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SUBMISSION ON

Mahere ā-tau Annual Plan 2022/23

SUBMITTED TO:
Wellington City Council
113 The Terrace
Wellington 6142

VIA EMAIL:
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DATE:
13/05/2022

Submission Outline

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OVERVIEW

The Chamber would like to thank the Wellington City Council (WCC) for the opportunity to submit on this plan.

The Chamber supports the goals of the Long Term Plan 2021–31 work programme (LTP) for the next 9 years focusing on fixing the city's ageing infrastructure, response to climate change, minimising sewage sludge and waste, and improving transport connections and networks. We have made previous comments on the LTP itself, which can be found in our 2021 submission and is available here[1].

This submission makes comments on the 2022/23 Annual Plan, which makes amendments to the LTP. Core to the funding of the 2022/2023 Annual Plan is the change of the commercial rates differential "the differential" from 3.25 to 3.7. The change in the differential is due to the valuations of residential properties significantly outpacing those of commercial properties in Wellington. To maintain the 44% share of city rates paid by the commercial sector, the council is raising the differential – equalling $8.5 million paid in commercial rates, compared to otherwise.

This is, in the view of the Chamber, an unfair and unreasonable increase on business – out of line with the services businesses use, the economic environment they face, and their national peers. The differential is already one of the highest in the country and the highest in our region. So too is the share of city rates paid by Wellington businesses compared to Auckland and Christchurch.

It is an out-of-date system. When the rates differential was first introduced in the 1980s, Wellington commercial ratepayers owned 85% of Wellington's capital value. Today, it is the reverse – with commercial ratepayers holding just 15% of the city's capital value, but still paying close to half the share.

[1] https://www.wecc.org.nz/__data/assets/pdf_file/0004/217651/Wellington-Chamber-Long-term-Plan-submission-10May2021-5.pdf

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What this means is that the highest commercial ratepayers in New Zealand will continue to pay even more and take on proportionately more of the rating stress than their counterparts in other main centres of New Zealand.

We also make several other recommendations to the Annual Plan throughout this submission. Under ***Section One:*** We recommend the establishment of an independent Community Housing Provider which owns the Council's Housing assets and has broad operational independence. This would limit the rates burden placed on businesses, and prevent the assets from being used for broader, less cost-efficient purposes.

We also endorse the Council's preferred option of continuing landfill use on top of the existing landfill – which is the sensible approach.

Our submission also makes comments on Parking Time Limits, Environmental Accessibility and Performance Fund, and the Pandemic Response Package in further detail.

The Chamber would welcome the opportunity to discuss this submission with the Council and wishes to take part in an oral submission.

ABOUT THE CHAMBER

The Wellington Chamber of Commerce and Business Central (the Chamber) is a business membership association, representing around 3,600 members throughout Central New Zealand (Gisborne to Taranaki and down to Nelson). We have represented business in the Wellington Region for 165 years, and advocates for the interest of business, and the development of our region's economy.

The Chamber works closely with the Wellington City Council (WCC) to ensure Wellington's business community is consulted on the changes that impact them. Our advocacy remains consistent, and we continue to play a constructive role in the future development of our city.

KEY ISSUES

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Revaluations and Rates

Annual Rates Increase

The Chamber wishes to note its concern about the 8.8% rate increase taking place in the annual plan. This increase is an excessive increase in cost for the city's ratepayers and businesses. It even exceeds the 30-year high rate of inflation currently being experienced and exceeds the Local Government Cost Index produced by BERL.

Following a 16.5% rates increase in 2021, and in the context of a rates differential increase and other rising cost pressures on business, this continued excessively high rating policy will have the effect to drive commercial activity away from our city, rather than attract.

Previous figures the Chamber relied upon in examining the 2021 LTP Funding Impact Statement, revealed that the total general rates revenue take was set to increase from $196,282,000 to $368,449,000 by 2030. That is an 87 per cent increase in rates revenue over the ten years. Even after adjusting for any growth in the ratepayer base, this remains unacceptably too high.

The Chamber acknowledges the Council's efforts to minimise the rates increase compared to last year's double digits annual increase especially. However, our organisation must point out that given the current economic situation and with many businesses already struggling, any increase in the general rates will hit businesses where it matters most – that's their cash flow.

Wellington businesses already pay some of the highest rates in New Zealand due to a combination of the following charges rated: an exceedingly high (current) 3.25 general rates multiplier; an additional targeted commercial sector rate; for CBD located businesses, the downtown levy; and for some local areas a BID levy.

