Development & Financial contributions Policy

22 November Council briefing

▲ Pukeariki / Belmont Trig

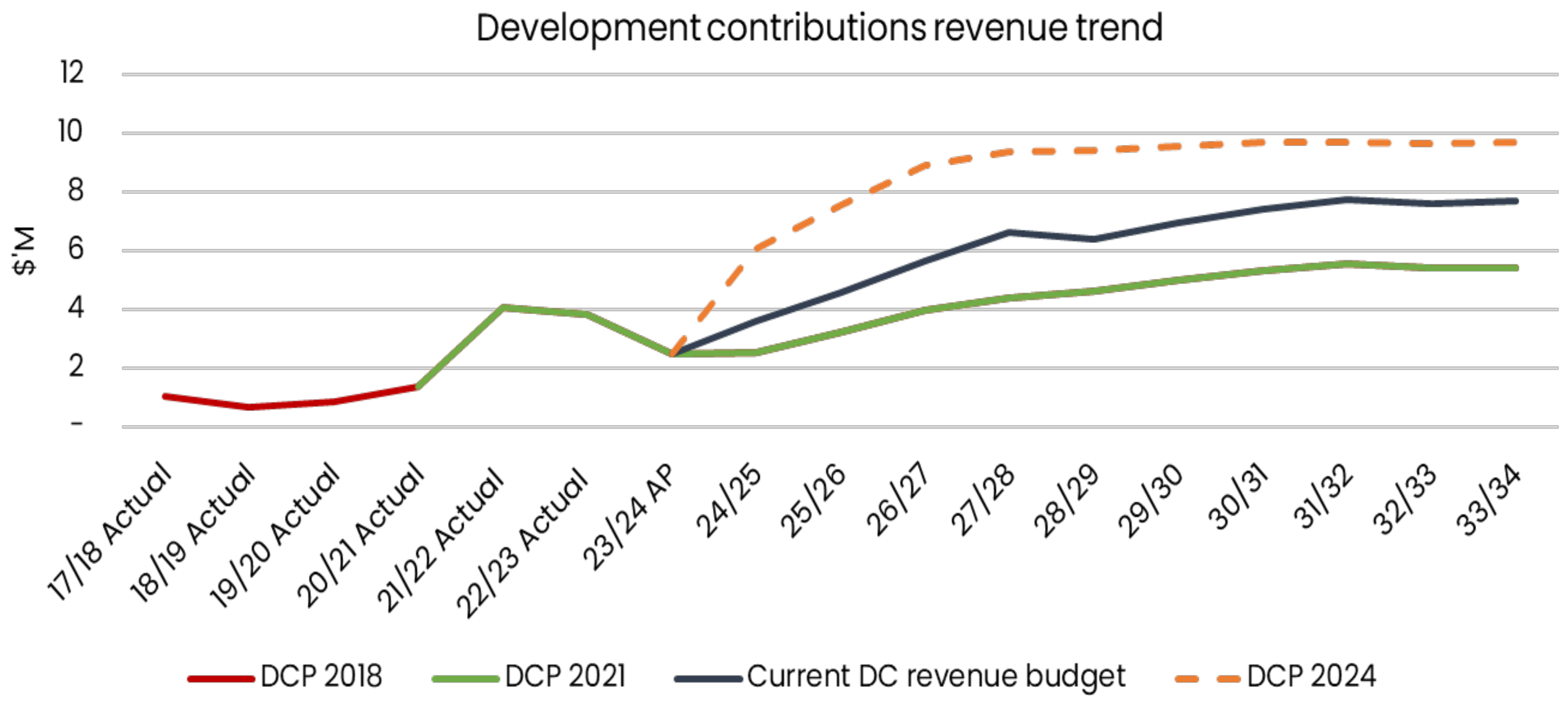
Background

Growth forecast has increased as has planned supporting infrastructure.

Proposed charges and revenue

- Higher growth and higher charges will generate more DC revenue
- Prior to the 2021 policy update these were much lower at below $1M per year
- DCP 2024 forecast is $6-$10m p.a. but will take a few years as existing consents can rely on current policy and charges
- Forecast charges are based on growth project costs over their capacity life - so range from projects starting in 2016 all the way to a few projects starting in year 11 of the DLTP.

Revenue – Development Contributions



- The DCP 2024 proposed charges are based on the current Council decisions and are subject to change.
- The actual revenue trend has been an increase with budgets set at conservative levels.

- The effect of these increases in the overall financial projections for the DLTP will be diluted as the IAF revenue has already been budgeted through AP24 (on the assumption that the policy would be updated through the LTP).

