
REPORT 3
(1215/52/05/IM)

DEVELOPMENT CONTRIBUTIONS POLICY AMENDMENTS

1. Purpose of report

To report to the Development Contributions Subcommittee on progress on the review of the Development Contributions Policy (DCP) and to seek the Subcommittee's agreement to several proposed amendments to the 2007 DCP.

2. Executive summary

The Development Contributions Policy (DCP) is a revenue policy that enables the Council to fund capital expenditure for growth related costs of reserves, network infrastructure and community infrastructure through charges on developers. The current review aims to revise the DCP for inclusion in the 2009/19 LTCCP.

This report proposes a set of specific recommendations for the Subcommittee's consideration including:

- introducing a minor dwelling provision to reflect the lower impact on infrastructure of smaller residential units and to better accommodate projected occupancy trends
- amending the non-residential development contributions formula to reflect recent trends towards more intensive space utilisation
- amending the development contributions calculation for storm-water for multi-storey development from "total EHUs" to "the greatest number of EHUs on any floor"
- developing clearer guidelines and policy to support self assessments and special assessments
- introducing a set of revised water supply catchments to more accurately reflect the network nature of water supply.

The report also identifies further work that is underway and next steps including:

- refining the development contributions policy for open spaces
- the inclusion of additional infrastructure in the Development Contributions Policy (in particular, additional community infrastructure)
- early engagement with stakeholders on the proposed changes.

3. Recommendations

Officers recommend that the Subcommittee:

1. *Note the information.*
2. *Agree to:*
 - *introduce a minor dwelling provision to:*
 - *reflect the lower impact on infrastructure of smaller residential units*
 - *better accommodate projected population growth and occupancy trends*
 - *amend the non-residential development contributions formula to reflect recent trends towards more intensive space utilisation*
 - *amend the development contributions calculation for storm-water for multi-storey development from “total EHUs” to “the greatest number of EHUs on any floor”*
 - *develop clearer guidelines and policy to support self assessments and special assessments*
 - *introduce a revised set of water supply catchments to more accurately reflect the network nature of water supply.*
3. *Note that work is still underway on:*
 - *reviewing all qualifying capital expenditure, including new planned capital expenditure arising from LTCCP planning, to identify whether there is a growth component and, if so, whether and how the expenditure can be met through development contributions*
 - *revising the policy to include interest on growth-related borrowing, following legal advice that these costs can be regarded as capital expenditure for the purposes of calculating development contributions*
 - *further refining the proposed policy changes on development contributions for open spaces, including the possible introduction of a strategic reserves acquisition programme, to be funded solely through development contributions*
 - *establishing clear parameters and operating rules for non-cash development contributions under private agreements.*
4. *Note that the outcome of this further work, and the incorporation of the decisions on recommendation 2, above, into a draft 2009- 19 Development Contributions Policy will be reported to the Subcommittee in early February 2009.*
5. *Agree that initial engagement with stakeholders on the proposed amendments to the Development Contributions Policy will be conducted in the context of the pre-draft LTCCP engagement process being planned by Citizen Engagement to be undertaken during February 2009.*

4. Background

4.1 Context

The Development Contributions Policy (DCP) is a revenue policy that enables the Council to fund some of its planned capital expenditure for extending the capacity of certain types of its infrastructure assets. The Local Government Act 2002 (LGA 02) limits the application of development contributions to recovering the growth related costs of reserves, network infrastructure and community infrastructure.

A DCP has particular significance for the Council as it permits the use of funding that is not rates-based for capital expenditures. Income received from development contributions is dependent on development actually occurring, so the extent and timing of capital expenditure to be funded by development contributions will ultimately be determined by the extent and timing of future developments. Short to medium term planning assumptions are made more difficult by the current uncertain economic climate. There are already signs of developments slowing, so care will need to be taken to monitor and respond to any variations from the predicted rates of future development.

On 5 November 2008 the Development Contributions Subcommittee considered a report on the proposed scope of the current review of Development Contributions Policy and agreed the review should include:

- reviewing the policy assumptions and methodology to ensure the DCP continues to meet LGA 02 requirements
- reviewing all qualifying capital expenditure, including new planned capital expenditure arising from LTCCP planning, to identify whether there is a growth component and, if so, whether and how the expenditure can be met through development contributions
- reviewing the statistical basis for the assumptions in the existing policy, including updating growth projections to take account of more recent Census data, and reviewing the basis for Equivalent Housing Unit (EHU) calculations
- revising catchments to reflect revised analysis (for example, rationalising the existing water catchments) and policy development (for example, centre-based planning)
- reviewing the extent to which community infrastructure is funded through the DCP to reflect Council's position that, unless there are good policy reasons, all qualifying capital expenditure arising from growth should be funded from development contributions
- reviewing the approach to development contributions policy for open spaces
- rewriting aspects of the policy to ensure it is readable, error free and clearly outlines the supporting rationale for each activity

- minor corrections and improvements to the current document (for example, to add a reference to the online development contributions calculation tool).

