KIWI INCOME PROPERTY TRUST

11 May 2007

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

Your Worship and Councillors

RE: SUBMISSION ON DRAFT ANNUAL PLAN 2007/08

Introduction

We, Kiwi Property Management Limited, wish to make the following submission to your Council on its Draft Annual Plan for the coming year, 2007/2008, on behalf the owners of Northlands Shopping Centre in Christchurch. It is our wish to be heard by Council.

Whereas last year we made a detailed submission about various aspects of the Draft LTCCP which have a major impact upon our company, it is our intention this year to focus primarily on those variations from the LTCCP which are of concern to our company.

We are pleased to note that Council has tried to maintain the integrity of the long term plan, for which it is to be congratulated even though Council did not remedy the concerns we expressed in our submission on the Draft LTCCP. In this respect we wish to note in passing two important matters canvassed in that submission and which continue to concern us.

Briefly, these are as follows:

1. Council resolved to maintain its regime of penal differential rates against the business sector in spite of the detailed case we made for it to be abandoned. However, rather that argue this with your Council in detail again this year, we have made a submission to the Inquiry into local authority rating set up by the Government and hope that this vexed question can be addressed at a national level.

2. Rating for depreciation continues to have a major impact upon the growth in rates demand. We detailed our concerns about this issue with you last year, but to no avail. It has therefore been included in our submission to the Rating Inquiry as a factor in the major growth of local authority rates.

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Proceeding now to our submission, we commend Council on its draft plan. The latest document is well presented and relatively easy to follow. In particular, the manner in which the variations from the LTCCP have been identified and explained is very well done and simplifies the submission process. We are also pleased that your Council includes the business sector in its financial information, such as the rating impact shown on Page 65.

We comment on those variations which are of particular interest to us in the following section.

Main Variances from the 10 Year Plan

Rates Increase

It will be recalled that we urged Council last year to review its plans and programmes to find ways in which its costs could be reduced and rates increases held at a level which those who pay the rates bill can afford to finance. We noted that Council's projected rates estimates showed a significant growth, even when the theoretical calculation for "inflation" was deducted. The figure was some 40% above the inflation level over the 10 year period.

Unfortunately Council did not react to our suggestions and we are concerned to note that it is proposing an average increase of 7.35% for the coming year, which is 0.57% more than budgeted in the LTCCP. After deducting for inflation, the increased rates demand reflects the large 10-year growth that we had identified.

We note on Page 65 of the Plan that the Business Community will be carrying virtually the whole of the additional rates increase. Examination of the estimated income from General Rates shows that, whereas the residential and rural sectors are being levied for about the same amount of rates as planned in the LTCCP, the business sector is being rated $2.315M, or 5.43%, more than the LTCCP had planned.

This appears to be a further penalty on the business community. If the residential sector has an increase at about the same level as predicted in both the LTCCP and this year's Draft Annual Plan, the business sector should have a similar level of increase, given that the differential rate is supposed to be set at 150% of the residential rate in both documents.

We have been advised by council that increased roading costs are driving the added burden on the business group and this is a key factor in the large increase in the business sector's share of the General Rate. *On the face of it, this appears to confirm that the differential has been subtly lifted from the 150% level.*

We would appreciate a written explanation from Council about this apparent anomaly. Whatever the reasons for the large increase in the business sector's share of the General Rate may be, the effect of this on businesses such as ours is that the actual rates increase is likely to be of the order of 10%.

This imbalance in the application of the rates increases demonstrates the inequities of differential rating and the way in which Council used this unfair taxing mechanism to arbitrarily allocate costs for "public-good" services to the business sector when the LTCCP was adopted.

We will not repeat the case we made last year, when we objected to Council using business as a convenient tool for "wealth redistribution" to subsidise residential ratepayers. However, it is important that all sectors of the community be treated equitably and we would have expected that any added costs for Council's total activities would have been shared equitably by all ratepayers. Given that there has undoubtedly been some growth in the population and consequent demand for people-related services, it appears that businesses are being increasingly taxed to subsidise residential ratepayers.

Council should not wait for the next review of its LTCCP to address the anomalies and injustice created by differential rating of business. We strongly urge Council to undertake a review of this section of its LTCCP in partnership with the business sector and include suitable changes in its Draft Annual Plan for 2008/09.

Rating for Depreciation

As noted earlier, we do not intend to argue in this submission the ethics of rating for alleged depreciation. However, it remains of concern to us because of its impact on rates. The effect of Council's policy is clearly shown on Page 14 of the Plan, where it is noted that revaluation of street and water assets had produced a depreciation figure $4.4M above the LTCCP allowance. While Council is to be commended for foregoing the temptation to levy increased rates for this, it serves to underline the unnecessary demand that depreciation rating makes on the pockets of ratepayers.

Capital Funding

Further evidence of the effect of rating for depreciation is shown in Council's funding of capital works on Pages 14 and 18 of the Plan.

Page 14 contains a statement that *"a surplus reduces the need to borrow for capital works"* and Page 18 details the calculation of the operating surplus. This clearly identifies that rated depreciation is a significant part of the operating surplus and that rated depreciation is a larger component of funding capital works than borrowing.

In other words, Council is funding a major portion of its capital works programme from revenue, under the guise of "depreciation".

It seems unreasonable to expect that capital projects which have a long-term life, and which make up most of council infrastructure, should be paid for by current generations. Benefits are long-term and should be paid for accordingly. Loans should be the predominant source of funding capital programmes to ensure that intergenerational equity is fairly applied.

We urge Council to review its funding policy for capital projects with a view to increasing borrowing and reducing rates.

Economic Development

We note on Page 30 of the Plan that Council proposes to increase its spending on marketing the City to visitors by $900,000 more than allowed in the LTCCP.

While we have advocated for Council to exercise more frugality in its operations, we recognise the benefit to the City from its outstanding visitor attraction activities. They are a major component of the City's economic development and we strongly support the objectives that this increased expenditure is intended to produce.

Conclusion

Once again we record our pleasure in being part of the community of Christchurch City and express our support for Council in achieving its objective to ensure that the city is a vibrant and exciting place to live, work and play. Although we have differed from Council on issues which are of concern to us, any criticisms we have made are intended only to help Council to succeed.

We hope the submissions we have made to this year's Draft Annual Plan will be of assistance to Council and look forward to the opportunity to orally support this submission.

Yours faithfully
KIWI PROPERTY MANAGEMENT LIMITED

Karl Retief
MANAGER – RETAIL PORTFOLIO