wellington CBD as a vibrant place to live, work and do business. We therefore recommend that the Council end the disproportionate and inequitable use of commercial rating differentials and make use of other funding options.

Cumulative rates and fee increases in Wellington

4.18. In the current climate, the commercial sector is not only facing the impact of COVID-19, but an increased multitude of costs. The cumulative impact these costs may result in a number of businesses declining, even after moving to the Orange alert level.

4.19. The below list is an example of some proposed costs increases and fees in Wellington:

- Wellington City Council's proposed Annual Plan rates increase of 8.9%;
- Wellington City Council's proposed Annual Plan rating differential increase from 3.2 to 3.7;
- Wellington City Council's proposed Sludge minimisation facility rates levy;
- Wellington City Council's increase in development contribution levies;
- Future of the Southern Landfill (depending on option);
- Wellington City Council's increase in encroachment fees;
- Wellington City Council investigating a commuter parking levy of up to $2,500 per annum per car park;
- Unknown funding mechanisms associated with Let's Get Wellington Moving;
- Greater Wellington Regional Council's proposal to increase rates differentials on a yearly basis;
- Greater Wellington Regional Council's proposal to remove the uniform annual general charge which shifts more of the rating burden onto the commercial sector; and
- The removal of the public transport differential from the Greater Wellington Regional Council's Revenue and Financing Policy to annualised adjustments via the Funding Impact Statements in the 2022/23 Annual Plan.

4.20. All these various proposals are creating an uncertain and challenging post COVID-19 environment for the commercial sector in Wellington. We urge that the Council provide more clear and concise information explaining what the overall rates increases will mean for different sectors within Wellington.

Sludge Minimisation Facility Rates Levy

4.21. It is also important to note that not all rates will be included in the 8.9% rates increase. For example, the sludge minimisation facility rates levy is not included and when applied on top of

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

the 8.9% rates increase, it will push the total rates figure higher than 9%. This is of real concern and will not result in the rejuvenation of Wellington's CBD.

4.22. We are working with the Council on the Sludge Minimisation Waste fund and recommend amending the proposed ratio from a 60%/40% (residential/commercial) split to a 70%/30%. This amendment to the proposed Sludge Minimisation Waste fund ratio would transfer 62 cents per week onto the average residential CV of $1.4m and significantly help the commercial sector reduce the additional costs they face as a sector.

5. Carparks

Commuter Parking Levy

5.1. We are aware that the Let's Get Wellington team are investigating the introduction of a commuter parking levy of up to $2,500 per year.

5.2. We do not support a commuter parking levy as it will have a significant impact on businesses and will disincentivise business and working population coming into Wellington city. There are many loopholes in introducing commuter parking levies. For example, this will directly result in offices turning their car parks into storage units and encouraging working from home resulting in a less vibrant Wellington City. We recommend that the Council reject the commuter parking levy and instead investigate alternative funding tools such as congestion charging.

5.3. There has been no presented evidence to support a business case for the introduction of a car parking levy with carbon neutrality been signalled by Let's Get Wellington Moving as the core driver behind this proposal. We strongly encourage the Council to consider that private vehicle use and shared vehicle schemes such as Mevo will continue to require car parking within the city. Property Council support the aims to decarbonise but do not believe these aims will be achieved through introduction of a levy. Instead we implore the Council to better support the actions of many of our property owner members to convert their car parks to EV enabled car parks and provide sufficient time to enable property owners to create the fuelling stations of the future for EV's within the city's commercial buildings.

5.4. Property Council is currently investigating value capture with our members. Our findings will help inform central and local government on alternative value capture models alongside international best practice examples. We urge the Council to reach out to us to be involved in our discussions and investigate value capture and other alternative funding mechanisms, outside of the commuter car parking levy.

Removing carparks

5.5. Wellington City Council are in the process of removing approximately 1500 of Wellington's 3300 metered carparks. The impact of this is very damaging to businesses and will see large and long-term impacts on the Wellington economy. In a time where we should be supporting businesses return to a sense of normality under the Orange alert level, this is will only drive away business from the CBD. With reliable and future public transport options still decades away, the reliance on private vehicles and therefore car parks, will still occur.

