Submission on Hamilton City Council's 10-Year Plan 2015-2025

To: Hamilton City Council (HCC)
From: Property Council New Zealand (Property Council)

Background

1. Property Council is a member-led, not-for-profit organisation offering a collective voice for the commercial property industry. Our members include the owners, investors, managers and developers of office, retail, industrial and residential property; as well as planners, policy makers, engineers, lawyers, architects and other property professionals.

2. Our broad membership requires us to consider all aspects of the built environment, and we promote sound policies and requirements which benefit New Zealand as a whole. We advocate for quality urban growth that supports strong national and local economies.

3. We strive to serve our members through research, policy development, advocacy, education and networking event programmes nationally and regionally, raising the industry profile as we go.

HCC's 10 priorities

4. The 10 priorities on page nine of the consultation document are positive, and provide instruction on HCC's proposed focus over the next ten years. We particularly support HCC in seeking to balance its books, become the third city economy in New Zealand, and having an active, strong commercial central city with distinctive suburban villages. However, given funding limitations, Property Council queries the prioritisation of some of the other matters at this time. In particular:

    - we support the provision of robust infrastructure but consider it should be functional and not gold-plated – which the term "outstanding infrastructure" suggests. Gold-plating will increase development costs, which will need to be passed on to the end user – in direct contrast to the HCC's desire for growth and more affordable housing
    - as discussed in our previous submission on the River Plan, we have concerns that there is insufficient funding for the projects to have real impact. Given these constraints, we suggest focusing on one part of the river, such as Ferrybank since that will align with revitalising the CBD, and doing it well
    - becoming an "urban garden" is a nice aspiration, but history shows us that there are different perspectives on beautiful gardens and street plantings – as seen with the Garden Place plantings

- in relation to affordable housing, we advocate for mixed-use developments and medium-high density developments. A high standard must be maintained to avoid these developments being future slums. However, we would like to engage with HCC further on this issue to ensure that there is no misinterpretation between a "high standard" and gold-plating of infrastructure. As described above, in relation to HCC's aim for "outstanding infrastructure", gold-plating inevitably drives costs up, and these costs need to be passed on to the end user (forcing up the price of housing)
- we agree that HCC should enable the celebration of our arts and culture. However, HCC's spend in this area should not be to the detriment of projects which will encourage the city's growth and future economic vitality. It should also not become a significant burden on ratepayers.

Living within our means

Debt should fund projects with inter-generational benefits

5. Property Council supports HCC's continued focus on balancing the books, and we commend HCC on achieving a lower than forecasted debt balance. However, it appears the debt cap of $440m will cease to exist and the city will be getting close to having half a billion dollars' worth of debt in 10 years' time. This is a significant sum, and will incur interest costs. In this respect, we emphasise the importance of HCC ensuring its borrowings result in inter-generational benefits (to match costs to those who receive the benefits), and that the cost of capital (that is, its property and investments portfolios) is providing benefits to the community.

Consider alternate funding mechanisms

6. Property Council submits that Government and ratepayer funding cannot be the sole solution to project funding and that the Council needs to be creative, adaptive and innovative in this respect. Property Council therefore requests the Council seriously considers alternative funding mechanisms for its projects, such as leasebacks and public private partnerships. This is increasingly being used overseas, and there are important lessons to be learned from breakthrough projects like Transmission Gully in Wellington.

7. We note that the success of using alternate funding mechanisms will require collaboration with the private sector as well as having the right expertise within council.

Prioritisation

8. We note HCC's stated focus on core business, yet it intends to spend $329m of the proposed operating expenditure over 10 years on investment in arts, culture and recreation; and for the River Plan. In addition, HCC plans to purchase land for more reserves and parks. Given HCC's significant debt, and the burden on ratepayers, Property Council request that HCC reconsiders this spend – and potentially revisits these proposals at a later date when it has further decreased its borrowings. Whilst

we agree that such items and projects bring vitality to the city, in addition to the initial investment, they will require ongoing operational and maintenance costs – and we do not consider that HCC is in a strong position to take these on at this time. In this respect, HCC must prioritise its spending, and not all "wants" should become "haves". There is an appropriate place for art, culture, and events in the city – but there is also an opportunity for private philanthropy to play a greater role in obtaining the "wants". Social infrastructure can also be assisted through other fundraising regimes. Property Council believes the community would be more than happy to get behind particular initiatives as long as the right priorities are identified, made clear, and carried through.

