
REPORT 1
(1215/52/IM)

PROPOSED DEVELOPMENT CONTRIBUTIONS POLICY

1 Purpose of Report

The purpose of this report is to present the review of Council's policy on how to fund capital expenditure¹ planned to be incurred for growth.

The Council is required to have a policy on Development Contributions Policy or Financial Contributions Policy under the Local Government Act 2002 ("LGA"). This report sets the foundation for the proposed Development Contributions Policy, including principles and methodology, pending finalisation of the capital expenditure figures and completion of the draft policy document in April 2005.

Assuming acceptance of the proposed approach, the proposed policy will be brought to the Committee for approval in April. This will allow adequate time for the ten year capital expenditure in the 2003/04 LTCCP to be reviewed and updated as part of the 2005/06 draft annual plan deliberations. The updated capital expenditure projections will then provide the basis to calculate development contribution fees.

If approved, the proposed Development Contributions Policy will be consulted on at the same time as the draft 2005/06 Annual Plan.

2 Executive Summary

The LGA requires a policy on Development Contributions or Financial Contributions. Towards this end, the Planning and Performance Committee resolved in March 2004 to change from the current Resource Management Act (RMA) based Financial Contributions Policy regime to a Development Contributions Policy under the LGA.

This paper sets out the proposed approach to funding capital expenditure resulting from growth using Development Contributions based around three decision points:

- 1 How to fund capital expenditure resulting from growth;
- 2 The key principles underpinning the proposed development contributions policy;
- 3 How the proposed development contributions policy will be implemented.

¹ As set out in the 2003/04 LTCCP (as varied by the 2004/05 and 2005/06 Annual Plans).

Decision One: How to fund capital expenditure resulting from growth

Council's options for funding growth related capital expenditure comprise borrowings funded through rates, partial funding through the Financial Contributions Policy contained within the District Plan and through development contributions. The rationale for using development contributions is that:

- There should be equity between existing ratepayers and newcomers, i.e. those causing the need for additional infrastructure and reserves contribute to the capital cost;
- Newcomers contributing only rates would mean existing ratepayers would bear the majority of the costs as well as having paid for their own share of infrastructure;
- It is consistent with Council's outcomes and objectives for the city.

Development contributions are proposed for water supply, waste water, storm water, roading and reserves. As more information is obtained as to the impact of growth on community infrastructure, such as community centres and libraries, additional development contributions can be considered.

Decision Two: Key principles

The key principles are designed to assist in the determination of the Development Contributions Policy. They are not absolute requirements and trades offs may be required, such as administrative efficiency overriding the most equitable/precise method of charging. The key principles comprise:

- Equity between existing ratepayers and newcomers noted above;
- A transparent rationale for charging development contributions;
- A systems-wide view of the effects of growth; and
- A reasonable method of determining and apportioning the growth related capital expenditure.

The LGA sets clear parameters for the methodology to determine development contributions. This is summarised in the following six steps:

- 1 Define catchments
- 2 Identify capex resulting from growth
- 3 Define % of growth capex funded by Development Contributions
- 4 Identify units of demand
- 5 Determine design capacity for growth
- 6 Allocate costs to growth units of demand

Decision Three: Policy implementation

Development contributions payments will be required on application for either a resource consent, building consent, or service connection.

Payment will be required in all circumstances unless the developer will directly fund the reserve or network infrastructure, a third party is paying a contribution or where there are exceptional circumstances.

It is recommended that the policy is not retrospective, i.e. does not seek to impose fees on developments that have already commenced the approval process.

It would be prudent for Council to be very conservative in forecasting development contributions revenue over the next two years given the current large stock of resource consents in process under the old policy which have a five year take-up period.

3 Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Note that in March 2004 Council:*
 - (a) *Agreed to introduce a full Local Government Act based development contributions policy in 2005/06 to replace the existing Resource Management Act based financial contributions policy.*
 - (b) *Agreed that the principle of fairness and equity between new and existing ratepayers will lend itself to the charging of full development contributions for all growth related infrastructure costs unless there is a conscious decision to subsidise new development.*
 - (c) *Agreed that Council will invest in well planned, high quality infrastructure to ensure long term durability, operational efficiency and sustainability rather than small inefficient and unsustainable investment driven by individual development.*
 - (d) *Agreed that as appropriate Council will enter into specific agreements for funding infrastructure with individual developers and ensure fairness and equity in the funding of such infrastructure.*
3. *Agree the **equity principle** that existing ratepayers should not subsidise developers, nor should development contributions subsidise existing ratepayers. Development contributions will be set in a transparent and fair manner for all sectors without remission.*
4. *Recommend to Council that, after taking into consideration the funding principles set out in s 101(3) LGA (that requires Council to fund its needs from appropriate sources, following consideration of community outcomes, the distribution of benefits across the community over time, those driving the need for the expenditure, the costs and benefits and the impact on future revenue requirements) that development contributions are the primary funding tool to be used for funding capital expenditure resulting from growth for water, wastewater, stormwater, roads and reserves.*

5. *Agree that further work will be undertaken on identifying the growth related capital expenditure for community infrastructure (e.g. libraries, recreational centres, community centres, etc) and that once that work is available, officers report to the Strategy and Policy Committee on the appropriate funding options and choices for those activities.*
6. *Agree that the draft Development Contributions Policy to be reported to this Committee in April will include the following:*
 - (a) *Development contributions for water supply, wastewater, stormwater, roads and reserves activities to recover the growth related ten year capital expenditure listed in Council's LTCCP.*
 - (b) *After considering growth forecasts for dwellings and employment, that an overall 10% growth assumption is a reasonable basis for planning infrastructure upgrades resulting from growth and that other factors such as the potential development size of the catchment, economies of scale and operating efficiencies are also considered when determining the additional capacity requirements for capital expenditure resulting from growth.*
 - (c) *Average costs are applied in the apportionment of total costs between existing ratepayers and newcomers.*
 - (d) *The unit of demand is an equivalent household unit comprising either an allotment, a residential dwelling or each 65m² of additional non residential floor space.*
 - (e) *Development contributions will be payable as set out in section 8.1 of this report namely; on issuing a resource consent or, where not paid under a resource consent or a resource consent was not required, on issue of a building consent, or where a building consent is not required, on provision of a service connection.*
 - (f) *The Development Contributions Policy shall take effect as set out in option 1 of section 8.2 of this report; namely for all developments for which an application is lodged with the Council and received by the Council on or after the date on which this policy takes effect.*
 - (g) *The provisions in the policy on postponement, remission, refund and exemption will be as set out in section 8.3 of this paper; i.e.*
 - a. *There will be no discretion except for exceptional circumstances,*
 - b. *There will be no exemptions other than as provided under the LGA 2002 and for developments where Wellington City Council is the developer,*
 - c. *The only circumstances where refunds will be allowed will be as provided for in the LGA 2002.*

8. *Note that other Councils in the region are planning to charge in the order of \$2,950 – \$12,263 per equivalent household unit and that other New Zealand metropolitan Councils are planning to charge in the order of \$2,300 – \$24,000 plus reserves contributions of 7.5% of land value.*
9. *Note that the replacement of the current policy for Development Contributions and Financial Contributions requires an amendment to the 2003/04 Long Term Council Community Plan.*
10. *Note that the proposed Development Contribution Policy will not be finalised until Council has agreed its draft 2005/06 Annual Plan (and the consequential amendments to the ten year capital expenditure in the 2003/04 LTCCP).*
11. *Note that the special consultative procedure on the proposed Development Contribution Policy will run concurrently with consultation on the 2005/06 draft Annual Plan.*
12. *Note that it is the officers recommendation that a Development Contributions Sub-Committee is established to undertake the hearing of submissions received on the Development Contribution Policy and that further work will be undertaken by officers on the terms of reference for the sub-committee and reported to this Committee on 7 April 2005.*

4 Outline and process issues

4.1 Decisions required and where to from here

This paper is structured in four key parts and requires the Committee to make three key decisions:

- ***Background*** – setting out the LGA requirements, Councils current approach, previous Council decisions, growth assessment, related policies and a summary of what other Councils are doing.
- ***Decision One: How to Fund Growth*** – setting out funding allocation considerations, funding options chosen, the rationale for funding growth through development contributions and achieving other Council objectives.
- ***Decision Two: Key Principles of Policy*** – setting out key principles, the methodology to determine development contributions and significant assumptions.
- ***Decision Three: Implementation of Policy*** – setting out the circumstances under which development contributions will be required, when the policy will take effect and postponement, remission, refund or exemption.

