Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

Ordinary Meeting of Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee

Rārangi Take | Agenda

5:00 pm Rāapa Wednesday, 1 Whiringa-ā-rangi November 2023
Ngake (16.09), Level 16, Tahiwi
113 The Terrace
Pōneke | Wellington

MEMBERSHIP

Mayor Whanau
Deputy Mayor Foon
Councillor Abdurahman
Councillor Apanowicz (Deputy Chair)
Councillor Brown
Councillor Calvert
Councillor Chung
Councillor Free
Poiwi Hohaia
Poiwi Kelly
Councillor Matthews (Chair)
Councillor McNulty
Councillor O'Neill
Councillor Pannett
Councillor Paul
Councillor Randle
Councillor Wi Neera
Councillor Young

Have your say!
You can make a short presentation to the Councillors, Committee members, Subcommittee members or Community Board members at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 04-499-4444, emailing public.participation@wcc.govt.nz, or writing to Democracy Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number, and the issue you would like to talk about. All Council and committee meetings are livestreamed on our YouTube page. This includes any public participation at the meeting.

AREA OF FOCUS

The Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee has responsibility for:

1) Long-term planning and annual planning.
2) Financial and non-financial performance oversight in relation to the long-term plan and annual plan.
3) Financial oversight.
4) Procurement policy.
5) Non-strategic asset investment and divestment as provided for through the long-term plan (recommending to Council where matters are not provided for in the long-term plan).
6) Council-controlled Organisation oversight and performance.
7) Council-controlled Organisation director review and appointments.
8) WellingtonNZ oversight and performance.
9) Approve asset management plans.

To read the full delegations of this committee, please visit wellington.govt.nz/meetings.

Quorum: 9 members

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1. Meeting Conduct

1.1 Karakia

The Chairperson will open the hui with a karakia.

Whakataka te hau ki te uru,	Cease oh winds of the west
Whakataka te hau ki te tonga.	and of the south
Kia mākinakina ki uta,	Let the bracing breezes flow,
Kia mātaratara ki tai.	over the land and the sea.
E hī ake ana te atākura.	Let the red-tipped dawn come
He tio, he huka, he hauhū.	with a sharpened edge, a touch of frost,
Tihei Mauri Ora!	a promise of a glorious day

At the appropriate time, the following karakia will be read to close the hui.

Unuhia, unuhia, unuhia ki te uru tapu nui	Draw on, draw on
Kia wātea, kia māmā, te ngākau, te tinana, te wairua	Draw on the supreme sacredness
I te ara takatū	To clear, to free the heart, the body
Koia rā e Rongo, whakairia ake ki runga	and the spirit of mankind
Kia wātea, kia wātea	Oh Rongo, above (symbol of peace)
Āe rā, kua wātea!	Let this all be done in unity

1.2 Apologies

The Chairperson invites notice from members of apologies, including apologies for lateness and early departure from the hui, where leave of absence has not previously been granted.

1.3 Conflict of Interest Declarations

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

1.4 Confirmation of Minutes

The minutes of the meeting held on 25 October 2023 will be put to the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee for confirmation.

1.5 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows.

Matters Requiring Urgent Attention as Determined by Resolution of the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee.

The Chairperson shall state to the hui:

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent hui.

The item may be allowed onto the agenda by resolution of the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee.

Minor Matters relating to the General Business of the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee.

The Chairperson shall state to the hui that the item will be discussed, but no resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent hui of the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee for further discussion.

1.6 Public Participation

A maximum of 60 minutes is set aside for public participation at the commencement of any hui of the Council or committee that is open to the public. Under Standing Order 31.2 a written, oral, or electronic application to address the hui setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the hui concerned, and subsequently approved by the Chairperson.

Requests for public participation can be sent by email to public.participation@wcc.govt.nz, by post to Democracy Services, Wellington City Council, PO Box 2199, Wellington, or by phone at 04 499 4444 and asking to speak to Democracy Services.

2. General Business

LONG-TERM PLAN RATING POLICIES REVIEW - ORAL SUBMISSIONS

Kōrero taunaki | Summary of considerations

Purpose

1. This report to the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee asks that hearings panel members recognise the speakers who will be speaking to their submissions regarding the Rating Policies Review.

Strategic alignment with community wellbeing outcomes and priority areas

	Aligns with the following strategies and priority areas: ☐ Sustainable, natural eco city ☐ People friendly, compact, safe and accessible capital city ☐ Innovative, inclusive and creative city ☐ Dynamic and sustainable economy
Strategic alignment with priority objective areas from Long-term Plan 2021–2031	☐ Functioning, resilient and reliable three waters infrastructure ☐ Affordable, resilient and safe place to live ☐ Safe, resilient and reliable core transport infrastructure network ☐ Fit-for-purpose community, creative and cultural spaces ☐ Accelerating zero-carbon and waste-free transition ☐ Strong partnerships with mana whenua
Relevant Previous decisions	

Financial considerations

☒ Nil	☐ Budgetary provision in Annual Plan / Long-term Plan	☐ Unbudgeted $X

Risk

☒ Low	☐ Medium	☐ High	☐ Extreme

Author	Alisi Folaumoetu'i, Senior Democracy Advisor
Authoriser	Stephen McArthur, Chief Strategy & Governance Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion.

That the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee:

1. Receive the information.
2. Hear the oral submitters and thank them for their submissions.

Whakarāpopoto | Executive Summary

1. This report asks that hearings panel members recognise the speakers who will be speaking to their submissions regarding the Rating Review Policy.

Takenga mai | Background

2. Wellington City Council consulted the community from 18 September 2023 until 18 October 2023. There were a total of 160 submissions.

Kōrerorero | Discussion

3. Attachment 1 comprises the written submissions of those who confirmed they wanted to speak to their submission on the Rating Review Policy.
4. The list of speakers and the page number of the submissions are provided at the end of this report.

Ngā mahinga e whai ake nei | Next actions

5. The decision on the Rating Review Policy is scheduled to be considered at the meeting of the Kōrau Tōtōpū | Long-term Plan, Finance and Performance on Thursday 7 December 2023. The full submission document will be published alongside that meeting's agenda.

Attachments

Submission Responses

Rating Policies Review Submissions for Oral Hearings

Let's Talk | Wellington City Council

Project: Phase 3: Rating Policies Review

BANG THE TABLE engagementHQ

Contents

Respondent No: 151
Name: Mike Mellor
Responded At: Oct 15, 2023 20:04:37 pm

Q1. **We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**	Yes
Q2. **Thank you. Please indicate your preferred time period**	1.30pm to 2.30pm
Q3. **Do you support a change to the Commercial rates differential?**	Unsure
Q4. **Thank you. Which option do you prefer?**	not answered
Q5. **Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**	Unsure
Q6. **Do you support a differential category for Vacant land in the central city?**	Yes
Q7. **Thank you. Which option do you prefer?**	**Other (please specify)** No reasoning or justification is given for any of these options - they appear to be drawn out of a hat. I support the principle, but no evidence is given as to the pros and cons of each option. Without such evidence, this consultation is pointless.
Q8. **How much do you support/oppose the following:**	
Extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	Neither support nor oppose
Removing the first home builders' remission	Neither support nor oppose
Q9. **Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**	No view
Q10. **Thank you. How much do you support/oppose the following**	

Q11. **Do you agree there is a potential need for targeted rates for:**

Climate action	No view
Resilience	No view
Online accommodation	Yes

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

Much of this consultation is meaningless. In both the commercial differential and vacant differential sections nothing is said about why those particular options have ben selected, nor about the consequences of their selection or non-selection. Essentially, they are numbers pulled out of a hat. For instance, the commercial section says "we have considered" various things, but says nothing about the results of that consideration; it says what other councils charge, but nowhere gives an explanation of why charges for any of those cities (including Wellington!) are at that particular level. The reasoning that Wellington's commercial rates are too high because they are higher than elsewhere is nonsensical: based on that logic, eventually every council would reduce the differential to zero or below. And if the high rates are driven by the targeted downtown and commercial sector rates, surely the sensible way to reduce overall rates - if that can be justified, which this document makes no serious attempt to do - is to reduce these targeted rates. Altogether this consultation is a waste of ratepayers' time, asking for views on options on about which there is no proper information, either at the micro (between options) or the macro (the wider effects of the options). Apart from anything else, proposing a 4% increase in residential rates on top of any annual increase is politically dumb, particularly when no proper justification for that increase is given.

Q13. **If you have a file to support your submission you can upload it here.** not answered

Respondent No: 10
Name: Jesse Richardson
Responded At: Sep 19, 2023 18:30:48 pm

Q1.	**We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**	Yes
Q2.	**Thank you. Please indicate your preferred time period**	1.30pm to 2.30pm
Q3.	**Do you support a change to the Commercial rates differential?**	Yes
Q4.	**Thank you. Which option do you prefer?**	Option 3: A 2:1 differential - A commercial decrease of 25%, a residential increase of 16%
Q5.	**Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**	Yes
Q6.	**Do you support a differential category for Vacant land in the central city?**	Yes
Q7.	**Thank you. Which option do you prefer?**	Option 3: Higher 5:1 differential - A $1m vacant property pays $8,772 in rates – an increase of 333%
Q8.	**How much do you support/oppose the following:**	
	Extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	Neither support nor oppose
	Removing the first home builders' remission	Neither support nor oppose
Q9.	**Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**	Unsure
Q10.	**Thank you. How much do you support/oppose the following**	
Q11.	**Do you agree there is a potential need for targeted rates for:**	
	Climate action	Unsure
	Resilience	Unsure
	Online accommodation	Yes

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

My main feedback is that while the proposed differential on vacant inner city land is a step in the right direction, it should not be viewed as a solution to the issue of land speculation, and it should not detract from actual solutions such as changing the rating basis from CV to LV.

Q13. **If you have a file to support your submission you can upload it here.** not answered

Respondent No: 98
Name Geraldine Murphy
Organisation: Inner City Wellington

Responded At: Oct 15, 2023 09:57:21 am

Q1.	**We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**	Yes
Q2.	**Thank you. Please indicate your preferred time period**	1.30pm to 2.30pm
Q3.	**Do you support a change to the Commercial rates differential?**	not answered
Q4.	**Thank you. Which option do you prefer?**	not answered
Q5.	**Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**	not answered
Q6.	**Do you support a differential category for Vacant land in the central city?**	Yes
Q7.	**Thank you. Which option do you prefer?**	Option 1: Preferred 4.5:1 differential - A $1m vacant property pays $7,929 in rates – an increase of 291%
Q8.	**How much do you support/oppose the following:**	
Q9.	**Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**	Yes

Q10. **Thank you. How much do you support/oppose the following**

Make the policy clearer that the remission applies to both commercial and residential buildings that are not ‘fit for purpose’	Strongly support
A remission of the postponed rates once the development work or seismic strengthening is completed.	Strongly support
If the development work or strengthening is not completed, then the remission would not apply, and the postponed rates would be payable.	Somewhat support
Include a remission of general rates for multi-unit residential buildings (estimated remission value of 800k) and 1–3 storey mixed/commercial buildings (estimated remission value of $1.6 million)	Strongly support
Include a postponement of rates for three years prior to the period in which development work (or seismic strengthening) is undertaken.	Strongly support

Q11. **Do you agree there is a potential need for targeted rates for:**

Climate action	Unsure
Resilience	Unsure
Online accommodation	Unsure

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

See attached file

Q13. **If you have a file to support your submission you can upload it here.** [redacted]

INNER-CITY WELLINGTON Te Reo Pokapū o Pōneke
VOICE OF TE ARO AND WELLINGTON CENTRAL

Rating Policy consultation: comments in support of Inner City Wellington's submission

Other proposals – targeted rates to fund climate change, resilience, online accommodation providers

There is insufficient information on how these costs are currently funded and how they could be targeted.

Climate action and resilience could benefit all residents/workers/visitors to some extent - a targeted rate to ring-fence the funds could be achieved by allocating a % of rates to these programmes. There is also an overlap between 'climate action' and 'resilience' that could result in some ratepayers paying twice for the same thing.

Online accommodation has a direct private benefit, but is difficult to identify the properties being used for this purpose and to do so would have high transaction costs. Private properties used for this purpose and paying residential rates are competing with commercial accommodation providers.

Vacant land differential category

Implementing this differential should not be excessively labour intensive for 60 buildings beyond the first year as:

- any change in status is likely to result in a resource and/or building consent that will provide evidence of change
- it should be up to the owner to advise WCC of any changes that they consider would result in the removal of the vacant land differential
- the owner will be incentivized to advise the council of any changes, which can then be checked by WCC, without WCC officers checking all properties every year.

ICW considers that a vacant land differential should also apply to land being used as a carpark pending development (such as the carpark behind Reading Cinema) and vacant land in suburban centres to encourage medium density mixed use development along key public transport/arterial routes.

ICW does not agree with a remission if the owners 'tidy-up' the land by putting fences up. Owners of other properties do not get any remission for 'tidying-up' their properties or looking after council-owned land outside their properties.

Rates postponement and remission policies for properties for earthquake-strengthening

ICWs support for this proposal assumes that the:

- current rates remission policy for earthquake-prone buildings, once the building is strengthened and removed from the register, will continue to apply, and
- proposed rates remission policy will be available to owners of earthquake-prone buildings.

This would equate to six years of rates remission for owners who have to comply with legislation that requires them to strengthen or demolish their buildings by a deadline, and in some cases, results in all (or all bar a few) owners agreeing to sell their buildings due to the uneconomic costs and risks involved. MBIE's review of non-financial barriers found that buildings are being strengthened when it is not economic to do so. However, for owners the alternatives are not viable (pay to demolish in the hope of selling vacant land or sell at discounted prices and face not being able to repay the mortgage).

It also recognizes those owners who are voluntarily strengthening their buildings which increases the resilience of buildings in the city, but is unlikely to 'add value' to their individual apartments, and will not reduce insurance premiums.

ICW wants to clarify:

- that mixed-used buildings higher than 3 storeys are covered by this policy – or whether they fit under 'multi-unit residential buildings
- that the first policy statement in the submission document where buildings are not 'fit for purpose' applies to a remission for property under development (as per the consultation document).

ICW *does not fully support* the proposed approach to not applying the remission if the work is not completed within the 3 years.

WCC knows the challenges in strengthening buildings to budget and to projected completion timeframes (eg, Town Hall). This proposal relies on a timeframe that is subject to factors outside the owners' control to get the full three years, particularly in multi-owner residential apartment buildings.

At what point do owners apply? Too early, and unforeseen issues, including delays in the Building Consent process, rework of plans, increased costs may mean the work is not completed within three years, and owners will have to pay back the postponed rates. Leave it too late and owners will not get the full value of the three years. Will the time it takes WCC to complete resource and/or building consent process, and code compliance processes be included or excluded from the three years calculation?

Clearly, if no work has proceeded (eg, building consents applied for) and there is no evidence of activity to progress work (eg, reports from engineers, development of solutions, costings, pre-application meetings, etc), then the application for the postponement should be reviewed.

The intent of this policy is to 'provide owners with some finance' to undertake the work. The reality is that this funding is an important gesture by WCC (and other ratepayers) towards owners' undertaking strengthening to increase the resilience of buildings in the city (and public safety) as the costs paid will far exceed the value of the rates remitted. Owners voluntarily undertaking this work should be eligible for the full three years from when they apply, and owners who are strengthening to comply with legislation should be eligible for the full six years.

