Submission: Draft Auckland Council Budget 2019 - 2020

Date of submission: 17 March 2019

Please note: We do not wish to make an oral presentation to this submission

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Individual member feedback is available upon request

Introduction

Business North Harbour is a significant commercial/industrial Business Improvement District (BID), representing over 4,500 commercial property owners and businesses within the North Harbour area. Collectively they employ over 35,000 Auckland residents and ratepayers.

Our businesses comprise of a mix of sole traders, Small Medium Enterprises (SME), through to multinational organisations' representing sectors such as ICT, business services, specialist manufacturing and light – medium warehousing. In addition, we have key educational institutions within or on our boundary, including Massey University Albany and a variety of primary and secondary schools all within an industrial estate which is on average less than 20 years old.

The Upper Harbour Local Board area is expected to be the fastest growing area in the country over the next ten years, in both absolute and percentage population terms[1], which brings both challenges and opportunities to the North Harbour Business district.

Our primary interests are decisions within the Draft Auckland Council Budget 2019-2020 which:

- Impact on the cost of business – across a short to medium timeframe
- Impact on economic development and the ability to leverage value from location
- Support or restrict business growth opportunities
- Impact on access to both regional and localised transport hubs
- Impact on R&D and investment – sector development and capability
- Provide the scope to leverage natural assets for economic development across leisure and tourism sectors – enhancing Auckland's reputation

The 2019-20 Budget sets out Council's priorities and how Council proposes to fund these. You are seeking feedback across several key proposals. Our response is set out below and will focus on:

(1) Changes to Rates and Fees;
(2) Other issues;
- Regional Fuel Tax

We have provided member feedback on the **proposed Waterfront Property Transfers** as outlined in the consultation documentation[2].

Business North Harbour's member feedback **Future of Water Strategy** will be covered through a separate submission.

[1] Auckland Council 10-year Budget 2018-28, Supporting Information, Section 6: Local Board Information, 6.17 UHLB

[2] https://www.aucklandcouncil.govt.nz/have-your-say/topics-you-can-have-your-say-on/annual-budget-2019-2020/docssupportinginformation2/annual-budget-2019-2020-supporting-information-full.pdf

(1) Changes to Rates and Fees

As outlined in Council's consultation documentation[3] in determining its funding sources for an activity the Council must consider the criteria in the Local Government Act 2002 below.

1. When deciding from what sources to meet its funding needs, Council must consider the matters set out in section 101(3) of the Local Government Act 2002.

2. For the proposed options to fund additional transport investments, council must consider, in relation to this activity:
    a. the community outcomes to which the activity primarily contributes
    b. the distribution of benefits between the community as a whole; any identifiable part of the community; and individuals
    c. the period over which the benefits are expected to occur
    d. the extent to which individuals or a group contribute to the need to undertake the activity
    e. the costs and benefits (including consequences for transparency and accountability) of funding the activity distinctly from other activities.

3. Having considered these matters, Council must stand back and consider the overall impact of any allocation of liability for revenue needs on the community. This involves elected members exercising their political judgement and considering the proposal in the context of Council's funding decisions.

It is the period and extent that business contributes to the need to undertake the activity that forms the basis our questioning of the current policy – as outlined below.

Rate Approach Feedback:

Based on the responses to our Draft Auckland Council Budget 2019-20 consultation, the position of our members concerning rates and targeted rates remain largely unchanged from the extensive member feedback provided for the **Auckland Council Long Term Plan 2018-28[4].**

Therefore, you will note the repeated references to our LTP 2018-28 submission throughout this document which reinforces our members original position, which appears to have been largely disregarded.

(1) General rates

Our members' feedback is comparable to the other business and property owners within Auckland, which has been expressed within the AKBIDS submission that what businesses and property owners need most from Council is a reasonable, transparent and stable approach to rates. In that regard, we support Council's clarity as to how general rates increases will be made over the short to medium timeframe of this 2019-20 and 2018-28 Budget.

Our members' feedback remains that your proposal of an average residential general rates increases of 2.5% for two years, 3.5% for years three to ten is disparate, some claim politically

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[3] Auckland Council 10-year Budget 2018-28, Supporting Information, Section 7: Additional supporting information, 7.3 Attachment B: Assessment against statutory criteria – general rates

[4] http://businessnh.org.nz/media/files/Advocacy/DLTP%20Submission%2028%20March%202018_v1%20Final.pdf

driven, when compared to the proposed rate increase for business, (post application of the business differential component).