Once these decisions have been made and the growth related capital expenditure in the 2003/04 LTCCP is reviewed and updated as part of the 2005/06 draft Annual Plan deliberations, the proposed policy will be finalised and brought to the Committee in April.

4.2 Process for adopting a Development Contributions Policy

The LGA requires Council to have a policy on Development Contributions or Financial Contributions in its LTCCP. The policy must be adopted using the special consultative procedure. The Council adopted, as part of its 2003/04 LTCCP, a policy which stated that as Council had not developed its Development Contributions Policy at that time (as the LGA had only just been enacted), Council would continue to apply the financial contribution provisions of its district plan.

The proposed Development Contributions Policy will replace that 'holding' policy in its entirety. The 2003/04 LTCCP will need to be amended. Once the 05/06 Draft Annual Plan is approved for consultation (15 March 2005) the next and final stage of the proposed Development Contributions Policy will be able to be completed and approved for consultation.

It is proposed that consultation on Council's proposed Development Contributions Policy be considered at the same time as consultation on the 2005/06 draft Annual Plan.

This has two particular advantages:

- The consultation and communication processes (such as APW publications, annual planning meetings, etc.) can be used to communicate the contents of the proposed policy.
- If adopted, the proposed policy can commence at the start of the 2005/06 financial year.

It is however recommended that the submissions on the proposed Development Contributions Policy are dealt with by a dedicated sub-committee rather than being considered by the Strategy and Policy committee at the same time as all annual plan submissions.

The Development Contributions Sub-Committee will have the task of:

- Hearing all submissions on the proposed Development Contributions Policy.
- Request specific work to be undertaken by officers if required on any aspect of the proposed Development Contributions Policy to be reported to the sub-committee and/or the Strategy and Policy Committee to assist the deliberations on the proposed policy.
- Making a recommendation to the Strategy and Policy Committee on any changes to the proposed Development Contributions Policy as a result of submissions or further work.

The Strategy and Policy Committee would then make a recommendation to the Council after receiving the report from the Development Contributions Policy Sub-committee. The decision on whether to adopt the proposed Development Contributions Policy (and in what form) would be made by Council.

The alternative to establishing the sub-committee would be for the Strategy and Policy Committee to consider all Development Contributions Policy submissions and advice from officers at the same time as all other draft Annual Plan submissions and deliberations. The Development Contributions Policy is a significant policy initiative for the Council and the submissions on it may be large in number and complex. This could dominate the Annual Plan submissions and process and risk not giving appropriate regard to and appreciation of the technical elements of the proposed Development Contributions Policy.

5 Background

5.1 LGA requirements for a Development Contributions Policy

The LGA² requires a policy on Development Contributions or Financial Contributions as a component of the funding and financial policies in its LTCCP. Council is required to make an informed decision on how it will fund growth related capital expenditure.

Development Contributions and Financial Contributions are two funding tools available through which new development is specifically targeted and required to contribute to the capital cost of infrastructure and community assets resulting from growth. There are other funding tools available (such as rates serviced borrowings), however, in order to utilise development contributions as a funding tool, Council must have a policy prepared under the LGA.

The LGA prescribes the content of a Development Contributions Policy as follows:

- A summary and explanation of the capital expenditure identified in the LTCCP that Council expects to incur to meet the increased demand resulting from growth for:
 - Reserves;
 - Network infrastructure (roads and other transport, water, waste water and stormwater collection and management);
 - Community infrastructure (Council land or assets used to provide public amenities).
- The proportion of that capital expenditure that will be funded by development contributions, financial contributions, or other sources of funding (for example, borrowings, asset sales, or other parties such as Land Transport New Zealand).
- An explanation of why Council has chosen the above funding sources to meet the capital expenditure identified with reference to the matters in LGA s101(3).

² LGA 2002 s.102(4)(d)

- For each activity (or group of activities) for which a development contribution will be required, the total amount of funding that will be sought by development contributions.

Section 199 of the LGA provides that development contributions may only be charged to recoup capital costs where the effect of a development is “*to require new or additional assets or assets of increased capacity and, as a consequence, Council incurs capital expenditure to provide for network infrastructure, community infrastructure and reserves.*” Development contributions therefore cannot be used to develop taxes to discourage non sustainable behaviour or activities incurring no capital expenditure by Council.

5.2 Current Approach - Resource Management Act 1991 ('RMA')

A Development Contributions Policy under the LGA may be used in place of, or alongside, the RMA system of financial contributions applied via the District Plan. The LGA provisions offer a number of benefits over the RMA (refer to Appendix 1 for details).

Council's current Policy on Development or Financial Contributions in the 2003/04 LTCCP is to continue using Financial Contributions Policy in accordance with Section 3.4 of the District Plan which provides for the imposition of three 'types' of financial contribution:

- Requiring that land be vested in Council,
- Requiring payment for the cost of carrying out works off-site that are deemed necessary for the development, and
- Development impact levies.

The District Plan sets out policies, principles, a methodology and maximums that can be set for a development impact levy. The ability to set such levies varies for the different types of development, and for different areas. The amount actually charged (which is significantly lower than the maximum allowable under the District Plan) and for what purpose, is determined by Council's *Guide to Development Impact Fees*, and is summarised in the following table:

	Citywide \$ per EHU	Greenfields \$ per EHU	Other specific areas \$ per EHU
Reserves			
– city wide universal	\$198	\$198	\$198
– greenfields	-	\$2,140	-
Traffic and Roothing			
– city wide universal	\$303	\$303	\$303
Water Supply			
– four zones	-	-	\$116 to \$2,475
Total	\$501	\$2,641	\$617 to \$2,970

Residential infill developments have to date typically paid \$501 per equivalent housing unit (“EHU”) whilst residential greenfield developments up to \$2,970 per EHU or a contribution of reserve land. In addition, in some circumstances greenfield developers have paid the cost of specific off-site works, or have undertaken such work as part of the development. Non residential developments do not currently pay any development impact levies. The current financial contribution regime does not meet the costs Council has incurred or expects to incur for growth.

The proposed Development Contributions Policy would replace development impact levies and, in some cases, the cost of carrying out works off-site, i.e. where these works are already covered by capital expenditure in the LTCCP and for which development contributions are being charged. Where this is not the case, off-site works could be required as a condition of resource consent as a financial contribution.

5.3 March 2004 Council decisions

In March 2004 Council made a number of decisions:

- Council agreed to the principle that “existing ratepayers should not subsidise developers, nor should development levies subsidise existing ratepayers”; and that Council show leadership in the development of “*well planned, high quality infrastructure to ensure long term durability, operational efficiency and sustainability rather than small inefficient and unsustainable investment driven by individual development*”.
- Council also agreed that “*as appropriate, Council will enter into specific agreements for funding infrastructure with individual developers and ensure fairness and equity in the funding of such infrastructure*”. Council further resolved to “*keep the existing RMA-based Financial Contributions Policy for 2004/05 and introduce a full LGA-based policy for 2005/06*”.

Since March 2004, Council has introduced its Revenue and Financing Policy. Therefore it is important these decisions are revisited in light of this policy as well as the funding considerations set out in section 101(3) of the LGA to ensure consistency and appropriateness.

5.4 Revenue and Financing Policy

Section 101(3) of the LGA states that Council funding must be met from appropriate sources with regard to community outcomes, the distribution of benefits across the community over time, those driving the need for the expenditure, costs and benefits and impact on future revenue requirements. These factors have been considered by Council in the preparation of its Revenue and Financing Policy and are now equally relevant as Council considers its policy on how to fund growth related capital expenditure (refer to 6.2 below.)