Respondent No: 107
Name: Fiona Cziraki
Responded At: Oct 01, 2023 22:00:28 pm

Q1. **We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**
Yes

Q2. **Thank you. Please indicate your preferred time period**
2.30pm to 3.30pm

Q3. **Do you support a change to the Commercial rates differential?**
Unsure

Q4. **Thank you. Which option do you prefer?**
not answered

Q5. **Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**
Yes

Q6. **Do you support a differential category for Vacant land in the central city?**
Yes

Q7. **Thank you. Which option do you prefer?**
Option 1: Preferred 4.5:1 differential - A $1m vacant property pays $7,929 in rates – an increase of 291%

Q8. **How much do you support/oppose the following:**

Extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	Somewhat oppose
Removing the first home builders' remission	Neither support nor oppose

Q9. **Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**
Unsure

Q10. **Thank you. How much do you support/oppose the following**

Q11. **Do you agree there is a potential need for targeted rates for:**

Climate action	Unsure
Resilience	Unsure
Online accommodation	No - keep status quo

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

not answered

Q13. **If you have a file to support your submission you can upload it here.**

not answered

Respondent No: 141
Name Sandamali Gunawardena
Organisation: Property Council

Responded At: Oct 13, 2023 10:10:04 am

Q1. **We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**

Yes

Q2. **Thank you. Please indicate your preferred time period**

1.30pm to 2.30pm
2.30pm to 3.30pm
4pm to 5pm

Q3. **Do you support a change to the Commercial rates differential?**

not answered

Q4. **Thank you. Which option do you prefer?**

not answered

Q5. **Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**

not answered

Q6. **Do you support a differential category for Vacant land in the central city?**

not answered

Q7. **Thank you. Which option do you prefer?**

not answered

Q8. **How much do you support/oppose the following:**

Q9. **Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**

not answered

Q10. **Thank you. How much do you support/oppose the following**

Q11. **Do you agree there is a potential need for targeted rates for:**

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

not answered

Q13. **If you have a file to support your submission you can upload it here.**

[redacted]

Property Council New Zealand

Property Council New Zealand

Submission on Wellington City Council's Rating Policies Review

13 October 2023

For more information and further queries, please contact
Sandamali Ambepitiya [redacted]

Property Council New Zealand
Foyer Level, 51 Shortland Street
PO Box 1033, Auckland 1140
09 373 3086
propertynz.co.nz

Property Council New Zealand

Wellington City Council's Rating Policies Review

1. Summary

1.1 Property Council Wellington Branch ("Property Council") welcomes the opportunity to provide feedback on Wellington City Council's Rating Policies Review.

1.2 Property Council supports a ratings review as this is much needed for Wellington's business community. While we are pleased to see the proposed decrease to the business differential from 3.75:1 to 3.25:1, we do not support the introduction of a 4.5:1 vacant site differential.

2. Recommendations

2.1 At a high level, we recommend that Wellington City Council ("the Council"):

- Commence a staged reduction of the business differential until either removed or reduced to an equitable over the next three annual plans (nine years) and replaced with alternative funding mechanisms that are fairer and more equitable;
- Reconsider the introduction of a vacant site differential; and
- Reword the current remissions policy, to capture buildings that are partly occupied.

3. Introduction

3.1. Property Council is the leading not-for-profit advocate for New Zealand's most significant industry, property. Our organisational purpose is, "Together, shaping cities where communities thrive".

3.2. The property sector shapes New Zealand's social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand.

3.3. Property Council is the collective voice of the property industry. Property is the fourth largest industry in Wellington. There are around $40.4 billion in property assets across Wellington, Wellington (10 percent) and employment for 20,640 Wellington residents.

3.4. We connect property professionals and represent the interests of 134 Wellington based member companies across the private, public and charitable sectors.

3.5. This document provides Property Council's feedback on the proposed changes to Wellington City Council's Rating Policies Review. Comments and recommendations are provided on issues relevant to Property Council's members.

4. General Comments

4.1. Property Council values the strong working relationship we have with Wellington City Council.

We would like to thank the Council for its pre-engagement with us. Our members are passionate about the future of Wellington City and want to see a thriving city with fairer outcomes for all. We look forward to continued collaboration.

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5. Changing the General Rates

Rates Differential

5.1. We are pleased to see that the Council has proposed to decrease the general rates differential for commercial, industrial and business rate payers from 3.7:1 to 3.25:1. Property Council has longed championed for the reduction of rating differentials in Wellington given the significant multitude of costs the business community has historically faced and continues to face. We oppose business differentials as a rating tool due to the lack of transparency of funding which has often meant that the level of commercial rates paid, is disproportionate to the level of services received.

5.2. We recommend that the Council take a step further to commence a planned reduction of the business differential until entirely removed and replaced with alternative funding mechanisms that are fairer and more equitable. Such funding mechanisms include user pay models (e.g. toll roads), Private Public Partnerships (e.g. Transmission Gully), Special Purpose Vehicles (e.g. Milldale) or Targeted rates (e.g. downtown targeted rate collected from commercial properties in the downtown area).

5.3. These alternative models meet the legislative principles of transparency and objectivity for funding local government set out in both the Local Government Act 2002 and Local Governing (Rating) Act 2002. Our approach is also consistent with the recommendation of the New Zealand Productivity Commission that local government should adopt a more transparent approach to rating tools and other funding sources.

5.4. We recommend Wellington City Council consider viable alternative funding solutions for next year's Long-Term Plan in order to reduce or remove the business differential and encourage long term investment into the future of Wellington.

Vacant site differential

5.5. We are extremely concerned to see the introduction of a vacant site differential. Our members understand the need to beautify the CBD and to ensure that vacant sites do not have a negative impact on the amenity of the city and on demand generally. However, we do not believe that the best way to achieve this is by imposing additional financial pressures on property owners and recommend that Council does not introduce a blanket vacant sites differential.

5.6. For our members, there are a multitude of reasons why sites may be vacant or appear vacant. The development process varies meaning that a 'one size fits all' approach cannot be applied. For example, there could be an inability to secure an anchor tenant or a situation where there are development plans on a vacant site, but it remains vacant due to timeline sequencing within a portfolio.

5.7. Wellington is also faced with a number of vacant buildings, due to high insurance costs, general cost to do business and seismic issues. Seismic issues specifically have seen property owners unable to afford to strengthen or choose sell at a loss (a process which can take a number of years).

5.8. In order for Wellington's CBD to thrive, quality infrastructure is critical. Property Council recommends that Council take a targeted approach to discuss with the affected property owners to gain an understanding of what their plans are for the site and at what stage of the

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Property Council New Zealand

development cycle they are in. Direct consultation with those who own the 60 vacant sites ensures that not all sites are being developed on at the same time, which would see Council have to contribute to the infrastructure that goes alongside these developments. This will help Council better stage and plan for future development.

6. Earthquake strengthening

6.1. Currently, the Council's rates remission policy includes a remission of targeted rates on properties under development or undertaking earthquake strengthening. The remission only remits targeted rates for commercial buildings that are 'not for purpose'.

6.2. Our members are concerned that policy is more restrictive that its intention. For example, a number of buildings in Wellington will not be defined as "vacant" under the policy as a proportion of the building space is occupied (i.e. ground floor retail). Under the current policy, this means that the building is occupied, barring these building owners from applying for earthquake strengthening benefits.

6.3. We recommend that the current wording in the policy to be reworded, to capture buildings that are partly occupied i.e. where 90% of the building needs to be vacant.

7. Conclusion

7.1. In summary, we are supportive of the decrease to the business differentials and appreciate the Council taking our feedback on board. However, we do not support the introduction of a vacant site differential. Property owners should not be penalised for deferring development when it is not economically viable. Ensuring that the right type of development occurs at the right time, is critical.

7.2. Property Council members invest, own, and develop property in Wellington. We wish to thank Wellington City Council for meeting with us as well as the opportunity to submit on the Rating Policies Review. This gives our members a chance to have their say in the future of our city. We also wish to be heard in support of our submission.

7.3. Any further enquires do not hesitate to contact Sandamali Ambepitiya, [redacted]

Yours Sincerely,

Leonie Freeman

CEO Property Council New Zealand

Property Council New Zealand
Foyer Level, 51 Shortland Street
PO Box 1033, Auckland 1140
09 373 3086
propertynz.co.nz

Respondent No: 142

Name: Amy Barnett

Responded At: Oct 13, 2023 15:20:06 pm

Q1.	**We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**	Yes
Q2.	**Thank you. Please indicate your preferred time period**	4pm to 5pm 5pm to 6.30pm
Q3.	**Do you support a change to the Commercial rates differential?**	Unsure
Q4.	**Thank you. Which option do you prefer?**	not answered
Q5.	**Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**	Unsure
Q6.	**Do you support a differential category for Vacant land in the central city?**	Unsure
Q7.	**Thank you. Which option do you prefer?**	not answered
Q8.	**How much do you support/oppose the following:**	
	Extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	Strongly support
	Removing the first home builders’ remission	Neither support nor oppose
Q9.	**Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**	Unsure
Q10.	**Thank you. How much do you support/oppose the following**	
Q11.	**Do you agree there is a potential need for targeted rates for:**	
	Climate action	No - keep status quo
	Resilience	No - keep status quo
	Online accommodation	Yes

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

Kia ora WCC, As a new independent homeowner, I find the current rating system discriminates against those of us on our own that shoulder the burden of all household costs. I also struggle to understand why I pay significantly more than the median Kiwi household (2 adults, 2 children) when I live alone in a 40sqm 1 bed studio apartment. I understand in theory (because of the capital value) but I don’t believe this is a fair mechanism for calculating rates. Currently, housing equates to 57.3 % of my income, and that is before power, internet, phone, contents insurance, medical, groceries etc. – there’s just nothing left for putting aside, it’s tight. I will be drafting a longer submission and I would like to speak to councillors on behalf of single homeowners.

Q13. **If you have a file to support your submission you can upload it here.** not answered

Amy Barnett
[redacted]

Rating Policies Review

Resident Ratepayer Submission to WCC

Tēnā koutou WCC,

Introduction

My name is Amy Barnett. I am a single homeowner and Kiwibuild beneficiary living in multi-unit housing in central Wellington. This is a submission on the rating policies review, in particular, this submission addresses the focus area 'Fairness – considering affordability relative to matters such as income, age, geography.'

I view this review process as a positive opportunity to engage with council about current rating policies, specifically how rates could more equitably reflect the evolving demographic of our culturally vibrant city:

I would therefore like to see a review that considers the following:

- A city that recognises its single demographic and considers rating policies with single persons in mind
- A city that enables multi-unit housing as an affordable option for new homeowners
- A city that ensures a fairer rates system by considering the inhabitants and size of the dwelling, not solely it's capital value
- A city that supports first home owners in the first 5 - 10 years of ownership to counter growing intergenerational inequality

Some ideas for how this could be achieved:

- Reduced rates for owner occupiers who live alone similar to the 25% reduction in council tax in the UK
- Reduced rates for multi-unit intensified housing to encourage medium/high density living and ensure it's affordability
- Reduced rates for new homeowners

The proposed ideas are in line with the councils priorities by considering affordability, relative to matters such as income, age, geography. They also offer a more equitable way of determining the proportion each property pays, while considering the services the property receives.

Single Homeowners

As a single homeowner, I find the current rating system discriminates against single households as it was largely designed for a society that organises itself around the median sized (2.7) New Zealand household. Currently, housing equates to 57.3% of my income, and that is before electricity, internet, mobile phone, contents insurance, groceries, transport, medical, dental, recreation etc. – costs that would normally be shared across a household. This demonstrates the financial vulnerability of single homeowners and exemplifies the disadvantages singles face in the long-term as there is nothing left to set aside for the future.

Single person households are largely excluded from political discourse, and as the second largest growing household in New Zealand this needs to change. Acknowledgement of this growing demographic via a reduction in rates for owner occupiers who live alone would deliver some relief and provide a more equitable way of determining the proportion each property owner pays.

Multi-Unit Housing Affordability

Multi-unit dwellings are part of the solution towards developing a climate resilient city that ensures affordable housing for all however currently multi-unit housing is expensive and rates don't make allowances for the difference in services these residences receive i.e. no outdoor water usage, smaller spaces, fewer inhabitants, no resident parking etc. The rates that have been set against my property are comparably higher than the median New Zealand household whose rates average $2,781 per annum – this seems disproportionate considering I am the sole resident of a 40 sqm studio apartment.

To encourage and support intensified living it must be more affordable and rating policies should be equitably designed to reflect the different spaces people occupy.

Reduced Rates for New Homeowners

There is consensus we have big infrastructure projects that need funding due to underinvestment in the past 30+ years but yet again, it feels as though my generation, and those coming after me, have been left to pick up the tab – is there a more equitable way to fund these big infrastructure projects? One solution is to offer new homeowners reduced rates in the first 5 to 10 years and increase them year on year as peoples salaries grow and their mortgage depletes, while I imagine politically unsavoury, it is an equitable way for those that are now mortgage free (or near to it) to pay it forward, or in this case backwards. This would counter intergenerational inequality and support new homeowners in their first few years of home ownership.

Conclusion

I recognise the ideas I am proposing are out of scope for the suggested changes in this review, but I see this forum as an opportunity to start the conversation and raise these issues in order to begin receiving some consideration from policy makers.

I welcome the opportunity to discuss my experience as a single homeowner in multi-unit housing with councillors further.

Ngā mini nui,
Amy Barnett

More about me: I am an artist who supports myself working as an executive assistant for a central government agency. I hold a Bachelor of Music (hons) and Master of Fine Arts, and I am an active member of Pōneke, Wellington's creative community.

You can check out some of my creative work here: amyjeanbarnett.com

Respondent No: 121
Name: Steve West
Responded At: Oct 05, 2023 20:04:40 pm

Q1.	**We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**	Yes
Q2.	**Thank you. Please indicate your preferred time period**	4pm to 5pm
Q3.	**Do you support a change to the Commercial rates differential?**	No - keep status quo
Q4.	**Thank you. Which option do you prefer?**	not answered
Q5.	**Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**	No - keep status quo
Q6.	**Do you support a differential category for Vacant land in the central city?**	Yes
Q7.	**Thank you. Which option do you prefer?**	Option 2: Lower 3.7:1 differential - A $1m vacant property pays $6,580 in rates – an increase of 225%
Q8.	**How much do you support/oppose the following:**	
	Extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	Neither support nor oppose
	Removing the first home builders' remission	Neither support nor oppose
Q9.	**Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**	No - keep status quo
Q10.	**Thank you. How much do you support/oppose the following**	
Q11.	**Do you agree there is a potential need for targeted rates for:**	
	Climate action	No view
	Resilience	No view
	Online accommodation	No view

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

Council should put an end to the intention to create SNAs on private urban land. However, if it doesn't then rates relief must be provided. Currently this has been pushed out, but it is ridiculous that Council refuses to indicate its intentions for compensation even if this is not implemented yet. If SNAs are to feature, then I believe rates relief in proportion to the SNA share should apply - i.e. if SNA = 50% then rates for that property should be halved.

