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## **SUBMISSION TO AUCKLAND COUNCIL EMERGENCY BUDGET, ANNUAL BUDGET 2020/2021**

Auckland Council is seeking feedback on the Auckland Council Emergency Budget – Annual Budget 2020/21.

**In Summary, the Parnell Business Association would like to submit the following.**

1. We support a zero or less than 2.5 percent rates increase on the basis of the following points.
  - We believe this is appropriate in these extraordinary times.
  - The Emergency Budget was prepared in the middle of April, based on assumptions that were arguably far more pessimistic than they are now in Level 1 and there would have been some savings in that regard.
  - Central government have confirmed 11 projects for stimulus funding, 6 of which are in Auckland. While they may not be the priority of shovel ready projects desired, this should provide some budget relief. *(Potential positive impacts of a share of central government stimulus package or the likely funding of ‘shovel ready’ projects had not been factored in).*
  - We believe that council should increase its debt to borrowing ratio to at least 300 per cent in order to fund capital projects and we do not hold the view that a slight shift from the AA credit rating will be that detrimental in the long term. The Council should be approaching the Government for a Guarantee on the loans during this period to limit any potential increased interest costs. This will have no impact on the Governments debt/GDP levels. These are extraordinary times and there is an appetite to invest. Reduced capital investment on building and construction projects, especially in town centres is not desirable. *(The maximum \$2.5 billion scenario appears to us to be the better option. However, we do not agree that this necessarily requires a 3.5 per cent rates increase).*



- We support the reductions in operating expenditure and accelerated asset recycling to reduce the debt requirement.
  - We believe a priority should be to retain public and community facilities and sporting venues for the wellbeing of all Aucklanders, plus it is critical that Council is able to continue with core services.
2. We welcome the introduction of the COVID-19 Rates Postponement Scheme, for the benefit of residents and landowners, but advise it is very complex to apply this relief to tenants for the reasons set out further in the document.
  3. We welcome the suspension of the APTR, but do not accept that accommodation providers should pay the APTR at all.
  4. We appreciate that the business differential is still being reduced in accordance with the long term differential strategy, but fundamentally, do not accept the view that a business differential should be applied to rates.
  5. We also ask how the underspend of the Regional Fuel Tax by \$268m has been factored into the Emergency Budget? Our preference is to introduce initiatives that both manage demand and raise funding equitably as soon as possible.

Please see further detail in the following pages.

Kind Regards  
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## **Background**

Auckland Council says it is facing a significant financial challenge. Due to COVID-19, revenue is projected to be over \$500 million less than previously budgeted. Council's high fixed costs mean its budget will not balance, even after making considerable cuts. Council will have hundreds of millions of dollars of less cash to pay for services and investments. Although it can borrow more to help make up the difference, unlike central government, Auckland Council is already very close to the limit of what it can borrow.<sup>1</sup>

Council says not increasing rates would have severe impacts on council services, new infrastructure, its debt levels and employment and business activity in Auckland. As a consequence, Council is proposing rates increases of either the currently planned 3.5 per cent or a lower 2.5 per cent, each with different impacts for Auckland, and a new rates postponement scheme to help the hardest hit households and businesses.<sup>2</sup>

Council has four key levers to respond to this financial challenge: (1) Increased council borrowing: Under either rates increase option, Council will temporarily exceed its debt limits. Council says further borrowing will lead to increased borrowing costs, reduced access to debt markets and greater exposure to further shocks. Additional debt would also need to be serviced and repaid by future ratepayers. (2) Reduced capital investment: Council has already decided to slow down some of its building and construction projects. To avoid over-reliance on the use of debt, Council will look at delaying more projects, with more delays needed under the 2.5 per cent rates increase option. (3) Reductions in operating expenditure: Council is already planning substantial cuts to its back-office functions. Further savings will impact the services it delivers to Aucklanders. Under the 3.5 per cent rates increase option a package of \$54 million of further operational expenditure reductions is needed, temporarily impacting some services Council provides. Under the 2.5 per cent rates increase scenario, this will increase to \$75 million. (4) Asset recycling. The Council owns over \$50 billion of assets. It is proposing to let go of some more of its less well used assets to help pay for new ones that will help Council deliver better services to the community.<sup>3</sup>

Our feedback responds to Council's key questions for feedback:

- (1) General rates increase for 2020/2021;
- (2) Rates postponement for ratepayers impacted by COVID-19;
- (3) Suspending the targeted rate paid by accommodation providers; and
- (4) Other feedback

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<sup>1</sup> *Emergency Budget Consultation Document*, page 7.