6. **Environmental and Accessibility Performance Fund and removal of the Development Contribution remission**

6.1. We note that the Council plans to establish a $20 million Environmental and Accessibility Performance Fund that provides financial support to encourage the development of environmentally sustainable and/or universally accessible buildings in Wellington. We recommend that Wellington City Council engage with owner developers to understand how this fund will encourage the development of such buildings and compare this to the current development contribution remission approach. At the end of the day, if the current remission is not broken, then why fix it?

6.2. The week prior to the Annual Plan submission being due, we attended a Wellington City Council workshop on the Environmental and Accessibility Performance Fund. Stakeholders raised concerns around the lack of detail, the amount of the fund and the proposed assessment criteria.

6.3. We note that this sort of engagement should have been done prior to a policy within the Annual Plan being developed, as any recommended monetary changes (I.e., an increase or decrease to the proposed fund) will directly affect general rates within the Annual Plan. It is inconceivable that consultation was left this late in the picture.

6.4. Furthermore, stakeholders raised concerns as to the discretionary aspect of the fund being paid out once a project is completed (compared to the simpler approach of a remission upfront). Clarity is needed as to whether the proposed fund would be enough, and whether it would be a 'first-in-first-serve' approach to funding. Lastly stakeholders were concerned that if standards change overtime and the fund is granted at the end of the project, a development that takes several years and were eligible upfront, could see its reversal if standards increased before the project was completed. We recommend no change is made until further policy consultation and analysis can occur.

7. **Seismic Strengthening**

7.1. We support investment in earthquake strengthening of buildings in Wellington including the Town Hall, St James Theatre and Tākina: Wellington Convention and Exhibition Centre. In saying that, we urge that the Council be careful on which projects it decides to invest in. For example, we are disappointed to see that the Central Library is in the second stage of preparations for refurbishing the existing building when demolishing the building and starting from scratch would have been a better use of capital. Going forward, we ask that the Council provide ratepayers with ample opportunity for consultation and feedback on these projects.

8. **Conclusion**

8.1. We strongly oppose the increase to the rating differential and support the Council investigating alternative funding mechanisms. The increase will have negative outcomes for Wellington's private sector especially in a time where we should be supporting businesses bring back life to the CBD. We recommend the proportional split is analysed as to what is a fair rating proportion between the residential and commercial sectors.

8.2. Property Council members invest, own, and develop property in Wellington. We wish to thank the Council for meeting with us as well as the opportunity to submit on the draft Annual Plan

2022/23 and Amendments to the Long-Term Plan 2021/31. This gives our members a chance to have their say in the future of our city. We also wish to be heard in support of our submission.

8.3. Any further enquires do not hesitate to contact Sandamali Gunawardena, Advocacy Advisor, via email: sandamali@propertynz.co.nz or cell: 0210459871.

Yours Sincerely,

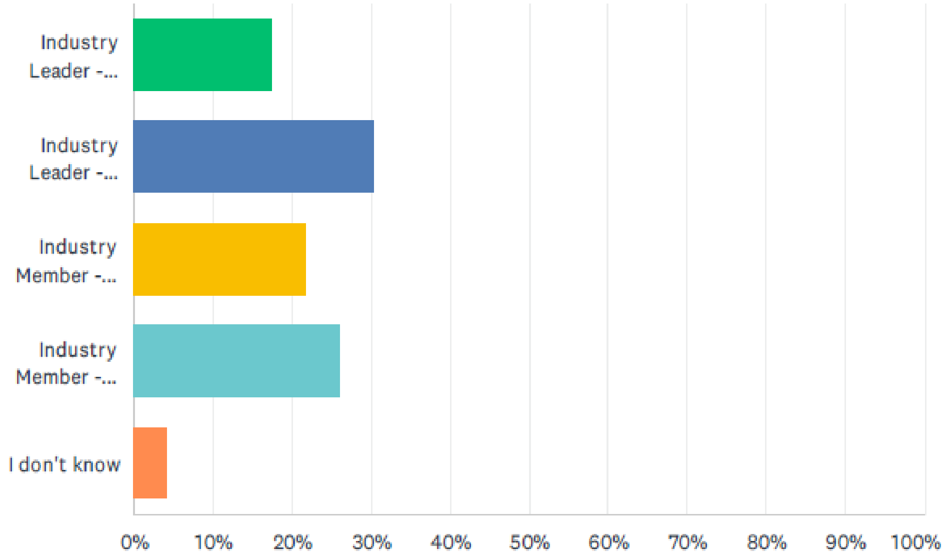
Gerard Earl
Wellington Committee Chair
Property Council New Zealand