As such, the Development Contributions Policy is closely linked with and extends the Revenue and Financing Policy in respect of the funding of capital expenditure. The Revenue and Financing Policy states that a new asset or upgrading of an existing asset will usually be funded from new or extended borrowings. If Council elects to use development contributions as a funding tool and implements a Development Contributions Policy, the portion of this capital expenditure, either planned or already incurred, arising from growth can also be funded by development contributions.

5.5 Growth Context

Predictive measures for both residential and non residential development growth are an essential element to plan and design for increased infrastructure capacity.

Capital expenditure costs are based on the best knowledge available at the time of preparation. More accurate and up-to-date information will be incorporated into future LTCCPs and used as the basis for future development contributions calculations as it becomes available. It is assumed current levels of service standards will continue. Costs will be in current dollars and may be updated as part of the asset management planning process feeding through to LTCCP updates.

To ensure the collection and analysis of robust data, Council is involved with two forward planning projects that have clear linkages with the development of a Development Contributions Policy – the Wellington Urban Development Strategy and the Wellington Regional Strategy.

Projected growth

In assessing capital expenditure to cater for growth, asset managers considered Wellington's projected population growth as follows:

Growth 1996 - 2001	3.9%
Projected growth 2001 – 2011	9.5%
Projected growth 2001 – 2021	18.0%

Source: Statistics NZ census data and projections as modelled by Greater Wellington Regional Council's MERA projections.

This growth is uneven across the city and can change relatively quickly, particularly when considering the timeframes for infrastructure assets. For example, in 1996 – 2001, growth ranged from -7.2% in Maupuia and Karaka Bay/Worser Bay census areas

to over 98% growth in the Willis St/Cambridge Tce census area. However, for the period 2001-21, Karaka Bay/Worser Bay is projected to grow by 23% while growth in Willis St/Cambridge Tce slows to a less extreme 39%.

City growth assumptions underpin Council's Asset Management Plans for the period 2005-14. These assumptions are informed by forecasts based on census data, in particular Statistics NZ census projections and Greater Wellington Regional Council's MERA projection modelling on population, dwellings and employment based on census data forecasts for the period 2001 – 2011 as follows:

- Residential ten-year 2001 – 2011 growth assumptions are **5,905 EHU**³ spread across the city in greenfield, infill and central city conversion locations;
- Commercial growth assumptions are based on employment growth forecasts. Commercial floor space forecasts are considered less reliable for this purpose. The total estimated 2001-2011 employment increase in Wellington is projected to be 6,914⁴ persons in full time employment. Employed persons are converted to a common EHU measure by dividing the total expected employment by the 2.6 average number of persons living in a Wellington household to give an equivalent impact of **2,659 EHU**s from commercial growth over the period 2001 - 2011. These figures are conservative as they do not account for the projected increase of 2500 persons (or, say, 500 EHU) in part time employment;
- 2001 – 2011 growth estimates from the above GWRC sources are Residential, 9.5% and full-time employment, 9.3% and part-time employment, 13.5%;
- Overall projected growth based on the 2001 census, excluding increases in part time employment, amount to **8,564 EHU**s.

Growth projections are subject to significant uncertainties as to the quantum, timing and location of growth. Informed by the above estimates and recognising potential forecasting errors, for calculation purposes a **ten year EHU growth assumption of 10%** has been used for both residential and commercial sectors over the period 2005 – 2014.

Total EHU growth of 10% across the city is therefore conservatively assumed to be **9,120 EHU**s.

The increase in capital expenditure resulting from growth is not necessarily proportional to the increase in population and employment, i.e. the actual costs to provide for growth will depend upon the particular capital works required. However for citywide catchments in water, roading and reserves, it is considered reasonable to assume such a proportional relationship.

³ Source: Greater Wellington Regional Council Population Projections, MERA Base Census 2001 Wellington TLA, Occupied Private Household projections by usual residents from the 2001 base year NZ census of population and dwellings counts.

⁴ Source: Greater Wellington Regional Council Population Projections, MERA Base Census 2001 Wellington TLA, modelling of Statistics New Zealand data for Usually Resident NZ Population aged 15 years or over engaged in full or part time work by usual residence. Based on medium projection all ages total 2001-2011. Base year based on custom NZ Census of Population and Dwellings Counts 2001.

Application of Equivalent Household Units (EHUs) as the unit of demand

The most equitable way to apportion the cost of new infrastructure in response to increased demand is on the basis of the number of new households expected in Wellington. The best projection of households comes from Statistics NZ based on 2001 census information as set out above.

In an infill development, the identifiable unit of demand will either be a subdivided allotment or an additional residential building. In a greenfields development, the identifiable unit of demand is an allotment. This is based on an average allotment size in Wellington of 600m². For a commercial development, the assumption applied is that an employee requires approximately 25m² of space and that 2.6 employees, being the average household occupancy, would require 65m².

In calculating the additional EHUs resulting from development, a credit must be given for the number of EHUs relating to the original development.

5.6 What other Councils are doing

Elsewhere in the region

- Kapiti Coast District has introduced a Development Contributions Policy in conjunction with their existing Financial Contributions Policy. Fees ranging from \$2,950 to \$6,245 plus reserves fees per their Financial Contributions Policy.
- Upper Hutt District has introduced development contributions with application currently limited to roading (capped at \$7,900) and water/wastewater (for one catchment) at \$12,263.
- Lower Hutt City is continuing with its current Financial Contributions Policy under the RMA. This provides the ability to charge development impact fees to provide additional infrastructure capacity where required plus reserves fees of 7.5%.
- Porirua City is still applying financial contributions under its existing RMA regime until preparation of its 06/07 LTCCP. Financial contribution fees range from \$4,940 to \$5,534 plus one off fees.

Other metropolitan Councils

- The major difference between Wellington and other metropolitan Councils that have introduced development contributions policies is Wellington's significant in-fill issue compared with their significant greenfields developments. Infill is the most difficult area to prove costs of growth because it is less visible than greenfields or large apartment developments and each individual development may have a small (or difficult to quantify) incremental impact. However, over time the impact from infill is more difficult to manage as it impacts the entire network infrastructure of the city and therefore drives ongoing upgrades or more frequent renewals.
- Christchurch City has introduced development contributions for the main network infrastructure types except for roading. Fees range from approx. \$2,300 to \$16,800 plus reserves fees at 7.5%.

- North Shore City has introduced development contributions with fees ranging from approx. \$8,000 to \$24,000 plus reserves fees at 7.5%.
- Auckland City has not yet implemented a Development Contributions Policy and is operating under the financial contributions provisions of its District Plan.

6 Decision One - How to Fund Growth

6.1 Funding allocation considerations

Summary of capital expenditure relating to growth

As part of the 2005/06 draft Annual Plan process, the ten year capital expenditure in the 2003/04 LTCCP will be finalised and confirmed. Until that occurs the final growth related capital expenditure for the remaining period of the 2003/04 LTCCP cannot be precisely determined, and the development contributions payable calculated (if that method of funding is chosen).

Much of Council's capital expenditure relates to renewals, improvements to level of service standards and to the provision of other services to support the functioning of the city. The table below shows that only a small proportion of Council's capital expenditure relates to capacity increases resulting from growth.

The ten-year capital expenditure listed in the 2003/04 LTCCP (and as varied in the 2004/05 Annual Plan) under ten key achievement areas, provides sufficient detail to determine the growth related capital expenditure for water, stormwater, wastewater, roads, and reserves, and to provide a context for making the decision on how to fund the growth related capital expenditure for the activities.