<sup>2</sup> *Emergency Budget Consultation Document*, page 7.

<sup>3</sup> *Emergency Budget Consultation Document*, page 7.



## **(1) General rates increase for 2020/2021**

*Council is proposing an average general rates increase of either 2.5 per cent or 3.5 per cent for 2020/2021. Council says it looked at, but could not responsibly propose rates increases below 2.5 per cent because of the severe impacts that would have on council services, new infrastructure, debt levels and employment/business activity in Auckland. The scale of the financial challenge that Council faces for next year with a revenue loss of over half a billion dollars means that spending on some council services will need to be reduced and many capital projects will be delayed even with the 3.5 per cent increase Council had previously planned. With a lower rate increase of 2.5 per cent, Council would need to further reduce spending on services and further delay investment in transport, parks and community and town centre projects. Council has asked which increase is supported?<sup>4</sup>*

We would like to preface our response to the key question of the proposed rates increases by noting that the 16 April 2020 assumptions upon which the Emergency Budget was prepared have likely been overtaken by more recent events.

As your *Supporting Information* notes, the financial impacts of COVID-19 on the Auckland Council group budget for 2020/2021 remain uncertain and the budget is assumption driven and based on modelling.<sup>5</sup>

Although we acknowledge and reiterate the severity of the economic impacts of COVID-19 on businesses (especially small to medium sized businesses and particularly those reliant on tourism and international students), we believe the financial outlook for Auckland Council must now be better than in April when the Emergency Budget was prepared.

The assumption was that New Zealand would stay at COVID-19 Level 2 for the first quarter of the 2020/2021 financial year with the consequent restraints on activity. That is no longer the case. Although the move to Level 1 still means international borders remain closed, most social and economic activity has returned to pre-COVID-19 levels. In our view, under Level 1, Auckland Council will not face the scale of financial challenges it assumed or modelled in early April 2020. For example, under Level 1, social distancing measures have been relaxed allowing, for example, many Council facilities and transport services to return to near normal operations.<sup>6</sup>

In addition, we are concerned that while the Emergency Budget has assumed the worst in terms of loss of revenue, there are few assumptions made regarding the positive impacts of the \$50B economic stimulus package in central government's Budget 2020 or the likely funding of 'shovel ready' projects by central government.

Earlier in the year, the government allocated \$6.8 billion into transport (\$5.3 billion on roads and \$1.1 billion on rail) with Auckland receiving \$3.48 billion of the transport

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<sup>4</sup> *Emergency Budget Consultation Document*, Feedback Form.

<sup>5</sup> *Emergency Budget Supporting Information*, page 4. See also pages 6, 11 and 18-22. We note in this regard your comment that this was primarily the result of persistent revenue reductions due to the economic outlook, border closures, social distancing and the drought. You also note a response from Watercare that their most recent review of revenue forecasts had identified that an additional \$25 million of Infrastructure Growth Charge revenue was now likely to be received compared to their earlier forecast.

<sup>6</sup> We suggest that the outlook must be even more optimistic than the "more optimistic" scenario set out in your *Emergency Budget Supporting Information*, page 8. The reduction in council revenue was expected to be around \$400 million rather than \$550 million in the "most likely scenario", and the net operating gap \$275 million rather than \$400 million.



funding.<sup>7</sup> We were also told then that Auckland Council was working with central government to establish the impact of this on Council's budgets. However, again, we are concerned that the Emergency Budget has not included any assumptions about how this could affect Council's revenues for 2020/21.

You have identified four key levers to respond to the financial challenge in addition to the average general rates increase of either 2.5 per cent or 3.5 per cent.

#### Increased council borrowing

In terms of the first lever, increased council borrowing, you have indicated that the highest Council can responsibly go with additional borrowing is a debt to revenue ratio of 290 per cent for 2020/2021 before reducing back to 270 per cent the following year. Although we accept there are risks associated with further borrowing, these are exceptional times and we believe the Council should maximise the use of this lever.<sup>8</sup>

Your *Supporting Information* notes that it is entirely prudent and indeed necessary to temporarily depart from these policies. The intent of the policies and the related legislation is to promote long-term financial sustainability, not to require rigid adherence to fixed policy settings in time of crisis.<sup>9</sup> There must also be opportunities to temporarily relax other aspects of the balanced budget test (such as funding less depreciation in 2020/2021).<sup>10</sup>

Your *Supporting Information* acknowledges that "a projected debt to revenue ratio closer to 300 per cent for 2020/2021 would represent a better balance between maintaining long-term financial prudence and maintaining investment and critical services."<sup>11</sup>

Again, although we accept there are risks, we believe a budget with a projected debt to revenue ratio of 300 per cent represents a better balance in these exceptional times.