The budget pressures facing the current Council are understandable. Budgetary pressures reinforce the need for the Council to go back and rethink some assumptions about their previous ways of doing things. We urge the council to look for means of reducing the burden on the city's business ratepayers – through limiting spending to essential council projects, divestment opportunities, and the strategic importance of the Council embracing appropriate private investment, all to limit the rates increase on business and household ratepayers alike.

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Commercial Differential Increase

The Chamber opposes the increase in the commercial rates differential (the differential) from 3.25 to 3.7. The increase to the multiplier pushes what is an already high increase to our already high rates, to unacceptable levels – and while we understand this is without added year one increases to forecasts, the Chamber is concerned at the precedent this sets for the many reasons set out below.

Wellington Business Pays More than Nationwide Counterparts

As mentioned earlier in the submission, Wellington's commercial rates are some of the highest in New Zealand. Research recently undertaken by the Local Government Business Forum reveals that of Aotearoa New Zealand's twelve city councils, Wellington Commercial ratepayers pay the highest proportion of the total general rates. In Auckland, commercial ratepayers pay 2.7:1 times their residential peers. That's about 25.8% of the total rates take. Christchurch sees multiplies of just 1.69:1 - or just 32.35% of the total rates take.

Meanwhile, Wellingtonian businesses are paying 44% of our city's rates, while making up just 15% of our city's capital value. On a commercial building of the same value building, a Wellington commercial ratepayer will pay 2.2 times an Auckland property, and 2.6 times one in Christchurch.

We are concerned to hear that the other reason for the proportionality, although yet to be fully evidenced, may be due to the regional nature of the use of city facilities, and the belief that the commercial sector should be responsible for the community who are not city-based. If this is the intention, we would like a specific statement in writing to this end.

Given there has been a significant decrease over the past two years in both commuters and tourists in Wellington, we would expect this to factor into your methodology for apportionment. This would suggest the need to reduce, rather than increase or maintain, the current rating approach.

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Businesses are subsidising services for the city and regional households disproportionately compared to the benefit they receive.

Through Regional Council, businesses already significantly subsidise the region's transport use. When a passenger catches a bus from Carterton to Masterton, CBD businesses pay for it. This is not within the City Council's remit to change, but we urge the Council to consider that our regional hub status is not a windfall gain for business, but instead an additional cost.

Regardless of the preferred differential settings, it should be acknowledged that Wellington businesses face a rates burden above and beyond their counterparts in Auckland and Christchurch. High rates serve as a disincentive for businesses to move here, create jobs, ease inflation, and make Wellington a better place to live.

'Rates Proportionality' as a Policy Rationale

The changes to the rates are based on a policy approach that has been described as 'proportionality' in a wide range of Council statements subsequent to the publication of the Long-Term Plan. We refer you to the Council's 'Revenue and Financing Policy' and specifically the section entitled 'The general rates differential.'

Council policy on the differential appears to indicate that all other settings must adapt to this figure, and the proportionality must be maintained at any cost. Ratepayers have a legitimate expectation of transparent and clear policy setting. No policy grounds or rationale underpinning 'proportionality' are discussed in the Long-Term Plan and

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nor is any evidential material provided to support this policy or explanation why a 44% must be pursued. For example, the term proportionality does not appear in the long-term plan.

The Chamber believes the proportionality argument is not fairly calculated and lacks methodological rigour. It is not based on ratepayers' capital value, nor on who benefits most from council services. It appears to be an arbitrary figure yet has underpinned the decision to shift $8.5 million in rates onto our city's businesses, rather than placing the impost elsewhere.

The Commercial Sector is Struggling

Many residential and commercial ratepayers face real difficulty and financial distress at present and our view is that Council must propose further concrete measures to decrease expenditure. An 8.8% increase has the potential for a very real negative impact on businesses navigating several crises including COVID variants and the recent Parliament protests.

It's a step in the wrong direction for Wellington at a time when businesses are pressured by Omicron, traffic light settings, the recent protest blockade and inflating production costs.

These compounding crises are part of the reasons the relative value of commercial property has fallen – and why the additional $8.5 million raised by the differential change will hurt even more than under normal circumstances.

To be clear - the differential change is not just happening at a time when business is struggling – it is happening because business is struggling. The change in property valuations that led to the differential shift was caused by a post-Covid downturn for business.

For example, a new study has found that working from home was responsible for 25% of house price increases post-pandemic.[2] Such an

[2] https://johanneswieland.github.io/Papers/house_prices_rw_draft.pdf

increase is worth noting, as it demonstrates why the property prices have changed the way they have over the past two years.

