KIWI INCOME
PROPERTY TRUST

5 May 2006

His Worship the Mayor and Councillors,
Christchurch City Council,
Freepost 178,
"Our Community Plan",
Christchurch City Council,
PO Box 237,
Christchurch 8003.

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

Your Worship and Councillors,

SUBJECT: SUBMISSION ON DRAFT LTCCP 2006-2016

Kiwi Property Management Limited, on behalf the owners of Northlands Shopping Centre in Christchurch, makes the following submission to your Council on its Draft Long Term Council Community Plan for the years 2006/2016. It is our wish to be heard by Council.

This plan is significant as it is the first Long Term Plan to be compiled by Council in accordance with the Local Government Act 2002, the current LTCCP being only interim and based largely upon Council's previous strategies. As Council itself notes in the Chief Executive's Introduction on Page 11 of the draft plan, the LGA 2002 has changed the basis and operations of councils and, to quote from the CEO's words "*We* [sic Council] *can no longer set the agenda for our community and dictate how we deliver it. The onus is on us to consult with our community and be far more responsive to your needs.*"

In this respect we note continual references to "residents" throughout the plan. We remind Council that in fact the "community" of Christchurch consists of both residents [urban and rural] and businesses [urban and rural]. All are necessary to ensure that Christchurch is a vibrant and leading city. Without businesses there are no jobs, no places to shop and no places to "wine and dine". And without residents, businesses could not survive. All are mutually inter-dependent. That is why we are concerned to ensure that the new Community Plan treats the whole community fairly

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and does not propose actions which will impinge adversely on the health and welfare of any sector of the City.

Unfortunately the only consultation which affords us the opportunity to participate in Council's deliberations is the reactive process specified in the Act, which is the community's formal response to the draft plan. We appreciate that Council has spent considerable time preparing the draft and, given the short time frame between its preparation and the statutory date by which Council must make its plan operative, there appears to us to be little prospect of making much impact upon it. However, we hope that we are mistaken in this belief and that Council will listen carefully to our submissions and make the necessary changes to address our concerns.
We are pleased to be part of the community of Christchurch City and our large investment in the City is evidence of our confidence in its future. We assure you of our support for your Council's endeavours to foster the economic growth and welfare of the community. It is that support which leads us to make this submission, as we wish to be able to play our part in ensuring the success of the Community Plan.

Our submissions are as follows:

1. LTCCP Draft Document
The Council's Draft LTCCP is most impressive. It is well prepared and well presented. We congratulate the Council on publishing a document which is easy to understand. However, we believe that it should have included the Council's policy on Development Contributions, rather than deal with the subject as a separate publication.

It is a very comprehensive long term plan and one which, except for the particular matters we will refer to later, has our full support. If the main objectives can be achieved Christchurch will continue to make spectacular progress towards becoming the number one city in New Zealand.

Of course, Council may well consider that it has achieved that already but we feel sure Council would accept that there are a number of aspects of life in the city which could be improved. For example, there has been some recent unfortunate and ill deserved publicity relating to violence and crime, which has not helped the City's image. The Plan identifies the need to improve people's feeling of security and safety [e.g. Strategic Direction No.6 on Page 50]. That will be essential if it is to continue to attract foreign students and visitors, as well as new and returning residents.

We select a few extracts from the Plan for comment:

Council Vision
The Council has stated its vision for the City on Page 9, under the 5 categories of living enjoyment; work opportunities; most attractive city; visitor destination and global investment. They are well stated. The first probably encapsulates the community's main vision, namely Christchurch being a place where people enjoy living. For that to be achieved, the others are essential components for success.

Bearing in mind the need to involve the whole community in attaining the vision, it may be helpful if the adopted plan referred to the vision as either the Council/Community Vision or, simply, the Community Vision, as it is a *community* plan.

Economic Development

For people to enjoy living, an essential element is financial security. For most people this will come from satisfying and well rewarded employment, either as being self-employed or as an employee. With the population increase, as forecast in the LTCCP, it will be necessary to increase job opportunities and the business sector of the City is a key component of success. An important strategy is therefore economic development and we are pleased that this has been clearly signalled in the draft document.

