PRESENTATION TO AUCKLAND COUNCIL HEARINGS PANEL ON SUBMISSION TO THE DRAFT 10-YEAR LTP

Submission number: LTP 6226 **7 May 2012**

Achieving an integrated, uniform capital-based rating system is probably the most difficult and controversial issue the people of Auckland will grapple with.

There is much to applaud about the new Council and in particular I would note the leadership from the Chief Executive – but the issue of rates will be the big challenge for him and his team.

My comments are therefore concentrated on rates and the principles of equity and fairness to all Aucklanders which the Council has strongly signaled it wants the LTP to reflect.

I want to suggest an alternative approach to achieving the objective of an integrated rating system, and invite you to give it serious consideration when deliberating on changes to the draft.

Before I focus on rates directly, some context is required.

To sum up Auckland's future prospects as promised through the process towards a single city:

The idea was about creating:

- Something new...
- A business-friendly city with a new culture to address the City's big issues...
- Something to provide not just a fresh start and new thinking but a step up in status to be able to match those cities around the world we admire and like to compare ourselves to.

These aims are what Auckland needs and the Auckland Chamber of Commerce strongly supports.

For most Aucklanders there is an expectation of some:

- Lower rates;
- Better service delivery;
- An end to regional feuding; and
- Decisive action to address the big issues facing Auckland.

For business the new thinking and behaviors requires a collaboration based on mutual recognition to provide a competitive business environment - in rates and charges, and showing a resolve to become the most business friendly local government in Australasia.

In my language -

- Think business friendly in everything we do – constantly ask what Council can do to support Auckland business and be easy to do business with.

Let’s apply this thinking to the LTP rate proposal.

The ultimate objective for Council is set out in the Auckland legislation and that is to transition Auckland towards the adoption of an integrated capital value-based rating system across the whole of Auckland.

The Chamber supports the principle that similar properties across Auckland should pay similar rates.

However, the four options set out in the LTP are flawed. They not only maintain historical inequalities and anti-business provisions, but in some cases make them worse….

…. There are some big increases flagged. Left as they are there is likely to be business relocations and job losses, especially in SME’s which operate on tight margins…

They all involve an element of cross subsidy from one ratepayer group to another.

There has also been no consideration given to the 2007 Local Government Inquiry recommendation to abolish differential rates for business.

This Inquiry concluded that:

- Under a capital-based system the case for a differential lacks any justification whatsoever; and that,
- Differential rating is subjective and arbitrary and not related well to the benefits received.

Reasons given by Council for maintaining business differential rates are spurious and were addressed by the Inquiry. Our submission sets a detailed case on why the differential should be abolished.

Worse, after three years of proposed capping and phasing it is likely that further significant rate increases will be required for many Aucklanders, and the goal of a level playing field won’t have been achieved.

In short, instead of innovative thinking aimed at a fresh start, the LTP follows old Auckland dictates of treating businesses as cash cows and maintaining to a greater or lesser extent inequalities and differences that existed under the old council structure.

What would an integrated rating system look like?

As I say, at the heart of our concern is that Council has not painted the positive picture of **<u>what</u>** a simple and equitable rate system would look like – an equal and fair rating system for the new 'one Auckland'…..

- There is also no clear strategy showing **<u>how</u>** the objective - that properties of equal capital value should be paying the same rate across Auckland for the same level of services received – will be achieved.
- Under the proposals within the LTP it is unclear who would be the winners and losers.
- And how much adjustment is required **<u>between sectors</u>** to provide Auckland with a level rates playing field.

Other business submitters have come at the rates issue from a cost and affordability basis, looking primarily at how council can trim its expenditure.

I don't deny there are areas where Local Government could review the way they operate but as a fresh contribution to the debate we have prepared a pure capital value-based model, and benchmarked it against the current rates arrangement and proposed system.

The attached table is what we have developed and should have been a part of Councils document. It gives a comparison of average rates for a $400,000 property in each of Auckland's 13 wards showing:

- Where we are at in 2011
- The LTP proposal for rates in 2012
- What an integrated system would look like – no differentials and no UAGC.

We don’t pretend this provides the answer to the rates conundrum but we do believe it adds insight to the size of the problem we face and we hope offers the start of some new thinking and a fresh conversation.

In the proposed LTP rates system....

... For the same level of services, in different wards:

- Residential rates vary between $1540 and $1720
- Biggest winners are Waitakere with 16% reduction, followed by Rodney and Franklin, a drop of 9% and 7% respectively
- Biggest losers are Albert-Eden-Roskill whose residential rates for a $400,000 property rise by 13%, followed by Maungakiekie-Tamaki with a rise of 12% and Orakei – 12%.
- Business rates vary between $3300 and nearly $3600
- Biggest losers are Franklin, a rise of 45% followed by Albert-Eden-Roskill, 13%, and Orakei, 8%.
- Winners include Waitakere whose business rates drop by 28% followed by Manurewa-Papakura, Rodney and Whau all with drops of around 20%.

At first look, the smoothing of the residential rate to around $1500 to $1600 looks to be a about as fair as you might expect.

Significantly, however, in the LTP proposal we cannot see what an equal and fair system looks like, and there continues to be significant inequalities both between and within residential and business sectors.