Q13. **If you have a file to support your submission you can upload it here.** not answered

Respondent No: 149 **Responded At:** Oct 15, 2023 13:57: 2 pm
Name: Katherine McLuskie

Q1.	**We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**	Yes
Q2.	**Thank you. Please indicate your preferred time period**	5pm to 6.30pm
Q3.	**Do you support a change to the Commercial rates differential?**	No - keep status quo
Q4.	**Thank you. Which option do you prefer?**	not answered
Q5.	**Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**	Unsure
Q6.	**Do you support a differential category for Vacant land in the central city?**	Yes
Q7.	**Thank you. Which option do you prefer?**	Option 3: Higher 5:1 differential - A $1m vacant property pays $8,772 in rates – an increase of 333%
Q8.	**How much do you support/oppose the following:**	
	Extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	Somewhat support
	Removing the first home builders' remission	Somewhat support
Q9.	**Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**	Yes

Q10. **Thank you. How much do you support/oppose the following**

Make the policy clearer that the remission applies to both commercial and residential buildings that are not ‘fit for purpose’	Somewhat support
A remission of the postponed rates once the development work or seismic strengthening is completed.	Somewhat support
If the development work or strengthening is not completed, then the remission would not apply, and the postponed rates would be payable.	Neither support nor oppose
Include a remission of general rates for multi-unit residential buildings (estimated remission value of 800k) and 1–3 storey mixed/commercial buildings (estimated remission value of $1.6 million)	Somewhat support
Include a postponement of rates for three years prior to the period in which development work (or seismic strengthening) is undertaken.	Somewhat support

Q11. **Do you agree there is a potential need for targeted rates for:**

Climate action	No - keep status quo
Resilience	No - keep status quo
Online accommodation	No - keep status quo

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

The current valuation system for house/properties values and does not take into account the incomes that the people who live in the houses make. this creates an unequal rates system which targets people of low or middle income and especially single people. In particular woman who live longer than mean and usually outlive partners and end up single at a time in their lives when they most need the support of their communities. The rates rebate scheme needs a complete overhauling as it only sets a fixed a amount which is minuscule and if you earn just over the threshold you cannot apply for it, even if your rates bill is crippling you financially. A fairer system would be for the rebate to be be a proportion of your rates ie: a quarter of whatever your rates bill is. If you are entitled to the rebate. This would mean that someone on a pension and an income of around $400 a week would be entitled to a rebate of around $1,625 if their rates bill was $6,500 per year. This would stop the forcing of pensioners, single people, and others out of their communities where they may have been living which can destroy the fabric and make-up of communities. In order to have robust communities you must have a mixture of people from different socio-economic backgrounds so therefore rates cannot be the same for everyone in a suburb. If rates are too high in a suburb you end with rich enclaves, who are mistrustful of poorer people and remain ignorant of those less fortunate. Rates need to go down by a much larger amount for those on pensions or benefits and be fixed to a proportion of the income not base on land/house value. Fixing rates on Land/house value as opposed to income does not support robust, multi-cultural and diverse communities. The remission for Arts and Heritage buildings needs to be fully supported and not as you have proposed excluded. There is already far too little money spent in this area. Retaining are Arts and Heritage Buildings are vital to the creation of a vibrant Wellington - they are the thing that makes Wellington unique. The destruction and lack of support for our Heritage buildings is shortsighted and equal to cultural vandalism.

Q13. **If you have a file to support your submission you can upload it here.** not answered

Respondent No: 159
Name: Simon Arcus
Organisation: Wellington Chamber of Commerce
Responded At: via email Oct 18, 2023 17:03 pm

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SUBMISSION ON

Wellington City Council Rating Policies Review

SUBMITTED TO:
Long-term Plan Engagement Team

BY EMAIL:
ltp@wcc.govt.nz

DATE:
18 October 2023

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OVERVIEW

The Wellington Chamber of Commerce and Business Central (the Chamber) is a business membership association, representing over 1,000 organisations in Wellington and a further 2,600 businesses throughout Central New Zealand (Gisborne to Taranaki and down to Nelson). We have represented business in the Wellington Region for over 165 years and work with a range of organisations to help them network, share ideas and experiences, learn and develop, represent their interests to local and national government, provide Employment Relations support, and help with export and growth opportunities.

The Chamber works closely with the Wellington City Council (WCC) to ensure Wellington's business community is consulted on the changes that impact them. We seek to play a constructive role in the future development of our city and would like to thank the Council for their continued engagement with us and the wider business community through a range of initiatives, such as the quarterly business huis and the Pōneke Promise forum, as well as the Long-term Plan review process. We look forward to further opportunities to work together.

OUR RESPONSE

The Chamber recognises that the Council's budget is increasingly under pressure and appreciates that difficult decisions will need to be made over the months ahead to ensure the stability of the city's long-term financial position. We welcome the Council's decision to carry out a review of ratings policy, looking in detail at how the 'ratings pie' is comprised. This is an important exercise: a broad ranging strategic review has not been conducted in recent decades. We agree with the Council that the rating policies review provides an opportunity to think about the future direction of Wellington and the economic opportunities, and risks, that lie ahead.

We are committed to being a constructive partner as the Council grapples with this complex issue. We believe this review comes at a critical time for local government across Aotearoa New Zealand more broadly: it's unclear whether conventional models for financing local government activities are sustainable. This is a message for central government as well.

This review presents a real opportunity for Wellington to lead this discussion, and we urge the Council to engage closely with the new government as it determines its priorities over the weeks ahead.

EXECUTIVE SUMMARY

Earlier this year, Council confirmed that rates would be increased by 12.3%. While we understood the rationale, we did not agree that such an increase, which far exceeded annual inflation, was the right approach at a time when households and businesses are already confronted by rising costs. We made these points strongly at the time and maintain our position on this issue.

However, we recognise that this rating policies review is not about the overall 'size of the pie', but rather about how the 'pie' is constituted, and it's on that basis that we have formulated this response.

At the outset, we welcome the Council's proposal to reduce the commercial differential from 3.7 to 3.25 from July next year. This reduction is a welcome step that will help to ease the burden on Wellington businesses when wider commercial pressures are considerable. The reduction is a message for business that the Council is listening to them, even in tight financial conditions.

The Chamber also welcomes the principles behind the Council's proposals to introduce a new vacant land differential of 4.5:1 – we hope this will drive improvements in our cityscape, though the policy will need to be clearly and carefully defined to limit unintended consequences.

Densification is the foundation of sustainable and affordable cities. It evidences their growth trajectory. Dense developments should be centred around liveable precincts, as people can live where they work. Our members are eager for the Council to better incentivise densification, *working with developers to understand what's required to deliver progress*. The reality is that dense housing requires well integrated social services, recreation areas and transport support to succeed.

We have long argued that the differential is not an appropriate mechanism to calculate commercial rates. In the longer-term, we hope to see the differential reduced and ultimately abolished; however, getting to the point where Council is able to make this shift will require a significant amount of additional work and analysis. We support the Council's commitment to continue to explore issues surrounding the

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rating base following the implementation of the 2024/2034 Long-term Plan – we look forward to further engagement on this issue in future.

In addition to this consultation response, the Chamber is pleased to have commissioned Wellington-based economic consultants, Sense Partners, to carry out independent analysis into, and modelling of, the impact of commercial rates on the local economy. A short report – *Tax and the city – a closer look at the business differential and land taxation* – has been produced and attached as an annex. We encourage Council to review this report alongside our response. We hope the Council, the Chamber and the wider business community will be able to work closely together on this issue over the months ahead.

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In summary, the report finds that:

1. There is an opportunity for the city to flourish by improving revenue raising settings.
2. Wellington's high business differential is likely to be reducing employment growth, crimping powerful agglomeration effects that would lift productivity and wages for workers.
3. The rating base is too narrow, more work should be done to expand funding and financing services. In addition, user charging, such as volumetric water and waste-water, should be more widely implemented to recoup the cost of service provision.
4. While taxing land rather than capital may offer some efficiencies, any shift brings distinct political difficulties and is by no means a silver bullet.
5. A simple and predictable tax system is required to support firms and households make better long-term decisions.

Please note, the contents of this report should not be viewed as preferred policy of the Chamber – rather the report is intended as a discussion document to support the development of the debate around local authority finances over the months and years ahead.

LOST OPPORTUNITIES: THE IMPACT OF HIGH RATES

Analysis by Sense Partners demonstrates that local taxes (rates in this case) impact the places where firms choose to locate. As a consequence, the models suggest that decreasing the business differential by 1% would boost employment by a little under than 0.1%; decreasing the differential by 50% would increase employment by about

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4%. But it's not only the level of employment that's impacted – a lower differential would support productivity improvements to deliver an additional $185.83 of income for incumbent workers each year. Overall, a lower differential could induce a $29.3 million increase in city-wide GDP for Wellington.

A NEW MODEL?

To be clear, the Chamber is not advocating for expanding the revenue take, but any system change should include additional methods of raising revenue to reduce the cost of raising revenue through any single lever. The Sense Partners report sets out three additional revenue raising measures to be considered:

1. Expanding the set of user charges to include volumetric water and waste-water charges to recover the cost of providing services according to the beneficiary pays principle. Council is already moving in this direction. The Chamber believes that a principle of better targeting end users of specific benefits makes sense.
2. Better aligning development contributions to the context and cost of services. This might mean high development contributions in some situations and lower development contributions for other developments.
3. Increasing the use of special purpose vehicles for specific infrastructure projects could also broaden revenue. Investment in the Moa Point sludge minimisation facility uses this funding method and might be used for further infrastructure investments.

First implementing these options would reduce the extent of heavy lifting the rating base is required to achieve and better align who pays to beneficiaries. Any discussion of a shift from capital to a land value-based system, should be a second order consideration.

TIGHTENING THE PURSE STRINGS

In addition to the review of how rates are composed, and any change in policy that's decided on as a result, it's critical that Council takes a hard look at its spending commitments and cuts its cloth accordingly.

The Council must re-examine opportunities for further savings and to take a fresh look at its various assets and how they are performing. For

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example, the Chamber believes there is a strong case to explore sharing services and some back-office functions with neighbouring councils to bring down costs. In addition, we would encourage the Council to review its stake holding in Wellington Airport to ensure ratepayers are getting value for money.

Council should transition towards the phased amalgamation of back-office functions and public services across Wellington, Porirua, and Hutt Councils over time. This process has already begun in some areas behind the scenes but needs to pick up pace. We urge the Mayor to use the Mayoral Forum to drive this conversation forward. Local authorities overseas have found that sharing services can unlock significant savings – in the UK, it's estimated that around £200m (c.$400m) is saved annually by local authorities through pooling services.[1] Councils in Australia have also realised multi-million-dollar savings from sharing services such as IT and procurement.[2] There are a range of approaches to sharing services, from pooling back-office functions like finance and HR, through to sharing leadership teams across a region. We call on the Council to kick-start a discussion on amalgamation across the Wellington region and explore a range of options that could unlock savings for ratepayers.

We also call on the Council to look closely at existing initiatives and projects to ensure that ratepayers are always getting value for money. For example, we have heard concerns from members that the role of WellingtonNZ, which receives significant Council funding and a slice of the Downtown Levy, is not as clear as it could be. Its mandate and structure are also perceived to be complex and cumbersome. We urge the Council to clarify WellingtonNZ's mandate by introducing key performance indicators (KPIs) based on economic growth and business success, and to consider making the funding the agency receives contingent on performance against these metrics. We would welcome the opportunity to work closely with Council and WellingtonNZ to better communicate the role and activities of the economic development agency to businesses in the city.

The Chamber would also like to encourage the Council to again examine its ownership stake in Wellington Airport. The Chamber would welcome an assessment from the Council of the return it receives from its 34% holding in Wellington International Airport and whether this delivers value for money for ratepayers. The Chamber appreciates that this topic was

[1] https://www.local.gov.uk/our-support/efficiency-and-income-generation/shared-services
[2] https://www.lgnz.co.nz/assets/Uploads/f850ff9434/Shared-services.pdf

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examined by the Council in 2021 but in the context of ever-increasing rates and rising costs to maintain and enhance our city's infrastructure, we believe it's now time for the city to seriously consider whether disposal of this asset would represent better value for ratepayers versus the alternative of raising funds by taking on more debt.

Finally, debt at WCC is a major concern for the Chamber – the scope of WCC's planned capital programme must be scaled back as a result. This will require councillors and the executive to make difficult decisions. With borrowing forecast to reach $1.57bn by the end of the year – and further pressure added by recent cost overruns in relation to the Town Hall, the Central Library, the citywide network of cycleways and the sewage sludge plant – we encourage the Council to set out a clear plan to keep debt below the self-imposed cap in the medium-term, and falling in the longer-term, so that business owners and residents aren't saddled with high debt servicing costs well into the future.

DEMONSTRATING VALUE FOR MONEY

The connection between rates payments and adequate services for residents and businesses must be strengthened. Currently, business feels the year-on-year rates increases are out of step with actual Council service delivery and performance.

Our members in the city centre remain concerned around how the Downtown Levy portion of their rates bill is being spent. We have repeatedly asked for specific information about these funds and have never had a fulsome response.

When the levy was initially introduced, the resulting rates revenue was administered separately from other Council activities, and it was essentially a fund paid for by retailers for the promotion of retail. Over the years however, this seems to have evolved, with the 2022/23 Annual Plan specifying that the Downtown Targeted Rate is "set to pay for tourism promotion", incorporating the following activities:

- 50 percent of the cost of the Wellington Regional Economic Development Agency (WREDA) and Venues activities
- 40 percent of the cost of the Wellington Convention Centre activity
- 70 percent of the visitor attractions activity
- 25 percent of galleries and museums activity

As a result, businesses subject to the Downtown Targeted Rate, which raised over $14m of revenue in 2022/23, don't believe current activities paid for by the levy match the initial rationale. At the same time, at the end of the Covid period, city centre retailers are facing particularly challenging conditions as workers and shoppers increasingly opt to spend their time, and money, in the suburbs. We therefore urge the Council to re-examine the Downtown Levy as part of this review and commit to working with downtown retailers and other businesses to ensure the funds are spent in ways which support city centre business growth and development.

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It is not just businesses in the downtown area that are subjected to additional targeted rates. Through the Business Improvement Districts (BIDs) scheme, businesses in Miramar, Khandallah, Kilbirnie, Tawa and Karori are all subject to additional targeted rates. Taken together, the revenue collected through these schemes equated to $413,740 in 2022/23. While this may be a fraction of the Downtown Levy's receipts, it is still a considerable burden on businesses, many of which are SMEs, and we believe transparency is required around how these funds are spent and how these levies are expected to develop in the longer term. We are concerned that there is limited data available on the performance of these schemes and the nature of the projects funded in each area.

The Chamber is not opposed to the BIDs scheme per se, but we do believe that greater scrutiny of these schemes, and how they spend public money, is required to ensure value for money is delivered for ratepayers. In relation to the Johnsonville BID proposal outlined for establishment in this year's annual plan for example, very limited information was made available around the parameters of the scheme. For example, the map of the proposed BID area was not made available online, and so it was difficult for businesses in Johnsonville to know whether they will be subject to additional rates in future.

Lastly, projects for change in the city such as the removal of carparks need to be understood in terms of their impact on Council revenue, and the public should be very aware of this. The revenue lost from parking fees will be recouped through rates as it must be, and the costs to them should be transparent to ratepayers.

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CONCLUSION

Thank you for taking the time to review our response to the Wellington City Council Rating Policies Review.

Businesses in our Capital understand that the much-needed programme of upgrades and improvements scheduled by the Council over the years ahead will be costly and time-consuming. However, and as we set out in the Wellington Report last year, the Council needs to provide greater certainty around future costs; this will enable businesses to better prepare and plan. We welcome the opportunity that this review presents to shift Wellington's ratings policy to a longer-term footing. A clear plan from Council which sets a long-term approach to rate-setting is required.

We urge the Council to consider our recommendations and believe that doing so would help to unlock economic growth and opportunities for Wellington, identify significant further savings and enable the Council to adopt a less aggressive approach to annual rate setting moving forwards.

In summary, the Chamber urges the Council to:

1. Set out a long-term plan for ratings policy that sees the commercial differential falling over time and ultimately abolished. Getting to this point will require a significant amount of additional work and analysis.
2. Explore additional methods of raising revenue to reduce the cost of raising revenue through any single lever. Additional measures could include: expanding the set of user charges to include volumetric water and waste-water charges; better aligning development contributions to the context and cost of services; increasing the use of special purpose vehicles for specific infrastructure projects.
3. Strengthen the connection between commercial rates payment and the provision of services and demonstrate to business that WCC delivers value for money.
4. Bring council expenditure under control by:
    a. exploring further opportunities for amalgamation of back-office functions and public services across Wellington, Porirua and Hutt Councils.
    b. reviewing the Council's ownership of key assets (such as the airport) and providing an assessment of the value such shareholdings deliver for ratepayers.

c. setting out a clear plan for reducing Council debt to below the Council-imposed cap of 225% of annual operating income.

We welcome any questions from the Council regarding is submission and the associated report. We look forward to continuing to work together to make Wellington an even better place to do business.

