

Property Council New Zealand

Submission on

Rotorua Lakes District Council Long-term Plan 2021-31

27 April 2021

For more information and further queries, please contact

Natalia Tropotova
natalia@propertynz.co.nz
021863015

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Rotorua Lakes Council
Private Bag 3029
Rotorua 3046
By email: letstalk@rotorualc.nz

Rotorua Lakes District Council Long-term Plan 2021-31

1. Recommendations Summary

- 1.1. Property Council New Zealand Bay of Plenty Branch (“Property Council”) welcomes the opportunity to provide feedback on the Rotorua Lakes District Council’s (“Council”) Long-term Plan 2021-31 (“the LTP”).
- 1.2. At a high level we recommend the following:

Rates

- 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.

Uniform Annual General Charge

- Maintain the Uniform Annual General Charge (“UAGC”) as it currently stands;

CAPEX programme

- Consider alternative funding tools, such as user charges, targeted rates, public-private partnership, asset recycling and special purpose vehicles (“SPVs”) and asset recycling to successfully deliver the CAPEX programme;
- Adopt Option 1 (the bare minimum to repair the Aquatic Centre);

Alternative funding tools

- Explore alternative funding tools, including targeted rates, public-private partnerships (“PPPs”), special purpose vehicles (“SPVs”), asset recycling to ensure there is no burden on ratepayers to cover the costs and to successfully deliver the CAPEX programme;

Debt levels

- Take on more debt to help deliver the CAPEX programme, while keeping rates, fees and charges at a reasonable level;

Development Contribution Policy

- Continue working with Property Council to develop the Development Contribution Policy to ensure fairness and equity of charges for all.

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 104 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 Rotorua Lakes [District 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 Bay of Plenty-based members. Comments and recommendations are provided on those issues that are relevant to Property Council and its members.

3. Fees and Charges

- 3.1. The Council is proposing to increase fees and charges in a number of services to move the burden away from the general rate payer towards the individual directly receiving the service. We strongly support the beneficiary-pays approach the Council has taken as beneficiary-pays funding mechanisms are transparent and provide a better understanding and opportunity to engage on where rates are spent. Rotorua has an abundance of civic and tourist amenities which make it a viable candidate for a beneficiary-pays model, as the end users can see what the benefits of living and working in the city are and so prepared to pay targeted rates. Therefore, **we recommend the Council adopt Option 2** (adjust/increase fees and charges) in the Consultation Document.

4. Rates

Rates increase

- 4.1. The Council is considering a 9.2% average rates increase next year with an average annual rates increase of 3.8% for the following nine years. We understand that the rates increase is mainly driven by new or increased service levels, inflation and changes to interest expenses and depreciation resulting from the investment into capital expenditure over the next 10 years. However, ratepayers are under significant financial pressure due to the ongoing impacts and uncertainties of COVID-19. Therefore, we recommend the Council consider alternative options for the stated rates increase:
 - a delayed rates increase in 2022/23;
 - split the increase over 4 years and then return post this.
- 4.2. These alternative options will ease the funding burden on ratepayers in the post-COVID-19 recovery we now find ourselves in. In particular the increase in cost at a time that businesses are struggling from the lockdowns would be less impactful if this were spread to future years. We also believe that further refinement of the CAPEX programme should be made to avoid unnecessary pressure on ratepayers (see section 5 below).

The Uniform Annual General Charge

- 4.3. The Council is proposing to reduce the UAGC by \$55 (Option 1 in the Consultation Document). We **do not support** the proposal as it would only reshuffle ratepayer contributions onto the commercial and industrial sector. As per our [previous submission](#), we strongly oppose the shift of the rating burden onto the commercial property sector given that this funds general Council services that predominately benefit residential ratepayers. Therefore, the commercial sector would be cross-subsidising residential ratepayers. We recommend the Council maintain status quo (Option 3 in the Consultation Document) to ensure fairer distribution of rates across all groups of ratepayers.

