KIWI INCOME
PROPERTY TRUST

His Worship the Mayor and Councillors,
Christchurch City Council,
Freepost 178,
"Annual Plan",
Christchurch City Council,
PO Box 237,
Christchurch.

By email: ccc-plan@ccc.govt.nz

21st April 2008

SUBJECT: SUBMISSION ON DRAFT ANNUAL PLAN 2007/08

Your Worship and Councillors,

Kiwi Property Management Limited is pleased to make this submission to your Council on its Draft Annual Plan for the coming year on behalf of the owners of Northlands Shopping Centre in Christchurch. It is our wish to be heard by Council.

Summary of Submission

We wish to commend Council on its draft plan's presentation which is well presented and easy to follow.

This submission focuses on those variations from the LTCCP which are of concern to our company and comments on issues of major concern in anticipation of the review of the LTCCP next year.

The retail sector in particular is forecasting a bleak year ahead, with costs of its stock supplies rising, coupled with dramatic increases in transportation costs and compliance costs imposed by central and local government. Competition dictates that retailers are not able to simply increase selling prices to cover these increased costs and therefore margin is continually being eroded.

We urge Council to provide all sectors of the community with the opportunity for meaningful consultation with the working party in the review of the current LTCCP and formation of the 2009 LTCCP.
Council should review and amend its Draft Annual Plan to reduce the rates increase to no more than the estimated change in the CPI for the 2008/09 year by a combination of income and expenditure reviews and an elimination of rating for asset depreciation. The Rating Differentials should be reviewed and, as a minimum, reduced to the 145% General Rates differential contained in the LTCCP.

KIWI PROPERTY MANAGEMENT LIMITED
Level 14, DLA Phillips Fox Tower, National Bank Centre, 205 Queen Street, Auckland.
PO Box 2071, Shortland Street, Auckland 1140, New Zealand. Tel: +64 9 359 4000 Fax: +64 9 359 3999 www.kipt.co.nz

It is our opinion that Council should not be inflating its cost structure by charging ratepayers for a theoretical depreciation in operational service of its major infrastructural assets. We urge Council to take on board the conclusions of the Rating Inquiry, and eliminate the practice of rating for depreciation of infrastructural assets, making use of long term borrowing options for funding capital works in the review of the current LTCCP and formation of the 2009 LTCCP.

We urge Council to provide for the progressive removal of rating differentials on the business sector over a period of three years from 2009 in its review of the current LTCCP and formation of the 2009 LTCCP.

Introduction

Kiwi Income Property Trust, owner of the Northlands Shopping Centre, is a national organisation which invests in areas where it believes there is a sound and progressive community. Christchurch is one of the leading cities of New Zealand and the company regards itself as a responsible, caring local citizen of Christchurch. It is keen to play its part in ensuring that the community continues to prosper and grow. We value our association with the Council and assure you that any comments we make are intended to assist in the continued welfare and development of the City.

Before setting out the detail of our submission we wish to commend Council on its draft plan's presentation. The latest document is a further improvement on last year and is even better presented and easy to follow.

As in 2007, it is our intention to focus on those variations from the LTCCP which are of concern to our company and to comment on issues of major concern to our company in anticipation of the review of the LTCCP next year.

Rates Increase

Impact of Rates Increase

Council will not be surprised that we should voice our serious concern with the proposed rates increase. We note the Introduction's comments on page 8 that the rates increase signalled in the LTCCP for the coming year "was not palatable in today's climate". With respect, we submit that the revised rates increase is also unpalatable in today's climate and even more so than a year ago, with the changes which are now occurring in the world economies and the prospects for New Zealand over the next few years.

The whole community is coming under severe pressure, with costs rising at a much greater rate than incomes. We sympathise with the residential sector of the city but stress that the commercial sector is also under severe pressure from rising costs. The retail sector in particular is forecasting a bleak year ahead, with costs of its stock supplies rising coupled with dramatic increases in transportation costs and compliance costs imposed by central and local government. Stiffening competition in the retail sector means that prices cannot simply be increased to recoup these extra demands. In particular the proliferation of large format retail centres is impacting on the traditional role and importance of Key Activity Centres such as Papanui and Northlands Shopping Centre.

As noted in the Introduction on page 8 of the plan, average residential rates will rise by 5.1% while average commercial rates go up by 8.3%. And given that these figures are only average, it follows that many residents and businesses will face rates increases even higher than these figures, depending on the vagaries of the valuation process.

In a later section we will comment on the continuing issue of the impact of differential rating of business ratepayers. However, we must also draw to Council's attention the impact upon our rates caused by a worsening of this penal taxation upon the business sector in this year's draft plan. In fact it appears that there is a double penalisation. This is created by:

1. Business average capital values increases being greater than the residential sector, and,
2. An increase in the business differential of 6% [refer page 65 of the plan- increased from 150% of residential rate in 2007/08 to 160% in 2008/09].

All this means that the rating burden on business will be severely impacted upon by the proposed increases if they go ahead unchecked. They will further erode the ability of many commercial enterprises to continue to trade.