KAA	Activity areas	Ten Year Capital expenditure (per 04/05 Annual Plan) - \$m	Growth related Capital expenditure - \$m
Built Environment	Urban Planning	\$12.4	-
	Heritage	\$2.5	-
	Waterfront	\$12.8	\$1.5
	Public space & centre development.	\$27.8	-
Community Health & Safety	Safety, community centres & halls	\$2.3	-
	Housing, emergency, conveniences & burials	\$49.7	-
Culture and Arts	Galleries, museums, venues	\$7.0	-
City Economy	Marketing, Convention Centre and business support	\$15.0	-
Natural Environment	Habitat, parks & open space	\$14.9	\$3.0
	Botanic gardens	\$3.6	
	Beaches, coast, town/green belts and walkways	10.1	
Resources & waste	Water	\$108.1	\$16.5
	Stormwater	\$56.3	\$6.0

KAA	Activity areas	Ten Year Capital expenditure (per 04/05 Annual Plan) - \$m	Growth related Capital expenditure - \$m
	Sewage	\$98.9	\$3.8 ⁵
	Landfills	\$24.7	-
Recreation & leisure	Pools, sports fields, playgrounds, recreational centres, libraries, zoo, marinas, access	\$88.0	-
Transport	Vehicle network	84.7	\$1.4
	Corridor infrastructure	\$34.6	\$0.6
	Pedestrian network	\$50.1	\$0.7
	Safety	\$41.1	\$2.3
	Cycleway network	\$0.7	\$0.1
	Passenger transport networks	\$2.7	\$0.2
	Parking	\$5.3	\$0.1
	Network control and management	\$5.9	-
Democratic process		-	-
Business outcomes	Organisational projects	\$80.0	-
Total ten year capital expenditure		\$841.0	
Total ten year capital expenditure incorporating growth costs		\$524.0	\$36.2

Source: Pages 194 – 202 of 2004/2005 Annual Plan

7%

The LGA⁶ enables Council to require a development contribution for capital expenditure already incurred in anticipation of development. Included in the capital cost in the table above for wastewater is the cost of the Clearwater treatment plant developed in 1997/98. This was developed for the very long term growth of the city with capacity for twice the current population. It is proposed that Council attributes Clearwater's average cost per EHU to new development within the Clearwater catchment area.

While the LGA allows Council to fund the growth related component of capital expenditure on 'community infrastructure' through development contributions, further work is required to assess the impact of growth and define the capital expenditure being driven by this growth. This includes activities such as:

- Recreation centres, playing fields and swimming pools
- Community centres and halls
- Libraries
- Suburban centre development
- Galleries and museums
- Public conveniences

⁵ Recovery of built capacity at Clearwater

⁶ s199(2)

Once further information is available to enable the growth related elements of such capital expenditure to be identified, it would then be appropriate for Council to make decisions on the funding choices for those activities.

There are a large number of Council projects incurring capital expenditure that fall outside of the categories of infrastructure for which development contributions can be charged under the LGA. These include, for example, landfills (which attract user charges in any event), marketing and business support, and housing.

6.2 Funding option(s) chosen

It is recommended that development contributions are adopted as the primary method of funding all growth related capital expenditure for the water supply, wastewater, stormwater, roading and reserves.

Rationale for funding growth through development contributions

Development contributions are one of a number of funding tools that include user charges and various rates mechanisms. Council is required to exercise a broad judgement in the allocation of costs particularly for Council activities that typically involve a mixture of wider public and private user benefits.

The factors Council must consider under LGA s101(3) in determining how to fund growth capital costs for water supply, wastewater, stormwater, roading and reserves are discussed below.

Equity between existing ratepayers and new comers

Existing ratepayers receiving an agreed level of services should not be burdened with the costs of increasing infrastructure resulting from new development even where there are some spill-over benefits from new development (causality principle). Similarly, development contributions from new developments should not unfairly subsidise the costs of renewing assets or improving the existing level of service for existing ratepayers.

Insufficient contribution to the cost of infrastructure by new development is born either by the environment through reduced standards or the community through rates and/or reduced standards or levels of service.

If the capital cost of infrastructure driven by growth is funded from future rates, existing ratepayers will bear the majority of the costs as well as already having paid for their own share of infrastructure. The new properties would pay only a small fraction for the capital costs they cause.

Community outcomes

Council has not yet undertaken its full community outcomes process, however, in its 2003/04 LTCCP it agreed five key outcomes for the city's built environment – that the city be liveable, accessible, memorable, compact and unique in character (refer to Appendix Five)

Charging new development for the additional infrastructure required to mitigate the effects of growth ensures that development directly contributes to Wellington being a

liveable, compact city that is easy to get around and that its unique character, beauty and landmarks are enhanced. This means, for example, that

- Traffic resulting from development is managed by a programme of works that improve traffic flows, pedestrian and cycle access, parking and safety.
- Large, efficient reservoirs and pumping stations are built and shared across a number of developments,
- Reserves are created and developed.

Distribution of benefits and the extent to which particular individuals contribute to the need to undertake the activity

It would be appropriate that development contributions fund additional capacity in water supply, wastewater, stormwater, roading and reserves. The benefits of this additional capacity accrue to new households (EHUs) generating demand for that capacity. Development contributions paid by developers would most likely be passed on through section prices to the residents of the new households as they benefit from the additional capacity. Existing residents, however, would gain no direct benefit from and should not be required to fund through rates the addition of capacity to existing networks that adequately meet their needs.

Conversely, the cost of maintaining or improving levels of service provided by Council infrastructure to the existing population cannot be included in capital expenditure to be funded out of development contributions, as this expenditure does not benefit developers or new households.

The period in which benefits are expected to occur

The capacity requirements of capital works to accommodate the effects of growth will vary according to the type of infrastructure asset and its expected life and considerations of total cost, economic efficiency, location, etc. Therefore the benefits in some cases will accrue within a ten year timeframe, e.g. citywide roading improvements, while others will continue long into the future, e.g. Clearwater. Whilst the LTCCP and Asset Management Plans have a planning horizon of ten years, longer term planning (20 – 50 years) is undertaken for major infrastructure.

Costs and benefits of funding the activity distinctly from other activities

Development contributions can be imposed at relatively little administrative cost. The major costs arise in development of the policy itself and the establishment of systems to charge, collect and record development contributions and the regular review and update of the policy. The benefits of funding additional infrastructure capacity resulting from development growth through development contributions include greater transparency and allocative efficiency through passing on the actual costs to developers. The use of catchments also aids transparency and allocative efficiency by signalling the variations in the cost of providing infrastructure according to the characteristics of the particular locality and the nature of the works required.

Overall impact on community wellbeing

Ensuring adequate levels, and balance, between the various sources of funding to provide appropriate infrastructure is central to promoting the social, economic,

environmental and cultural wellbeing of the city. Funding the cost of providing increased capacity in Council infrastructure through development contributions rather than rates serviced debt promotes equity between existing residents and those newcomers.

6.3 Use of development contributions to achieve other Council objectives

Development contributions are intended and designed as a funding tool to be applied in conjunction with Council's Revenue and Financing policy. The LGA is prescriptive in the application of the policy. As such there are significant limitations in using development contributions to achieve other objectives such as sustainability and economic development because:

- Only capital expenditure resulting from growth and included in the LTCCP may be funded by development contributions;
- Council cannot charge a developer for more than the full standalone costs of the service provided to the development.

This means that development contributions cannot readily be applied as incentives or disincentives, for example, for energy efficiency, reduced water usage or other sustainability initiatives and are a blunt tool for encouraging economic development. Remission of all or part of the development contribution could be used, however, to encourage growth in locations considered more sustainable.

7 Decision 2 - Key principles of Policy

The following principles are designed to assist the determination of Council's proposed Development Contributions Policy. The principles are not absolute requirements and in some cases trade-offs will be required, e.g. administrative costs may override a demand for equitable charging.

7.1 Equity between existing ratepayers and developers

As described above, existing ratepayers should not subsidise developers nor should development contributions subsidise existing ratepayers.

7.2 Transparent rationale for fees

The application and calculation of development contributions must have a reasonable basis. A reasonable link between development(s) within the catchment(s) and the need for additional infrastructure within the catchment(s) should be identified.

7.3 A system-wide view of the effects of growth

There are two approaches⁷ for assessing the effects of growth on infrastructure assets – top down and bottom up.

The top down approach looks at the effects of all expected growth within a catchment to determine the works required. It then apportions the costs in a fair and equitable way between existing residents (to be funded by rates) and new developments (to be funded by development contributions⁸). Its main objective is to ensure the full cumulative effects, which may only be discernable on a catchment-wide analysis, are taken into account in calculating the total costs of works required.