Ngā mihi nui,

Simon Arcus
Chief Executive
Wellington Chamber of Commerce

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SENSE PARTNERS
DATA LOGIC ACTION

Tax and the city – a closer look at the business differential and land taxation

For the Wellington Chamber of Commerce

Sense Partners

October 2023

SENSE PARTNERS
DATA LOGIC ACTION

Context for this report

In July 2023, the Wellington Chamber of Commerce approached Sense Partners for advice on how to think about local rates. The Chamber wanted an economic framework to think about the business rate differential and advice on the pros and cons of assessing rates on a land versus capital basis. This note is an overarching strategic assessment of the problem. We note the first steps from Wellington City Council to signal a decrease in the business differential to 3.25. There remains opportunity for further adjustments to the business differential.

Key Points

Opportunity for city to flourish by improving revenue raising settings

- Wellington City could enable firms and workers to thrive by revisiting how rates are set.
- The choice of how to raise revenue has large and long-lived implications, requiring scrutiny of the evidence.
- Right now, Wellington City sets rates with a high business differential. International studies and our indicative modelling shows this pushes firms to reduce the size of operations within the capital and raises the barrier for new firms to bring new and innovative goods and services to the city.
- Reducing the business differential would increase density and expand Wellington's labour market, enabling firms and workers to be more productive by increasing specialisation, for better job opportunities and higher incomes.

Case for business differentials is poor and holds Wellington back

- Businesses pay rates 3.7 times the rate charges on residential assets – the highest differential in the country. The reason for this differential is not clear and unlikely to be due to user pays.
- At times council refers to charging businesses higher rates based on ability to pay and recouping user charges. But these reasons are not consistent and suggest different methods of raising revenue that are not consistent with each other.
- We show the differential is likely to be reducing Wellington's employment growth, crimping powerful agglomeration effects that would lift productivity and wages for workers.

The rating base is too narrow, more can be done to expand funding and financing of services

- New Zealand has the narrowest taxation base for local government in the world.
- Others have recognised more could be done to broaden revenue gathering. One approach is to better align development contributions to the cost of services. Increasing the use of special purpose vehicles for specific infrastructure projects could also broaden revenue.
- Where the interests of central and local government align, use city deals to help finance infrastructure projects.

Implement user charging to recoup the cost of services…

- At times, council argues taxing capital is a proxy for user charges but the capital on a land parcel is a poor proxy for user charges.

- Instead, volumetric water and waste-water charges should be used to recover the cost of providing services according to the beneficiary pays principle. Where large building use more city resources, they should pay a larger portion of the cost.

Taxing land rather than capital offers efficiencies that should be explored, but will be politically challenging

- Setting rates on land rather than capital is more efficient as a means of taxation: businesses don't change behaviour to avoid the land-based rates system. This means less impact on the economy and the allocation of resources when collecting revenue.
- Collecting revenue on a land-basis better reflects the benefit of the provision of local public goods. There is less need to implement a series of bespoke targeted rates, which are challenging to get right.
- Land use settings need to complement rates settings, enabling firms and households to develop vacant land that would otherwise collect higher rates.
- But changes to almost all taxation regimes result in winners and losers. That makes it impossible to identify the "best" taxation regime without making value judgments across individuals or interest groups. Individuals that live on properties where land is a higher fraction of the property value will pay higher rates.

Taxing vacant land might appear appealing but risks the unintended consequence of making housing *more* expensive

- Wellington City Council propose imposing taxes on vacant land, at four and a half times the rate of residential properties, to promote increasing housing supply.
- But this approach risks the unintended consequence of *reducing* housing supply.
- Taxing vacant land increases the cost of holding land for development. In the short-run developers may opt to build smaller, less complex designs, reducing their costs of holding land by building. That adds fewer dwellings to the housing stock.
- Any positive impacts are expected to be small and only transitory as housing markets respond to the new level of tax.
- Vacant land taxes also needs to traverse material design challenges that raise implementation costs and hamper effectiveness.

Keep it simple so firms and households can make better choices

- Removing business rates differentials and implementing a broad set of user charges should be implemented alongside any potential shift from land to capital rates settings.
- Avoid unintended consequences of micro-managing outcomes when raising revenue. Allow firms and households to respond to incentives.

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Prioritised recommendations

Table 1: Prioritised recommendations on rates

	Recommendation	Description	Priority
1	Council should look for alternative funding and financing tools to finance infrastructure investment	Broadening revenue gathering and funding to include better use of special purpose vehicles. Ensure interest are aligned by using city deals between central and local government. Right-sizing development contributions to costs faced by Council can also help the efficiency of raising revenue.	High
2	Implement user charges rather than a business rate differential	The benefit principle says where possible adopt user charges. The case that capital is a proxy for user charges is not well-made. Council should levy volumetric water and wastewater charges instead.	High
3	Raising revenue on land rather than capital appears to offer efficiencies, but further analysis is required to fully understand the impact of this shift. Without addressing the business rate differential, expect modest impacts.	Raising revenue on a land rather than a capital basis better identifies the beneficiaries of public goods and appears to offer efficiencies. Ultimately this raises the amenity value of living and working in the city.	Medium
4	Any shift to raising revenue on a land rather than capital basis needs to dovetail with land use settings that enable landowners to develop sites	Since urban form evolves only slowly, expect incremental rather than fundamental changes. Land use regulation needs to be complementary with financial incentives to encourage efficient land use.	Medium
5	Keep it simple and beware of unintended consequences of complex revenue raising settings	Applying a variety of rates, differentials, and taxes can have complex and overlapping impacts. This creates uncertainty, undermining how workers and firms respond to settings. Vacant land taxes are likely to be ineffective.	Medium

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Figures

1. Current environment

Expect opportunity from timely, comprehensive rates review…

This year, Wellington City Council will review the rating policies that determine who pays for the services provided by the Council. In the context of increasing constraints on both central and local government, it makes sense to look closely at how revenue is collected.

To make progress, this study makes no claims about how revenue should be spent or right sizing the pie. Instead, we aim squarely at the question of how best to collect revenue to fund the provision of goods and services.

…deciding who pays can have profound impacts

Tax matters. How revenue is collected impacts the choices firms and households make on where to work, where to live, and where to call home. Improving tax settings can contribute to greater prosperity over future years.

And it's not just about more of the same when it comes to setting rates. One of our key points is working to identify additional levers that could expand the set of revenue raising tools.

This is not a new point for many. It reflects the direction of travel of the Infrastructure Funding and Financing Act 2020, the tone of much of the Future of Local Government Review, and the reality of a system with a one of the narrowest revenue bases globally.

Others have also focussed on using revenue bonds to fund public goods, doing more to ensure development contributions are set to recover the costs of infrastructure and taking a close look at value capture to raise funds.[1]

Pulling together

One of the messages of the Future of Local Government report is central government can do more to help fund local infrastructure. Central government has interests in well-functioning cities to promote good outcomes for citizens using tools and information not available to central governments, and for the revenue central government receives when cities flourish.

In contrast, poorly functioning local communities can create problems for central government. In the past, central government has at times, picked up the tab for underinvesting in infrastructure. And when cities inhibit growth with prohibitive rather than enabling land use policies, growth pressures manifest elsewhere.

Central government will be more willing to invest when local government can demonstrate a transparent and robust basis for raising revenue in a fair and efficient manner. Council must show that local government settings are doing all they can to promote a growing and flourishing city that contributes to the tax base. When local government settings inhibit growth, expect central government to investing in local infrastructure.

[1] See for example, the New Zealand Initiative on using revenue bonds, Auckland Council on development contributions and Te Waihanga on the use of value capture.

And this is not about businesses versus residents. Ultimately, workers and households are better off with improved job opportunities and stronger incomes. This can be achieved when local taxation settings enable firms to be productive and thrive.

2. What good looks like – principles for setting local government rates

2.1. Objectives for raising revenue

The OECD identifies a set of principles for taxation that apply equally to local government. We set these out in Table 2 below.

Table 2: OECD Principles for Setting Taxation

Principle	Description
Neutrality	Taxation should seek to be neutral and equitable between forms of business activities. A neutral tax will contribute to efficiency by ensuring that optimal allocation of the means of production is achieved. A distortion, and the corresponding deadweight loss, will occur when changes in price trigger different changes in supply and demand than would occur in the absence of tax.
Efficiency	Compliance costs to business and administration costs for governments should be minimised as far as possible.
Certainty and simplicity	Tax rules should be clear and simple to understand, so that taxpayers know where they stand. A simple tax system makes it easier for individuals and businesses to understand their obligations and entitlements. As a result, businesses are more likely to make optimal decisions and respond to intended policy choices.
Effectiveness and fairness	Taxation should produce the right amount of tax at the right time, while avoiding both double taxation and unintentional non-taxation. In addition, the potential for evasion and avoidance should be minimised.
Flexibility	Taxation systems should be flexible and dynamic enough to ensure they keep pace with technological and commercial developments. It is important that a tax system is dynamic and flexible enough to meet the current revenue needs of governments while adapting to changing needs on an ongoing basis.
Equity	Equity has two main elements: horizontal equity and vertical equity. Horizontal equity suggests taxpayers in similar circumstances should bear a similar tax burden. Vertical equity is a normative concept, whose definition can differ across users. Many users suggest, vertical equity taxpayers in better circumstances should bear a larger part of the tax burden as a proportion of their income. Equity is traditionally delivered through the personal tax and transfer systems.

Source: OECD

Other organisations and researchers have also set out their own principles for gathering taxation revenue.[2] For example, one UK expert considers there are six important considerations for a good tax system using their framework:[3]

- incentives and economic efficiency
- distributional aspects
- international aspects
- administration and compliance
- flexibility and stability
- transitional problems

In practice these principles have considerable overlap.

Applying the principles to local government

When it comes to principles of taxation, Local government is no different from central government. Local government should not be immune from raising revenue in a principled manner.

Central government is well placed to address equity through the tax and transfer system

Perhaps the key difference is the lack of ability to levy taxes on capital, labour, or consumption. These taxes make central government best suited to deal with equity and distributional issues through the tax and transfer system.

Instead, equity can take a spatial dimension. When mobility of residents means taxes can be moved onto other rate payers, this erodes local responsibility and accountability. The outcome is the level of public goods provided can be inefficient (too high and too low).

Taxes are set on the principle that taxpayers should bear tax burdens in line with their ability to pay.[4] The ability-to-pay principle requires horizontal and vertical equity in the tax system.

Horizontal equity holds if those with an equal ability to pay bear equal tax burdens. Vertical equity holds if those with a greater ability to pay bear higher tax burdens. Horizontal equity is undermined when businesses pay more property tax than households while they have the same ability to pay. Individual and company taxes would ideally be aligned to avoid distorting outcomes.[5]

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[2] See the objectives of the Tax Working Group 2019 or the Productivity Commission 2019 and Spahn 1995 for example.

[3] See Meade 1978.

[4] See Case et al., 2019.

[5] See McLeod et al., 2001.

Expect local government to show greater interest in matching costs to who benefits

Local government is likely to be concerned with linking revenue capture with the benefit or willingness-to-pay for local public goods. The closer and stronger the link, the greater the extent individuals benefit from local government and the city thrives.

In practice, eliciting prices for public goods can be challenging. It can be difficult to extract what residents would be willing to pay for a service.

Efficiency continues to matter at a local level

Raising revenue at a local level should be executed in the least distortive manner possible. This allows firms to allocate resources in a similar way to if there was no taxation at the local level. Neutral taxes minimise the unintended consequences on private decisions. Neutrality is necessary for a good tax system.[6] Higher tax rates for businesses will distort private decisions.

The efficiency criteria takes on a new dimension at the local level since firms and workers can avoid tax by "voting with their feet" and moving to a new location. At least in principle, since firms can move between jurisdictions, differences in tax rates across councils should be minimised.

This has a particular emphasis within the region where commuting flows across jurisdictions are large. Commuter flows into Wellington City are larger than elsewhere in New Zealand.

Moreover, tax competition favours raising revenue on land rather than capital since land cannot be moved across local boundaries.

Simple and transparent

The use of revenue raised by local and central government can create accountability issues when the use of funds is not clear. Volumetric charging would help councils better fund the costs of growth and help reduce demand for services that could delay the need for infrastructure.

Land and capital taxes can be straightforward to collect. But land taxes require identification of the land component of the capital-land package for any site. This can be more challenging if few land only parcels come to market. But this should not be considered a showstopper. A range of techniques can be used to assess land value.

2.2. A closer look at Wellington City objectives

Wellington City Council in their own words

Wellington City Council usefully spells out the principles and policy objectives for setting rates that we lay out in Table 3. We test these principles against the OECD principles. In general, Wellington City Council principles appear consistent with rationalising the current set of rates rather than working from principles to how rates should be set.

[6] See Ebel and Petersen, 2012.

The first principle resonates with horizontal equity. Similar properties should pay similar local taxes. However, the presence of business differentials would appear to work against this principle.

Wellington City Council also seems to want to prioritise the viability and vitality of the Wellington business community. The second principle says the burden on different sectors needs to be reasonable in terms of its impact on the viability and vitality of the business community.

But there is a long literature, dating to the urban economist Jane Jacobs, pointing to the benefits of low rents. These provide opportunity for entrepreneurs and the arts community to try out new and diverse activities within the city centre (see Box A).

It would appear one unintended consequence of business differentials is reduced opportunities for low rent within the city. This works against the ethos and method of achieving vibrant cities laid out by Jane Jacobs decades ago.

This also works against the key economic channels that respond to how rates are set:

i. when rates are set on land, this encourages investment by reducing the disincentive to add capital to the city;

ii. when rates are neutral between business sites and residential sites this further reduces the disincentive to invest in commercial space.

It is important to distinguish between the static world, where firm choices and land prices do not respond to incentives, and a dynamic world that accounts for the impact of firms' location decisions.

Take the example of Cuba Street where the capital value of many properties is arguably low relative to land value. Rates could go up, rather than down. But the increase in commercial space means the same rates would be covered by a lot more sqm of commercial business. Rents would drop from both the increase in space and the bearing of a smaller fraction of that rates burden.

Wellington City Council also nods towards the beneficiary pays principle. However, they then suggest the principle needs to be tempered by other objectives, including affordability, practicality, and Council's other policies. So it's not clear the extent to which the beneficiary pays principle applies. It appears it might apply, but only when a range of other factors are satisfied. This is only reinforced by the Council's sixth principle that rates should *to some extent* reflect benefits received.

For services with clearly identifiable private benefits a direct user charge may be more appropriate, as it causes the user to focus on cost and the need for conservation. However, this approach is to be tempered with an assessment of affordability, practicability, and the Council's other policies.

The final principle is an amalgam of many things but seems to suggest rating burden should be distributed based on capital value of properties. But this seems an outcome or tool for meeting objectives, not a principle or foundation of how to reason about how to collect local revenue. Table 3 also reflects the objectives of neutrality in that it does not encourage people to redirect activity to avoid its impact.

Table 3: Wellington City rating principles and objective in their own words

Rating principles	
1	There will be one comprehensive rating system for the whole of Wellington city that allows consistent application across the entire city.
2	The rating burden on the different sectors needs to be reasonable in terms of its impact on the viability and vitality of Wellington's business community.
3	For services with clearly identifiable private benefits a direct user charge may be more appropriate, as it causes the user to focus on cost and the need for conservation. However, this approach is to be tempered with an assessment of affordability, practicability, and the Council's other policies.
4	The rating system will have wide general application and will be set from a global perspective.
5	The impact of the process of change, due to revised assessment of incidence of costs and benefits received, as well as changes in the assessment of ability to pay and other Council policies, will not fall disproportionately on any one section of ratepayers. While it is recognised anomalies will exist, it is not appropriate to focus on special 'individual' cases.
6	Rates paid should to some extent reflect the benefits received. However, it is recognised that the issue of benefit distribution analysis is a complex and inexact process.
7	The rating burden should be distributed amongst ratepayers based on capital value of property and by using targeted rates. Any differential, where appropriate, will be based on property use, the incidence of costs and benefit of service. It should account 'for ability to pay' practicalities and the Council's other policies but recognise that the level of rating also depends on the degree of use of alternative sources of income such as user charges.
Policy objectives	
1	Provide the Council with adequate income to carry out its mission and objectives
2	Support the Council's achievement of its strategic objectives
3	Be simply administered, easily understood, allow for consistent application and generate minimal compliance costs
Policy objectives	
4	Spread the incidence of rates as equitably as possible, by balancing the level of service provided by the Council with ability to pay and the incidence of costs in relation to benefits received
5	Be neutral in that it does not encourage people to redirect activity to avoid its impact
6	Reflect the decisions of the Funding Policy and rating reviews

Source: Wellington City Council

9

Box A: Jane Jacobs argues for lower rents

A well-functioning urban environment should have a variety of activities…

Jacobs wrote *The Death and Life of Great American Cities*[7] in 1961 as an attack on the urban planners of her day. She believed that urban environments should promote safety, economic prosperity, social interaction, and adaptability.