Commercial rate payers, and business operators, through OPEX, are still paying a disproportionately high level of rates. Using the Council on-line rates calculator[5], we found considerable variations within business areas and across the region, with some significantly higher than the average. We question how this is justified, especially without allowing for the impact of the accommodation providers targeted rate and fuel tax impact.

Increases in the UAGC place a greater burden on small businesses. Therefore, **we support** Council's position of these being tied to the increases in general rates (2.5%) and **no business differential being applied.**

(1.1) Rating of religious use properties

Section 8 of the Local Government (Rating) Act 2002 provides for non-rateable land and says that: The land described in Part 1 of Schedule 1 is non-rateable.

Schedule 1 includes:

9: Land used solely or principally

(a) as a place of religious worship:

(b) for a Sunday or Sabbath school or other form of religious education and not used for private pecuniary profit.

Strictly speaking, if land owned by a person (e.g. a church) is not used the way set out in clause 9, however is used for another purposes (e.g. commercial purposes), then it is not non-rateable and should pay rates.

Council has a wide discretion about how and whether to rate any land.

We are in agreement with the AKBIDS submission to commercial apply commercial/business rates on parts of the land owned by religious organisations that are clearly used for commercial purposes (including car parks, gyms, cafes, and op shops). Other parts will remain non-rateable.

NHBID Targeted Rate should also be applied to the commercial component of these properties, allowing these organisations to become FULL BID members.

(1.2) Proposed Annual Waste Management Charge increase to recover $10.9 million (excl GST).

Based on our member response, less than 46% were in favour of this increase being applied to their commercial property. 54% were unsure or opposed to this increase due to the 21% increase when most benefits were being realized by residential property owners. When we questioned members on the individual components of the proposed increase, it was clearer where their priorities and support lay.

(1.2 i) Proposed Recycling collection cost increase

The majority (69%) of respondents were **in favour** of the increase of $10.80 (GST inclusive) but did not feel that a business differential should be applied to this as it is residential

[5] https://www.aucklandcouncil.govt.nz/have-your-say/topics-you-can-have-your-say-on/ak-have-your-say/Pages/find-out-your-rates.aspx

ratepayers who benefit from this service, not commercial.

Business North Harbour currently funds the management and promotion of their own Bi-Annual Recycling programme across the NHBID. This successfully reduces landfill and provides upcycling opportunities for local community and charity (NFP) organisations. This is member funded and therefore our members, while understanding of the changes within the national and international recycling environment, have reservations with their support for a regional increase with no clear identification of costs.

(1.2 ii) Proposed Inorganic collection cost increase

Council's inaccuracy in projection of demand for this service should not be borne by business was the consensus of 45% of members surveyed. A further 9% were unsure. Again, there was a level of support in recognition of the responsibility to reduce landfill in a responsible manner, but as this was largely for the benefit of residential rate payers, **business should not be expected to pay** any portion of business differential on this proposed rate increase.

(1.2 iii) Proposed Refuse Collections service increase

Penalizing commercial ratepayers for the forecasted changes in residential behaviour, is not appropriate. There is minority support for the increase on residential properties, but over 52% of members are **opposed** or unsure when applied to their commercial property.

We refer again to the process, determining its funding sources for an activity the Council must consider the criteria in the Local Government Act 2002 previously stated.

(1.3) Proposed extension of food scrap collection targeted rate to North Shore.

The benefits of removing food waste from general landfill needs to be factored in and used to offset the costs of extending this service. Again, it is for the benefits of residential property owners, not business. This has been a trial since 2014, giving Council adequate time to factor in the costs of expansion and budget accordingly.

Commercial ratepayers should not be expected to fund a service which does not directly benefit them[6]. If commercial ratepayers are expected to fund, the service should be made available to all commercial properties within the corresponding geographical area.

55% of members were in **favour** of the expansion geographically, and were accepting of the rate increase for their **residential** property.

(1.4) Phasing out the Waitakere rural sewerage and targeted rate.
This is outside of our NHBID remit, therefore we have **no comment.**

(1.5) Adjusting the urban rating area.
This is outside of our NHBID remit, therefore we have **no comment**.

(1.6) Increased to some fees to maintain cost recovery
67% of our members were ardently **opposed** to increased fees with a further 9% feeling they had insufficient information on which to make a decision.