The bottom up approach focuses on a particular development and analyses the specific works or other development contributions required to avoid, remedy or mitigate the effects caused by that development. This is a marginal cost approach (refer to section 7.4 below) as it assumes that the new development owner needs to deal with only their own local effects. This approach is sometimes argued on the basis that development contributions are only appropriate to the extent they directly and demonstrably relate to the activity to which the contribution is required. However, such an approach may overlook cumulative effects of multiple developments within the catchment.

A top down approach is likely to be preferred by Councils as they have overall responsibility for infrastructure and are better able to take into account all relevant factors in determining the full costs of dealing with the impact of development activities. Developers are most likely to prefer a bottom up approach as they are knowledgeable about their own project(s) and associated costs and less concerned about the impact of that project on the overall system.

7.4 Cost justification

The “costs of growth” can be determined in two principal ways. First, there is the **marginal cost** of servicing growth. Under this methodology, common costs, or those that would have been incurred anyway to meet the existing needs or rising expectations of the existing community would not be allocated through development contributions. Where further infrastructure capacity can be added for a small increase in total cost, a marginal cost approach will reduce development contribution levels. New comers under this approach make no contribution to the existing common infrastructure costs.

The second approach is the allocation of the **average costs** of new works across both the existing community and the additional capacity designed for the projected number of new entrants within the catchment. Under this approach, new comers make a proportional contribution to the common costs.

⁷ Refer to “Best Practice Guide to Development Contributions Policy”, Local Government New Zealand, 2003

⁸ Or funded by works and services conditions such as the provision of land for reserves

Section 106 (2) (a) of the LGA provides that the costs subject to development contributions are those “*resulting from growth*”. Further, LGA section 199 (1) allows development contributions if “*the effect of the development is to require new or additional assets or assets of increased capacity.*” Section 199 (2) of the LGA goes on however to allow a “buy in” approach to development contributions to “*pay, in full or in part, for capital expenditure already incurred by the territorial authority in anticipation of the development*”.

Section 101(3)(b) of the LGA allows territorial authorities to take a wide view of the overall impact of development activities which suggests a choice of appropriate cost approach to deliver required community outcomes. Council must also consider that in practice it is “*immensely difficult to identify marginal costs. A better alternative is to analyse the relative causes of the works and projects [thereby providing] a more concrete basis for engineering analysis and careful judgement with reference to the levels of service that can be applied. This methodology also enables the collection of an appropriate proportion of the common costs*”⁹.

In general, an average cost approach is most likely to provide the best method of cost apportionment between existing ratepayers and newcomers when taking account of:

- applying a system-wide view;
- equity between new and existing ratepayers;
- causality;
- the difficulty in determining marginal costs;
- administrative efficiency.

The examples in Appendix Two illustrate some of the considerations for applying a costing approach.

7.5 Method for determination of development contributions by infrastructure type and catchment

The methodology to determine development contributions is set out as follows:

Step	Explanation	LGA Reference
One	<p>Define catchments</p> <ul style="list-style-type: none"> ▪ A catchment is the area served by a particular infrastructure, e.g. reservoirs, pumping stations and pipes. ▪ Catchments are defined with reference to characteristics of the service, the common benefits 	

⁹ p.18 “Best Practice Guide to Development Contributions Policy”, Local Government New Zealand, 2003

Step	Explanation	LGA Reference
	received across the geographical area supplied and judgement involving a balance between administrative efficiency and the extent of common benefits.	
Two	<p>Identify ten-year capital expenditure resulting from growth</p> <ul style="list-style-type: none"> ▪ Proportion of total planned costs of capital expenditure for network and community infrastructure and reserves from the LTCCP resulting from growth. ▪ Growth costs (capacity increase to cater for new entrants) can be funded in full or in part by using development contributions. This is one of three components of the total ten-year capital costs budgeted in the LTCCP, the other two components being level of service improvements and renewals. These two costs must be met from funding sources other than development contributions. ▪ Justification for the level of growth capital expenditure should be supported by Financial Management funding considerations (refer to 6.2 above) and show significant assumptions & impacts of uncertainty. 	<p>LGA (206(2)a and Schedule 13 1(a)</p> <p>LGA 106(2)(a)</p> <p>LGA101(3)(a)</p> <p>LGA 101(3)(b)</p>
Three	<p>Identify the percentage of growth ten year capital expenditure to be funded by development contributions</p> <p>Unless Council wishes to reduce fees for clear policy reasons, this is likely to be 100% in most cases, because:</p> <ul style="list-style-type: none"> ▪ It directly relates to the planned capital expenditure set out in the LTCCP and detailed in Council’s Asset Management Plans, and ▪ The capital expenditure identified for growth can be reasonably identified. 	LGA 106(2)(b)
Four	<p>Identify the appropriate units of demand</p> <p>The selected unit of demand is Equivalent Household Units (“EHU”) calculated as follows:</p> <ul style="list-style-type: none"> ▪ For a greenfields development, an allotment, e.g. in Northern Growth developments the average lot size is 550 - 600m², ▪ For non residential development, 65m² (based on average space per office worker of 25m² and an average number of persons per household in the 	LGA Schedule 13(1)(b)

Step	Explanation	LGA Reference
	<p>Wellington region of 2.6 (per the 2001 census)</p> <ul style="list-style-type: none"> ▪ For an infill development, a residential dwelling as defined in the District Plan. ▪ EHUs will be applied uniformly for each lot regardless of size for reasons of administrative simplicity and lot size is not considered to have a material impact on demand. 	
Five	<p>Identify the designed capacity (in units of demand) provided for growth</p> <ul style="list-style-type: none"> ▪ The designed capacity may vary between different types of infrastructure. In many cases it will be considered economically prudent to provide spare growth capacity considerably beyond current ten-year expectations. For example, large scale, high cost citywide infrastructure such as a sewerage treatment plant will have significantly more designed capacity for growth than ongoing roading improvements. ▪ Costs are recovered across the full designed number of EHUs. Projected growth in EHUs over the ten year period of the LTCCP will be relevant to Council's budgeting of revenue but not to the calculation of the development contribution per EHU. 	LGA Schedule 13(1)(b) & (2)
Six	<p>Allocate the costs to each unit of demand for growth</p> <ul style="list-style-type: none"> ▪ The development contribution charge per EHU is calculated by dividing the total capital expenditure resulting from growth (step two) by the designed units of demand for growth (step five). 	LGA Schedule 13(1)(b)
Seven	<p>Input results to comprehensive schedule of fees by catchment</p> <ul style="list-style-type: none"> ▪ A detailed schedule must be prepared as part of the policy that enables the development contributions to be calculated by infrastructure type and catchment. ▪ The policy will be supported by the significant assumptions made to determine the development contributions payable and their impacts, contribution and conditions and criteria for remission, postponement or refund, the valuation basis for assessment of maximum reserves and catchment maps. 	<p>LGA 201(2)</p> <p>LGA 201 (1)(a)</p> <p>LGA 201(1)(c) & (d)</p>

Examples of the application of this methodology are set out in Appendix Three.

7.6 Significant Assumptions

In preparing the underlying material and the proposed policy, a number of key assumptions have been relied on as follows:

Approach to Methodology

In developing a methodology for the development contributions, Council has taken a system-wide view in identifying the cumulative effect of development on infrastructure, i.e. by considering the infrastructure impacts on all ratepayers created by both individual and multiple developments across a catchment. For citywide catchments this means growth is proportionally reflected in total capital expenditure.

Planning Horizon

The planning horizon varies by infrastructure type typically ranging from 10 years to more than 50 years. This is consistent with Council's asset management planning. Longer horizons may result in larger capital expenditure for some projects but also means the costs are spread across a larger designed city capacity

Growth Forecasts

The overall planning assumption is 10% increases in growth, capacity and cost for renewals and upgrades for citywide catchments to take account of continuing growth within the city over the next ten years.