Rates Reduction

What Council must do is find ways in which to decrease the rates increase. This can be achieved by:

1. Firstly, reviewing its Operating Expenditure, which is estimated to be 3.3% higher than the LTCCP provision for 2008/09 and,
2. Secondly, by reviewing its total Operating Revenue, which is estimated to be 2.8% lower than the LTCCP provisions for 2008/09.

It is not our intention to attempt to identify for Council any specific items which should be deleted or deferred from the operating activities, since there is insufficient information in the draft plan to enable us to carry out a rational exercise. However, there are likely to be some projects or activities which, while desirable, may be judged not to be essential on examination.

One area we can suggest that Council gives serious consideration to is an issue which we have raised in each of our previous submissions, namely council's decision to rate its citizens for what is euphemistically called "depreciation". We do not propose to repeat our detailed arguments of the past other than to restate our opinion that it is a total nonsense for Council to be inflating its cost structure by charging ratepayers for a theoretical depreciation in operational service of its major infrastructural assets [e.g. roads and piped water & sewage services] upon which it also spends rates money where necessary to maintain 100% operational performance.

Evidence of this is shown on page 16 of the plan, where it is noted that provision has been made for depreciation of $105.2M, an increase of $7.2M above the LTCCP because of higher revaluations for streets and land & buildings. This sum is included in the total operational expenditure summary shown on page 20.

Council could easily resolve not to increase its depreciation figure, a course of action being taken by a number of councils throughout New Zealand. Alternatively, and preferably, it could eliminate all depreciation other than where it is actually applied to the replacement of the capital items to which it refers.

In this respect we remind Council of the recommendations of the Rating Inquiry team, which recently reported to the Government on the results of its detailed and exhaustive inquiry into local authority rating. One of its key recommendations was:

> *"That councils move away from fully funding depreciation, with the development of longer-term funding policies that take better account of intergenerational equity, and the availability of longer-term debt financing."*

Since we are aware that Council has been using the monies collected for depreciation of assets to be used for new capital works, Council should adopt the suggestion we have made in previous submissions to revert to the normal sources of finance for local government major capital works, namely long term loans.

Again, in support of this we remind Council of another recommendation of the Rating Inquiry, namely

> *"That local government look favourably on making more use of debt to finance long-term assets. This should include the issuance of bonds (including infrastructure bonds) on the capital market, not just shorter-term borrowing from commercial banks."*

While there will no doubt be arguments from some quarters that it is better to rate for capital works than to raise loans which carry high interest rates [as at present], we need to remind Council that householders and businesses generally finance their major asset purchases by way of loans, thus spreading the impact of the costs over a number of years and reserving their normal income for day-to-day necessities. Furthermore, it should also be remembered that interest rates fluctuate and current interest rates are significantly lower than they were in the 1970's and 1980's, when they were in double digits.

The benefit of long term loans for ratepayers is that cost is spread over future generations who will enjoy the benefits of Council's infrastructural assets. Further, inflation over time results in debt repayments having a decreasing impact upon the costs of Councils.

Differential Change

In addition to Council amending its general rating increase, we also ask it to amend its differential charge to business, to which we referred earlier, in order to reduce the impact on businesses and more fairly spread the burden over the whole community.

We have been unable to find any detailed explanation as to why Council has decided to increase the differential by 6%, as shown on page 65 of the plan. However, Council is required to explain why it makes a change in its draft annual plan from the provisions of the LTCCP. We submit that there is nothing which sets out the reasons for the upward shift in differentials, particularly when the business sector's share of the rates will also increase through revaluation.

We remind Council that the LTCCP provided for a 45% additional penalty on the business sector through a higher allocation of the cost of streets in the city [55% of the total cost of this large area of council expenditure]. You will recall that we contested this arbitrary allocation of costs, and continue to do so.

However, setting that aside, the LTCCP was varied last year to lift the business differential to 150%, without explanation. And this year it is raised to 160%, again without explanation.

Given the relative increase in rating valuations, even without any change in the differential the business sector will pay a greater share of the General Rate than previously and Council has seen fit to further increase the rating burden on its business community with an additional 6% loading through the change.

Since there has been no detailed evidence set out in the draft plan to justify an increase in the differential we believe that Council is duty bound to at least reduce it to the level of last year, namely 150%.

In reality, since the total General Rates were determined in the LTCCP to be allocated across the sectors on the basis of a differential apportionment at that time which, presumably, was equated as being its sector's fair share of the costs which each should bear, and given that the capital value of the commercial sector has increased more than the residential sector, we believe that Council should actually ***reduce*** the business differential to maintain the distribution of costs in the same proportions as the LTCCP provided!

Submission:
We submit that Council should review and amend its Draft Annual Plan to reduce the rates increase to no more than the estimated change in the CPI for the 2008/09 year by a combination of income and expenditure reviews and an elimination of rating for asset depreciation and, further, that the Rating Differentials be reviewed and, as a minimum, reduced to the 145% General Rates differential contained in the LTCCP.