The Subcommittee also noted:

- that a further paper would be provided to the Subcommittee in December, to include a set of detailed recommendations which will provide a basis for initial consultation with interested parties during late January/ early February 2009
- that the proposed changes to the Development Contributions Policy will form part of the 2009/19 Long Term Council Community Plan and that the Development Contributions Subcommittee will hear submissions on the proposed amendments to the Development Contributions Policy in 2009 (in the context of the LTCCP special consultative procedure) and report its deliberations and recommendations to the Strategy and Policy Committee.

5. Discussion

5.1 *Proposed changes*

This paper proposes a set of specific recommendations for the Subcommittee's consideration including:

- introducing a minor dwelling provision to reflect the lower impact on infrastructure of smaller residential units and to better accommodate projected occupancy trends
- amending the non-residential development contributions formula to reflect recent trends towards more intensive space utilisation
- amending the development contributions calculation for storm-water for multi-storey development from "total EHUs" to "the greatest number of EHUs on any floor"
- developing clearer guidelines and policy to support self assessments and special assessments
- introducing a set of revised water supply catchments to more accurately reflect the network nature of water supply.

Further work is underway to:

- further refine the proposed policy changes on development contributions for open spaces, including the possible introduction of a strategic reserves acquisition programme, to be funded solely through development contributions
- establish clear parameters and operating rules for determining and implementing non-cash development contributions under private agreements, to minimise associated risk. This will include:
 - specifying that, where land is provided by a developer through a private reserve agreement in lieu of development contributions,

the developer will normally be required to pay development contributions to enable the Council to develop the reserve land

- providing clarity about the processes for establishing, implementing and accounting for non-cash development contributions.

5.1.1 Minor dwellings

Development contributions are assessed for residential developments on an EHU basis. Each dwelling or allotment is assessed as one EHU. The current underlying assumption in the methodology for calculating development contributions assumes 2.6 persons per EHU, based on average dwelling size in the 2001 Census. The dwelling occupancy rate remains 2.6 in the Census 2006 data, and has been basically steady from 2001 to 2006, but is projected to steadily fall from 2.57 to 2.45 over the term of the 2009/19 LTCCP. This data suggests that if the dwelling profile of the existing community remains unaltered (which is unlikely) the growth community will have an average occupancy rate of 1.9 persons per dwelling. This has significant implications for the calculation of development contributions as it suggests, other things being equal, that residential development contributions should be reduced to 73% of their current levels per EHU.

In fact, the altered composition is likely to reflect a number of changes, including existing households reconfiguring within existing housing stock. As the composition of new developments is not easily predicted, there is a strong argument that, instead of reducing the overall EHU, a new, lower EHU calculation should apply to minor dwellings. The Development Subcommittee discussed this at the 5 November 2008 meeting and was sympathetic to such an approach. The Subcommittee also raised the prospect of requiring higher contributions from very large dwellings. Appendix 1 sets out the current (Census 2006) average occupancy rates of dwellings with different numbers of bedrooms. Auckland City Council currently charges one bedroom dwellings 70% of an EHU based on the ratio of average occupancy between one and two bedroom dwellings. The equivalent analysis of Wellington data would also produce a 70% rate. This change could be offset by increasing the standard EHU for the balance of developments from 2.6 to 2.7 (the average number of residents in dwellings with two or more bedrooms). Actual collection of development contributions would then depend on a combination of the number and profile of dwellings built by the growth population, and would therefore be more sensitive to actual demographic outcomes.

There are also significant differences, on average, between one bedroom, two bedroom, and three or more bedroom dwellings (average occupancy of 1.34, 1.89 and 3.0 persons per dwelling respectively). Very large dwellings (seven or more bedrooms), however, do not, on average, have correspondingly higher occupancy rates.

It is recommended that a new single bedroom dwelling rate be introduced. Increased sensitivity could be achieved by introducing separate rates for two and three bedroom dwellings, but this could lead to significant policy complexity. While it is relatively easy to define a one bedroom dwelling as a dwelling where the maximum likely configuration of bedrooms is one, it would

become increasingly difficult to establish the actual number of bedrooms in larger homes. Introducing a minor dwelling rate would also require introducing a liability for additional development contributions in the event that further rooms are subsequently added.

5.1.2 Non-residential development formula

Non-residential calculations of development contributions use an EHU equivalency of 65 sq m gross floor area (gfa), based on an assumption that each office worker requires 25 sq m. This figure is then scaled up by a factor of 2.6, based on the average dwelling occupancy.