#### Capital investment

Turning to the second lever, reduced capital investment, we are concerned that Council has been too quick to reduce its building and construction projects, especially in town centres. Maintaining or even increasing Council's capital investment in these times of economic uncertainty is the best way Council can have a positive impact on jobs and business activity in Auckland and as a consequence we believe it should be maximised.<sup>12</sup>

We agree with the advice of the council's Chief Economist is that it is critically important to continue to invest in quality capital projects at this time to stimulate the Auckland economy, both in terms of maintaining business confidence, and the flow-

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<sup>7</sup> Mayor Goff said this funding will be put toward the \$1.3 billion Mill Road highway, the \$411 million Penlink toll road, the widening of State Highway 1 between Papakura and Drury South and the \$360 million SeaPath walking and cycling path across the Harbour Bridge.

<sup>8</sup> *Emergency Budget Consultation Document*, pages 9-10.

<sup>9</sup> *Emergency Budget Supporting Information*, page 8.

<sup>10</sup> *Emergency Budget Supporting Information*, page 8.

<sup>11</sup> *Emergency Budget Supporting Information*, page 9.

<sup>12</sup> *Emergency Budget Consultation Document*, pages 9-10.



on impact of this spending through the economy. Spending that achieves the twin goals of supporting direct employment and enabling significant further downstream employment should be supported wherever feasible.<sup>13</sup>

Overall, we believe that there is a compelling case for council to continue with as much capital investment as is prudently achievable. The maximum \$2.5 billion scenario appears to us to be the better option. However, we do not agree that this necessarily requires a 3.5 per cent rates increase. As noted above, adopting realistic assumptions about central government 'shovel ready' funding as well as further borrowing would allow a lower rates increase while still maximising capital investment.<sup>14</sup>

### Reductions in operating expenditure

With regard to reductions in operating expenditure (or the third lever), we note the Council's observations that the current budget position reflects a \$150 million reduction in operating expenditure. We further note that council staff have developed a list of additional savings and possible temporary reductions in services that could provide up to a further \$100 million of operating cost mitigation. The advice of Council's Chief Economist is that spending on operating activities will not have the same economic stimulatory impact as capital investment.<sup>15</sup>

Your *Supporting Information* notes that for rates increase scenarios at or below 2.5 per cent, further reductions would be required, such as delaying the start of implementing a living wage policy for contracted cleaners.<sup>16</sup>

We acknowledge the reductions in operating expenditure identified by council staff to date and suggest, in these times of crisis, that further reductions of the kind shown in Section 2.4 of the *Supporting Information* are possible to increase the savings in operating costs to \$100 million or more.<sup>17</sup>

For example, we suggest that delaying the start of implementing a living wage policy for contracted cleaners (or not implementing this at all) is appropriate, especially in these times, as these are matters for central government to address and not Auckland Council.

Further, we support the Mayor and elected members ensuring that council management is delivering services during this period in the most efficient and cost-effective way.

### Asset recycling

Finally, in terms of asset recycling, we agree that this is an important lever for the council and that the Emergency Budget provides an opportunity to increase the budget targets and accelerate asset recycling to reduce the debt requirement.

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<sup>13</sup> We also note that the Chief Economist considers that investing in capital projects with demonstrable downstream or catalysing benefits is particularly helpful. Investment in infrastructure such as pipes and roads will generally enable more house-building activity. Town centre upgrades bring people back into those town centres. Transport upgrades that do both of these two things again should be prioritised. *Emergency Budget Supporting Information*, page 10.

<sup>14</sup> *Emergency Budget Supporting Information*, page 11.

<sup>15</sup> *Emergency Budget Supporting Information*, pages 11-14.

<sup>16</sup> *Emergency Budget Supporting Information*, pages 13-14.

<sup>17</sup> *Emergency Budget Supporting Information*, pages 13-14.



Your *Supporting Information* notes that there are three broad categories of potential asset recycling opportunities: a. Accelerate the sale of property (which includes the Panuku rationalisation pipeline); b. Consider divestment in non-core commercial assets; and c. Further optimise service property.<sup>18</sup>

Section 2.5 of the Supporting Information identifies \$200 million to \$350 million of near-term opportunities for recycling capital from assets classed as both non-strategic and non-service assets. This is comprised of \$150 million to \$200 million of land, buildings and leasehold interests and \$50 million to \$100 million of opportunities related to city centre car park buildings.<sup>19</sup>

We agree with the current proposal of an additional asset recycling target of \$200 million for 2020/2021 and we also encourage consideration of further asset recycling opportunities under scenarios for lower rates increases, including looking at the ownership of strategic assets. We believe an alternative approach to approving property disposals is appropriate to enable a more efficient asset recycling process.