The impact of a higher growth forecast would be higher assumed EHU design capacity spreading citywide catchment fees across a larger base. This reduction in fee per EHU would be offset, however, by increased capital expenditure to cater for growth.

Application of costing methods

Average costs have generally been applied to the allocation of capital expenditure between existing and new EHUs. In most cases, it is a difficult and complex exercise to determine marginal costs and average costs reflect a fair allocation of capital infrastructure costs to newcomers.

Financial Assumptions

The financial assumptions are as follows:

- All costs in the Development Contributions Policy will be based on current known infrastructure prices in current 2005 dollars and no allowance has been made for inflation.
- Income generated from rates will be sufficient to meet the operating costs of growth related capital expenditure into the future.
- All Land Transport New Zealand subsidies will continue at present levels and that eligibility criteria will remain unchanged.
- The methods of service delivery will remain substantially unchanged.

8 Decision Three - Implementation of Policy

8.1 When development contributions will be payable - background and choices to be made as to the content of the policy

The LGA provides a framework that governs the circumstances in which a development contribution can be required including what events will require payment, powers to require payment and refunds.

Circumstances where a development contribution will be required

The only exceptions to payment of a development contribution provided for in the LGA are where:

- The Council has already imposed a condition on a resource consent requiring a financial contribution in relation to the same development for the same purpose¹⁰.
- The developer will fund or otherwise provide for the same reserve or network infrastructure.
- The Council has received, or will receive, the funding from a third party, e.g. Land Transport NZ.
- The developer is the Crown (through the specific provision in LGA section 8 that the LGA does not bind the Crown).¹¹ (However, the exemption does not apply to the interest of a private party with a right to develop Crown land under a licence, lease, or any other interest.)

Council could, as part of its policy, extend these matters if it wished to do so.

¹⁰ For example, if at the time of subdivision of an inner city new allotment a financial contribution was paid (for example a total of \$501 for citywide reserves and roading under the development impact levies in the District Plan) a development contribution for those same purposes could not be imposed at the time of obtaining a building consent (even if the amount of the contribution payable for that purpose had risen significantly). However at law, development contributions for all other purposes could be charged (for example, local roads and local reserves and stormwater, wastewater, and water supply).

¹¹ Note: LGA section 8 does not specifically provide that development contributions cannot be imposed on the Crown. Rather, it provides in the first instance that the LGA does not bind the Crown, then provides for specific exemptions where that position is reversed. The exemptions do not include Part 6 or Sub-part 5 of Part 8). This has been picked up by Local Government New Zealand and a change is being sought. The policy will be written in a way that if the law changes, that the exemption will not continue.

When will payment be required?

The LGA requires that a Council's Development Contribution Policy specifies the event (i.e. resource consent, building consent, or service connection) that will give rise to a requirement for a development contribution under section 198 LGA¹²

Council has the power to require payment of the development contribution payable when granting¹³ a resource consent, building consent, or service connection.

While the LGA clearly contemplates that a Council may select different 'events' for different catchments and/or activity areas¹⁴, Council could also elect to use one only.

Appendix Four provides some examples of the kind of approvals required for various developments and the practical issues associated with selecting a particular approval as the 'event' which triggers payment. It is recommended that the Council's policy is prepared on the following basis:

Subdivision

For subdivisions it is recommended that Council requires payment at the time that the resource consent is granted. The development contribution will then be payable from the time that the resource consent is granted and must be paid prior to the issue of a certificate under section 224 (c) of the RMA.¹⁵

Development

For developments on existing subdivisions, a development contribution is payable as follows:

- If a land use consent is required, when the application is granted, and must be paid prior to commencement of the consent pursuant to section 208 (a)(ii) LGA.
- If a development contribution was assessed as payable above, and it has not been paid prior to the commencement of the consent, it shall be deemed to be payable on the building consent, and must be paid prior to the code compliance certificate being issued.¹⁶ (Note council has the power to refuse to issue a Code Compliance Certificate (CCC) under s208(b) LGA 2002 until the contribution is paid).

¹² Section 202(1)(b) LGA

¹³ Note: The Building Act 2004 has introduced an amendment to the section 198 LGA that will change section 198 from 31 March 2005 so that the Council may require the contribution to be made to Council prior to the grant of a resource consent, building consent or service connection. It would appear to have been included without policy analysis, and if applied literally would have a significant effect on developers.

¹⁴ Section 202(3) LGA

¹⁵ The Council can withhold the section 224(c) Resource Management Act 1991 certificate if the development contribution is not paid – section 208 LGA

¹⁶ See section 208(b) LGA

- If the development is permitted under the district plan (or otherwise does not require a resource consent) and a building consent is required, any development contribution payable when the application is granted must be paid prior to the CCC being issued. (Note council has the power to refuse to issue a CCC under s208(b) LGA 2002 until the contribution is paid.)
- If the development is permitted under the district plan (or otherwise does not require a resource consent) and a building consent is not required, any development contribution is payable when the consent is given to connect to the service, and must be paid prior to the service being connected. (Note: under s208 (c) LGA the Council has the right to withhold the service).

8.2 When will the policy take effect?

Council needs to determine when the policy will take effect and for what developments.

Under the proposed approach above, the majority of development contributions will be imposed at the time of obtaining resource consent, although the building consent process will be relied on for developments not requiring resource consent.

Option 1

The first option is for the policy to take effect for all developments for which an application for resource consent or building consent (for developments not requiring a resource consent) are lodged with the Council and received by the Council on or after the date the policy takes effect (1 July 2005 proposed).

This approach avoids any argument that the policy is retrospective. For this reason, it is the preferred option. However, it must be acknowledged (and it has been the experience of other Council's) that once the policy is notified it is highly likely to result in an influx of resource and building consent applications.

Option 2

The second option is for the policy to take effect for all developments for which resource consent or building consent (for developments not requiring a resource consent) is granted on or after 1 July 2005¹⁷ irrespective of the date that the application was lodged and received by the Council.

This will 'catch' applications lodged prior to the notification of the policy. It raises equity issues in that many applications will have been lodged a significant period of time prior to the formulation of the policy with an expectation of lower development contribution levels.

Option 3

The third option is that development contributions are assessed on any application for resource consent, building consent, or service connection lodged after the date that the

¹⁷ Note: for the purposes of determining the date that a resource consent is granted refer s116 RMA

proposed policy is approved for special consultative procedure (7 April 2005 proposed) and granted on or after 1 July 2005. Under this option:

- Any application lodged after the date the policy is notified, but granted before it becomes operative, will pay under the financial contribution regime
- Any application lodged before the date the policy is notified, but granted after it becomes operative, will pay under the financial contribution regime
- Only an application lodged after the date the policy is notified, and granted after it becomes operative, will pay under the development contribution regime.

8.3 Postponement, Remission, Refund or Exemption

Postponement or Remission

The LGA does not provide any statutory entitlement for postponement or remission. However, the overarching requirement of reasonableness supports the policy containing some element of discretion to enable a case to be made to vary from the policy.

So that it is clear that the discretion in the policy is not an avenue for the methodology and figures derived from the methodology to be challenged and 'negotiated', it is suggested that the discretion be limited to 'exceptional circumstances'.

Similarly, remission to advance other policy initiatives (refer to 6.3 above) should be made explicit in the policy itself and it is not intended that "exceptional circumstances" would be applied in such a way.

Refund

The LGA prescribes the scenario's when development contributions paid must be refunded. It is recommended that the Policy simply confirm that Council will comply with the LGA requirements.

Exemption – from the application of the policy

It is proposed that the policy specifically exempts Council's own developments from being liable to pay development contributions.

9 Other issues

9.1 Economic impact

Development contributions represent an allocation of expected costs to Council of growth across various funding sources. They represent a new cost on the community that, in the absence of growth, would not be incurred by Council.

Assuming the capital works are of an efficient design to meet the true growth needs of newcomers, these works represent vital enabling infrastructure with positive growth impacts.

In the short term other competing business locations, if willing to marginally price any spare capacity in their infrastructure, may present a cost competitive location choice. A creative quality, rather than low cost economic development strategy, lessens any such threat however. In addition the overall quantum of the charges is unlikely to be a critical factor in location choice.