The original basis for establishing the 25 sq m office space requirement was on a set of studies by Richard Ellis (1998), Collier Jardine International (1998) and Kerslake (2000). The most recent Collier Jardine International survey of Auckland office space utilisation shows that office space per employee has reduced from 21 sq m in 1998 to 18.67 sq m in 2000, 17.7 sq m in 2004 and 15.6 sq m in 2008 (including all space leased – reception areas, meeting and board rooms). Some Wellington based data (eg Government agency annual reporting¹) also suggests the current gross floor area calculation is overstated and out of date. This is due to a range of factors including the impact of flat computer screens, greater use of open plan space arrangements and cost efficiency.

Office space utilisation is sensitive to building quality (13 sq m per person in premium grade buildings to 20.1 in lower graded premises). Businesses employing up to 20 employees had an average of 21.9 sq m per employee, whereas those in companies with more than 200 staff had 13.7 sq m of space each.

Wellington is unusual in applying a single standard for all non-residential developments. Other large jurisdictions generally differentiate between business types.

Arguments in favour of the current approach include:

- Wellington employment is predominately office-based.
- The facility in the policy for individual or special assessments can address different contexts (although this measure is still used as the basis for individual and special assessment calculations).
- Using less intensive measures places the council at risk that development contributions will be “under-collected” if there is a subsequent change of use from less intensive to more intensive space utilisation.

In this context it is appropriate to amend the current non-residential development contribution levels to reflect changes in the assumptions about average dwelling size and office occupancy. The Subcommittee is recommended to agree that the assumption about office space per person be reduced from 25

¹ The Department of Conservation’s new “environmentally friendly” head office accommodates one person per 21 sq m, despite significant space allocated to functions such as laboratories. IRD has an average of 20.9 sq m per person (2008 Annual Report)

sq m to 21 sq m. This is a conservative change, which reflects an expectation that smaller businesses will operate at significantly lower occupancy rates than the 15.6 sq m average established in the most recent Collier Jardine survey. The revised assumption would, in effect lead to a 19% increase in development contributions for non-residential developments.

A further change is proposed to the calculation of development contributions for storm-water for multi-storey developments. Currently contribution levels are based on total EHUs. Many jurisdictions calculate storm-water contributions based on changes to the impermeable surface area. A simpler approach, which better reflects the base calculation underlying the overall development contributions policy approach to storm-water, would be to calculate development contributions (and credits) for storm-water based on the floor containing the greatest number of EHUs. This approach could also be applied to multi-storey residential developments. This approach is recommended for agreement by the Subcommittee.

One relatively simple option to facilitate greater differentiation between different business types could be to develop operational guidelines to inform self-assessments and individual assessments, combined with a policy requirement that a subsequent change of use would automatically trigger a re-assessment. There would also need to be a requirement introduced to the DCP that any subsequent EHU credits would be assessed on the basis of the earlier self-assessment or special assessment, rather than the standard formula using gross floor area as a measure. This approach is recommended for agreement by the Subcommittee.

5.1.3 Revised water supply catchments

Officers have developed a revised set of water supply catchments that more fully recognise the network nature of water supply. For example, Karori is currently divided into three catchment areas (Western, Central – Messines, and Western Messines) because each area is served directly from a distinct reservoir. The revised approach reflects the reality that an under-capacity in any of the reservoirs can be directly addressed by shifting water from another reservoir in the wider Karori catchment that has extra capacity (ie the reservoirs act as a network).

As a consequence of this network approach to the water supply catchments, all areas (apart from rural) would now be liable for a catchment-specific development contribution, and the degree of variability in contributions from one catchment to another will be reduced (but remain significant). Detailed maps and specific changes to contribution levels will be included in the draft policy presented to the Subcommittee in February.

5.2 Further work

5.2.1 Updating the development contributions financial model

Work is still underway on reviewing all qualifying capital expenditure, including new planned capital expenditure arising from LTCCP planning, to identify whether there is a growth component and, if so, whether and how the expenditure can be met through development contributions. To date, the Financial Planning Team has analysed all projects with a capital expenditure component to more clearly separate capital expenditure for renewals from expenditure that includes, or could potentially include, a growth component that could attract development contribution funding. The development contributions financial model has been updated for inflation and to include capital expenditure for the two new out-years added to the calculation timeframe since the last full policy revision (2018 and 2019).

The Financial Planning Team is also revising the policy to assess the merits of including interest on growth-related borrowing in the Development Contributions Policy, following legal advice that these costs can be regarded as capital expenditure for the purposes of calculating development contributions.