The statement of Community Outcomes on Page 45 identifies a strong economy, based on successful and innovative business, as being the outcome necessary for a prosperous city, and underlines this on Page 56 with a series of goals and objectives which are intended to achieve economic development and, consequently, increasing prosperity for the community.

We fully support these and note that it is Council's intention to work with individual businesses, as well as various groups, to identify issues of concern to facilitate collaboration. While there appears to be a primary focus upon environmental sustainability, we trust that such consultation and collaboration will encompass everything which is of concern to both Council and business.

Pages 114 to 119 set out the activities and programmes Council intends to provide to facilitate economic development. Again, we are generally in support of them, although we have reservations about some aspects of Council's proposals for redevelopment of the CBD, which we will outline later.

The economic development strategy has our overall support and, as a significant investor in the City, we would like to be partners in achieving its success. We trust that Council will include us in its collaboration with the business community.

Events and Festivals

To achieve its economic growth strategies to ensure a prosperous city, Council has identified the need to attract visitors to the City. We applaud this, as the visitor market is an important component of economic growth and new employment opportunities. Attracting international and national visitors is a goal which we would strongly support.

Council has obviously recognised that major changes in working patterns have taken place throughout the developed world and people are looking for ways in which they can enjoy their greater leisure time. Visitor spending has increased dramatically and the hospitality and entertainment industries have been undergoing major growth. The cities which actively encourage and promote these opportunities will be the winners in the economic development stakes.

Christchurch has already established itself as a significant destination and the Council is to be congratulated on what it has achieved over a number of years. In particular, events and festivals play a major part in attracting visitors, as well as making the City even more attractive to residents. We therefore approve of the Prosperity Outcome on Page 129 and the objectives on Page 130, and wish Council well in achieving them.

Traffic Congestion
Council correctly identifies access to an efficient and affordable transport system as being its contribution to the City's Prosperity, as noted on Page 149. We are also pleased to note on Page 150 that Council's objectives include providing a sustainable network of streets, which distribute traffic between neighbourhoods and connect to major localities within and beyond the City.

Christchurch is well served with an excellent public transport system but private cars are also a part of the transport system and will continue to be so for the life of the LTCCP. It is therefore important that Council achieves its objectives for maintaining and improving the street network.

We are concerned to note that traffic congestion at peak times is expected to deteriorate over the next decade. We refer to the average travel time graph shown on Page 151, which shows both AM and PM average travel times for 10 km increasing by between 11 and 21% over the decade, with a minor increase in inter-peak times. While we recognise that these are hypothetical at this time, and could be affected by changes in price and availability of fuel, we have not been able to find an explanation of why Council should be planning for such a negative result.

Page 149 shows that Council aims to reduce energy consumption to achieve its environment outcome. Increased traffic congestion does not seem to be consistent with that aim.

We would appreciate an explanation of this apparent contradiction.

2. Increased Rates Projections
Page 170 of the Draft Plan shows rates are projected to increase by 62% from 2006/07 to 2015/16. This figure includes an allowance for inflation. Page 199 shows that inflation in expenditure over this period is estimated to be 21.1%, while inflation for revenue [other than rates] is set at 23.3% and capital expenditure is at 27.15%.

All these will result in approximately 21% inflation in rates levied, which means that the actual rates increase in current dollar terms is of the order of 40% over this period. While some of this will be offset by real increases in Capital Value due to projected population increases, it is clear that

Council is budgeting for a high level of real rates increases over the life of the LTCCP.

We accept that Council will need to undertake capital works and provide additional services in order to meet its growth goals. It would be unrealistic to expect that growth will take place without investment at the front end and we accept it as a necessary part of the overall plan. However, it must be appreciated that an annual increase in rating above the level of inflation may cause hardship to many ratepayers, including those in the business sector who are struggling to make a living in the face of rapidly rising costs and stiff competition which puts pressure on sales levels and prices. It is essential that Council keeps real increases to the lowest level possible.

