Property Council New Zealand

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## Submission on

# Tauranga City Council’s Annual Plan 2025/26 (and Draft Development Contributions Policy 2025/26)

17 April 2025


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Property Council New Zealand

Tauranga City Council
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**Tauranga City Council Annual Plan 2025/26 (and Draft Development Contributions Policy 2025/26)**

## 1. Summary

1.1 Property Council New Zealand Central Committee ("Property Council") welcomes the opportunity to submit on Tauranga City Council's Annual Plan 2025/26 ("the Annual Plan").

1.2 Property Council opposes the proposed Annual Plan due to operational costs exceeding revenue. Furthermore, Tauranga City Council is proposing to increase residential rates by 12 per cent for residential ratepayers and between 16.3 per cent to 19.6 per cent for commercial and industrial ratepayers. This is a significant increase for commercial and industrial ratepayers.

1.3 We suggest cost savings through reductions in employee and consultant expenses. We suggest revenue generation from exploring alternative funding and financing solutions and spreading the rating base more equitably.

1.4 We also oppose the draft development contributions policy and recommend pausing it until a new levy system is established to provide certainty for developers.

## 2. Recommendations

2.1 At a high level, Property Council recommends that Tauranga City Council:

- Make clear that the *"Growth pays for growth"* principle means development contribution fees are ring-fenced and only covers cost for growth related infrastructure;
- Produce a report on the total capital value of residential and commercial properties across Tauranga and divide rates more equitably and proportionally;
- Remove the industrial rating category. However, if the deletion is not considered we support the status quo namely, that all industrial properties are charged at the industrial property rate;
- Accept Property Council's offer to run a workshop on current property market conditions and development cycles;
- Significantly reduce staff and consultancy costs which make up 31 per cent of operating costs;
- Pause the Draft Development Contributions Policy until the Government releases new requirements for councils under their development levies programme; and
- Implement alternative funding and financing tools for infrastructure to reduce cost pressures on new developments.

## 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 is the largest industry in the Bay of Plenty. There are around $144.5 billion in property assets across the Bay of Plenty, with property providing a direct contribution to GDP of $2.0 billion and employment for 13,700 Bay of Plenty residents.

3.4 Property Council is the collective voice of the property industry. We connect property professionals and represent the interests of 66 Tauranga based member companies across the private, public, and charitable sectors.

## 4. Guiding Principles

4.1 Tauranga City Council has a guiding principle of *Growth pays for growth*. This principle ensures that developers and new residents cover the costs of growth-related infrastructure, reducing the financial burden on existing ratepayers.

4.2 For this principle to ring true, we would like to see Tauranga City Council amend their development contributions policy to ring-fence development contribution fees to be spent in the area that they are collected and not be spent on maintenance or upgrades of existing buildings such as community facilities. Please read this in light of section 10 later in our submission where we recommend a pause in Development Contribution policy.

## 5. Rates

5.1 Tauranga City Council is proposing to increase residential rates by 12 per cent for residential ratepayers and between 16.3 per cent to 19.6 per cent for commercial and industrial ratepayers. This is a significant increase for commercial and industrial ratepayers.

5.2 We note that Tauranga City Council's operating revenue of $538m is lower than the operating costs of $599m. 31 per cent of operating revenue is spent on employment and consultation costs. We recommend significantly reducing staff and consultancy costs for Council.

5.3 We also note that Tauranga City Council's general rates are 47 per cent, targeted rates are 15 per cent and fees and charges are 15 per cent of all rates collected. Having fees and charges and targeted rates accumulating to 30 per cent of the total operating revenue is a significant percentage. The consultation document looks at whether Tauranga City Council increase fees and services. We recommend the Council analyse fees and services to ensure that these are cost recovering and not being used as an additional revenue stream to fund additional services or events the council provides.