"…writing [the book] about how cities work in real life, because this is the only way to learn principles of planning and what practises in rebuilding can promote social and economic vitality in cities, and practises and principles deaden these attributes".

Preconditions of well-functioning urban environments include:

- mixed land use
- smaller blocks
- mix of new and old buildings
- sufficient concentration of people to boost economic activity

This is supported by some buildings having low rents, facilitating start-up of new activities…

New and old buildings will demand higher and lower rent. The variety in rent is useful for attracting different occupants to the urban environment. For example, start-up businesses with a lesser ability to pay rent can operate in the same locations as well-established businesses.

This favours land tax and high business taxes prohibit start-ups doing new things within the city (too expensive)

Land taxes are generally considered to be neutral, meaning that it does not distort economic decision-making. Land is immobile and taxing it doesn't lead to reduced investment in the same way as a capital tax might. Capital taxes reduce the post-tax rate of return for businesses and will reduce investment levels at the margin.

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[7] See Jacobs 1961.

3. No case for business differentials

3.1. Assessment against principles

Ability-to-pay argument poorly founded…

Wellington City Council make the claim that the business differential reflects ability to pay. However, Wellington business properties pay a higher fraction of rates than elsewhere (Figure 1).

Urban economists are often interested in the agglomeration benefits. These are the productivity benefits that come from cities that enable firms and workers to work in density. It turns out that one of the key benefits of cities is the labour market opportunities that provide higher income to residents.

For households, locating close to a larger pool of firms increases the number of potential jobs. For firms, locating close to households means a larger number of potential applicants. These factors both increase the likelihood of a good match between firms and applicants.

The additional opportunities provided by cities increases specialisation. For example, rather than operating as engineers, specialisation allows engineers to operate as civil engineers. They in turn can specialise on vertical construction, such as commercial buildings, or horizontal construction, such as roads.

This helps raise the productivity of each worker, allowing workers to reap a higher return for their labour. Without sufficient scale provided by cities, such specialisation is difficult.

Specialisation and agglomeration effects make workers more productive in cities, increasing returns to firms and increasing wages and incomes.[8]

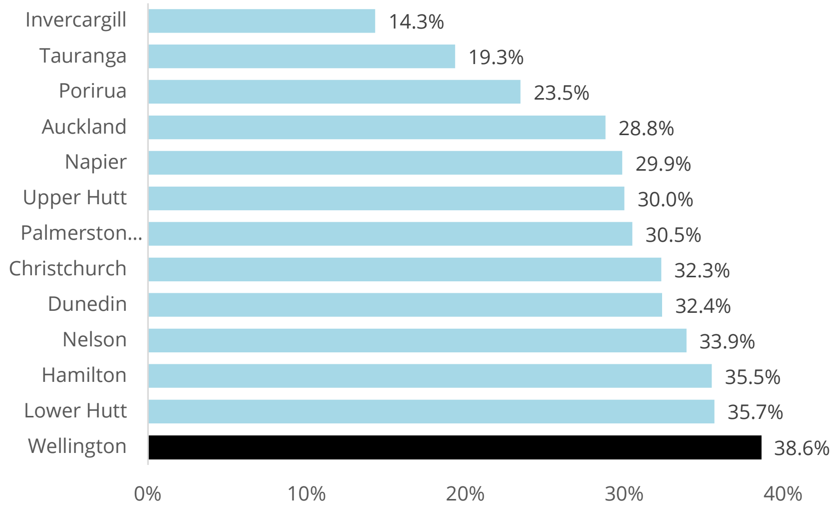
Economists estimate these benefits not through the lens of firms, but instead, through the wages that accrue to workers. Firms are widely recognised as an intermediary, a tool for improving outcomes for households.

The ability to pay argument also fails to capture firms that have left Wellington City and have simply moved elsewhere. Nor does ability to pay capture firms that find it too expensive to set-up in the city or fail to start-up because costs are too expensive.

Moreover, at times Council refers to charging businesses higher rates based on ability to pay and recouping user charges. But both arguments cannot simultaneously be true since each argument would likely produce different rates.

[8] See Maré and Graham 2003 and Donovan et al. 2022 for New Zealand estimates.

Figure 1: Wellington businesses pays a higher proportion of rates than other districts



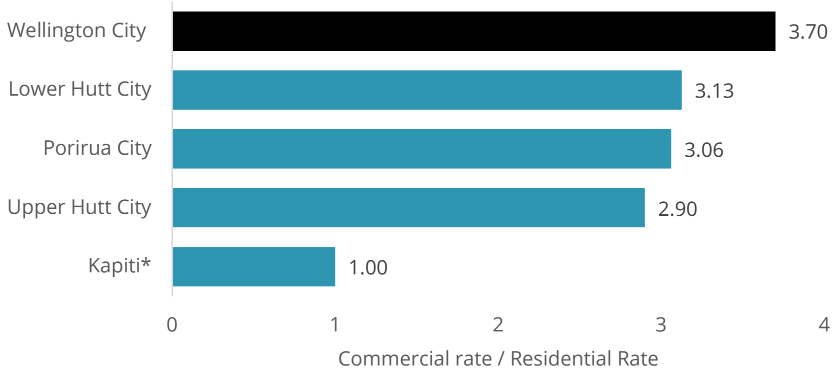
Source: Various council data

…councils cannot claim to be setting business differentials based on the incidence of costs

The claim is often made that business differentials for Wellington City reflect the additional impacts on infrastructure from workers from other territory authorities that commute into the city.

But business differentials are high right across the region (see Figure 2) compared to other councils. There is limited discount for businesses in councils with outflows of commuters.

Figure 2: The Wellington City differential is higher than other councils in the region
Business differentials selected councils



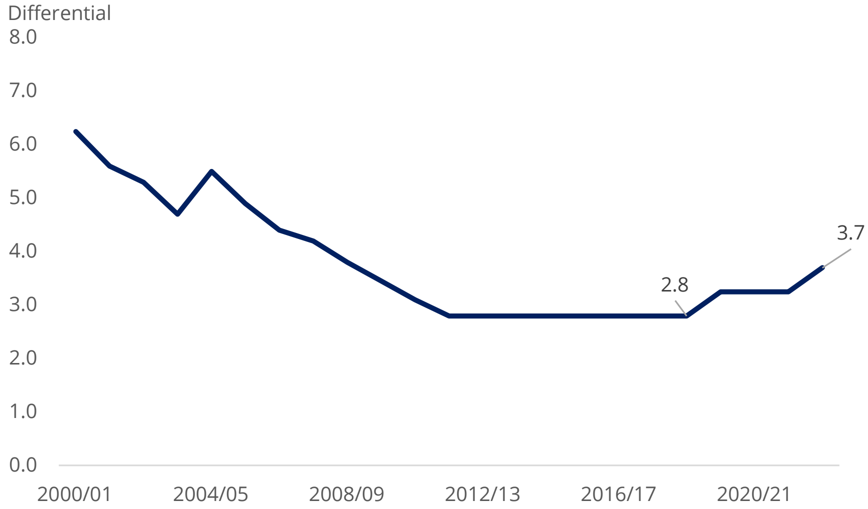
* Kapiti increases commercial rates based on 0.00036 of land value

Source: Various Council Annual Reports

That beneficiaries should pay is a principle for raising tax revenue. Doing more to put in place volumetric water and wastewater charges would help users of infrastructure services make better decisions about use that could drive system efficiencies.

Without volumetric charging firms lack a price signal to drive changes in behaviour. Given Wellington City's has deteriorating water infrastructure widely detailed elsewhere, reducing pressure on the system would appear crucial. At the least, a stronger evidence base is needed to support the claim that business differentials support the incidence of costs.

Figure 3: The business differential had been falling but is now increasing



Source: Wellington City Council

3.2. Beware unintended consequences

Business differentials distort the decisions of where firms locate and households want to live by driving a wedge between efficient locations and the locations incentivised by differentials. These impacts can also come with unintended consequences.

For example, the Greater Wellington Regional Council Transport Rates Policy has a special category for CBD Business ratepayers and now charges these businesses 7 times the amount charged to most residential ratepayers (see Table 4).

The differential values discourage businesses from setting up in the Wellington CBD and encourage activity to move elsewhere and to the Wairarapa in particular.[9,10]

[9] It is not clear why GWRC opt to apply differentials across residential rating areas for the transport levy.
[10] The levies also make it more expensive to set up businesses in general.

This approach runs counter to the goal of shaping urban intensification in GWRC's proposed Regional Policy Statement.[11]

Table 4: GWRC transport levies are 7 times higher for Wellington CBD businesses

Transport levies

Location	Differential value
Residential (excluding Wairarapa and Ōtaki)	1
Residential (Wairarapa and Ōtaki)	0.5
Wellington CBD	7
Business (excluding Wairarapa)	1.4
Business (Wairarapa)	1
Rural	0.25

Source: Greater Wellington Regional Council Annual Plan 2023/24

3.3. Reducing the differential lifts jobs and wages

International evidence shows firms respond to local tax rates...

Despite the importance of understanding the impacts of taxation by local government, there are no empirical New Zealand studies that identify the impact of local government rates on business location.[12]

But we know from the international literature that firms respond to differences in local taxation:

The international literature provides examples of firms relocating to take advantage of differences in the rate of local taxation:

- Ten years of data on manufacturing start-up firms in Belgium shows higher local taxation rates deter start-ups, even in the presence of location-specific production agglomeration impacts[13]
- Data from startups in Swiss cantons shows that higher tax rates for business deters start-up rates, but the relationship between tax rates and market entry is weaker in spatially concentrated sectors, probably because of agglomeration impacts[14]

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[11] See https://www.gw.govt.nz/your-region/news/greater-wellington-proposes-bold-new-regional-policy-statement-for-the-wellington-region/

[12] Kerr, Aitken and Grimes 2004 provide useful discussion of the New Zealand context but not empirical estimates of likely effects.

[13] See Crabbé, Karen and Karolien De Bruyne, 2013.

[14] See Brülhart, M., M Jametti and K Schmidheiny, 2012.

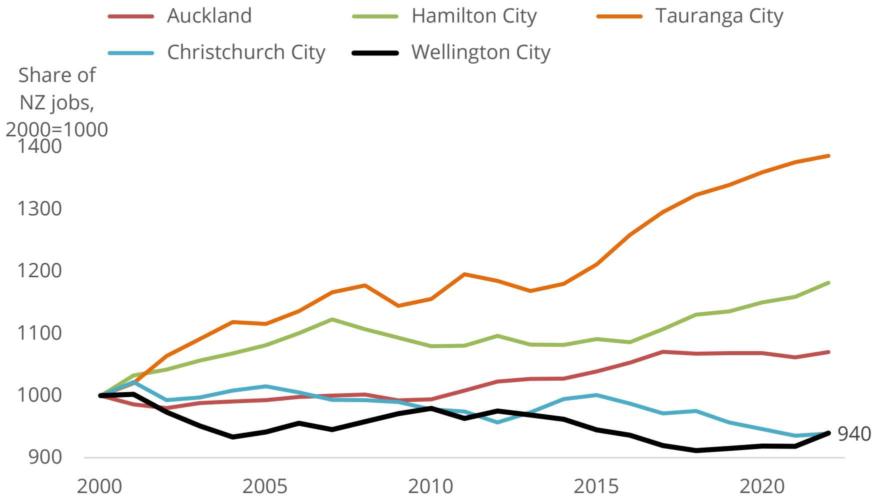
- Data on British manufacturing plants show these firms make location choices that respond to subsidies. Effects are largest for areas that already have large stocks of pre-existing manufacturing plants attracting greater investment[15]

But in these studies, local government typically plays a larger role than in New Zealand. In the case of the US, sometimes providing health and education services. Local and in some cases regional tax rates could be expected to be a larger fraction of tax than in New Zealand. So New Zealand specific estimates are needed.

…other cities are outpacing employment growth in Wellington City

We know that other cities are outpacing employment growth experienced in Wellington. Figure 4 reports the share of jobs in the tier 1 major New Zealand cities as an index normalised to 1000 in the year 2000. Since that time, Auckland, Hamilton, and Tauranga have outpaced the growth in Wellington City. Wellington City's share of jobs is about 6 percent lower in 2022 than in the year 2000. The share of total jobs in Auckland Hamilton, and Tauranga is increasing over time.

Figure 4: Wellington's share of New Zealand jobs is falling over time
Share of New Zealand jobs reported as an index



Source: Various

A decreasing share of employment is consistent with several explanations including higher costs of commercial property associated with earthquake strengthening, the attraction of larger growing consumer markets in other cities and the impact of higher business rates.

Indicative analysis suggests local taxes impact where firms locate

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15 See Devereux, Michael P; Rachel Griffith and Helen Simpson 2007.

15

To test the extent to which lower business rates are impacting firm location decisions, empirical work would ideally be grounded in cross-sectional estimates that utilise changes in business rates over time and across all New Zealand councils and compares this data to business demography data that tracks the number of businesses within each local council over time.

While we have snapshots of this data available,[16] we have limited time series data across all councils on the rates businesses pay. So we use the time series data available for Wellington City Council to provide indicative impacts of tax changes on employment. We find reducing the business rate differential would increase employment in Wellington City.

We use the following equation to relate employment to business rates:[17]

$$\ln(employment)_t = \bar{\beta}\Delta\tau_t + x_t' + u_t$$

Where we seek to explain the change in the natural logarithm of employment in Wellington City with the change over time in the natural logarithm of local taxation, τ_t, that we approximate with the business differential. We allow for a vector of controls, x_t, that includes a dummy variable that takes a value of one for the COVID period and a variable that accounts for industry exposure tracing what Wellington's employment would be if industry shares grew at the national rate. We present the modelling results in Table 5.

We present three models with the preferred model in column 1. That model shows a significant constant term and the industry share dummy that controls for the industry composition of employment is significant at the 1 percent level.

The change in the business differential is significant at the 5 percent level. Since both the employment variable and the business differential enter in logarithms, we can interpret the estimated parameter in percent terms: a one percent decrease in the business differential would boost employment by a little under 0.1 percent. Decreasing the business differential by 50 percent would increase employment by about 4 percent.

[16] See Ratepayers report 2023 for example: https://ratepayersreport.nz/.
[17] This is a variation on the equation in Jofre-Monseny and Solé-Ollé 2012.