5. CAPEX Programme

- 5.1. The Council is proposing to invest \$424 million into core infrastructure (e. g. sewerage, stormwater, roading, water) to renew and upgrade the assets to meet current demand and future growth expectations. We welcome the investment as it will support the community's prosperity, health, safety and environment.
- 5.2. We also support investment in major infrastructure projects, such as: enhancements and renewals of Rotorua Museum, Lakefront revitalisation that will bring tourism back to Rotorua which in turn grow, strengthen and diversify the local economy. However, as per our previous submission, we believe that projects, such as Aquatic Centre renewals are nice to have, rather than essential at this point in time, given the adverse impact of COVID-19 on ratepayers. Therefore, we recommend the Council adopt Option 1 (the bare minimum to repair the Aquatic Centre) in the Consultation Document. This will allow the Council to borrow \$9 million less when compared with Option 2 (Upgrade) or Option 3 (Full master plan) in the Consultation Document.

Alternative funding tools

- 5.3. Over the course of the budget's 10 years a total of \$39.14 million needs to be secured and received from external sources for the Aquatic Centre (\$10.43 million), Museum (\$16.04 million) and Westbrook (\$12.67 million). If this funding cannot be secured the Council will need to consider and make decisions to either scale back the project, delay the project or commit to increasing its funding commitments. If this happens, it will have an instant impact on rates increases in the near future.
- 5.4. If the funding is not secured, we recommend the Council explore alternative funding tools, including targeted rates, PPPs and SPVs to ensure there is no burden on ratepayers to cover the costs. In particular, SPVs involve debt sitting off the council's balance sheet and is helpful for those council that are approaching their debt limits. It has been successfully implemented internationally and was adopted for greenfield development in Milldale. This tool also became a foundation for the Infrastructure Funding and Financing Act 2020, which the Property Council strongly supports. Further use of SPVs would help support much needed investment in growth and infrastructure from new developments.
- 5.5. 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.¹ For example, Auckland Council is proposing to sell or lease surplus properties

¹ 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

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. We believe the Rotorua Lakes District Council should follow suit.

6. Debt levels

- 6.1 We are disappointed with the Council's proposal to maintain debt below 250% of revenue, given that the Government has increased the debt to revenue ratio limit beyond the 250 percent cap to support councils across the country.² As per our previous submission, we recommend the Council taking on more debt (i.e. up to 300%) to help deliver the CAPEX programme, while keeping rates, fees and charges at the reasonable level.
- 6.2 The Council's proposal to maintain maximum borrowing at the self-imposed limit of 250% is inconsistent with other proposed Long-term Plans around the country. For example, Auckland Council is 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% for 2021/22 , and then decreasing by 5% each year until 2025/26 where it will remain at 280% from 2026/27 to 2031/32. We believe the Rotorua Lakes District Council should follow suit.

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 (e.g. CBD remission to encourage CBD development; deferral of DCs to when developer can afford to pay).
- 7.2 The DC policy is of significant importance to our members in the Bay of Plenty 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 work with the Council to help develop the DC policy to ensure fairness and equity of charges for all.

8. Conclusion

- 8.1 We support Council's proposals around use of beneficiary-pays funding mechanisms and investment in core infrastructure. To ensure better and fairer outcomes for all, we have made recommendations around use of alternative options for rates increases, reprioritisation of some infrastructure projects, better use of alternative funding tools and increasing debt levels. We also keen to work with the Council to help develop a robust DC Policy.
- 8.2 Our members invest, own and develop property across Bay of Plenty. We wish to thank the Council for the opportunity to submit on the LTP as this gives our members a chance to have their say in how Rotorua is shaped, today and into the future. **We also wish to be heard in support of our submission.**

² 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/>

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

Yours sincerely,



Scott Adams
Bay of Plenty Branch President
Property Council New Zealand