Inflation Adjustment
By applying an anticipated inflation adjustment to its estimated costs and revenues, the true level of rates increase to individual ratepayers has been masked.

Given the current uncertainty about the economic situation, there is no certainty that there will be inflation at that level in the foreseeable future. Simply inflating costs to recover inflation does not act as an incentive to improve efficiencies which should result from growth in service volumes, particularly in council's overhead structure.

It would be helpful to the rate paying community if the estimates were expressed in current dollar values, in order that true comparisons could be made. ***We submit that Council should not adjust its estimates to assume a hypothetical inflation and should recast them to 2006 dollar values.***

Cost Reduction & Depreciation
Having established that there is a financial impact upon ratepayers arising from the current planned expenditure we believe that Council should review its plans and programmes to identify areas of saving. We have noted that Council has suggested some areas of saving in the draft plan, but these will not go far enough to reduce the rating impact. It is certainly not our intention to comment on them, as it is Councils' role to decide what it should do to meet the community's needs, within the community's ability to pay.

For example, we note that Council provides rental housing for residents. These total 2620 units, with an additional 21 planned for the 2006/07 year. The financial statement on Page 101 of the draft plan indicates a difference between expenditure and income of some $2.353 M for the 2006/07 year, rising to $2.868 M for the final year of the plan. We also note on Page 97 that Council is proposing a partnership with Housing NZ to continue to meet the needs of the Christchurch housing market.

Since it is Housing NZ's function to provide affordable housing at the taxpayers' expense to those in need, there seems little point in the rate payers providing a parallel service. It could be opportune for Council to lighten this burden on its ratepayers by relinquishing its role in housing and negotiating acquisition of the stock by Housing NZ. This would result in a significant reduction in rating expenditure.

However, of more concern to us is that we have noted that the inclusion of depreciation funding in the operating expenditure of Council imposes a much greater burden on ratepayers. We refer to Pages 60 and 61 of the plan. It is stated that Council has confirmed the need to fully account *and rate* for depreciation. We assume that this is on the basis of conforming to Section 100 (1) of the Local Government Act 2002, which has been taken by many local authorities as requiring them to fully fund depreciation in order to balance their budgets.

Council should also note that Section 100(2) of the Act goes on to state that the Council "*may set projected operating revenues at a different level from that required by that subsection if the local authority resolves that it is financially prudent to do so*". In other words, Council can resolve to budget for a surplus or a loss if it deems it to be "financially prudent" and is not mandatorily required to levy for full depreciation.

Furthermore, Section 100(2)(c) only requires councils to provide for "*the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life*". This enables councils to be sensible as to the extent to which they expect current generations to pay for the future replacement of assets which may well never be replaced.

The impact of rating for depreciation is very heavy for ratepayers. The statement of Financial Overview on Page 65 shows that depreciation funding will increase from $83.023 M to $131.852 M over the period of the LTCCP, a rise of 58.8%. This is a significant contributor to the increase in Council spending and clearly demonstrates the impact of adding the depreciation of new capital assets to an already heavy burden. It is our view that, while it may be appropriate to take into account the appreciated/depreciated value of assets for completeness of the Statement of Financial Position, it is totally unnecessary to do so when estimating operating expenses.

In any case, depreciation is not an exact science. There is generally little or no relationship between depreciated book values and market values, particularly for major assets such as buildings. At best they are a useful tool for establishing comparative estimates of the nett worth of organisations.

It is our opinion that there is a major difference about the application of depreciation in the public sector as opposed to the private sector. In the latter case the purpose is to maintain a realistic value of the assets of a company and ultimately its share value. It is also a legitimate expense for taxation purposes. However, neither is the case with local government.

For the public sector there is no sense in trying to establish a "share value", since councils are not shareholder owned and public assets are seldom sold. When they are sold it is usually at market, not depreciated, valuation.

The major assets which councils hold are infrastructural and include water and wastewater systems and roading networks. The public interest requires that they are kept at 100% operational efficiency and they are routinely maintained and renewed from operating expenses. They do not have a readily definable finite life.