Let’s turn to the ‘no differential, no UAGC’ columns....

.... This shows a model of a pure Capital Value rates system with no differential or UAGC. For a $400,000 property – residential or business - the rate would be around $1800 in 2012-13.

Key points include:

- Big increases in residential rates – some above 25% - with an average increase of 11%, and only one ward, Waitakere, having a decrease.
- Business rates for the same valued property decrease significantly, on average by 52%.
- Importantly, however, we can see what an equal and fair system looks like.

So where to with the LTP on rates?

If we are serious about achieving an integrated rating system within three years, we contend that the fresh thinking needed is to get some idea of what an equal and fair Capital Value based rates system looks like for all rate payers.

This could be - should be - the starting point from which we can design a fair, equitable transition strategy.

Certainly, the Chamber agrees that under an equal and fair model we cannot have a 25%-plus increase for residential ratepayers, or anywhere close to it.

Equally, under the proposed LTP model we strongly submit that we cannot have a 45% increase for business ratepayers.

So neither the Chamber nor the Councils proposals meet the goal of equity and fairness. I emphasise that point.

As others have suggested, an option is to drastically cut spending, in order to reduce the level of increases. But doing this alone doesn't address inequalities within and between different wards and sectors.

What I am asking you to do is to use what we are presenting today as a basis of moving forward, not the platform of unfairness that includes a differential.

Let me emphasise: the starting point we are suggesting is a starting point and in order to be fair, will need to be transitioned over time.

On balance, and to restate our core point, the Chamber submits that the model of equal and fair should be clearly identified as the objective. This will allow Auckland to move forward with its business-friendly principles intact.

Business-friendly in principle counts for little without supporting business-friendly actions.

We agree that achieving the equal and fair system is unrealistic in one go. It is both politically and practically untenable.

On the other hand, the proposed 0.1% cut in the business differential over 10 years won't achieve a level playing field either.

As I began, business passionately wants the new Auckland to succeed. And because today, more than ever before, an effective business-council collaboration will be the difference needed for Auckland to solve our big issues and lift our game, the adoption of a rating system that is fair and equitable across the whole of Auckland is critical.

Comparison of average rates for a $400,000 property

Ward	Differential	Avg Rates 2011	Proposed			No differential, no UAGC		
			Avg Rates 2012	$ Change	% Change	Avg Rates 2012	$ Change	% Change
Albany	Business	3,776	3,416	-360	-9.53%	1,758	-2,018	-53.44%
	Residential	1,624	1,564	-59	-3.64%	1,775	151	9.32%
Albert - Eden - Roskill	Business	3,226	3,496	270	8.37%	1,833	-1,393	-43.19%
	Residential	1,512	1,710	198	13.10%	1,917	405	26.81%
Franklin	Business	2,275	3,301	1,026	45.09%	1,805	-470	-20.66%
	Residential	1,657	1,543	-114	-6.87%	1,820	163	9.86%
Howick	Business	3,577	3,373	-205	-5.72%	1,715	-1,862	-52.05%
	Residential	1,611	1,686	76	4.71%	1,894	283	17.57%
Manukau	Business	3,327	3,384	57	1.72%	1,724	-1,603	-48.18%
	Residential	1,715	1,689	-27	-1.56%	1,896	180	10.51%
Manurewa - Papakura	Business	4,459	3,426	-1,033	-23.17%	1,771	-2,688	-60.28%
	Residential	1,747	1,661	-86	-4.92%	1,866	119	6.82%
Maungakiekie - Tamaki	Business	3,646	3,583	-63	-1.72%	1,919	-1,726	-47.35%
	Residential	1,530	1,719	189	12.38%	1,926	397	25.93%
North Shore	Business	3,848	3,418	-430	-11.17%	1,758	-2,090	-54.32%
	Residential	1,539	1,551	12	0.76%	1,758	218	14.20%
Orakei	Business	3,300	3,552	252	7.63%	1,889	-1,412	-42.77%
	Residential	1,537	1,716	179	11.63%	1,923	385	25.05%
Rodney	Business	3,937	3,141	-796	-20.22%	1,776	-2,161	-54.88%
	Residential	1,606	1,462	-144	-8.98%	1,783	178	11.06%
Waitakere	Business	4,690	3,385	-1,305	-27.82%	1,723	-2,967	-63.26%
	Residential	1,816	1,520	-296	-16.28%	1,734	-82	-4.51%
Waitemata and Gulf	Business	3,524	3,532	9	0.25%	1,873	-1,651	-46.85%
	Residential	1,613	1,624	11	0.70%	1,835	222	13.75%
Whau	Business	4,173	3,435	-738	-17.68%	1,769	-2,404	-57.60%
	Residential	1,674	1,616	-58	-3.45%	1,824	150	8.99%
Region	Business	3,715	3,424	-290	-7.82%	1,784	-1,930	-51.96%
	Residential	1,644	1,605	-39	-2.38%	1,820	176	10.72%

Notes

Average rates vary between ward and differential as modelling includes average waste management rates which vary between wards and differentials

Average 2012 rates include the proposed increase in the rate requirement