Property Council New Zealand

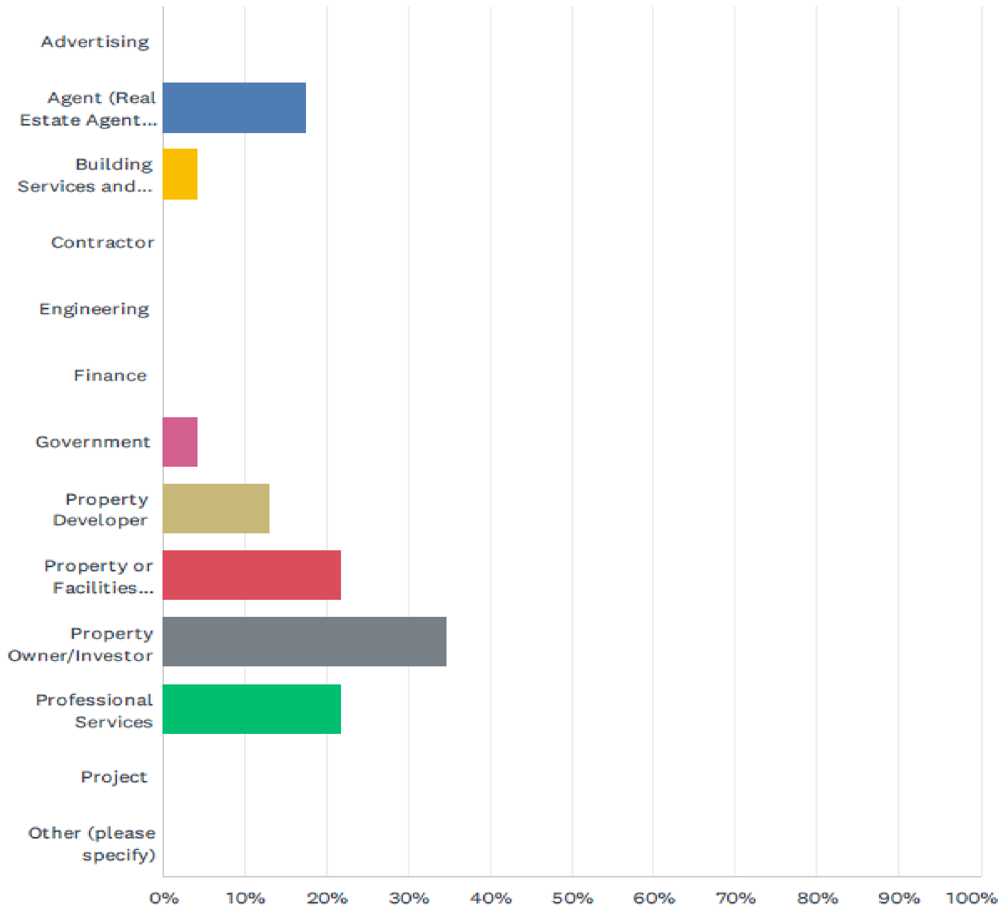
Attachment A:

PCNZ Survey - Wellington City Council's proposed rates increases 2022.