Other major public assets, such as buildings, have a very long life and commonly at the end of their usefulness are not replaced in like form or, in most cases, on the same site. In other words, the argument that depreciation provides a fund for replacement of these major assets is nonsense, since the design, style, cost, and often a changed location of their replacement necessitates councils raising loans at the time. Unless depreciation funding has been set aside and accumulated over the years, there is simply no case for rating for such depreciation.

We accept that plant and equipment with short lives, such as vehicles, IT equipment, furniture etc., could be replaced by a fund financed from depreciation or, as many do, simply establish a level expenditure programme and allocate rates funding in each year's Plan.

Councils do not pay taxes so, clearly, there is no taxation benefit in rating for depreciation.

It is noted that, on Page 60, it is stated *"Revenue raised to fund depreciation is used to fund the renewal of assets."* Clearly, if that were so, we would have less concern. However, on page 61 there is a policy change with respect to funding capital expenditure. The new policy is that capital expenditure is met by *firstly applying funds generated by rating for depreciation*, together with capital revenues and special capital reserves. The balance will be funded by loan.

Thus it seems that our suspicions are confirmed, namely that Council is using depreciation rating to mask new capital expenditure on a pay-as-you-go basis. We believe that community assets with long term benefits should be funded inter-generationally, through long-term loans.

We submit that the wholesale application of rating for depreciation lessens the transparency of Council's financial plans and could result in present ratepayers paying twice for the same asset, namely the depreciation charge and loan charges. In our view, where assets are maintained at 100% operating efficiency [as with all infrastructural assets], there is no valid reason why depreciation should be loaded onto the operational cost of maintaining the assets. And for major assets which have a long life, depreciation should only be levied if the asset is to be replaced and funded for its replacement inter-generationally. Other short-life assets can be funded from revenue on a fixed annual sum basis.

We urge Council to review its current practice of rating for depreciation and either eliminate it totally or at least limit it to

funding only the replacement of assets which have a short term life.

3. Differential Rating of Businesses

It is disappointing to see that Council proposes to include in its long term plan the differential rating of businesses in the city. It had been our expectation that Council would approach the formation of this new LTCCP by starting afresh and not continuing past practises which are of doubtful merit or substantiation.

We refer to the decision to levy a general rate on businesses which is 45% higher than the residential general rate, as shown on Page 238 of the draft plan. Council's reasoning is set out on Page 263, where it is proposed that 55% of the nett operating costs of streets activity should be borne by the business sector of the community. The reasoning for this is based upon a "study" which is alleged to show that commercial vehicle movements impose a greater cost on roading activities by necessitating a higher level of road construction to withstand the greater axle loads of commercial vehicles.

No evidence is provided which substantiates the claims or the specific allocation which has been imposed on the business community. Instead there has been a crude calculation to impose additional costs on all businesses, irrespective of their size, location or type of operation. It is not clear if public passenger transport buses or heavy vehicles which are not servicing the local business community are included in the calculation.

It seems to be most unfair of Council to apply this discriminatory differential on the basis of such thin justification.

Given that business has been selectively differentiated against for an alleged extra cost or benefit from one of the council activities, we would have expected the same rationale to be applied to all Council's activities. Arguably many of these are of much greater benefit to the residential sector of the community than they are to businesses. We do not need to detail these as Council will be well aware of the wide range of facilities and services which are provided and located specifically for the residents of Christchurch.

We are not advocating such a course of action as we are fully prepared to pay our share of the tax burden to support Council's activities. However, we believe that it should be a *fair* share, not one which is highly selective and appears to be a thinly veiled device for businesses to subsidise residents. *In other words, it is a crude form of income redistribution.*

It is not Council's role to be involved in income redistribution. That is the function of Central Government. Capital Value rating provides a system which is reasonably close to an ability-to-pay model. And Council should be well aware that the factors which determine Capital Value inevitably result in commercial property being valued higher than residential property and produce income for Council which is much greater than the cost of providing services to the commercial sector.

We submit that no supplementary adjustments are necessary with a Capital Value system of rating.