<u>LTCCP Review 2009</u>

The Review Process

We are delighted to note that, according to page 9 of the draft plan, it is Council's intention to set up a working party to review the assumptions in the LTCCP adopted in 2006 in preparation for an updated LTCCP in 2009. We are encouraged to note the Council intends that the reviewed LTCCP will be a visionary blueprint which will secure the future of the city for generations to come, with rates set at a sustainable level while still ensuring that progress can be made to meet the vision for the future.

We are sure that Council must be as frustrated by the formal consultation process set out in the Local Government Act 2002 as are their stakeholders. Given the timing of the current process there is little opportunity for really meaningful consultation with affected parties. By the time Council has reached the legal "consultation" stage, the time is almost upon it when the new financial year starts and systems must be in place for accounting for both costs and revenue. The inevitable result is that there is generally little or no change in the draft plan when it is adopted.

As a major stakeholder in the city, the owners of Northlands are keen to play a positive role in the development of the reviewed long term plan and hope that Council will provide adequate avenues for consultation between key stakeholders and the working party. This consultation should be as part of the formation of the draft plan, rather than the post-facto form of consultation which currently is the norm.

This fact was recognised by the Rating Inquiry, which made a number of recommendations to the Government, which were:

- *"That section 82 of the Local Government Act 2002 be amended to limit council discretion in the means of applying the consultation principles."*

- *"That the current consultation processes be replaced by more selective and streamlined consultation arrangements."*
- *"That councils improve the quality of the summaries of the long-term council community plan as a basis for decision making and consultation."*

We believe that it is important for Council to engage in meaningful consultation with its stakeholders well ahead of the adoption of a draft plan for formal consultation. This could have a twofold benefit:

- it would ensure that council, both elected members and officers, receive input from all sections of its community to assist in determining what the future direction of Christchurch should be, and,
- if it is a really proactive consultation, it should follow that the subsequent draft document will be widely accepted and the usual crop of lengthy formal submissions and hearings will be reduced, if not eliminated altogether.

Of course, the selection of suitable representatives of key stakeholders has to be well thought through if a true reflection of the community's aspirations is to be set down in the draft LTCCP. We are sure that Council is already well versed in how to obtain the varied views of the residential sector. In the case of the business sector it is relatively simple, as there are organisations which represent the various components of the commercial community, as is likely to be the case with the rural community.

We urge Council to provide all sectors of the community with the opportunity for meaningful consultation with the working party in the review of the current LTCCP and formation of the 2009 LTCCP.

Rating for Depreciation and Capital Funding
In previous submissions, and again earlier in this year's submission, we have contested the way in which Christchurch has adopted policies to finance capital works from revenue under the guise of "rating for depreciation".

We have already alluded to this practice in the section dealing with the coming year's rates increase. However, we must underline the issue here as Council moves towards its review of the LTCCP because the result of this procedure and the application of depreciating new capital items has resulted in significant exponential increases in rates over the term of the LTCCP and will continue to do so until the practice is stopped.

We urge Council to take on board our ongoing submissions and the conclusions of the Rating Inquiry, and eliminate the practice of rating for depreciation of infrastructural assets, making use of long term borrowing options for funding capital works in the review of the current LTCCP and formation of the 2009 LTCCP.

Differential Rating
Council will not be surprised that we raise again the vexed issue of the application of differentials to capital value rates. However, we do not intend to repeat our previous detailed argument against this practice, other than to say that our views remain unchanged.

We continue to be concerned that Council uses its current powers to assume "income redistribution" responsibilities. We certainly reject the reasons given in the LTCCP and argue that the benefits of transportation and streets accrue to the whole community, and the business community should not be penalised with the majority of the costs of this activity.

In anticipation of the review of the LTCCP we remind Council of the recommendation of the Rating Inquiry, namely:

- *"That rating differentials be removed from the Local Government (Rating) Act 2002 from an operative date of 1 July 2012."*
- *"That councils be encouraged to make more use of their powers for flexibility in rating so that the rating burden better reflects value in use."*

The recommendations are arguably a tight time frame for some sections of local government, given that the size of differentials elsewhere in New Zealand are considerable and short-term removal would place serious burdens on the residential sector. The final outcome could be a longer time frame. However, since Christchurch's differential is relatively smaller than many it would be reasonable for the LTCCP to signal the total abolition of business differentials and provide for them to be phased out over three years.

We urge Council to provide for the progressive removal of rating differentials on the business sector over a period of three years from 2009 in its review of the current LTCCP and formation of the 2009 LTCCP.

Conclusion

In conclusion we reaffirm our strong commitment to Christchurch City and assure you that any comments we have made in this submission are intended to ensure that the business community can continue to be a key player in the future welfare of the whole community of Christchurch. We are pleased and proud to play our part helping the Council to achieve its vision.

We look forward to addressing this submission when we are afforded a hearing and hope that you will adopt the suggestions that we have made. It would be appreciated if, at the end of the process, you could formally reply to our requests.

Yours faithfully
KIWI PROPERTY MANAGEMENT LIMITED

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Karl Retief
MANAGER – RETAIL PORTFOLIO