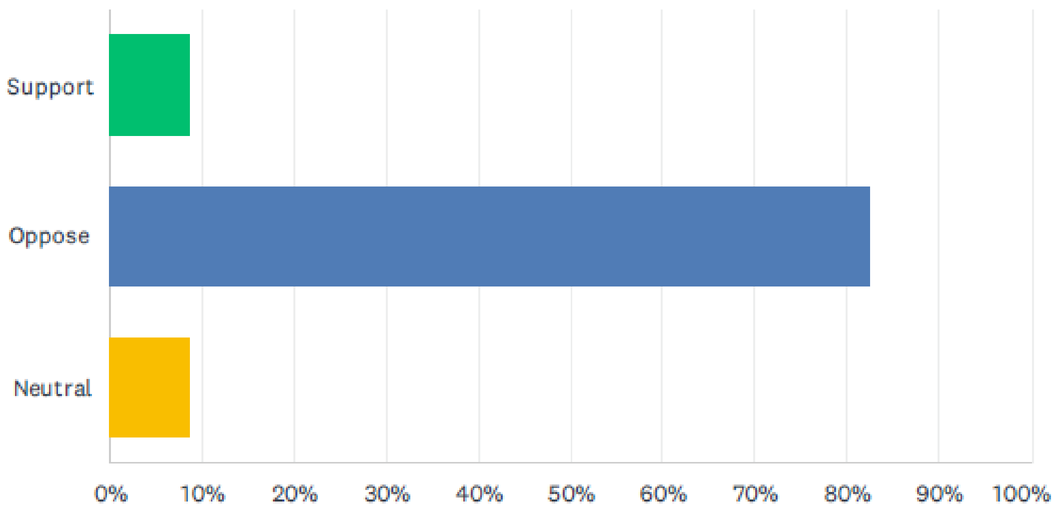
Please indicate which membership category do you belong to:



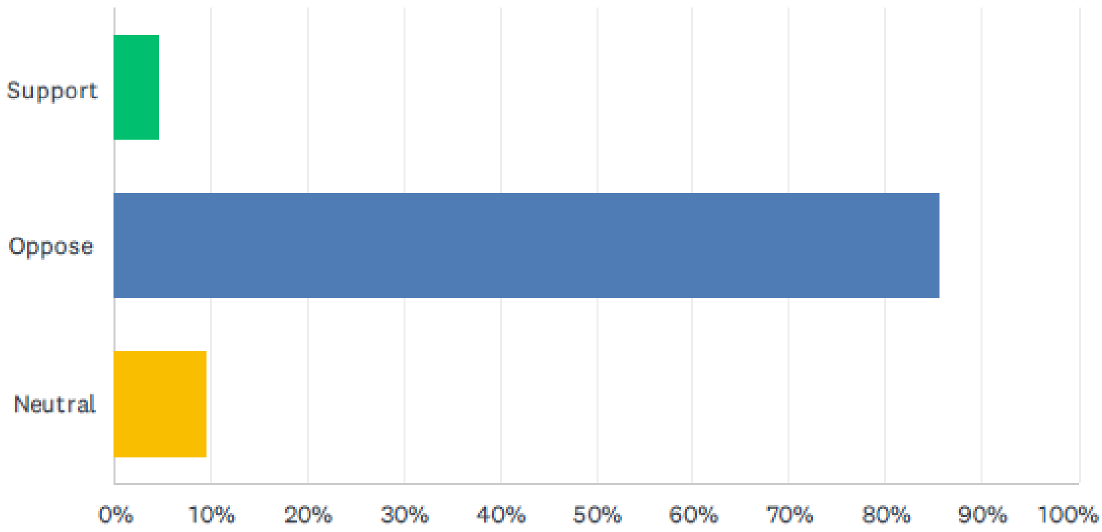
Please select the categories below that best describe your company's core business:



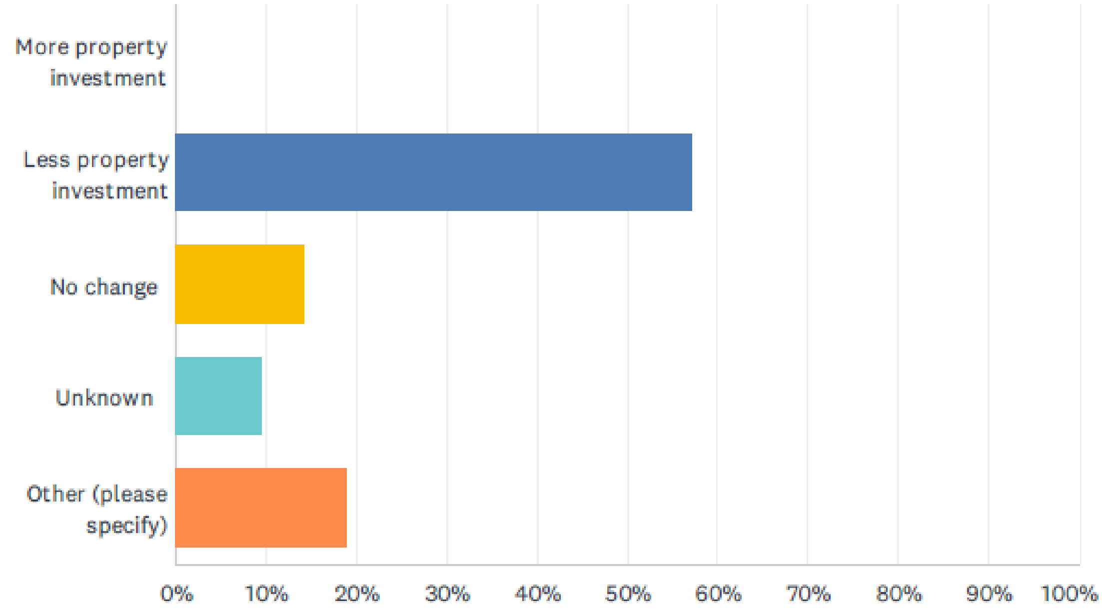
Wellington City Council funds rates from residents (those living in Wellington) and commercial property owners (those who have retail, offices, industrial warehouses (etc) in Wellington). Wellington's split between residents and commercial buildings owners is 56%/44%. In comparison, places like Auckland and Christchurch have the commercial sector pay approximately 30% of general rates. Do you support or oppose Wellington's rating proportional split between residential and commercial building owners of 56% residential and 44% commercial?