[6] Section 101(3) of the Local Government Act 2002

(2) Feedback on additional issues other than the above.

(2.1) Regional Fuel Tax

Despite providing a very clear, and comprehensive submission on the then proposed RFT (LTP 2018-28), our members have yet to see any direct investment in the NHBID area, outside of the Central Government, NZTA/ATAP Northern Corridor Improvement, Rosedale Bus Station project.

We reiterate our position stated in our LTP2018-28 submission - Please see appendix 1 – Submission Draft Proposal for a Regional Fuel Tax and Draft Regional Land Transport Plan – 14 May 2018

Regional Fuel Tax Feedback

We **support** the need for additional investment to improve the current transport system.

We acknowledge central and local government's investment of $700 million for the delivery of the Northern Corridor Improvement Project (2018-21). We appreciate that this project was brought forward through central government's intervention, May 2014, and their provision of an interest free loan of $375 million (to be repaid 2026/27) (Accelerate Auckland Transport Projects).

Our members **agree** that the impact of population growth, the resulting congestion and, environmental consequences must be mitigated to enable the efficient movement of freight and people, if the city is to continue to function. We agree that building more roads is not the only answer, and better demand management of the existing network is critical if we are to provide the priority for freight and commercial trade movements our members seek.

It is acknowledged that Council is facing debt ratios which need to be managed. However, we do accept the need to raise more funding for transport projects and services.

I refer you to Business North Harbour's submission Long-term Plan (2012-22) in which we recorded our members' preference for road user charges, congestion charge modelling, public/private partnerships, as mechanisms to fund transport infrastructure projects – projects which address the limitations to economic growth, the loss of productivity, faced by businesses based in North Harbour, and indeed the North Shore.

Our preference is to introduce initiatives that both manage demand and raise funding equitably as soon as possible, balanced with investment into affordable and more frequent public transport to effect sustainable behavioural change.

Central government introduced **The Land Transport Management (Regional Fuel Tax) Amendment Act**, 26 June 2018 which enables Auckland Council to seek funding for specific transport-related projects.

Auckland Council proposes to raise $150 million per year, ($1.5 billion over the 2018-28 Budget), through the Regional Fuel Tax of $0.10c per litre plus GST. Administration and set up costs for the RFT are estimated at $35.5 million (2018-28).[18]

To ensure transparency, we also ask that the projects and services being funded by the tax be distributed following a clear rationale and identified clearly in Council Budgets. We also ask that

[18] Auckland Council 10-year Budget 2018-28, Supporting Information, Section 7: Additional supporting information, 7.1 Transport funding.

central government's contribution to Auckland transport funding be included transparently in such budgets, so we are clear about its ongoing contribution.

We request adequate consultation on the forthcoming Regional Land Transport Plan (RLTP) and Auckland Transport Alignment Project (ATAP) plans of four to six weeks. We ask that both plans clearly identify this source of funding and the specific transport projects and services it will be spent on. Across all feedback, our members – business and commercial property owners, raised the significant regional disparity concerning the source of specific revenue streams versus regional investment. Direct benefits back to the source of funding need to be identified and comprehensively reported so business understand exactly how and where the benefit is derived and to mitigate the inflationary impact of this proposed Regional Fuel Tax across goods and services.

Finally, we note that a regional fuel tax of $0.10 cents per litre plus GST is only a small step towards addressing the funding gap the Auckland Transport Alignment Project (ATAP) identified at $5.9 billion. We note that this shortfall still **contains assumptions of $4.8 billion central government contribution.** [19] If central government investment is not delivered to the assumed levels, even with the Regional Fuel Tax in place, the transport capital investment programme could be less than $11-12 billion.

To mitigate this high level of uncertainty, we request Auckland Council and the Government commit to urgently clarify solutions to fund this gap.

Based on the above, and in the absence of a more fair and equitable solution, in the interim, we support a regional fuel tax of $0.10 cents per litre plus GST. However, it is essential that this tax is allocated to spending on specific transport projects and services and is reported on with complete transparency, further that these specific transport projects are evenly distributed across Auckland.

(2.2) Business Differential

We **do not accept** the Council's view that a business differential should be applied to rates especially for reasons that "businesses are better able to manage additional costs than residential properties" or because "businesses can claim back GST and expense rates against tax."[20] These reasons do not justify the business differential, particularly for small businesses which make up most businesses in Auckland. The Shand Report on *Funding Local Government* recommended against rating differentials.