Without going into extensive detailed arguments, we set out a synopsis of what we believe Council should take into account when setting its rates on business:

- Council is not empowered to be in the business of redistribution of wealth. That is the responsibility of Central Government. Council is not empowered to use its rating base to tax the commercial sector in order to subsidise the residential sector. Differential rates must be capable of justification on the grounds of clearly defined different levels of service, either additional or reduced.
- Central Government does not differentiate against business taxpayers. It treats everyone fairly and equitably. Council should follow its example.
- The system of property valuation for rating purposes acts as a differentiator of ability to pay. It needs no further embellishment.
- Council is the only suppliers of goods and services in Christchurch which selectively charges commercial customers at a higher level than other customers.
- The commercial sector is an essential part of the Christchurch Community. Without it there is nowhere to shop, be entertained, dine-out or otherwise enjoy leisure and there is nowhere for citizens to work. The City needs a strong and vibrant commercial sector. Councils who profess to promote commercial development should not penalise those who choose to establish themselves in the community. There is no justification for taxing one section of the community at a higher rate than others.

We therefore require Council to amend its Draft LTCCP to eliminate the differential rating of the business sector proposed in the plan and to apply the same general rate to the sector as applies to residential ratepayers.

4. Central City Mall Development Proposal

A feature of the draft LTCCP is the proposal to redevelop the Central City Mall and also the non-priority discretionary option for Central City Revitalisation. These are referred to throughout the plan and are specifically itemised on Pages 73 and 74 with the statement that the city mall faces severe competition from suburban development and goes on to advocate that the community should renovate the mall "*to reverse this tide by re-establishing City Mall as a premier retailing and public destination.*"

In these statements, the LTCCP recognises the substantial change in retail activity in Christchurch City which has occurred since 1999 when Council lifted all restrictions on retailing on industrial land in its decisions on the

City Plan. This resulted in a number of large format centre developments and proposed/consented to developments outside of existing suburban centre such as:

- The Supa Centre in Belfast
- Tower Junction on Blenheim Road
- The proposed Chappie Place development in Hornby
- The development of Ferrymead land between Ferry Road and Humphries Drive.
- The development of land between Moorhouse Avenue and the railway.

Kiwi has raised with Council its concerns over this trend for many years now and have been warning council that this trend will continue unabated with core retailing activity continuing to move away from the central city and existing centres.

In response to this trend, Council have reviewed its City Plan and Variation 86 was notified in 2004 and a hearing held in March 2006. Kiwi strongly supports this Variation to the City Plan. A decision on this Variation is now awaited.

It is pleasing to see Council pursuing a course of revitalising the central city. However we believe the proposed initiatives by council will simply slow the rate of decline rather than achieve the desired outcome if the existing regulatory environment is maintained. These initiatives cannot succeed without the implementation of Variation 86 to the City Plan.

We submit that Council should reinforce its central city initiatives by ensuring an appropriate regulatory environment is in place to protect the significant resources of the central city and existing suburban centres which provide a range of benefits to the community.

CBD Targeted Rate

Pages 23; 73; 74; 243 and 245 refer to the imposition of targeted rates to pay for the City Mall renovation and Central City revitalisation. Council proposes to allocate $10.3 M spending for the City Mall and $2 M from 2006 to 2008 for the Central City project. The former is to be subject to targeted rates.

In the case of the City Mall the Council has assessed that there is a direct benefit to the central area of 70% of the cost and a general benefit of 30%. Council has stated on Page 23 of the plan that this would mean that 70% of the cost would be by the central area rate payers, presumably as a separate targeted rate, and the remaining 30% would be met by all ratepayers as part of the general rate. Presumably this would mean that the central rates payers would pay 70% through targeted rates and, additionally, their share of the 30% applied to the general rate, so that their contribution would be more than 70% and the other ratepayers would pay less than 30% of the cost. The first full year of the rate would be 2008/09.

Options are also suggested for other splits, namely 60% and 50%. We do not support these.

In the case of the Central City project, we assume that Council proposes to fund this through the general rates.