9. In a similar vein, we query the $2.8m spend on recycling wheelie bins at this particular time.

Economic Development

10. As acknowledged by HCC, development and growth stimulates economic activity and generates employment – which creates more opportunities for people in Hamilton. A growing city is far more appealing to private investors, who help fund projects that HCC cannot afford to do itself.

11. As such, we strongly support increased prioritisation, spend and focus on encouraging economic growth and development in Hamilton. This will have positive implications for the city's future prosperity (through increased provision of goods, services, employment opportunities etc.) as well as HCC's ratings base. HCC should work collaboratively with the private sector to ensure its focus facilitates appropriate growth. HCC must be careful about "picking winners", for instance based on perceived public perceptions, which distorts the efficient and effective operation of the market in determining where and when growth should take place.

12. In this respect, Property Council strongly advocates for prioritisation of lead growth infrastructure, i.e. 3 waters, to ensure HCC can meet demand going forward.

13. HCC's economic development focus appears to be on event sponsorship, property investments, i-SITE Visitor Information Centre, Claudelands, Waikato Stadium and Seddon Park (as stated in its consultation document). In this respect, HCC appears to be merely servicing what Hamilton already has. Property Council strongly advocates for funding for projects that take a more proactive role, in actively seeking to attract business and investment into Hamilton. There needs to be a stronger, more vigorous approach, with key performance indicators and accountability, to enable and facilitate growth.

14. By way of example, we note that while the areas such as Te Rapa North and Rototuna are thriving, the city heart is noticeably not. HCC needs to take steps to attract, enable and facilitate office and retail development in the CBD to ensure its future vibrancy.

15. Such efforts, in conjunction with available land at a reasonable price, fair development levies, low rates and a skilled/young labour supply, will all contribute to encouraging business to Hamilton. The market will do the rest.

16. Working collaboratively with the private sector will be key to ensuring HCC takes the most appropriate steps in this respect.

Assets

Prioritisation

17. Property Council supports HCC in refurbishing and maintaining assets which provide benefit to the community. However, given HCC's limited funds, this must be carefully assessed and prioritised against the other matters that HCC must progress.

18. For example, we consider HCC's focus on transport and roads in the CBD to be gold-plating, given the current lack of growth in this area. Rather, we consider HCC should focus on revitalising the CBD and encouraging development as a priority. One way to do this is to encourage and enable development by not having development contributions and the commercial rate differentials (to reduce the rates burden on commercial ratepayers who pay 35% or the rates but represent less than 8% of total ratepayers).

Divestment

19. HCC must ensure that its core assets are operating as efficiently and productively as possible, providing a maximum return to ratepayers. We therefore suggest that HCC assesses its entire portfolio of property and asset investments, to ensure the cost of capital is being reflected in providing benefits to the community. If not, then the asset placement is not efficient and is draining resources. If non-core these assets should then be divested and funds used to repay debt. If core, alternative methods for delivering these services should be explored and HCC's organisation restructured accordingly.

The CBD

20. Property Council considers HCC should ensure it maintains its office/retail space in the CBD, so as to provide quality examples to other landlords and help ensure the future vitality of the central city area.

21. HCC should encourage Waikato Regional Council to do the same, particularly given that the Regional Policy Statement emphasises the importance of the CBD to the region.

Rates

Rates increases

22. The current draft of the 10-year plan proposes a rate increase of 3.8% per annum. Property Council has concerns that this increase is required as a result of lack of efficiency, and that ever increasing rates are unsustainable and not affordable.

23. Property Council has always advocated for rates increases being no more than the rate of inflation. Since 2000, New Zealand inflation has averaged around 2.7%. In the year to the December 2014 quarter, inflation increased by 0.8% and is expected to remain under 1% in 2020 as well as 2030[1]. As such, HCC's proposed rates increase of 3.8% is at odds with the very low forecasted inflation rate. Also, the proposed increases are significant and will have a cumulative effect. Commercial property owners are unlikely to be able to recoup these costs by increasing rent by 3.8% on average each year. In this respect, high rates will have negative impacts in terms of encouraging business and investment into Hamilton.