5.4 Tauranga City Council's rating policy changes would see residential rates share reducing to 65 per cent with commercial moving up to 15 per cent and industrial to 20 per cent over the next two years. We do not support this rating policy which will see commercial and industrial properties pay 35 per cent of the total general rates share.

5.5 Under the proposals, commercial and industrial rate payers will be left paying a disproportionate share of general rates, relative to their share of the total capital value of properties across Tauranga. Other cities such as Auckland have previously acknowledged the disproportionate impact of rating differentials on business and have reduced rating differentials to 31 per cent of the total rates pool.

5.6 We recommend Tauranga City Council produce a detailed report on the total capital value of residential and commercial/industrial properties across Tauranga and divide rates more proportionally.

**6. Proposed change to industrial category**

6.1 Tauranga City Council is proposing to change the definition of the industrial category to exclude any industrial rating units with a land area less than 250m2. This change would see $601,000 spread across the remaining industrial rating units.

6.2 Property Council has strongly opposed the industrial rating category in our Long Term Plan submission and recommends it's deletion.

6.3 If Tauranga City Council does not remove the separate industrial category, we would favour the status quo. Namely, that all industrial properties are charged at the industrial property rate. This is to ensure that the rating base is spread more fairly, and would not result in even higher rates increases for industrial property owners.

**7. Tauranga's projected property growth rate in decline**

7.1 The Annual Plan notes that Tauranga's projected property growth rate of 1.5 per cent for the last 12 months was inaccurate, as actual figures show a growth rate of 0.5 per cent. This means that Tauranga City Council's total general rates revenue is lower than expected.

7.2 Central and Local Government policies, plans, and decisions can impact development decisions for our members. For example, at the local level, in the past year Tauranga City Council has made decisions to:

- Increase general rates;
- Increase rating differentials for commercial and industrial sectors;
- Introduce an industrial rating category (at a higher percentage and dollar amount than commercial rates) for industrial property owners;
- Introduce Citywide Te Tumu Targeted Rate for transport services;
- Introduce Citywide Development Contribution Fee increases in 2024, and proposed 15 per cent Citywide Development Contribution Fees for 2025/26; and
- Enacted plan changes that took immediate legal effect and resulted in natural hazard overlays being established on a wide range of properties and land overnight.

7.3 All these changes have an accumulative impact of creating uncertainty and additional costs for development.

7.4 If Tauranga wants to see a growing city and wider rating base, it is important that Tauranga City Council better understand wider market conditions on why the growth rate has slowed and what the Council can do to return confidence and improve growth in the market. Property Council would like to run a workshop with Tauranga City Council explaining current market conditions, development cycles along with incentives to encourage growth in Tauranga.

**8. Local Government Funding Agency**

8.1 The Local Government Funding Agency (LGFA) will review Tauranga City Council's borrowing limits once the water management plan is finalised. The LGFA has also said it will provide financing to support water CCOs established under the Government's Local Water Done Well initiative and will assist high growth councils (like Tauranga City Council) with additional financing so the council can also undertake non-water projects to support the city.

8.2 This is a worthy incentive of which we recommend funding received by Tauranga City Council be spent on projects that support new growth opportunities for Tauranga. This is particularly of importance, given that Tauranga City Council expected 1.5 per cent growth in their rating base for this year's Annual Plan, but only received 0.5 per cent growth, resulting in less revenue for Council. As stated in the Annual Plan, increased growth results in increased rates take for the city and adds to the vibrancy of Tauranga.

**9. Draft Development Contributions Policy 2025/26**

9.1 Tauranga City Council are proposing citywide development contributions for residential development to increase by 15 per cent.

9.2 Property Council opposes the proposed 15 per cent citywide development contributions fee increases. Significant development contribution fee increases will likely result in Tauranga becoming uncompetitive for new housing developments compared with neighbouring and other comparable regions.

9.3 Property Council welcomed the Government's recent announcement regarding an overhaul of development contribution fees. We have strongly advocated for an independent regulator to bring much-needed consistency to an unpredictable system and the ring-fencing of development contribution fees. The new levy system will reflect this.