Previous Council in principle decisions (30 June 2023)

- Retain a policy where 100% of the growth capex is funded by developments (via DCs)
- Include development contributions for update three waters and transport infrastructure programmes;
- Include community infrastructure (such as public amenities, halls, recreation centres, libraries, public space improvements etc.)
- Introducing a fourth category of residential unit for 4 or more bedrooms
- Provisions that support the principles set out in the Preamble to Te Ture Whenua Māori Act 1993

Infrastructure Supporting Growth

- Forecast costs have increased, and new infrastructure introduced into the capital programme
- 2021 LTP -$500m growth related infrastructure with $100m funded by DCs
- 2024 draft LTP - $1.6b growth related infrastructure with $232m funded by DCs (**based on decisions to date and includes costs before year 1 and beyond Year 10 of the DLTP**)
- DCs have increased significantly as a consequence
- Generally looking at past + 10 years of capex with a couple of exceptions.

Infrastructure Supporting Growth – Caveats

Three Waters:

- Still awaiting some updates from Wellington Water
- Still reviewing data from Wellington Water – e.g. cost allocation and capacity life period
- above can lead to changes in the charges

Transport:

- Waka Kotahi funding uncertainties – can lead to changes in the charges

Infrastructure Supporting Growth

Total Capex	Water	Wastewater	Stormwater	Transport	Total
Gross capex ($M)	$279	$575	$307	$458	**$1,619**
Growth capex ($M)	$68	$77	$52	$77	**$273**
DC funded capex ($M)	$68	$76	$52	$38	**$233**
Capex % funded from development contributions	24%	13%	17%	8%	**14%**
Capex % funded from other sources	76%	87%	83%	92%	**86%**

Infrastructure Supporting Growth – Key Transport Changes

- New - the East Access route ($26m) – 5% DC funded.
- New - Intensification improvement / Subdivision road improvements ($40m) – 37.5% DC funded.
- New - Riverlink pedestrian bridge ($25m) - 5% DC funded.
- New - Riverlink Streetscape upgrades ($24.5m) – 5% DC funded.
- Various other changes

All the above new projects have no DC revenue included in budgets or financial projections.

Infrastructure Supporting Growth – Key Three waters projects

Water

- Increase – Naenae reservoir and outlet main - $83.7m (50% DC funded) was $33.5m
- Now phased beyond 10 years but included in calculations - Wainuiomata reservoir – $39.5m (50% DC funded)

Wastewater

- New – IAF – Wastewater –$38.3m (100% DC funded)
- New – Main outfall renewal and upgrade – $42.3m (next 10 years, 7% DC funded)
- Increase – Wainuiomata wastewater projects costs $18.7M (62% DC funded) – was $12.8m
- Decrease - costs associated with treatment plant upgrades within next 10 years reduced from $33.3m to $9.7m

Infrastructure Supporting Growth – Key Three waters projects

Stormwater

- New – IAF – Stormwater $135.6m (27% DC funded)
- New - Petone flooding – $41.25m (5% DC funded)
- Increase – Blackcreek flooding - $25.4m (40% DC funded)
- Many new smaller newer projects – e.g. circa $5m Eastbourne, $8.5m in central city

2021 Policy - Current Charges (GST Exc)

	Eastbourne	Stokes Valley	Valley Floor	Wainuiomata	Western Hills	Rural	District Wide
Transport	$0	$0	$0	$0	$0	$0	$2,171
Water	$0	$0	$6,678	$10,768	$1,070	$0	$297
Wastewater	$580	$580	$580	$4,804	$580	$0	$2,772
Stormwater	$751	$13	$139	$1,583	$77	$0	$212
Total	$1,330	$593	$7,397	$17,156	$1,727	$0	$5,454
Charge per EHU	$6,784	$6,047	$12,851	$22,609	$7,180	$2,171	$5,454

2024 policy update – Revised Charges (GST Exc)

	Eastbourne	Stokes Valley	Valley Floor	Wainuiomata	Western Hills	Rural	District Wide
Transport	$0	$0	$0	$0	$0	$0	$4,832
Water	$0	$0	$9,480	$11,178	$604	$0	$251
Wastewater	$0	$1,964	$10,942	$10,634	$1,904	$0	$2,548
Stormwater	$2,654	$67	$9,367	$5,878	$98	$0	$180
Total	$2,654	$2,031	$29,789	$27,690	$2,606	$0	$7,811
Charge per EHU	$10,465	$9,842	$37,600	$35,501	$10,417	$4,832	$7,811