Post-pandemic, people have moved away from the city, and customers are more reluctant to engage with CBD businesses. Working from home is more common, and therefore office space less valuable.

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The market has signalled the impact – while all property has gone up in price, due to a combination of low-interest rates and restrictive planning laws – residential property prices have accelerated much faster than their commercial counterparts. Consequently, Commercial ratepayers now hold just 15% of the city's rateable value.

The value of having the rates differential in the first place is to allow the market to signal this change, and adjust rates accordingly.

The multiplier will naturally fluctuate, especially over a short period. This year's change in the relative value of commercial property is a signal that businesses are struggling and need support from Council, not higher rates.

A Benefits Principle

The case has not been made by the council for why Wellington businesses should be paying higher rates than their national counterparts. As mentioned above the figure of 44%/56% is arbitrary, based on neither the city's capital value nor the benefits of Council services.

The rationale of the current approach also confuses benefit with ability-to-pay principles. Given the previously outlined economic strains on business in the capital, the Council must properly demonstrate it has considered the ability to pay criteria, economic well-being, and reasonableness considerations.

The Chamber would like to see more evidence of the inputs to this decision, including data from unprecedented business conditions, that Council took into account when making its decisions.

We understand a given reason for the change in the multiplier is that commercial property is relatively less valuable than residential when the assessment was made and at a time when commercial ratepayers have seen drops in earnings revenue and cash flow.

This calls into question some observations in the media that commercial ratepayers can afford increases because commercial ratepayers earn revenue from their business, and this gives them a greater ability to pay rates than residential ratepayers. An obvious example is hospitality businesses that have accessed personal capital through their home mortgages to continue trading.

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Throughout the pandemic, businesses have made sacrifices to keep their doors open, and staff employed. For many smaller business owners, their business is often their main source of income and primary asset for retirement. Therefore, we are concerned that commercial rates are being kept arbitrarily high based on inaccurate estimates of businesses' ability to pay.

This appears to have fed through into the differential decision. An increase in residential valuations – relative to commercial valuations – signals that residential properties are getting more from their city, yet effectively their cost is reduced by $8.5 million due to the differential decision. Instead, businesses face an additional increase in cost compared to and despite the loss of value in their property.

The Chamber urges the council to set rates based on the principle of who benefits from council services.

The increase in the rates differential, and with it, the burden of what the change in the differential amounts to, an additional $8.5 million of rates, is unfairly calculated and puts an unnecessary cost on business. The differential change is based on a relative fall in commercial property values, and a commitment to a 44% proportion of rates paid by the commercial sector that has not been specified elsewhere in the council strategy.

The Chamber opposes the differential shift and calls on Council to consider the current business environment – signalled by the same valuation shift that prompted the differential increase – by reversing the change.

The Future of Wellington's Council Housing

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The Council has provided social housing in Wellington since the 1950s and wants to continue to do so. City Housing has a long-standing financial sustainability issue that is now critical. Action to address this crisis is vital.

As we set out in our 2021 submission on the LTP, the Chamber still maintains that social housing ought to be the responsibility of central government rather than local – and has become yet another 'unfunded mandate' of WCC. The options available under this consultation do seek to mitigate this risk to some extent.

The Chamber still believes that social housing tenants are best served by having dedicated social agencies wrapping services around them, so as we proposed in our 2021 submission, transferring the social housing portfolio to existing community housing providers funded by the central government rather than establishing its own CHP ought to have been consulted on as another option.

Question One:

The Chamber supports Option B – the establishment of the Community Housing Provider (CHP). The creation of a CHP would enable independence from the council from both a governance and day-to-day management perspective.

Wellington's businesses fund the ongoing costs of city housing through the 44% share of city rates they pay. Therefore, the 6.6 percent year on year increase, implied under Option A (the increased rates and borrowing option) should be avoided, and lower-cost options, such as the creation of a CHP should be encouraged.

Question Two:

For the same reasons, were the council to set up an independent community housing provider, the Chamber supports Option A: an Asset owning CHP with broad responsibilities.

Such an entity would be more independent and allow the CHP to maintain its operational independence.

We disagree with the reasoning in the Annual Plan consultation document that an argument against Option A is that it represents the biggest change to the status quo.

On the contrary – that is one of its greatest strengths. The financial uncertainty around the Council's housing assets is a mark against the status quo, and an independent, asset-owning CHP is the best chance to solve the impending crisis.