A remaining economic impact question is whether the costs are allocated in a fair and efficient manner, that is, the fairness of who pays. The proposed policy has extensively argued the fairness of allocating costs of growth to those who create the costs. Over time this will encourage a more efficient city.

Precisely who pays development contributions will over time be a mix of the existing land owners, developers and the final owner of new developments. Existing land owners and developers may see a reduction in the capital value of their holdings to the extent an expectation of development contributions had not been factored into market values.

9.2 Financial impacts

The financial impacts will be assessed when the proposed Development Contributions Policy and schedules of fees are determined. The receipt of development contributions over the first two years will also depend on when the transition arrangement agreed by Council as to when the policy will take effect and can only be applied to the specific capital expenditure for which the contribution was collected. For budgeting purposes no income can be relied upon in the early years of the policy due to the stock of existing resource consents to be worked through.

9.3 Annual review

The policy will need annual review and, if required, update of development contribution fees, in response to changes to capital works and updated information contained within Council's Asset Management Plans.

9.4 Risks

The LGA sets out the key requirements of a development contributions policy, which provides the framework for the decisions to be made by Council when both deciding to use development contributions as a funding method, and when making its policy. Within that framework, the decisions to be made by Council are subject to the test of reasonableness, taking into account the information provided and submissions received as part of the special consultative procedure.

The Council will receive submissions on its draft policy once notified. Submissions are likely to test all aspects of the policy. While the final Council decision is not subject to appeal (unlike the Financial Contributions regime under the RMA) the Council's decision, could be judicially reviewed - where the Courts would subject Council's decisions to a test of legality (i.e. that the policy is within the framework of the LGA) and reasonableness.

The work undertaken has enabled a robust methodology to be developed for application to each infrastructure area and to reserves. The Committee will consider the conclusion of that work for each activity in the April meeting.

10 Conclusion

The LGA requires Council to have a policy on financial or development contributions.

There are a number of advantages in applying development contributions including recovery of the full capital cost of the additional infrastructure required for growth, as well as debt recovery, and administrative flexibility.

A key principle is that of equity between existing ratepayers and newcomers and Council can take a system-wide view of the effects of development.

The proposed policy follows the LGA's requirements for a robust methodology.

Other Councils have already introduced development contributions and others are currently developing policies.

Whilst there are some risks, these can be managed through the special consultative process with the receipt of submissions on its draft policy once notified. Submissions are likely to test all aspects of the policy.

Economic development is an issue to be aware of but capital works resulting from growth represent vital enabling infrastructure with positive growth impacts.

Contact Officers: *Sally Dossor, David Stimpson, Ross Chesney, Lorraine Gittings*

Appendix One - Advantages of development contributions under the LGA compared with financial contributions under the RMA

Charging development contributions under the LGA 2002 provides a number of advantages for the Council compared with financial contributions under the RMA, as follows:

Debt Recovery

Historically debts have arisen through the building consent process where financial contributions were not paid. The LGA 2002 s.208 has improved fee collection as it provides the power to withhold:

- Service connections,
- Certificates under 224(c) of the RMA 1991,
- Permission to commence implementing a resource consent under the RMA 1991,
- Code compliance certificate under the Building Act 2004 s.36.

Full Recovery

The LGA provides the ability to charge a higher proportion (up to 100%) of the capital cost of the additional infrastructure required for growth. Using financial contributions under the current District Plan, a maximum charge for water supply of \$2,475 was set. More advanced asset planning has shown that a higher figure is required to fairly attribute the cost of new development in certain catchment areas of the city.

Linking individual and cumulative impacts

The proposed Development Contributions Policy under the LGA allows for the link between individual and cumulative impacts on the infrastructure to be realised. The cumulative impact on infrastructure and reserves from a number of developments within a catchment may be greater or more widespread than the directly measurable local impact of each development.

This means that Council can assess the system-wide impact and charge a development contribution that covers the full cost of mitigating the cumulative impacts, e.g. Council may consider the city-wide impacts (by applying a city-wide catchment) from all developments on some infrastructure types as well as the local impacts from developments.



Administrative flexibility

By linking development contributions with the capital works scheduled in Council's LTCCP rather than through the District Plan as is the case with Financial Contributions Policy, Council has greater flexibility to change the amount and timing of development contributions in response to growth and the corresponding need to implement capital works to mitigate the effects of growth on network and community infrastructure and reserves.

Appendix Two - Example to illustrate average v marginal costs and application to methodology

Treatment plant examples illustrate the costing methods applicable to alternative provision of services.

Wastewater Examples

Treatment Plant	Shared Treatment Plant with Another TLA
<ul style="list-style-type: none"> ▪ Major city wide asset with very long life ▪ Very high cost ▪ Significant additional capacity to cater for long term growth ▪ Intention to gradually recoup additional capacity from new development ▪ All should share common costs ▪ Overall lower cost than providing several treatment plants as growth happens 	<ul style="list-style-type: none"> ▪ Purchase additional spare capacity periodically as required ▪ Purchase price of additional capacity caused by growth
	
<p><i>Therefore costs would be allocated proportionally across existing and new residents</i></p>	<p><i>Therefore marginal costs would be attributed to new EHUs</i></p>

An example application of methodology to citywide roading using average costs is set out in the following table:

Methodology	Example	Calculation
Define Catchments	Citywide Roothing	
Identify Capex resulting from growth	<ul style="list-style-type: none"> • Each new EHU is imposing increasing marginal costs on Council • Less funding from other parties (Transfund) • Difficult to differentiate LOS and growth costs in each of these many small projects • Cumulatively, these small projects provided the expected 10% growth capacity, i.e. 10% of total cost can be assumed for growth 	Total ten-year \$80m Transfund <u>\$26m</u> \$54m x 10% = \$5.4m
Define % of growth capex funded by Development Contributions	All growth capex is funded by development contributions	100%
Identify Units of Demand	Equivalent housing units to incorporate residential and commercial	EHUs
Determine design capacity for growth	Assume 10% growth over 10 years supported by Stats projection data	9120 EHUs
Allocate costs to growth EHUs	Growth costs divided by growth EHUs	5,400,000 ÷ 9120 = \$592 per EHU

Appendix Three - Summary of the Application of Methodology to Activities

Network infrastructure assets comprise water supply, stormwater drainage, wastewater and roads. These activities provide significant citywide benefits to all lots and development can affect not only the immediate area of the development but both a wider catchment area and even more remote points in the network (i.e. points of least capacity or bottlenecks).

As the city grows, a wide range of types of open spaces and facilities are required to meet the needs of the community and avoid the adverse effects of growth. These range from ensuring that there are adequate local parks in new subdivisions to visual relief and space for planting in areas of increased intensity of development and to prevent overcrowding of conservation areas while providing for the outdoor recreation needs of those living on smaller sections or apartments. As with network infrastructure, development contributions for reserves are supported on a citywide basis for amenities available for use by all residents as well as for those required within a specific catchment or an individual development.

Water Supply

- Development growth impacts water supply by requiring greater local storage capacity and associated pumping stations and improvements to water reticulation capacity overall.
- With these impacts above in mind, Council has identified:
 - Citywide catchment (excluding Northern Growth development) to reflect the need for an ongoing programme of capital works to increase the capacity of the network.
 - Northern growth catchment to provide large, efficient reservoirs and pumping stations that will more cost-effectively serve a number of subdivisions.
 - Ten water supply improvement areas that involve replacement of existing reservoirs and increasing the capacity to enable infill development.

Wastewater

- The city's wastewater is treated at three treatment plants, Moa Point, Western and Porirua.
- These treatment plants were all built with intention to provide for significant future growth, especially Moa Point which can cater for a population of 300,000 or approximately twice the current population, and where possible, to recover cost from future development.
- Geography and the need to further invest in pumping stations and reticulation mean it is currently more cost effective for the northern suburbs to use a share of the Porirua treatment plant.

- Council intends to recover a fair share of the cost of treatment plant capacity from development.
- Three catchments have been defined for each of the treatment plant service areas, comprising Moa Point catchment, Western (Karori) catchment and Porirua (northern suburbs) catchment.