Table 5: Indicative modelling suggests reducing the business differential would lift jobs

	Model 1 (preferred)	Model 2	Model 3
Constant	3.641‡ (0.001)	3.285† (0.036)	12.056‡ (0.000)
Covid dummy		-0.011 (0.637)	0.064 (0.107)
Industry share dummy	0.700 (0.000)	0.730 (0.000)	
Business differential	-0.079† (0.014)	-0.080† (0.016)	-0.129† (0.034)
Adjusted r^2	0.859	0.852	0.401

* Significant at the 10 percent level
† Significant at the 5 percent level
‡ Significant at the 1 percent level

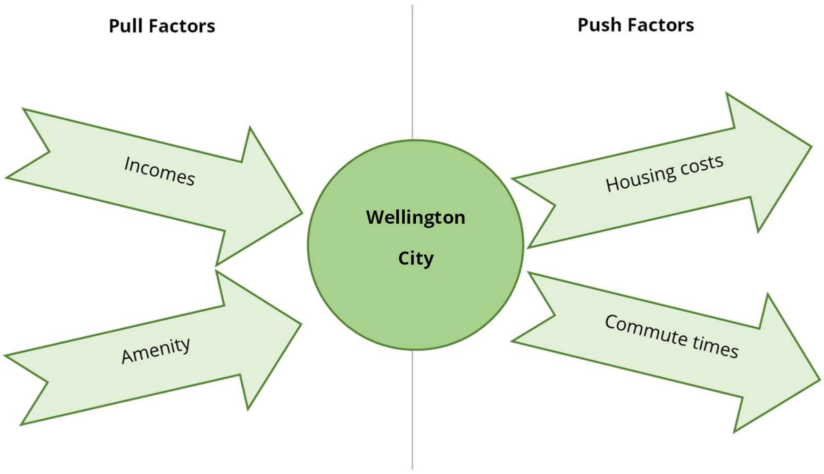
Lower the differential to boost productivity and wages

We calculate the impact a boost to employment growth could have on existing residents. We use the 4 percent increase in employment as a benchmark and calculate the impact on productivity and wages through agglomeration impacts.

Like most cities, Wellington city provides firms with location benefits or agglomeration benefits. This includes knowledge transfer between workers, access to more choice of firms that can supply goods and services, and more customers.

Workers receive these benefits, offsetting some of the costs of cities, including higher housing costs and commute times (see **Error! Reference source not found.**).

Figure 5: Agglomeration forces improve incomes and amenities for firms and workers



Source: Adapted from Glaeser

These location benefits improve productivity, particularly for services firms, incentivising these firms to locate in larger cities.

We must also calculate the impact of agglomeration impacts on the towns and cities where people leave from to set up in Wellington City. These distortions can be costly. We assume that new firms and residents are attracted to Wellington City from neighbouring cities, in particular the Horowhenua District Council (centred on Levin), Manawatū District Council (centred on Feilding) and Palmerston North City Council. In the absence of data on the characteristics of marginal firms that are mobile, we use average GDP per capita across each region to capture productivity and economic output impacts.

Since we need to understand the impact on economic activity of how business differentials distort location choices, we work with pre-COVID data from 2018 since more recent regional data is affected by the COVID period.

We apply the same approach to estimating the agglomeration impacts used in the Cost-Benefit Analysis of the Enabling Housing Supply legislation that assess changes in land use regulation to accommodate intensification.[18] The change in productivity per workers is expressed as:

$$\Delta Productivity \ = \left(\frac{New\ city\ size}{Old\ city\ size}\right)^{agglomeration\ elasticity}$$

Productivity is increased through two channels: (i) the magnitude of the increase in city size; and (ii) the strength of agglomeration effects.

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[18] See PWC and Sense Partners 2022.

We note the estimate of the impact for agglomeration for Manawatū -Horowhenua within Maré and Graham 2013 is 0.004 and statistically insignificant. Imposing this elasticity would imply negligible impact on the Manawatū -Horowhenua economy from firms that leave the district. Nor do we use the agglomeration elasticity for the Wellington region of 0.085 that would imply large agglomeration effects.

Instead, we present results using the lower and upper bound of the range used in in the Cost-Benefit Analysis of the Enabling Housing Supply legislation – a lower estimate of 0.04 and a higher estimate of 0.069.

This **Error! Reference source not found.** shows the impact of our scenario where the reduction of a business differential results in a one percent increase in the labour force in Wellington City from firms that move to the city from the neighbouring Manawatū - Horowhenua district.

Across both panels, the second column shows the city size (in terms of workers) before the change to the differential. After the one percent change in the workforce, the populations of Manawatū, Palmerston North and Horowhenua decline in the same proportion.

In the first panel with the conservative estimate of agglomeration impacts, this increase in population intensifies agglomeration impacts in Wellington City, increases productivity that generates an additional $185.83 of income for incumbent workers each year. Overall, city-wide GDP for Wellington City for existing residents increases by about $29.3 million per year.

The movement of firms and workers makes the districts in Manawatū -Horowhenua a little worse off.[19] GDP falls for these regions but in aggregate, the economy increases output by about $17.6 million a year. For the case where agglomeration impacts are stronger, the Wellington economy expands by about $50.5 million per year, the Manawatū -Horowhenua contracts a little more and the aggregate economy expands by about $30.4 million.

[19] At least in terms of first-round effects.

Table 6: Expect Wellington City to increase economic activity by reducing the differential

Illustrative example of reducing the business differential to reduce location distortions

Local Council	Old city size (workers)	GDP per capita	New city size (workers)	Impact on GDP per worker	Impact on incumbent workers GDP
Panel (A): Lower bound estimate = agglomeration elasticity is 0.04					
Wellington	157,700	$118,359	164,008	$185.83	$29,305,601
Manawatu	9,500	$31,571	9,286	-$51.43	-$1,574,843
Palmerston North	51,200	$60,218	50,048	-$98.12	-$8,641,534
Horowhenua	9,400	$27,773	9,189	-$45.25	-$1,483,171
				Total	$17,606,053
Panel (B): Higher bound estimate, agglomeration elasticity is 0.069					
Wellington	157,700	$118,359	164,008	$320.74	$50,580,930
Manawatu	9,500	$31,571	9,286	-$88.66	-$2,715,000
Palmerston North	51,200	$60,218	50,048	-$169.16	-$14,897,840
Horowhenua	9,400	$27,773	9,189	-$78.02	-$2,556,959
					$30,411,131

Source: Statistics New Zealand, Sense Partners calculations

Importantly, these impacts are realised annually. Using a discount rate of 5 percent, over a and extrapolating over a one-hundred-year period, the impacts accrue to between $610 million to $1,054 million for Wellington City and $366 million to $633 million across the aggregate economy. These impacts are returned to workers through higher productivity.

3.4. Wellington City Council are taxing productivity benefits of location, distorting the economy

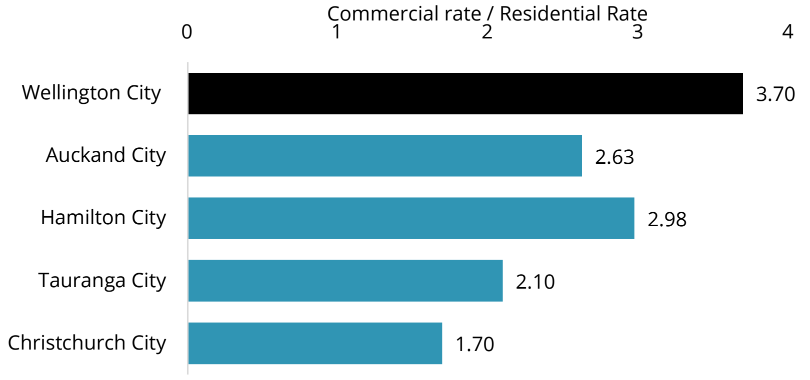
The business differential reduces economic activity

Standard theory suggests when faced with higher local rates of taxation firms would "vote with their feet" and move to councils with lower business rates. That seems reasonable, so what is going on?

But increasing business differentials relative to other jurisdictions distorts the incentives facing each firm, reducing the economic efficiency of how revenue is raised. Wellington City Council is effectively taxing these agglomeration benefits.[20] In addition, the international literature and our modelling work shows setting higher business differentials relative to residential rates, reduces employment growth. Expect fewer firms to start-up in Wellington.

Since business differentials are larger in Wellington City than in other urban areas (see Figure 6), we should expect these distortions to be higher for Wellington City than other urban areas.

Figure 6: Rates in Wellington City are higher than other urban areas



Source: Various

These rate differentials can help make for stark differences across similar properties in different cities. Table 7 provides an example based on two similar commercial properties, one in the Auckland CBD and one in the Wellington CBD. Based on average space of 15 square metres per worker, this suggests rates costs a little over $1,500 per worker in Wellington ($1,533.60) and a little under $1,000

[20] See Jofre-Monseny, Jordi 2013 and Koh et al. 2013 for international evidence on local government taxing agglomeration benefits.

Table 7: Comparing commercial properties shows clear different in rates paid

Rates across comparable commercial buildings: Wellington and Auckland

City	Wellington	Auckland
Building	Vodafone on the Park	HSBC Tower
Address	157 Lambton Quay	188 Quay Street
Capital Value	$152,5 million	$400 million
Net Lettable Area	16,634 metres	31,589 metres
Rates per annum	$1,700,612	$2,089,579
Rates per square metre	102.24	66.15

NB 157 Lambton Quay includes a public carpark

Source: Precinct Properties

There are various factors that drive rates, including the extent to which different cities provide different levels of public goods and the cost of providing services. But the differences across the properties is striking. The Auckland property is worth considerably more in absolute terms and on a per square metre basis. But the difference in rates in considerable: rates are over 50 percent higher for the Wellington property.

This difference in rates represents an extra cost to the rents within Wellington City, reducing the competitiveness of the city.

Central government has an interest in local taxation settings

Although our example is illustrative, it makes clear the costs to restricting access to firms by setting high business rate differentials that distort the economy, effectively taxing agglomeration or location benefits. Workers lose out on additional income.

Central government also loses out on the increase from additional economic activity and improved outcomes for potential residents.[21]

So an opportunity then exists between central and local government to foster a deal that increases economic growth by reducing distortions in the local economy.

City deals have been promoted as a means for central government to help achieve their objectives by providing funding and finance to local authorities for key infrastructure projects. In return, central government might expect local taxation settings to enable growth rather than produce distortions in the local economy to ensure interests are well-aligned.

[21] Some of the economic gains might reasonably be expected to be returned through tax and transfers to workers that remain in Manawatū -Horowhenua.

4. Taxing land holds efficiency benefits

4.1. Taxing land is generally more efficient

Economists agree that land-based taxation, in theory, is one of the most efficient taxes. Because land is in fixed supply, businesses find it extremely difficult to avoid the tax. This means it has the lowest impact on the decisions businesses make to allocate resources across the economy. In contrast, capital-taxation applies to the worth of any building, effectively discouraging businesses to develop economic value.

That agreement can be stark and to the point. One Nobel prize-winning economist notes:

> "The property tax is economically speaking, a combination of one of the worst taxes – the part that is assessed on real estate improvements … and one of the best taxes – the tax on land or site value". Vickrey 1999[22]

And a second Nobel prize-winning economist puts it simply:

> "…the least bad tax is the property tax on the unimproved value of land" (Milton Friedman).[23]

In contrast, income taxation reduces the return from employment, reducing the effort of labour. Similarly a capital-based property tax reduces the returns to capital, reducing the incentive to invest. In short, land-based taxation can support growth. According to the Economist in 2013:

> "Taxing land and property is one of the most efficient and least distorting ways for governments to raise money. A pure land tax, one without regard to how land is used or what is built on it, is the best sort."

Ultimately land is immobile. That makes land-based taxation an efficient, non-distortionary taxation system. The Taxation Working Group agrees:

> "Most members of the TWG support the introduction of a low-rate land tax as a means of funding tax rate reductions and improving the overall efficiency of the tax system. However, there are concerns over the political sustainability of such a tax."

The OECD's 2011 report on New Zealand advocates a land-based tax:

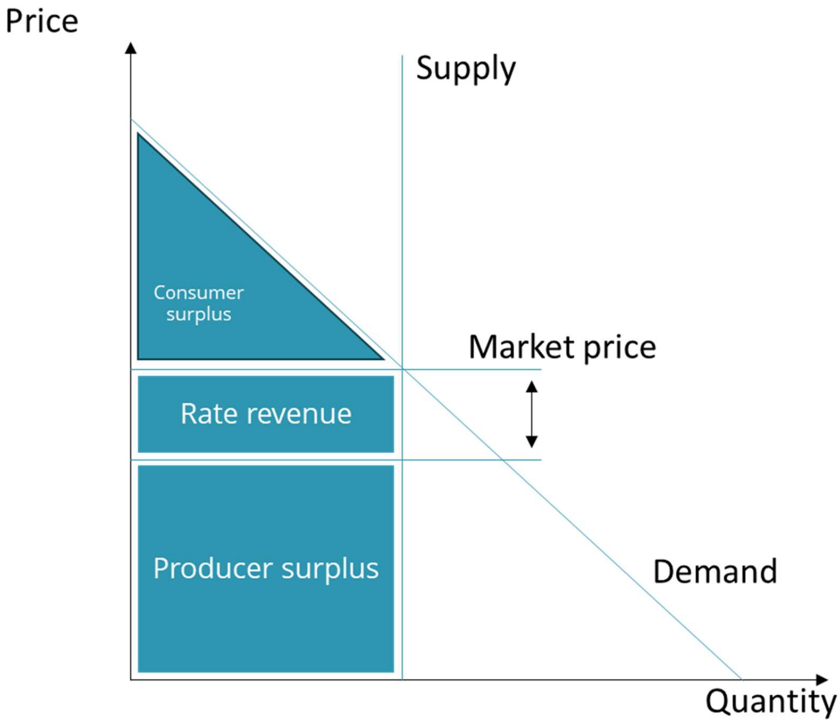
> "A land tax would tend to be more efficient than a property tax. Because land is fixed in supply, it is relatively price-inelastic, and therefore deadweight losses from taxing it are relatively low."

Since capital is mobile and unlike land can respond to relative price shifts, taxing capital would reduce the existing taxation base. Assessing the rates required to return a fixed revenue base needs to assess the price effect on the size of the capital base. That favours using land-based taxation (see Figure 7), since the tax does not distort the quantity of goods and services

[22] Cited in Dye and Richards 2011.
[23] Referenced in Blaug 1980, and Coleman and Grimes 2010.

supplied. Retaining a tax on capital and land reduces the quantity of goods and services supplied.

Figure 7: Raising revenue through a land-based tax is the most efficient tax



Source: Sense Partners

4.2. Taxing vacant land risks making housing *more* expensive

A sharp tax on vacant land risks unintended consequences…

Wellington City Council propose increasing the proportion of rates paid on vacant land in the central city to 4.5 times the rates a residential of the same value would pay. This considerably higher rate is meant to incentivise holders of vacant land to either develop or sell the land to someone that will develop the land and increase the supply of residential housing.

The proposed mechanism works in a similar manner to taxes on vacant dwellings: owners are incentivised to rent out these houses or sell to owners that are prepared to rent them.

But there are several flaws in this thinking:

First, it is unclear whether a tax on vacant land will increase housing supply in the short-run. The tax increases the cost of holding land for development, Treasury point out that landowners that are uncertain about future profits may opt for smaller, lower cost projects that bring forward the timing of developments, reducing the cost of holding land, but adding fewer dwellings to housing supply on a given site.

Second, any positive impact on the supply of housing is likely to be transitory and occur as the Wellington's land market transitions to a higher tax rate. Capital Strategic Partners looked at this issue and concluded:

> "initial impact is likely to be transitory because increases in housing supply would largely occur only for the period that stocks of vacant properties are being reduced to new, after tax, equilibrium levels. That adjustment would likely occur very quickly for vacant dwellings and over a few years for vacant land."

Third, a vacant land tax may even *decrease* development in the long-run. The Productivity Commission concluded that:[24]

> "Beyond the first-round effect, vacant-land taxes would likely reduce the responsiveness of housing supply to changes in housing demand, exacerbating the underlying problem with New Zealand's housing market. The taxes would likely shift the scale and timing of steps in the development process from their before-tax chosen settings – choices that are likely to be efficient."

Increasing the burden of development with additional costs makes the easy option building fewer dwellings, reducing the affordability of housing across Wellington City.

Finally, there is also scant evidence globally that regions with either vacant land or vacant dwelling taxes improve housing supply.[25] New Zealand Treasury note earlier work by the Tax Working Group report little evidence of effective vacant land or dwelling taxes (see Table 8).

Taxes on vacant land face two critical design challenges

The design of vacant land taxes is fraught and complicated.