Council's position is that business should pay 26% of general rates (UAGC and value-based general rate) which links back to their ability to expense rates.

Council outlined their Long-term differential strategy[21] during the Draft Long-Term Plan 2012-22 consultation process. This strategy detailed the application of a business differential ratio to general rates, and the lowering of this long-term differential ratio by 0.1% per annum from **year two of the Draft LTP 2012-22**. Council modelled the impact of moving $2.8 million (excluding GST) per year from business to residential ratepayers, to ensure the long-term differential strategy was carried out at an affordable rate. Business North Harbour consulted with members reluctantly accepted the strategy, having assessed the cost of the proposed

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[19] Auckland Council 10-year Budget 2018-28, Supporting Information, Section 2: Financing Information; 2.2 Prospective financial statements

[20] As set out in Section 7.4 'Natural environment initiatives and funding' of the Additional supporting information to the Long-Term Plan. For example, if income for a small business is relatively flat, but there is a significant rate increase, the extra rates expense will impact negatively on the profitability of the business and may even force the business to run at a loss.

[21] Auckland Council Draft Long-term plan 2012-22: Volume three, Financial information, policies and fees, chapter 6: Rating policy and transition management. (page 167)

business differential against the **stated timeframe**. Pausing of the reduction to the long-term business differential and the subsequent extension to these timelines during subsequent Council plans – which **we opposed**, have impacted our members significantly. The consistent demand by rate payers is for greater transparency and accountability. Auckland Council must adhere to plans once consulted upon and agreed.

Auckland **urban business pay 2.73 times**[22] more rates than residential ratepayers, or around $150 million more due to the business differential.

We acknowledge that the freeze imposed in 2017-18 has been lifted. However, the **proposed business differential rate of 32% for 2018/19 across general rates** exceeds what Council defines as fair and equitable to business.

We therefore request that the business differential should be reduced to Council's own assessment of **26% across general rates, with immediate effect**, or a timeframe which provides clarity to our members.

(2.3) Water Quality Targeted Rate (WQTR)

Again, we are in accord with the AKBIDS submission, we agree that Auckland must improve infrastructure to save our harbours, beaches and streams from being polluted by overflows from ageing sewerage and storm-water systems. Inaction may cause not only reputational damage but a reduction in general health and well-being of the Auckland population and other dependants of the water system.

While we are supportive of transparently 'ring fencing' spending on this kind of infrastructure, we do not accept that a business differential should be applied to this targeted rate. We accept that business should pay a share, but not a differential.

(2.4) Natural Environment Targeted Rate (NETR)

We **agree** overall that Auckland must reverse the decline of biodiversity in the region, stop kauri dieback and address the spread of pests, weeds and diseases.

However, we note that these matters are not 'core services' under the Local Government Act 2002, abut more properly the responsibility of central government or taxpayers. Non-rates contributions of approximately $4m comes largely from central government. However, our members feedback is that this level is wholly inadequate if Government value environmental protection for New Zealand's largest city – the gateway into the country for the majority of our tourists.

MBIE's tourism forecasts show annual international visitor expenditure as increasing 52% to $15.3 billion by 2023. [23] International visitor arrivals to New Zealand are forecast to reach 4.9 million visitors in 2023 (from 3.5 million in 2016, up 39%). This equates to a growth rate of 4.8 per cent per year.

When looked at by purpose of visit, the overall growth of international visitors will be driven by holidaymakers. Holiday visitor arrivals are forecast to increase 48% to 2,691,000 by 2023, while visiting friends and relations will increase 31 per cent to 1,342,000; and business visitors are forecast to reach 333,000, an increase of 15 per cent.

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[22] Auckland Council 10-year Budget 2018-28 Supporting Information, Section 4: Our policies and other information, 4.2 Prospective funding impact statement

[23] http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts/documents-image-library/forecasts-2017-report-final.pdf

Feedback from our members presents a clear message that business are **not prepared to contribute any level of funding** to the Natural Environment Targeted Rate due to the criteria outlined here - *'the extent to which individuals or a group contribute to the need to undertake the activity'*[24]

Our members position remains that Auckland Council should seek increased funding from central Government – from the Ministry of Primary Industries, Department of Conservation and from Tourism New Zealand for the reasons outlined above. All New Zealand benefits from increased tourism and our international clean green branding. Auckland ratepayers should not be the first direct source of funding for projects which have a wider benefit than just the Auckland region.