*Which increase is supported (2.5 percent rates increase or 3.5 per cent rates increase)?*

**We support a zero or less than 2.5 percent rates increase.**

**We believe this is appropriate in these extraordinary times.**

**We also believe this is achievable based on likely improved Council finances under COVID-19 Level 1, some central government stimulus funding (eg, for shovel-ready projects), as well as increased council borrowing (with a debt/revenue ratio of 300 per cent), reductions in council operating expenditure (of \$250M) and asset recycling of \$350M.**

**We also support increased capital investment to \$2.5B and believe this is also achievable.**

## **(2) Rates postponement for ratepayers impacted by COVID-19**

*Council is proposing to introduce a COVID-19 Rates Postponement Scheme. This will allow ratepayers who are struggling financially as a result of COVID-19 to defer up to \$20,000 of their rates for the 2020/2021 year. At the end of the postponement period ratepayers would have to 30 June 2022 to pay off the balance (including interest and administration fees). Council has asked if this proposal is supported?<sup>20</sup>*

<sup>18</sup> *Emergency Budget Supporting Information*, pages 13-14, 48-54.

<sup>19</sup> *Emergency Budget Supporting Information*, pages 13-14, 48-54. We agree that consideration be given to services that the council could exit, such as: i. gyms; ii. holiday parks; and iii. early childhood education. We also agree that the council should consider and reduce the scale of investment in certain activities, such as golf courses. Further, we agree to consideration being given to the optimisation and rationalisation of community facilities (land and buildings), such as: i. consolidation into community hubs; ii. land which is part of a community facility but is not currently used or needed to provide council services; iii. low use, poorly positioned assets (buildings and/or land); iv. alternative service delivery models which include a non-asset owning response to achieving outcomes; and v. the sale of assets to community groups.

<sup>20</sup> *Emergency Budget Consultation Document*, Feedback Form, page 26.



We welcome the proposal to introduce a COVID-19 Rates Postponement Scheme for residents and landowners.

You forecast that up to 6,000 business ratepayers will apply for rates postponement of up to \$78 million. Historically residential ratepayers haven't been attracted to rates postponement and you don't expect this to change.<sup>21</sup>

Your *Supporting Information* notes that:<sup>22</sup>

“Many small and medium businesses are tenants and are required to pay the rates under their lease. However, the council's relationship is with the landlord as ratepayer. The landlord is ultimately liable for payment of the rates. Commercial landlords in financial stress are eligible under the conditions for business properties above.

Council considered either requiring commercial landlords in financial stress, and/or allowing those not in financial stress, to apply for postponement if they were passing the benefits on to their tenants. However, commercial landlords have a long-term interest in the viability of their tenants and therefore should take the first responsibility for managing the economic challenges.”

To accommodate any rates relief for tenants requires a change of invoicing and adjusting AP's for monthly operating expenses, which are notoriously difficult to set-up in the first place, increasing the likelihood of late or short payments of operating expenses. There are complications with larger buildings with multiple tenants, with some potentially requesting rates relief while others may not require it. Accounting for these changes will become highly complex.

There is also the potential for tenants leases to expire and tenants who assign their leases to new owners during the rates postponement period. This will further complicate situations which are already tricky to deal with by adding additional risk that outstanding debt remains unpaid after tenants have left their premises.

Many of our landowners have already engaged with their tenants and provided rental relief in response to COVID-19, but have not changed obligations under operating expenses due to the reasons outlined above.

***Is there support for the COVID-19 Rates Postponement Scheme?***

**We welcome the introduction of the COVID-19 Rates Postponement Scheme, for the benefit of residents and landowners, but advise it is very complex to apply this relief to tenants.**

<sup>21</sup> *Emergency Budget Supporting Information*, page 67.

<sup>22</sup> *Emergency Budget Supporting Information*, page 65.



### **(3) Suspending the targeted rate paid by accommodation providers**

*Restrictions on travel and mass gatherings due to COVID-19 have resulted in Council reducing its spending on visitor attraction and major events. Council are proposing to suspend the Accommodation Provider Targeted Rate (APTR) which helps fund these activities until 31 March 2021. The APTR will only be charged for the last three months of the next financial year (2020/2021) as Council increases its spending in this area. This proposal will assist the accommodation sector who are struggling financially. Council has asked for feedback on this proposal.<sup>23</sup>*

Although we welcome Council suspending the Accommodation Provider Targeted Rate (APTR) until 31 March 2021, we have been told by accommodation providers both locally and regionally that they do not accept that they should pay the accommodation providers targeted rate at all.