An effective vacant land tax would first need to define vacant land. If vacant land is not well-defined, landowners can easily avoid the tax by switching vacant land to marginal economic activities such as carparking. That makes it challenging to obtain a workable definition of vacant land that cannot be easily masked by switches to alternative activities to avoid the tax.

Moreover, it would likely be necessary to define some exemptions, for example, for land about to be sold or developed.

Treasury point out that maintaining these design features requires:

a. Establishing and maintaining a register of vacant land; and

b. Monitoring and compliance activities.

These features would require maintaining a vacant land register that would involve considerable administrative costs for effective monitoring.

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[24] See Productivity Commission 2019.
[25] See New Zealand Treausry 2021.

Table 8: Treasury advice shows little international evidence to support taxes on vacant land or vacant dwellings

Location	Measure	Definition of vacant	Effect of the measure
Ireland	In 2018 the levy rate was increased to 7% (from 3%) of the market value of the vacant land. Responsibility for identifying land to put on the vacant land register is delegated to the local planning authorities.	Levy applies to vacant land, suitable for the provision of housing in areas where there housing need The site must exceed 0.05 hectares (excluding a home and its associated garden) for the levy to apply. The levy only applied to land zoned for residential purposes and land designated with the objective of development and renewal of areas in need of regeneration regardless of who owns it. In 2018 a change was made to exclude property that was sold during the year.	Legislation passed in 2015, but levy applied from 2018. As at 1 January 2019, only 140 properties were subject to the charge since: • administrative difficulties in local planning authorities implementing the legislation • in many counties it is not clear which land, if any, could be deemed suitable for development for residential and regeneration purposes As the levy has not been in effect for long, there is no evidence of the effect on housing supply.
Melbourne, Australia	1% tax on the capital improved value of a vacant dwellings from January 2018. This tax is administered by Victoria's State Revenue Office.	A dwelling, within Melbourne's inner and middle suburbs, that is occupied for less than 6 months in a calendar year and is not an individual's principal private residence. Exemptions from tax include: • Death of owner • Construction or renovation • Change of ownership Properties occupied for at least 140 days for the purpose of working in Melbourne.	Could not find any evidence of how much tax has been charged or paid in 2018. It is also not currently possible to say what effect this tax had on the Melbourne housing market.
Vancouver, Canada	1% tax on the value of the empty home from 2017. Increased to 3% for 2021. Administered by the City of Vancouver.	Home not used as a principal private residence; or has not been rented out for a minimum of 6 months in a year. Exemptions apply: • Home sold during the year • • Renovation or redevelopment • • Strata restrictions on renting property • • Death of owner	The property status in Vancouver for the 2017 tax year was (i) Occupied – 178,120; (ii) Exempt – 5,385; (iii) Vacant – 2,538. Note that census 2016 recorded over 25,000 homes were vacant. Data showed a 25% reduction in the number of vacant dwellings between 2017 and 2019
France	Surcharge on second homes in areas with housing shortages, applies on the notional rental value for the property. Councils can charge between 5% and 60%	The tax applies to secondary homes which are not registered as owner or occupier's principal private residence. Those who hold a second home for business or professional reasons are exempt, as are landlords who ordinarily let out a property on an annual basis.	Limited evidence of the impact of the tax in France. The fact that the original tax, capped at a 20% surcharge, was reformed in 2017 to allow for a surcharge of up to 60% indicates the initial tax was not having desired impacts in the areas with the greatest housing market pressures.

4.3. A closer look at fairness

Traditionally economists have been more divided about not just the relative "fairness" of property taxation versus income and other forms of taxation but also the relative fairness of land-based versus capital-based taxation.

The equity impact of land-based taxation depends on many factors. These include not just the direct impact of the tax, but on how the tax shapes the prices of land and other assets. These also include how homeowners and businesses change their behaviour in response to these price changes.

note that the international evidence is mixed but that area specific features matter. This makes it hard to generalise whether a land-based tax takes a larger percentage of income from high-income groups than from low-income groups.[26]

Some researchers find that for the case of New Zealand, at a national level, the land-based tax is less likely to take a larger percentage of income from high-income groups than from low-income groups.[27] Others advocate for land-based taxation in the New Zealand context – at least partly because high-income groups are likely to pay relative more than low-income groups.[28]

To see how the land-based taxation system can have different impacts, compare the taxation incidence of a well-located inner-city urban property with a property in a less desirable location. For the well-located inner-city property, land makes up a larger fraction of the overall value of the property. Since individuals with more wealth and income can afford to live in the well-located suburbs they would pay more tax under a land-based taxation system.

But in terms of the impact on residents, land is typically a lower share of the value of residential land-capital package for lower valued properties. Conversely, in higher valued residential suburbs, land is higher fraction of the land-capital package. So taxing land could mean that across Wellington suburbs, higher value properties pay relatively more tax (see Figure 8**Error! Reference source not found.**).

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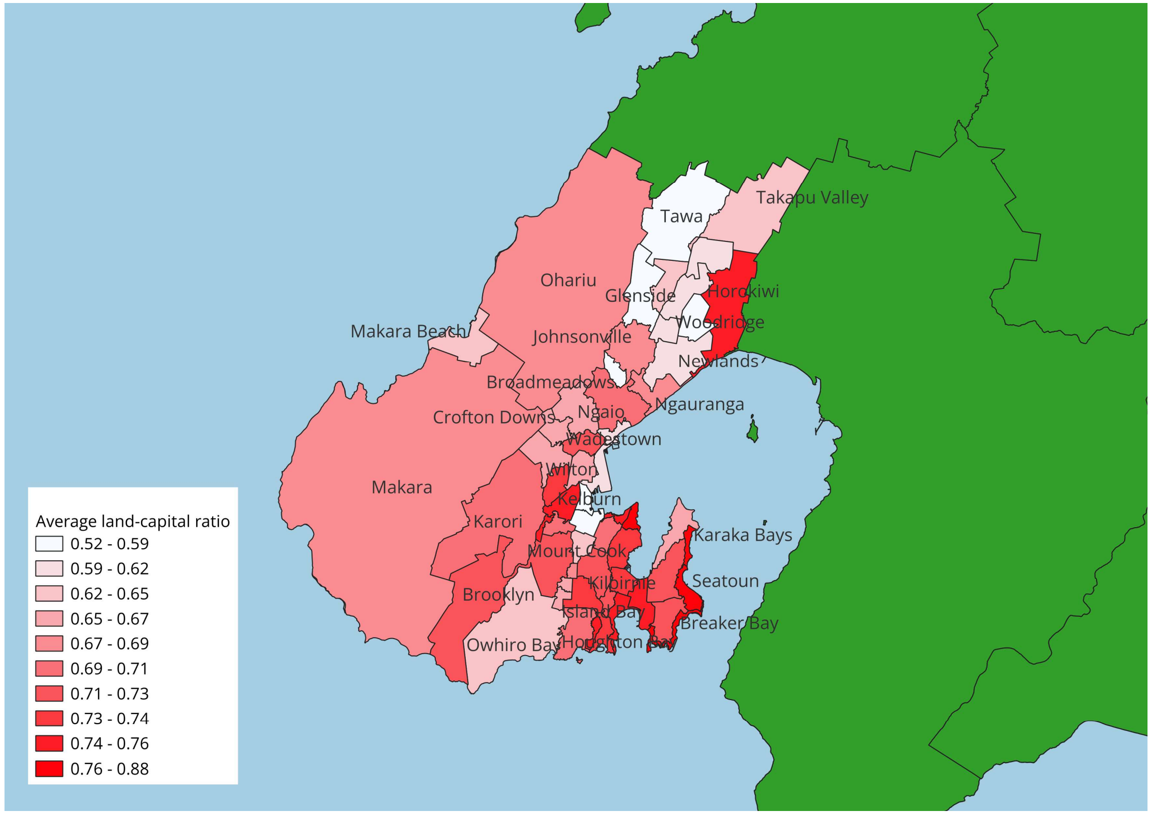
[26] See Coleman and Grimes 2010 for general discussion. Bowman and Bell 2008 show that for their case study of Roanoke, Virginia, a land-based taxation takes a larger percentage of income from high-income groups than from low-income groups, but for the case of use the case of Dover, New Hampshire, England and Zhou 2005 and find the opposite is true: land-based taxation takes a larger percentage of income from high-income groups than from low-income groups for their case study.
[27] See McClusky et al. 2006.
[28] See Kerr, Aitken, and Grimes 2004.

Figure 8: Dwellings in Wellington City's outer suburbs tend to have a higher capital component than inner suburbs



Source: Sense Partners

5. Our preferred model

5.1. A broader set of incentives and instruments

We are not advocating expanding the revenue take. But system change should include additional methods of raising revenue to reduce the cost of raising revenue through any single lever. Additional measures include:

- Expanding the set of user charges to include volumetric water and waste-water charges to recover the cost of providing services according to the beneficiary pays principle. Council is moving in this direction.
- One approach is to better align development contributions to the context and cost of services. This might mean high development contributions in some situations and lower development contributions for other developments.
- Increasing the use of special purpose vehicles for specific infrastructure projects could also broaden revenue. Investment in the Moa Point sludge minimisation facility uses this funding method and might be used for further infrastructure investments.

First implementing these options would reduce the extent of heavy lifting the rating base is required to achieve and better align who pays to beneficiaries.

5.2. A lower differential

There is every reason for a lower business differential

Differentials between business and residential rates are inefficient since they distort economic activity: many more firms would opt to locate within Wellington City but are priced out of operating within a highly productive area by the costs imposed by the business differential.[29]

Using a broader range of incentives and instruments could reduce the business differential. In the absence of using these tools, we show what the likely impact on residential rates would need to be to reduce the business differential. Table 9 shows that to cut the business rate differential in half, residential rates need to increase by about 24 percent.[30]

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[29] Brülhart, et al. 2012 show how agglomeration economies reduce the extent to which firms "'vote with their feet" and move towards regions with lower rates of taxation.
[30] These estimates are produced using the latest ratings database for Wellington City Council. We remove a small number of zero land sites, parcels with zero ratings and parcels that are listed with both residential and commercial rates. This generates a small difference between the differential in the table and the difference in the carded rates.

Table 9: Our indicative estimates show that to halve the business differential, residential rates need to increase from a rate of 0.29% to 0.36%, an increase of about 24 percent

Ratepayer	Capital Value	Rates	Rate
	Status Quo		
Residential	$95,764,752,900	$278,114,261	0.29%
Commercial	$17,986,319,950	$176,655,294	0.98%
Total	$113,751,072,850	$454,769,556	0.40%
			Differential 3.38
	Scenario: halving the business differential		
Residential	$95,764,752,900	$344,707,756.25	0.36%
Commercial	$17,986,319,950	$110,061,796.95	0.61%
Total	$113,751,072,850	$454,769,553.20	
			Differential 1.7

Source: Sense Partners

5.3. Implementation

In practice, removing the business differential entirely might prove politically difficult without a strong narrative on the benefits of reducing the economic distortion from business differentials.

Three approaches could help:

- Examining the differential at the same time as changes to land and capital taxation that could change the relative distribution of who pays for infrastructure.
- Continuing to examine the differential at the same time as adopting volumetric water and waste-water charges, that might on the margin be higher for business sites. Communication of the impacts of different charges to different groups is critical.
- Exploring move towards a uniform differential across the councils within the Wellington regional leadership committee and then lowering the differential over time.

Absent offsetting decisions on expenditure, debt, or the use of user pay charges, decreases in the amount businesses pay in rates needs to be taken up by residents.

But our example shows that workers are ultimately better off through increased incomes resulting from reductions in the business differential. Deciding on the mix of increase in residential rates, short-term debt funding and a glide path to a lower business differential are options that could help implement a lower differential.

5.4. Apply rates on land rather than capital

Setting rates on land rather than capital has the potential to deliver benefits including:

- Revenue is gathered efficiently – businesses don't change behaviour to avoid the land-based rates system. This means less impact on the economy and the allocation of resources.
- Revenue better reflects the benefit of the provision of local public goods. There is less need to implement a series of bespoke targeted rates, which are challenging to get right.

However, this shift cannot be adopted in isolation. Land use settings need to complement rates settings, enabling firms and households to develop vacant land that would otherwise collect higher rates.

Existing taxation rules are baked in or capitalised into existing property values, so expect substantial winners and losers from changing taxation regime. The losers will have above average capital intensity, developed under the previous land-based taxation regime. Conversely the winners will have large land holding with relatively undeveloped properties.

Changing the taxation regime will have non-trivial implications for households and businesses. Property values – particularly commercial property values – will move immediately on announcement of the new regime, even if the incidence of the taxation regime begins in ten years' time. Where to live and work, the type of house to buy and the house location are all dependent on the local taxation regime.

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Respondent No: 156
Name: Eyal Aharoni
Organisation: Prime Property Group

Responded At: Via email Oct 17, 2023 12:24 am

Rating Policies Review

Absolutely Positively **Wellington** City Council
Me Heke Ki Pōneke

All submissions must be received by **midnight Sunday, 15 October 2023**

You don't have to give feedback on every question – just choose the ones you're interested in. You can only submit once. You can include supporting information along with your submission.

Before you start, read about our proposals in the engagement document.

Why we're collecting this information

Your feedback matters. This review is part of the development of the Long-term Plan 2024–34 which is about the future of Wellington, and it affects everyone who lives and works here. That's why we want to hear from as many people as possible. Your views will help us to decide on the next steps we take.

Privacy statement

All submissions (including names and contact details) are provided in their entirety to elected members. Submissions (including names but not contact details) will be made available to the public at our office and on our website.

Your personal information will also be used for the administration of the consultation process, including informing you of the outcome of the consultation.

All information collected will be held by Wellington City Council, 113 The Terrace, Wellington, with submitters having the right to access and correct personal information.

Your details

All fields marked with an asterisk (*) are required.

Name*

[redacted]

I am making this submission:

☐ as an individual

☐ on behalf of an organisation. Organisation's name:

My connection to Wellington is:

☐ I am a Wellington City Council ratepayer ☐ I live in Wellington ☐ I work in Wellington

☐ I own a business in Wellington ☐ I study in Wellington ☐ I am a visitor to Wellington

We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.

These will take place on **1 November 2023, between 1.30pm and 6.30pm**.

Do you wish to speak to The Mayor, Councillors and iwi representatives about your submission at a Community Oral Forum?

☐ Yes ☐ No

If yes, please indicate your preferred time period

☐ 1.30pm – 2.30pm ☐ 2.30pm – 3.30pm ☐ 4pm – 5pm ☐ 5pm – 6.30pm

1. General rates changes

Wellington City Council currently splits the General Rate between two categories: base (residential including rural land) and commercial, industrial and business.

Changes proposed:

- Change the general rates differential for commercial, industrial and business rate payers from 3.7:1 to 3.25:1.
- Change the threshold land use value before Council will divide a rating unit into two different categories from $800k to $1.5m.
- Introduce a new general rates category for vacant land, with a differential of 4.5:1.

Do you support a change to the Commercial rates differential?	☐ Yes	☐ No – keep status quo	☐ Unsure	☐ No view

If Yes, which option do you prefer?	☐ **Option 1** • **Preferred 3.25 : 1** • Commercial decrease of 5.5% • Residential increase of 4%	☐ **Option 2** • **2.60 : 1** • Commercial decrease of 6% • Residential increase of 9%	☐ **Option 3** • **2 : 1** • Commercial decrease of 25% • Residential increase of 16%
☐ Other:			

Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?	☐ Yes	☐ No – keep status quo	☐ Unsure	☐ No view

Do you support a differential category for Vacant land in the central city?	☐ Yes	☐ No – keep status quo	☐ Unsure	☐ No view

If Yes, which option do you prefer?	☐ **Option 1** • **Preferred 4.5 : 1** • A $1m vacant property pays $7,929 in rates – an increase of 291%	☐ **Option 2** • **Lower 3.7 : 1** • A $1m vacant property pays $6,580 in rates – an increase of 225%	☐ **Option 3** • **Higher 5 : 1** • A $1m vacant property pays $8,772 in rates – **an increase of 333%**
☐ Other:			

2. Rates remissions and postponements

We made minor changes to our rates remissions and postponements policies in the 2023/24 Annual Plan, including increasing the remission amount for low-income ratepayers to $700.