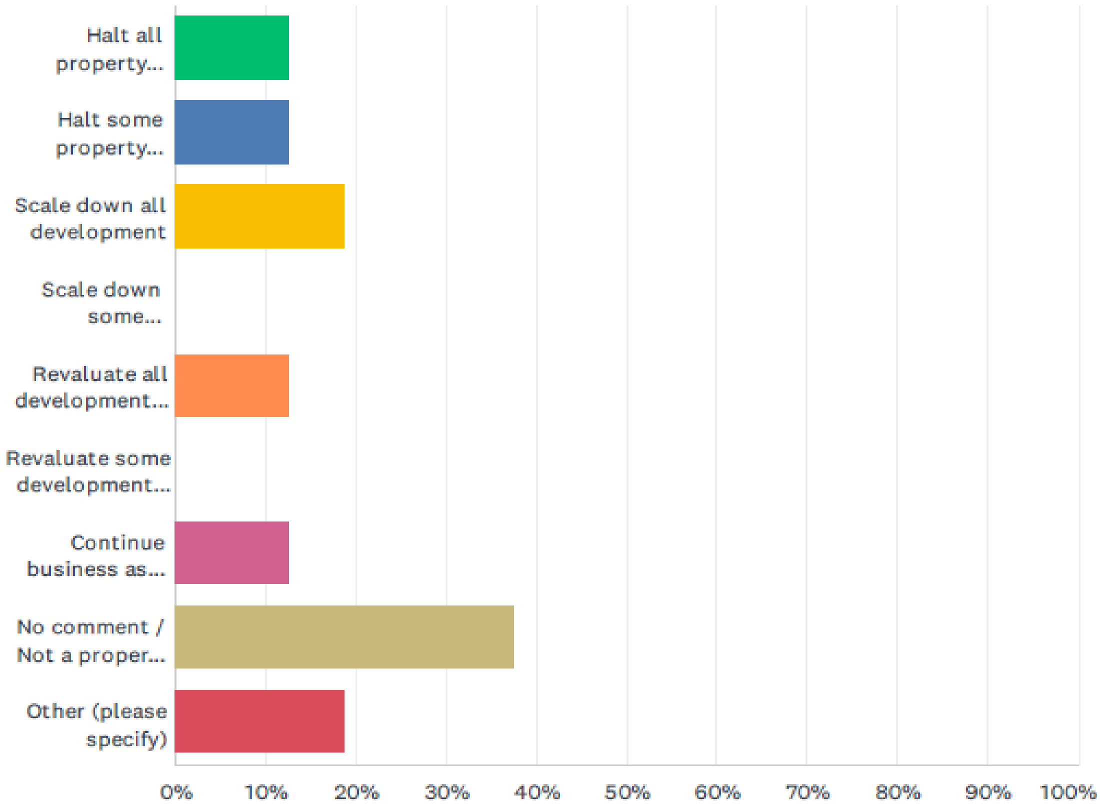
Wellington City Council are proposing to increase their rating differential from 1:3.25 to 1:3.70. This means for every $1 that a resident pays, the commercial sector will pay $3.70 (for an equivalent property value). Do you support or oppose WCC's proposal to increase the rating differential?



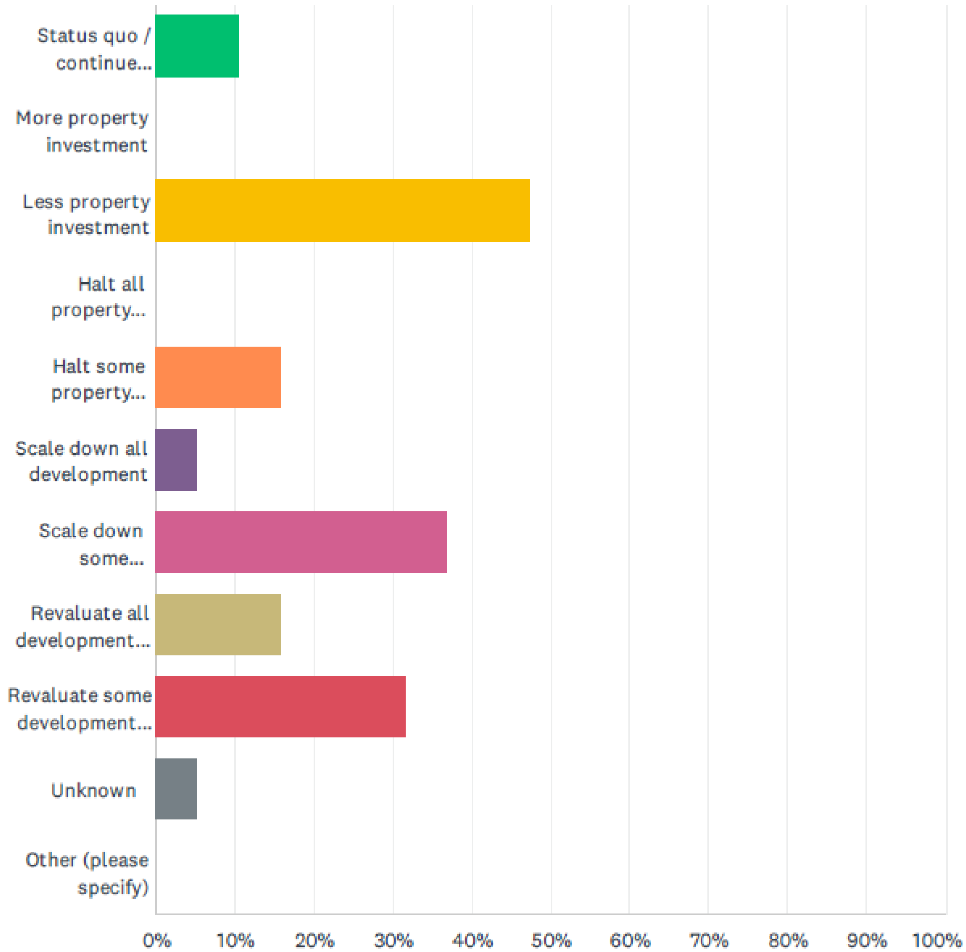
What are the likely outcomes you foresee if the Council increases the commercial rating differential from $3.25 to $3.70?