Several areas of capital expenditure have been identified for further more detailed analysis. This analysis will involve input from the relevant business analysts, followed by discussion with Asset Management Coordinators and Project Managers. Specific recommendations can then be developed on what additional infrastructure costs (including community infrastructure) should be included in the revised Development Contributions Policy.

Following this analysis, the policy assumptions and methodology will be recorded for each area of qualifying infrastructure and reflected in the redrafted policy.

Council is potentially exposed to a range of risks through the receipt of non-cash development contributions such as land, or built infrastructure. These include issues such as unfunded liabilities to subsequently develop land and tax treatment of assets. It is important that there are clear policies and processes in place to manage the treatment of non-cash assets. The Financial Planning Team is currently working to establish clear parameters and operating rules for determining and implementing non-cash development contributions under private agreements. These will include:

- specifying that, where land is provided by a developer through a private reserve agreement in lieu of development contributions, the developer will normally be required to pay development contributions to enable the Council to develop the reserve land
- providing clarity about the processes for establishing, implementing and accounting for non-cash development contributions.

5.2.2 Development contributions for open spaces

Further work is also underway on reviewing the framework for development contributions for open spaces.

One component of the framework under consideration is the possible establishment of a strategic reserves acquisition programme to be funded solely through development contributions for strategic citywide acquisitions. In some instances, land acquired in the context of greenfield developments may, in fact, operate as a citywide strategic asset and could therefore be funded from citywide contributions. Under the proposed approach, growth related strategic city-wide acquisitions would be funded through a citywide development contribution which would encompass both greenfield sites, and in-fill sites. Draft legal advice supports this approach.

The framework will also establish a set of clear operating principles for the identification of suburban open space requirements (to be charged on a catchment basis) and green belt requirements (to be funded on a city-wide basis), and for establishing and implementing private agreements. Officers will propose a set of specific amendments arising from this work in early February 2009.

6. Communication and consultation

6.1 *Pre-draft LTCCP engagement*

In the report to the Subcommittee meeting of 5 November 2008 officials advised that informal consultation on the conceptual approach would be undertaken with targeted individuals and groups in late January/early February in advance of the formal LTCCP special consultative procedure.

Citizen Engagement is currently developing a pre-draft LTCCP stakeholder engagement process to be undertaken in February. The engagement process will include a wide range of tools and mechanisms. In the interest of efficiency, and to avoid consultation fatigue, it is recommended that pre-consultation on the key changes proposed to the Development Contributions Policy should be undertaken within this engagement process.

Subsequent consultation would be undertaken in conjunction with the LTCCP with a specific consultation plan designed to ensure interested groups are made aware of the changes and have an opportunity to comment.

7. Conclusion

The review of development contributions policy will ensure the cost of growth is accurately and fairly allocated to the growth community, consistent with Local Government Act (2002) requirements.

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Supporting Information

1) Strategic Fit / Strategic Outcome

This policy supports the Council's infrastructure needs by revising the Development Contributions Policy to ensure it is more comprehensive and methodologically sound

2) LTCCP/Annual Plan reference and long term financial impact

The Development Contribution Policy forms part of the LTCCP. Revisions to the Policy will support funding growth related infrastructure outline in the 2009/19 LTCCP

3) Treaty of Waitangi considerations

The proposal has no specific Treaty of Waitangi implications

4) Decision-Making

The report sets out a number of recommendations and reflects earlier discussion with the Development Contributions Subcommittee and internal consultation, including consideration by the Management Board.

5) Consultation

a) General Consultation

Consultation will be conducted in the context of the LTCCP special consultative procedure.

b) Consultation with Maori

Requirements to consult with Maori will be considered in developing the consultation plan accompanying the subsequent February 2008 report.

6) Legal Implications

DLA Phillips Fox have provided advice on specific legal issues arising to date.

7) Consistency with existing policy

The recommendations are consistent with core principles of the existing Development Contributions Policy.

Appendix One: Occupancy rates by dwelling type; Wellington City

	One Bedroom	Two Bedrooms	Three Bedrooms	Four Bedrooms	Five Bedrooms	Six Bedrooms	Seven Bedrooms	Eight or More Bedrooms	Not Elsewhere Included
Dwellings	6210	14526	23010	11610	2910	504	147	213	2682
Dwelling %	10.0%	23.5%	37.2%	18.8%	4.7%	0.8%	0.2%	0.3%	4.3%
People	8346	27465	61170	39636	11931	2331	558	726	6069
People %	5.3%	17.4%	38.7%	25.0%	7.5%	1.5%	0.4%	0.5%	3.8%
Average Res	1.34	1.89	2.66	3.41	4.10	4.62	3.80	3.41	2.26

Total dwellings = 61,812; Total Residents = 158,232

Average number of residents in two or more bedroom dwellings = 2.70

Average number of residents in three or more bedroom dwellings = 2.98