The limitations it would introduce on council borrowing could be offset by expanded fiscal discipline.

The Future of the Southern Landfill

The Chamber supports the Council's preferred Option A – of a new landfill on top of the existing landfill.

Given the 44% share of Wellington's rates burden, mentioned above, we advise seeking lower-cost options where possible, to ease the cost burden passed on to business.

We appreciate that the Council has selected the lower operating cost option for this project, to help save money for the city's commercial ratepayers.

While having no residual waste facility in Wellington (Option C) would save on capital costs, it is undoubtedly inefficient to spend money, and

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emit carbon by moving waste out of the city. Option A avoids this while averting the elevated operating costs of the waste to the energy incineration model (Option B).

We support the Council's course of action on this issue.

Lessons from Canberra

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We would also direct the Council to our sister city Canberra, whose low waste model has slashed city waste by nearly 90% since the 1990s.[3] Canberra is similar to Wellington in population, demography, and as a home of public sector workers – and as such represents a useful example.

With businesses shouldering the cost of waste management in our city, a long-term approach to reducing waste will save our city money and keep our rates down. We urge the council to examine the Canberra model as a way to reduce our city's waste output, keep waste management costs down for business, and meet our city's environmental goals.

Other Changes to the Long-Term Plan

Governance

We welcome expanded efforts from the Council to include and consult Māori residents in Wellington, and mana Whenua partners. As part of this process, we encourage the Council to consider the perspectives and priorities of Māori business owners, to achieve a full picture of what our city's Māori residents need.

Having recently entered into a collaboration agreement with Te Awe Wellington Māori Business Association, and the Wellington Pasifika Business Network, the Chamber is happy to make connections, and help

[3] https://www.environment.act.gov.au/__data/assets/pdf_file/0007/576916/ACT-Waste-Strategy-Policy_access.pdf

facilitate an indigenous business perspective for the Council through our networks.

Parking Time Limits

The Chamber strongly endorses the decision by the Council to not go ahead with the plan to extend on-street paid parking time limits on Friday and Saturday evenings or to extend charging for on-street parking through to 10pm on Friday and Saturday.

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The change of policy will offer a vital boost to Wellington's nightlife, just as we need it most, avoiding a significant disincentive to come into the city during the weekend.

We appreciate that the difficult experiences of the hospitality industry through the pandemic have been taken into account for this decision and thank the council for adapting to the difficult circumstances.

We encourage the Council to go further – opening other parking and transport opportunities, so that Wellington's central city is accessible to everyone, and to turbocharge our city's hospitality recovery.

Environmental Accessibility & Performance Fund

The Chamber is concerned about the debt funding of this aspect of the plan and urges further consultation on the topic before decisions are made.
We support the Property Council's Submission on this, which urges the Council to keep the current environmental development contribution remission until further policy consultation and analysis can occur on the proposed Environmental and Accessibility Performance Fund.

The Council should provide transparent, and concise information explaining what the overall rate increases will mean for different sectors within Wellington and outline the direction and indirect benefits each sector receives.

Pandemic Response Package

The Chamber celebrates the success we have had in collaborating with the Council to achieve this package. We welcome the Council's prompt action to support businesses through this response package, and their willingness to take on business feedback.

Something that has been made clear to us is the value of several pieces of this programme to the everyday operations of Wellington businesses. In particular, $1 parking on weekends has been a significant help to the retail and hospitality sector and has helped our city come alive on weekends.

We advise that making this change permanent could have excellent effects on our city's business sector and would help make our CBD more accessible, and more prosperous.

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CONCLUSION

The increase in the rates differential, and with it, the burden of $8.5 million more in rates for our city's businesses, rather than placing the impost elsewhere. The change is unfairly calculated and puts an unnecessary cost on business. The differential change is based on a relative fall in commercial property values, and a commitment to a 44% proportion of rates paid by the commercial sector that has not been specified elsewhere in the council strategy. It continues to drive up Wellington's rates relative to our national peers and makes our city a less attractive place to do business.

In the context of the 2022-20223 Annual Plan, while the Chamber believes the business differential is the incorrect policy approach, we recognise it is one tool of many for the council to secure the funding agreed in the 2021-2031 Long Term Plan.

Therefore, while we would like to see the reduction and removal of the differential, we are not asking for that here. We are asking for Wellington's current and very high differential to remain in place and not face the proposed further increase.

The Chamber opposes the differential multiplier increase and calls on Council to consider the current business environment – signalled by the same valuation shift that prompted the differential increase – by reversing the change.

Ngā mihi nui,

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