We assume that the rationale for applying central area redevelopment and a share of the City Mall to the general rates is that there is a benefit to all rate payers from having a vibrant city heart which acts as a catalyst for population growth and economic development. There is a logic in that argument and we would be prepared to accept it, provided that the business ratepayers in the areas outside the central city were not also subjected to a 45% differential loading, thus reducing the contribution by residential rate payers who will arguably gain greater benefit.

This further underlines the need for Council to eliminate its penalty rating of businesses.

However, of greater concern to us is the fact that Council expects all businesses outside the city centre to partially fund the competitive retail development which Council has signalled it intends to undertake. This is manifestly unfair.

We remind Council that the suburban shopping centres are totally self funded. All the internal streets; footpaths; seating; landscaping; lighting; car parking; toilets; security etc. are bought and paid for by the developers and ultimately by the individual retailers. In the case of the City Centre Mall, Council will be funding that share of the costs which is for the retail development from rates, including rates paid by retailers elsewhere in the city.

In other words, Council expects retailers outside the central area to help to fund their competition. Scarcely a fair deal for those who have already invested to establish their own businesses.

To summarise, ***we support the redevelopment of the centre but do not support any allocation to the General Rate for the City Mall which is greater than the 30% proposed and we would ask Council to assure us that the 30% share does not include any of the proposed funding of retailing competition.***

5. Acquatic Facilities Plan

We have reviewed the draft aquatic facilities plan and are pleased Council are taking a long term view of the community needs and have identified the needs of the Papanui community as a priority. We are particularly pleased to see the commitment of $8.8 million funding in the first three years of the LTCCP to the development of a northern area pool facility at Papanui.

Kiwi strongly supports the view that new community facilities should be located close to major hubs such as shopping centres, transport routes and schools.

Northlands Shopping Centre has a strong customer loyalty and is a focal point for the Papanui community. The recent redevelopment of Northlands was based on qualitative customer research that identified amongst other things the need for improved connections to community space and facilities and the creation of a 'social hub".

The location of a new aquatic/community facility adjacent to the centre will be beneficial in reinforcing the "social hub" of Northlands.

Kiwi and Papanui High School have in the past worked together to ensure the growth of Northlands Shopping Centre and Papanui High School in a mutually beneficial manner and remain committed to working with the school and the local community. Kiwi are keen to work with Council and Papanui High School to develop plans for this initiative.

6. Development Contributions

We are concerned about the level of contributions that may be required from developments that seek to intensify existing activities. It is alleged that the purpose is to provide for the greater level of expenditure required as a result of urban expansion on the periphery of the city and from outer central city intensification. While there is a case to be made for increases in contributions from new subdivisions, the increases proposed for the growth of existing developments is unsubstantiated.

We urge Council to reconsider this section of its draft plan. It discriminates harshly against the commercial sector and is highly likely to result in stalling or even preventing future developments.

7. Conclusion

We hope that Council will consider our submissions carefully and adopt the requested changes to the draft plan. As we said at the outset, this is the first formal Community Plan which Council has prepared from a blank sheet. We remind Council of the words of the Chief Executive that Council can no longer set the agenda and dictate to the community how it will be delivered. As she so appropriately says, the onus is on Council to consult with the community and be responsive to its needs.

Our only avenue for consultation is the current process. We hope that Council does not feel that its draft plans are set immutably in place. Where Council is made aware that sections of its community will be disadvantaged or adversely affected by aspects of the draft plan it should be prepared to amend it to "right the wrongs".

We reaffirm our full support for Council in what it is setting out to achieve. The vision is inspiring. Christchurch is a great city with a proud history and an exciting future. We want to be part of that future and to play our part in achieving the Plan's objectives. We ask that the requests we have set out be carefully studied and actioned accordingly.

Thank you for the opportunity to express our views. We look forward to receiving your positive response.

Yours faithfully
KIWI PROPERTY MANAGEMENT LIMITED

Karl Retief
MANAGER – RETAIL PORTFOLIO

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Angus McNaughton
CHIEF EXECUTIVE