Our Members are extremely pleased that the Government is to introduce a new $35 visitor levy raising an estimated $80 million a year to pay for tourism infrastructure and conservation projects, and fully support its introduction. This re-enforces a commitment to invest and protect our environment and meet infrastructural needs which are inadequate. Details of the spending needs to be transparent.

(3) Council Cost Savings and Operational Efficiencies

We support Council in reviewing if and where efficiencies and cost savings can be made. We welcome the s17A Reviews being undertaken by the Mayor as a means of establishing 'value for money'. We asked for a progress report in our LTP2018-28 submission, however are yet to receive.

In terms of greater transparency, we would appreciate being told of the progress being made towards achieving these savings and the reduction in budgets as initiatives are delivered. For example, what savings have been delivered by centralising Watercare's Treasury function within Auckland Council and the disestablishment of Auckland Council Investments Limited and where have those savings now been spent?

(4) Accommodation Provider Targeted Rate (APTR)

With regard to rating online accommodation providers (like Airbnb), we have been told by accommodation providers both locally and regionally that they do not accept that they should fund ATEED's tourism promotion and event costs from this targeted rate.

By Auckland Council financial policy manager's own admission the Council cannot find all of the providers in question unless companies like Airbnb cooperate. Accordingly we recommend that Council investigate this how they mandate residential online accommodation providers (such as Air BNB) to co-operate and collect and pay this revenue on behalf of their clients.

We still do not support APTR and our preference remains for the Government to introduce a levy on international visitors to fund tourism projects.

For some accommodation providers, the current accommodation providers targeted rate has resulted in a rates increase of 250% or more and for many, a doubling of already significant rates. Some providers have benefitted from exemptions while others have not. This contradicts the Council's view that there should be rates stability.

We request details as to the value of funds collected, and the cost of that collection to be made public.

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[24] Auckland Council 10-year Budget 2018-28, Supporting Information, Section 7: Additional supporting information, 7.3 Attachment B: Assessment against statutory criteria – general rates

(5) Upper Harbour Local Board Plan 2019-20

We acknowledge that Upper Harbour is a diverse and vibrant area, expected to be the **fastest growing area in the country over the next ten years**, in both absolute and percentage population terms, which brings both challenges and opportunity for us. As the Local Board's only formal Business Improvement District, we look forward to working with the board in leveraging from the projected growth of the region.

We acknowledge the support received from Upper Harbour Local Board over the past twelve months and look forward to working with the board in the coming twelve months

Access to diverse employment, improved productivity and reduced environmental damage through less congestion is critical for the **sustainable growth of the region.**

As highlighted in the latest Infometrics economic reports,[25] UHLB area is outperforming Auckland and New Zealand across key matrixes. Maintaining this level of output will prove difficult if the infrastructure business needs is not supplied.

Based on our research access to the business district is critical for the 35,000 employees across the North Harbour BID. We **request greater support** for local transport infrastructure projects which support business and economic development, over and above community or politically led initiatives. For example, priority for freight and business service traffic over a poorly supported cycle network.

We **support** the UHLB's focus on increased public transport, but not if the provision for rapid transport removes or compromises infrastructure assets and facilities depended upon by commercial trade and employee commuters in the absence of alternative modal options.

We rely on the UHLB's extensive local knowledge, and influence across the Auckland Council family to add value to their role of local board governance.

We also collectively rely on the board's ability to influence government decision for the greater good of the region and the economic vitality of those who choose to create local employment opportunities within the North Harbour district.

We **note the absence** of specific economic development and business development priorities listed in the 2019/20. We are confident that this is an omission due to space, rather than an indication of the importance the board places on enhanced economic performance of the local economy.

(3.b) UHLB priorities

Of concern is that only 23% of our members surveyed supported the UHLB priorities with 49% unsure and a further 27% opposed. It is clear that the priorities stated by local government are not resonating with our business and commercial property investors or there priorities have not been clearly enough articulated

(6) Property Ownership Transfers

As anticipated, there was clear **support** (71%) for this decision based on the $220m tax savings.

[25] https://ecoprofile.infometrics.co.nz/Upper%2bHarbour