24. HCC should consider further what savings and efficiencies (including positive implications for rates) can be obtained through collaboration and potential future local government amalgamation. Property Council believes HCC is well-placed to lead further discussion on these topics.

Business differentials

25. Property Council opposes business differentials as they are generally not linked to any specific cost incurred. They are usually neither balanced nor evidence based charges. This is inequitable and a short-sighted revenue raising mechanism – as increasing the cost of doing business leads to less investment and capital into Hamilton. Property Council instead favours appropriately applied targeted rates, linked to specific costs incurred, to be a more transparent and efficient mechanism.

Representation

26. In relation to business improvement districts, we consider it important that the payers of this initiative have representation in determining how much money is collected in this regard and how it is spent. Perhaps a CBD Board is something to consider here.

Summary

27. In summary, rates are, in effect, a tax, which must be proportionate to the benefits that ratepayers receive. Property Council contends that Hamilton's rating system must provide the right signals for investors and private enterprise to choose this city ahead of others as a place to do business. This is vital for Hamilton's future prosperity and growth.

28. Property Council therefore advocates that HCC makes its rating system more transparent, with revenues clearly linked to costs and any cross subsidisations clearly

[1] http://www.tradingeconomics.com/new-zealand/forecast

signalled and explained. Such an approach will ensure greater accountability for spend, resulting in efficiencies. This should encourage investment into Hamilton along with employment opportunities, population growth and an increased rating base for HCC.

Infrastructure

Land

29. Property Council supports the provision of sufficient land for residential and commercial development. This is vital for a growing city such as Hamilton. However, we note that urban sprawl comes with significant costs. Providing for additional subdivisions on the outskirts of Hamilton means new infrastructure and roading improvements are required – increasing costs for ratepayers and developers via the citywide development contribution charges. In this respect, we urge HCC to ensure its identified growth areas minimise additional infrastructure requirements / costs, and are in locations which are attractive to the market to develop. If not, market driven development in other areas will likely end up having to cross-subsidise this inefficiently located development.

Investment

30. On page 10 the consultation document states, "If we make investments in certain infrastructure now…we can put in place the assets we need for the long term and avoid a huge backlog of expensive work in the next 20-30 years." However on page 17 it states, "…it's about getting the most out of our assets and investing only when we need to, not before." Clearly a balance needs to be struck. HCC needs to consider growth projections, consult the private sector and plan for its infrastructure spend in appropriate areas accordingly. "Just in time" investment is key in this respect, in order to avoid hampering growth and development through insufficient infrastructure provision, but also to avoid expensive infrastructure spends which then do not get utilised. Borrowing more to do projects earlier should only be supported on the basis that the borrowing is supported by demonstrable demand/growth and relates to lead growth infrastructure e.g. 3 waters. Private fundraising and philanthropy exercises should be investigated, with HCC identifying the priority/projects and helping enable the solution, rather than just funding it all.

Water

31. Property Council queries whether the water infrastructure study between Waipa, Waikato and Hamilton is in addition to infrastructure studies conducted by the Mayoral Forum with all Waikato councils. If an option has to be chosen, Property Council favours a CCO model to allow for greater accountability and strategic, rather than political, goals. This is something that was included in our Initiatives for Hamilton document (March 2011). Property Council has also advocated for forms of amalgamation and looks forward to seeing the results of this study.

32. In addition, we favour user-pays scenarios, which minimise cross-subsidisation.

Development Contributions

33. Please refer to our separate submission on HCC's Draft Development Contributions Policy. Property Council maintains its stance on development contributions, that is, they must be transparent, fair and equitable; and the causal nexus test, set out in case law, must be adhered to.

34. Property Council does not support HCC in choosing not to review its Growth Funding Policy at the same time as its Development Contributions Policy, given that these policies are clearly linked and influence one another.

Conclusion

35. Property Council appreciates the opportunity to submit on HCC's 10-Year Plan.

36. We would like to be heard on this submission, and reserve the right to be heard on such matters as may arise from other submissions or such further information as may be obtained.

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