If the Council increases the rating differential from $3.25 to $3.70, as a property developer you will most likely…



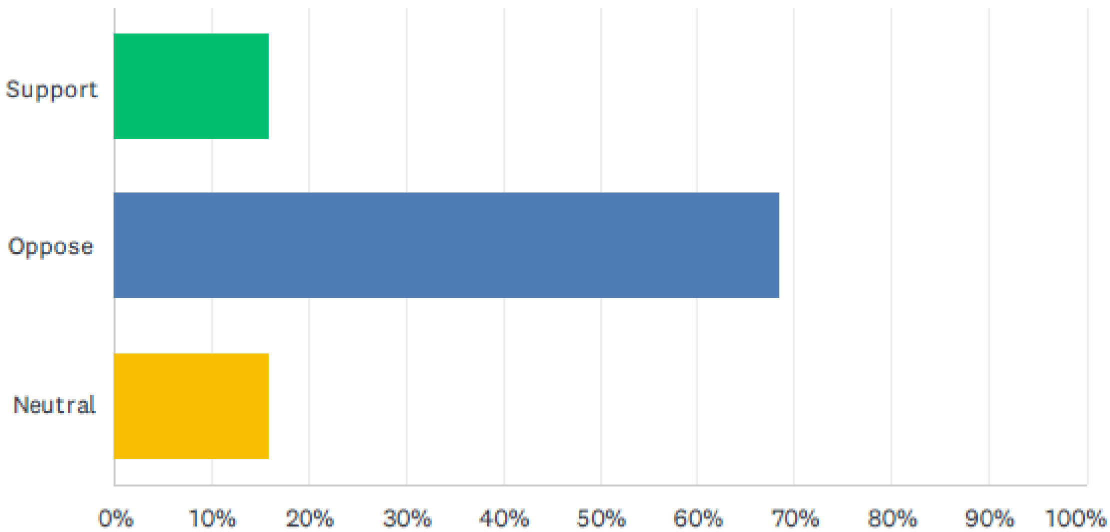
The Annual Plan proposal sees the average residential rates and commercial rates increase by 8.9%. What effects do you think rates increases will have on Wellington's property sector?



The Council are proposing a sludge minimisation facility rates levy. The proposal is for the suggested levy to be based on Capital Values and a proposed cost split of 60% residential ratepayers and 40% commercial ratepayers. The year one costing estimates are below. Do you support the proposed cost split?

	Capital Value	Low	High
Residential	**CV $750k**	$75.49	$104.49
	CV $875k	$88.07	$121.90
	CV $1m	$100.65	$139.31
	CV $2m	$201.31	$278.63

	Capital Value	Low	High
Commercial	**CV $1m**	$327.49	$453.27
	CV $2m	$654.98	$906.53
	CV $2.75m	$900.60	$1,246.48
	CV $5m	$1,637.45	$2,266.33
	CV $10m	$3,274.91	$4,532.66
	CV $25m	$8,252.77	$11,422.31



What effects do you think the proposed sludge minimisation facility rates levy will have on Wellington's property and commercial sector?