Stormwater

- Citywide capital expenditure provision planned over the next ten years with prioritisation criteria identified
- Capital works focused on both level of service improvements and increase in capacity arising from growth.
- Growth and intensification increases impervious surface areas and stormwater run-off.
- Run-off volumes assumed to increase by approximately 20% as intensification levels increase land use category by land use category, e.g. from rural to outer suburban to suburban to inner city.
- Works are based on a citywide stormwater survey undertaken in 1995.
- These works typically incorporate additional capacity to provide for the impacts of forecast growth. Due to the large number and nature of the works affecting large areas of the city, the difficulty in defining benefits given the topography and uncertainty of infill growth and the need for administrative efficiency, a citywide stormwater fee is proposed.

Traffic and Roading

- Traffic growth is increasing as a result of
 - Existing residents travelling and using motor vehicles more; and
 - Population growth.
- To provide road, public transport, cycleway and pedestrian access to facilitate growth a continuing programme of citywide works is planned during the next ten years and several new link roads are planned for the two Northern Growth catchments of Churton/Stebbins Valley and Grenada/Lincolnshire.
- This programme of works is characterised by:
 - Design and prioritisation of works to mitigate the impacts of growth on congestion and access using a planning assumption of 10% development growth during the next ten years,
 - A large number of small projects spread across the city,
 - Projects which, by their nature, offer little opportunity for economies of scale which means that the marginal cost and average cost are likely to be similar,

- Closely matching capital works activity with the level and impacts of growth to cost effectively maintain levels of service.
- These capital works to provide for growth are estimated to cost \$54m over the next 10 years (after allowing for funding from Transfund).
- The capital expenditure apportioned to development growth is based on the planning assumption of 10% growth over ten years.
- In addition, the new link roads in the Northern Growth area are estimated to cost \$21.45m.

Reserves

- Reserves are established to provide playgrounds and open space for local communities, to provide citywide amenities such as botanic gardens and sports fields, for ecological reasons and to provide attractive and desirable city environs.
- Council has standards for local playgrounds and open space that set out the reserves requirements for greenfields developments.
- Established suburbs have a variety of open spaces that, in general, Council's planners consider adequate for the current needs of local residents.
- The inner city has limited open space and significant projected growth from development. Development of existing inner city parks including the waterfront and Glover Park and the purchase of land to provide additional open space suitable for the inner city population profile will provide additional capacity to cater both for the existing residents and for projected growth.
- A wide range of projects are being undertaken to increase the capacity for citywide destination reserves to enable increased numbers.
- Development contribution fees are proposed in three catchments - citywide catchment, inner city catchment and greenfields catchments.
- The reserves capital expenditure apportioned to development growth is based on the planning assumption of 10% growth over ten years and taking account of a range of factors such as type of space, accessibility, changes in population distribution across the city, etc.

Appendix Four - Implementation

Resource Consent (subdivision and land use)

Resource consent is required when an activity contravenes a rule in the District Plan. A resource consent is not required if an activity is permitted by the plan, or has existing use rights. Once a resource consent is granted it must be given effect to within 5 years or it will lapse (unless given effect to or the timeframe is extended by application)¹⁸.

The large majority of development that will result in increased EHU's will require resource consent (subdivision or land use), for example:

- Any subdivision (from a simple boundary adjustment through to a large scale greenfields development or a unit title development)
- Most developments in the Central Area, as most developments require (at the least) a controlled activity land use consent for design, external appearance and siting.
- 3 or more household units on one allotment (2 in some limited areas of Wellington) require a land use consent even if there is no subdivision proposed at the time.

Building consent

Building consents are required for building work under the Building Act 1991 (and after 31 March 2005, the Building Act 2004).

A large number of developments that require (or have obtained) resource consents will also require building consents. In the case of fee simple subdivisions the applicant for the building consent will often be different than the party that obtained the resource consent).

There will be some developments that result in increased EHU's that require a building consent but do not require a resource consent (because they do not involve subdivision or require a land use consent) for example:

- A new or altered building in the Suburban Centre – for example many large commercial buildings can be built in the Suburban Centre Area;
- Two residential buildings on one allotment (except in certain parts of the city covered by the 'character' provisions in the District Plan) when no subdivision is proposed;
- Any building development for which there is a certificate of compliance or where the activity has existing use rights.

Service Connection

Council approval is required when any connection is made to the Council's water, stormwater, or wastewater network. The approval process does not have a legislative/regulatory framework like the building consent or resource consent processes. It simply

¹⁸ Note: the RMA was amended in August 2003 to extend the 'default' lapse term from 2 years to 5 years.

involves the Council as owner of the network giving its permission to an individual property owner to connect to the network subject to certain conditions (which are in some cases stipulated by the Council's bylaws).

The process itself is currently administered by Citi-ops (for sewage and stormwater) and Capacity (for water on behalf of Council's Infrastructure division).

In reality, there are very few developments requiring a new service connection that would not require a resource or building consent. Further, Council's experience for infill development and central city redevelopment projects is that often an existing service connection is used, and no new connection is made (although it is a practice that Council is trying to change).

Choice of approach

Council's choice should be informed by information on what will be the most effective way of administering the development contribution policy across the various kinds of development that will result in an increase in demand for Council services as assessed under the policy (i.e. increased EHU's).

There are four key reasons why Council will need to select an approach that involves using a combination of the three 'triggers' – tailored for the type of development:

The first is that no one method will 'catch' all of the developments which will result in increase EHU's in order to ensure that the policy is implemented in a way that achieves the principle of equity discussed at paragraph 5.4(b) above. By way of illustration:

- Not all developments require a resource consent (either subdivision or land use)
- Not all developments require a new service connection (e.g. redevelopment of an existing site or building an additional house on an allotment that already has a service connection for water, waste and stormwater).

The second is that it is recommended that Council select the approach that targets the party who is in the best position to meet the costs. That is, while it is acknowledged that a developer who had paid a development contribution will pass it onto the purchaser of the property through the sale price, it will be more transparent if the developer meets the full cost of the increased EHU's at the first instance.

The third is that the approach chosen will inevitably influence the behaviour of the party paying the development contribution. Positive impacts should be encouraged and facilitated through the choice of option, and negative behaviours discouraged.

For example, in 2004 Council confirmed that its preferred approach is to work strategically with developers to ensure quality infrastructure, cost effectiveness for both capital and operating costs, and that system wide impacts of development are taken into consideration. This is facilitated by the assurance in the LGA that development contributions are not payable if the developer will fund or otherwise provide for the same reserve, network infrastructure, or community infrastructure. Conversely, the opposite is true. For example, if the chosen approach relied heavily on service connection applications it is likely that developers would alter their practices so that if at all possible an existing connection would be used.

The fourth is that Council has different powers under the LGA to require payment depending on the event that has 'triggered' the payment of the development contribution.¹⁹ It is recommended that the approach selected should optimise the most effective of those powers (the power to not issue a s224(c) certificate or a code compliance certificate until payment has been made) in order to reduce administration and enforcement time spent recovering sums not paid.

In addition to the discussion above, the Council's choice must be informed by implementation issues, such as:

- How to efficiently assess an application for the development contribution payable;
- How best to detect non-payment so it can be enforced.

Given that the resource consents team have existing processes in place for checking and calculating the financial contributions payable, and that the building consent process already includes a full RMA compliance check process, those two methods should be favoured over the service connection 'event', which has no such process in place.

¹⁹

See section 208LGA

Appendix Five – Community Outcomes

Council's community outcomes for the city's built environment are:

- Wellington is a great place to live and offers a variety of places to live, work and play within a high quality public environment;
- Wellington is easy to get around, pedestrian-friendly and has a highly interconnected street system;
- Wellington is a memorable, beautiful city celebrating its distinctive landmarks, defining features and heritage;
- Wellington is a compact city with mixed land use, structured around a vibrant city and suburban centres, and connected by major transport corridors;
- Wellington's form reflects the unique character and beauty of the harbour and hills.