- We are proposing the following additional changes/clarifications to these policies.
- A specific remission and postponement policy for Māori land to extend to all types of Māori land and to support the principles in the Te Ture Whenua Māori Act 1993. Removing the First home builders' remission
- Clarifying and expanding the remission for a property under development and/or earthquake strengthening

How much do you support/ oppose: extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	☐ Strongly support	☐ Somewhat support	☐ Neither support nor oppose	☐ Somewhat oppose	☐ Strongly oppose

How much do you support/ oppose: removing the first home builders' remission	☐ Strongly support	☐ Somewhat support	☐ Neither support nor oppose	☐ Somewhat oppose	☐ Strongly oppose

Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?	☐ Yes	☐ No – keep status quo	☐ Unsure	☐ No view

If yes, how much do you support/oppose the following:					
Make the policy clearer that the remission applies to both commercial and residential buildings that are not 'fit for purpose'	☐ Strongly support	☐ Somewhat support	☐ Neither support nor oppose	☐ Somewhat oppose	☐ Strongly oppose
Include a remission of general rates for multi-unit residential buildings (estimated remission value of 800k) and 1–3 storey mixed/commercial buildings (estimated remission value of $1.6 million)	☐ Strongly support	☐ Somewhat support	☐ Neither support nor oppose	☐ Somewhat oppose	☐ Strongly oppose
Include a postponement of rates for three years prior to the period in which development work (or seismic strengthening) is undertaken.	☐ Strongly support	☐ Somewhat support	☐ Neither support nor oppose	☐ Somewhat oppose	☐ Strongly oppose
A remission of the postponed rates once the development work or seismic strengthening is completed.	☐ Strongly support	☐ Somewhat support	☐ Neither support nor oppose	☐ Somewhat oppose	☐ Strongly oppose
If the development work or strengthening is not completed, then the remission would not apply, and the postponed rates would be payable.	☐ Strongly support	☐ Somewhat support	☐ Neither support nor oppose	☐ Somewhat oppose	☐ Strongly oppose

3. Other proposals

We are continuing to investigate introducing three new targeted rates in the future and may consult on these later in the Long-term Plan process.

- A targeted rate to fund climate action (for example, slip remediation costs)
- A targeted rate to fund resilience (for example, earthquake strengthening)
- A targeted rate for online accommodation providers (for example, Airbnb)

Do you agree there is a potential need for targeted rates for:				
Climate action	☐ Yes	☐ No – keep status quo	☐ Unsure	☐ No view
Resilience	☐ Yes	☐ No – keep status quo	☐ Unsure	☐ No view
Online accommodation	☐ Yes	☐ No – keep status quo	☐ Unsure	☐ No view

4. Any other feedback

Is there anything else you would like to tell us about the Rating Policy Review?

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2nd fold here

Freepost Authority Number 2199

Reply

Business Unit (261)
Rating Policy Review
Wellington City Council PO
Box 2199 Wellington 6140

Respondent No: 158

Name: John Swan, Robert Fisher, and Luke Pierson

Responded At: via email Oct 18, 2023 16:16 pm

Business Unit (261)
Rating Policy Review
Wellington City Council
P.O. Box 2199
Wellington 6140

By email to: ltp@wcc.govt.nz

Submission on Rating Policies Review
Submitted by: Robert Fisher, John Swan and Luke Pierson

We are Wellington citizens, and represent a wider group of Wellingtonians, seriously concerned about the financial sustainability of our city. We are concerned that the Wellington City Council (WCC) has not considered several important factors that risk putting an unsustainable rates and debt burden on the city's residents and businesses.

We love our great city. But we are worried that it is falling even further behind. The city's productive sector has declined, and its population has grown slower than any other urban centre. It contributes less and less to New Zealand's GDP.

WCC has called for submissions on its Rating Policies Review. We believe WCC cannot make decisions about rating policies before the full extent of its spending and risks, and the implications for council debt and the rates bill, are understood.

We commissioned independent economic advisors Castalia to assess the state of the city's finances from public documents. Castalia has:

- Identified at least $500 million in identified expenditure not included in WCC's Long-Term Plan (LTP)
- Estimated another $500 million including spending on the Michael Fowler Centre and Opera House earthquake strengthening, bringing water infrastructure up to standard, major transport projects and community housing investments
- Projected an unsustainable debt path and imminent breach of WCC's own and the Local Government Funding Authority's (LGFA's) covenant limits.

This will mean even more debt, higher rates (and rents) or worse.

We call on WCC to pause its Rating Policies Review and merge it with the work on the LTP scheduled for the December quarter. All components of the LTP need to be fully and transparently costed.

The implications for services, council assets, debt and rates must be understood and clearly communicated to the public.

We request a constructive and open dialogue between councillors and the ratepaying community to:

- Clearly outline the full extent of the city's finances, including comparisons between actual expenditure and revenues and budgets
- Explain the options that are available to WCC to keep expenditure under control:
  - How much more borrowing is needed?
  - How much will rates increase?

   – What options are available to reduce fiscal liabilities and risks?
   – Should we consider choices around partial asset sales, as has occurred recently in Auckland?

- Develop a robust plan to return the city to growth while still investing in essential infrastructure.

All of this must occur **before** considering the Rating Policies Review.

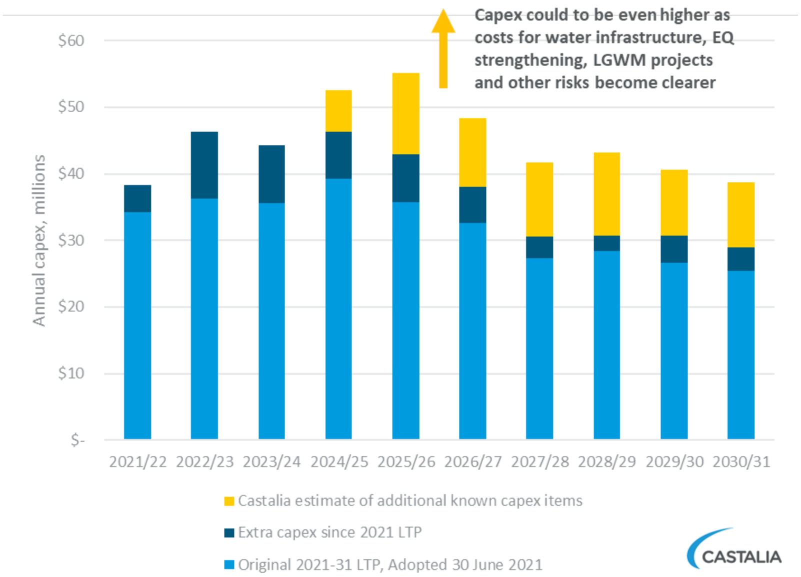
To state the obvious, in an environment where Wellingtonians are hurting from a cost-of-living crisis, significant rates hikes to cover this expenditure and additional debt will have significant adverse effects on ratepayers and rents, and cause hardship for many.

We are concerned that this lack of careful fiscal planning in a context of rising cost pressures is unlikely to go unnoticed by central Government. We are concerned that the absence of prudent and transparent financial management is further damaging Wellington's credibility with central Government, potentially prompting further intervention.

Our analysis shows WCC faces at least $500 million of unbudgeted expenditure plus another $500 million in additional capex not accounted for.

Analysis from Castalia shows WCC has to spend **at least** $500 million above its 2021 LTP budget, which itself triggered record rates rises and increased borrowing. Castalia also suggests expenditure will be even higher than that once the costs of additional known capex items such as additional water infrastructure, earthquake strengthening of the Michael Fowler Centre and Opera House and major Let's Get Wellington Moving (LGWM) transport projects are added (yellow bars below).

Figure 1: WCC's planned 2021 LTP capex and Castalia's estimates for unplanned capex



Source: WCC Long Term Plan 2021-31, WCC 2022 LTP amendment, Department of Internal Affairs (DIA), Castalia analysis

Castalia's analysis identified capex and opex in re-evaluated costs of ongoing projects and from projects announced since the 2021 LTP was released. These significant new expenses are not included in the 2021 LTP, but the costs are now known and understood by WCC:

- Up to $217 million increased cost for the Town Hall earthquake strengthening
- $46 million for WCC's share of the Thorndon Quay and Hutt Road project for LGWM
- $225 million in opex and $32.5 million in capex for the new Zero Waste plan (new wheely bins and organic processing plant) over 10 years.

Not only are there these known spending increases, but WCC is highly likely to also have to budget to spend on the following **additional known capex items**:

Table 1: Castalia's estimates for additional known capex items

Additional known capex items	Estimated cost	Castalia's approach to estimating
Earthquake remediation and higher construction costs: Michael Fowler Centre and Opera House	Opera House: $50 million over three years Michael Fowler Centre: Unknown	Opera House is assumed to have the same costs and build time as the St James restoration. No comparable data is available to estimate Michael Fowler Centre costs.
Essential drinking, waste and stormwater infrastructure	$272 million over seven years	Castalia conservatively assumes costs are 50 percent of the Department of Internal Affairs' estimates of required investment. Capex begins in 2024/25 and any planned water infrastructure investment in the LTP is subtracted.
Let's Get Wellington Moving	$331 million over six years	Derived from WCC's estimate of $1.38 billion over 30 years,[1] begins from 2025/26 and assumes debt is on WCC balance sheet.
Community Housing cost increases	$61 million over seven years	Assumes same construction cost inflation affecting other WCC projects continues.

The above table **does not** include the acquisition costs for the land at Reading Cinema which reports suggest WCC has committed to purchase.[2]

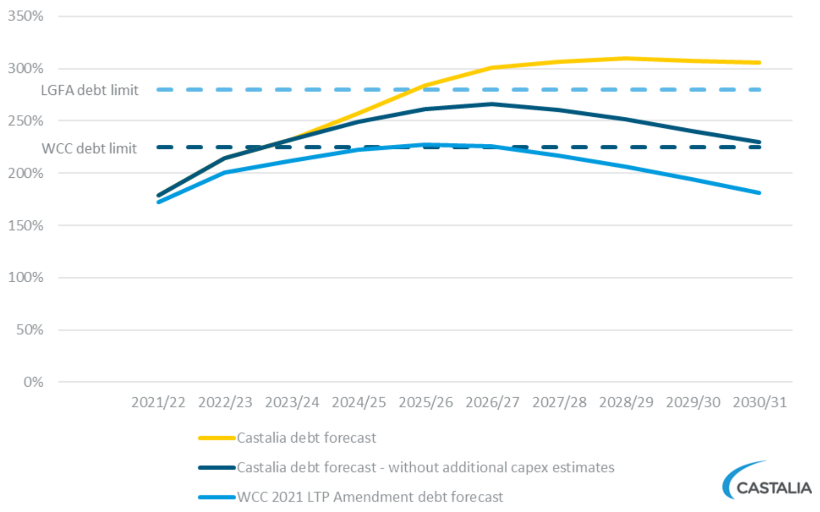
How will Wellington fund the significant additional expenditure?

WCC must clarify how the city will afford the additional, unbudgeted expenditure. It appears WCC will have to raise significant new debt, raise rates, sell assets, or withdraw from commitments (such as LGWM) or a combination of all four. Castalia's analysis below suggests that on confirmed expenditure, WCC will exceed its debt-to-revenue limit. If the additional known capex is included, WCC will also breach its covenants with the Local Government Funding Authority (yellow line in graph below).

1 WCC Financial and Infrastructure Strategy, page 27: https://wellington.govt.nz/-/media/your-council/plans-policies-and-bylaws/plans-and-policies/a-to-z/financial/financial-and-infrastructure-strategy.pdf?la=en&hash=5F5DF204569447A306B37F6487F2CF7A7C7F9266

2 Reports suggest WCC has committed to purchase the land on Courtenay Place where Reading Cinema is situated: https://www.nzherald.co.nz/nz/meeting-held-in-secret-on-future-of-wellingtons-deserted-reading-cinema/AGFNB6E7CRG3TMTH56M5DINGIM/

Figure 2: WCC's debt-to-revenue ratio under different scenarios



Sources: WCC Long Term Plan 2021-31, WCC 2022 LTP amendment, WCC LGOIMA response dated 19 July 2023, DIA, Castalia analysis
Note 1: Castalia assumes that debt repayments are not made on the additional debt, and no interest expense is deducted from the available revenue for the additional debt.
Note 2: Reported actual revenue was higher (14%) and non-current borrowing lower (20%) than the LTP forecast (budget) in WCC's 2021/22 Annual Report. We used the forecast numbers from the 2022 LTP Amendment in our analysis but acknowledge that actuals may differ from forecasts (and did differ in the year 2021/22).
*Note 3: WCC 2021 LTP Amendment debt forecast excludes the $270 million for additional borrowing capacity to cover insurance underwriting for major events. If this was included the debt-to-revenue ratio would **exceed** WCC's borrowing limit for seven years until 2029/30*

We believe this analysis is critically important context for WCC to urgently consider and we trust it is helpful. We intend to release this data publicly in the spirit of fostering important public discussion around the future of our city.

We look forward to speaking with councillors on this submission as a matter of priority.

Yours sincerely,

Robert Fisher　　John Swan　　Luke Pierson

Respondent No: 24

Name: Greg Henderson

Responded At: Sep 20, 2023 09:19:38 am

Q1.	**We are offering oral hearings to speak to The Mayor, Councillors and iwi representatives about your submission.These will take place on 1 November 2023, between 1.30pm and 6.30pm.Do you wish to speak to the Mayor, Councillors and iwi representatives about your submission at a Community Oral Hearing?**	Yes
Q2.	**Thank you. Please indicate your preferred time period**	not answered
Q3.	**Do you support a change to the Commercial rates differential?**	No - keep status quo
Q4.	**Thank you. Which option do you prefer?**	not answered
Q5.	**Do you support an increase to the land value threshold before Council will divide a rating unit into two different categories from $800k to $1.5m?**	No - keep status quo
Q6.	**Do you support a differential category for Vacant land in the central city?**	Yes
Q7.	**Thank you. Which option do you prefer?**	Option 3: Higher 5:1 differential - A $1m vacant property pays $8,772 in rates – an increase of 333%
Q8.	**How much do you support/oppose the following:**	
	Extending the remission and postponement policy to include all types of Māori land (based on the definition of Māori land)?	Strongly oppose
	Removing the first home builders' remission	Neither support nor oppose
Q9.	**Do you support a change to the rates remission and postponement policies for a property under development and/or earthquake strengthening?**	Yes

Q10. **Thank you. How much do you support/oppose the following**

Make the policy clearer that the remission applies to both commercial and residential buildings that are not 'fit for purpose'	Strongly support
A remission of the postponed rates once the development work or seismic strengthening is completed.	Somewhat support
If the development work or strengthening is not completed, then the remission would not apply, and the postponed rates would be payable.	Somewhat support
Include a remission of general rates for multi-unit residential buildings (estimated remission value of 800k) and 1–3 storey mixed/commercial buildings (estimated remission value of $1.6 million)	Somewhat support
Include a postponement of rates for three years prior to the period in which development work (or seismic strengthening) is undertaken.	Somewhat support

Q11. **Do you agree there is a potential need for targeted rates for:**

Climate action	No - keep status quo
Resilience	Yes
Online accommodation	Yes

Q12. **Thank you for your time. Is there any other feedback you'd like to add?**

We purchased our residence in 2021 (our first home). Since that time the RV has been increased (by 50%) and rates have gone up each year - WE CANNOT AFFORD TO LIVE IN THIS CITY, PLEASE STOP INCREASING RATES FOR US.

Q13. **If you have a file to support your submission you can upload it here.** not answered