9.4 In light of the Government's new work programme to replace development contribution fees with development levies, **we recommend Tauranga City Council pause its development contributions review until the new levy system is in place.**

9.5 A pause is the sensible thing to do, reducing council resources in the interim and creating certainty of status quo for developers before the overhaul of development contribution fees occurs. A comprehensive review of the Draft development contribution Policy should occur under the new development levy regime.

9.6 If Tauranga City Council does not pause the development contributions policy, it could inadvertently stifle developments until a developer levy programme is established, as the uncertainty of transitioning between two systems in under a year would likely discourage development and developers would choose to wait for details of the new system.

Impact on Development Contribution fee increases for Tauranga

9.7 Development contributions can either enable or stifle growth. Increasing Citywide development contribution fees for residential developments is a strong deterrent for development in Tauranga as it results in a huge amount of uncertainty around feasibility of projects.

9.8 Increased development contribution fees across Christchurch will likely result in the following outcomes:

- Additional costs being passed onto the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments being postponed, re-evaluated, or cancelled, due to increased costs reducing the overall affordability of the development or project; and/or
- Less affordable typologies of housing being built.

9.9 Furthermore, Property Council's Property Impact report[1], shows that the property sector provides employment for 13,700 people in the Bay of Plenty region. A significant portion of these workers will be employed and/or live in Tauranga. Having a development contribution policy that makes development unfeasible will have direct implications for employment, with numerous flow-on effects to the multitude of professional services and sub-contractors (such as plumbers or electricians) that work on new developments.

9.10 For example, a typical land development subdivision project might employ around 130 people over the life of the project. A typical 100-unit apartment development project might employ around 300 people over the life of the project. If development goes elsewhere, the flow on impacts for Tauranga are enormous – given it's proximity to Auckland and the Waikato regions.

9.11 Unaffordable development contribution fees will result in less activity, less employment and less spend in Tauranga. It will also result in less revenue for Tauranga City Council.

**10. Alternative Funding and Financing**

10.1 Property Council strongly supports the use of alternative funding and financing tools by local government, such as targeted rates, public-private-partnerships, or Special Purpose Vehicles ("SPVs") as enabled under the Infrastructure Funding and Financing Act. We recommend that Tauranga City Council implement alternative funding and financing tools for infrastructure to reduce cost pressures on new developments.

10.2 For example, SPVs are an important tool for funding and financing infrastructure in a fair and equitable manner. SPVs are advantageous as they sit off a Council's balance sheet and do not impact debt levels. Property Council has previously supported Tauranga City Council's use of SPVs for the Transport System Plan and Civic Precinct project, as well Wellington City Council's use of SPVs for the Moa Point sludge minimisation project.

[1]Property Impact Report 2024, Property Council New Zealand.

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10.3 These additional tools are transparent, beneficiary pays funding models for local government, that are more equitable to ratepayers and better 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.

## 11. Conclusion

11.1 Property Council opposes the proposed Annual Plan which sees operational costs exceeding operational revenue. We believe there are cost savings through a reduction in employee and consultant costs and the use of alternative funding and financing.

11.2 We do not support residential rates reducing, when the residential rating base is larger than the commercial and industrial rating base. Under the proposal, commercial and industrial rate payers will be left paying a disproportionate share of general rates.

11.3 Property Council further opposes the draft development contributions policy and recommends Tauranga City Council pause the policy until the Government's new levy system is established. A pause would create certainty for developers before the incoming changes occur.

11.4 Property Council members invest, own, and develop property in Tauranga. We thank Tauranga City Council for the opportunity to provide feedback on the 2025/26 Annual Plan. Any further enquires do not hesitate to contact Katherine Wilson, Head of Advocacy via email: katherine@propertynz.co.nz or cell: 027 8708 150.

Yours Sincerely,

Morgan Jones

Central Committee Chair