For some accommodation providers, the past application of the APTR has resulted in a rates increase of 250 per cent or more and for many, a doubling of already significant rates. Some providers have benefitted from exemptions while others have not and this contradicts the Council's view that there should be rates stability. Accommodation providers have also advised us that it is unfair to shift the rates burden to them when only around 10% of the total visitor spend is on commercial accommodation.

Consequently we do not support the APTR in principle and our preference is for the Government to introduce a levy on international visitors to fund tourism projects when the borders reopen.

***Is there support for suspending the APTR?***

**Although we welcome the suspension of the APTR, we do not accept that accommodation providers should pay the APTR at all.**

### **(4) Other feedback**

*Council has asked for any other feedback on the Emergency Budget – Annual Budget 2020/21.<sup>24</sup>*

In terms of any other feedback, we would like to respond as follows:

General rates increases between 0 per cent and 3.5 per cent

Your *Supporting Information* notes that the consultation material for the Emergency Budget would describe the implications of average general rates increases between 0 per cent and 3.5 per cent.<sup>25</sup>

<sup>23</sup> *Emergency Budget Consultation Document, Feedback Form.*

<sup>24</sup> *Emergency Budget Consultation Document, Feedback Form.*

<sup>25</sup> *Emergency Budget Supporting Information, page 4.*



Although there is some mention in the *Consultation Document* and *Supporting Information* of the implications of average general rates increases below 2.5 per cent, we have been disappointed with this information and believe that this has been inadequate for us to fully assess such an option alongside the options for an increase of 2.5 per cent or 3.5 per cent.

**In these exceptional times, we believe the option of an average general rates increase of zero or below 2.5 per cent should have been thoroughly canvassed.**

#### Business differential

While we appreciate that the business differential is still being reduced in accordance with the long term differential strategy, **fundamentally, we do not accept the 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.”<sup>26</sup> These reasons do not justify the business differential, particularly for small businesses who make up most businesses in Auckland. The Shand Report on *Funding Local Government* recommended against rating differentials.

In 2020/2021 the business differential ratios will be set so that 31.68 per cent of general rates (UAGC and value-based general rate) come from business.<sup>27</sup> By comparison, Tauranga City Council has no business rates differential at all.

#### Regional Fuel Tax

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 in order to effect sustainable behavioural change. We understand, for example, that technical work on the ‘Congestion Question’ project that has been examining the potential to apply congestion charging in Auckland is progressing. We understand that the technical investigatory phase of this project was to be completed in the first half of 2020 and subsequently to be reported to Government and Auckland Council for decisions on any further work. While COVID-19 may have interrupted this timing, we nonetheless ask for this work to become publicly available as soon as possible.

In the interim, while we have previously supported a regional fuel tax of 10 cents per litre (plus GST), we ask for greater transparency regarding the spending of this tax on specific transport projects and services in the Emergency Budget. We wish to avoid the regional fuel tax being used as a ‘top up’ for overall transport budgets.

We are also concerned about the underspend of the Regional Fuel Tax by \$268m in its first year.

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<sup>26</sup> As set out in the additional supporting information to the Long Term Plan 2018/2028. For example, if income for a small business is relatively flat, but there is a significant rates 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.

<sup>27</sup> We understand that in 2020/2021, under the LTDS, for residential ratepayers the general rates increase will be 0.36 per cent points higher than the overall general rates increase (if it is either 2.5 per cent or 3.5 per cent it will be 2.86 per cent or 3.86 per cent on average respectively). For businesses the general rates increase will be 0.76 per cent points lower than the overall general rates increase (if it is either 2.5 per cent or 3.5 per cent, it will be 1.74 per cent or 2.74 per cent respectively). The above is the average impact and the impact will be slightly higher for higher value properties and slightly lower for lower value properties.



Although we appreciate that the spend of funds raised by the Regional Fuel Tax is planned over the ten-year term of the RFT and that in some years the spend will be less than the revenue (with the balance being held in a specific reserve to be released for projects scheduled later in the decade), you will appreciate we are worried that businesses are being over-taxed if the RFT is being underspent or that infrastructure is not being built at the required pace and this may have been or will be exacerbated by the current crisis.

**We also ask how the underspend of the Regional Fuel Tax by \$268m has been factored into the Emergency Budget?**