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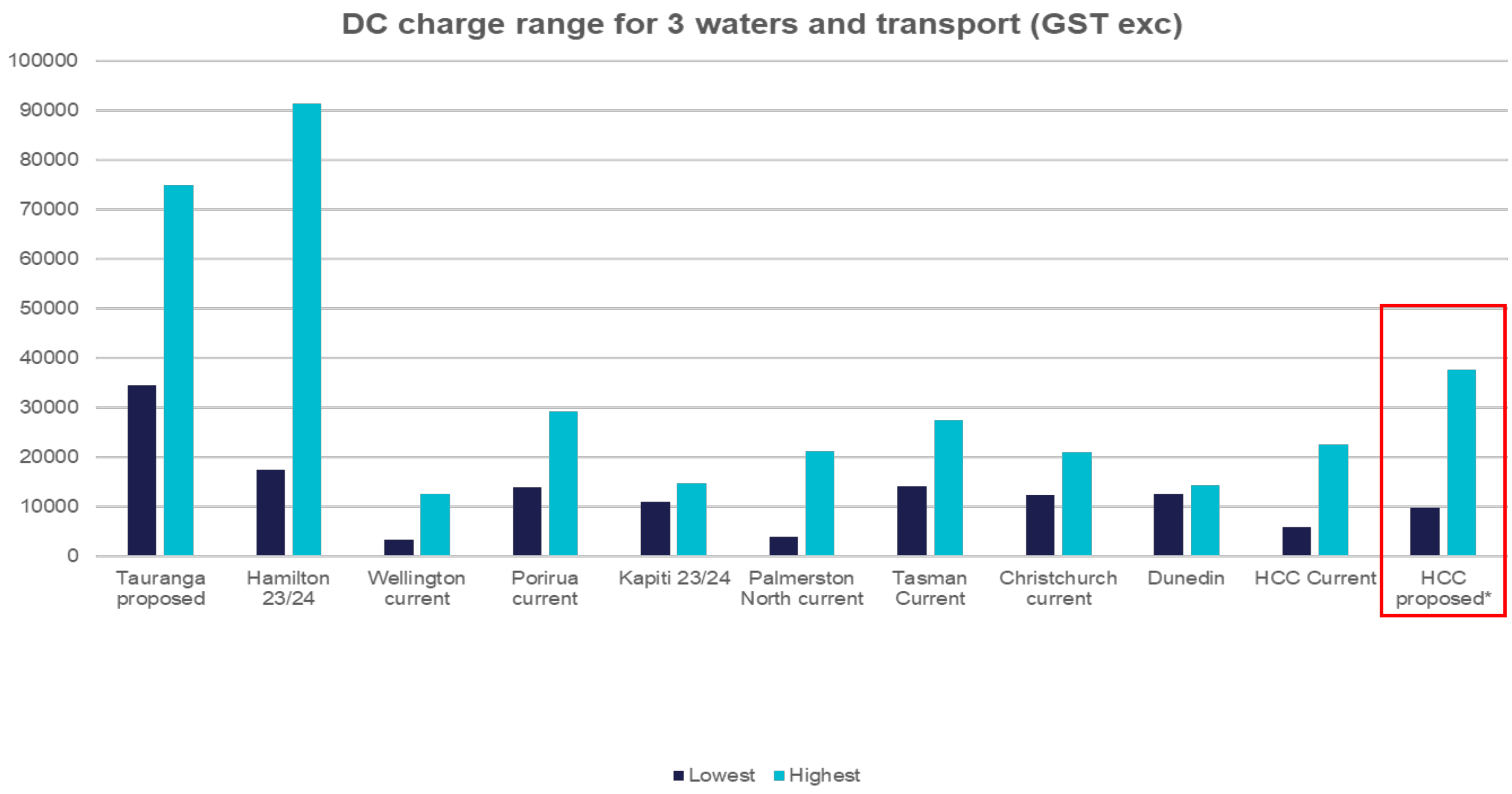
Change in charges

	Eastbourne	Stokes Valley	Valley Floor	Wainuiomata	Western Hills	Rural	District Wide
Transport	$0	$0	$0	$0	$0	$0	$2,661
Water	$0	$0	$2,802	$410	-$466	$0	-$46
Wastewater	-$580	$1,384	$10,362	$5,830	$1,324	$0	-$224
Stormwater	$1,903	$54	$9,228	$4,295	$21	$0	-$32
Total	$1,324	$1,438	$22,392	$10,534	$879	$0	$2,357
Change per EHU	$3,681	$3,795	$24,749	$12,892	$3,237	$2,661	$2,357

DC comparison graph

Comparative charges presented below are based on 2023-24 annual plans and will likely change through the LTP2024.



Te Ture Whenua Māori Act 1993

- Obligation to support the principles set out in the Preamble to Te Ture Whenua Māori Act 1993
- Positive action is required by the Council towards assisting in achieving the desired outcome of the Act
- Removing, or reducing the barriers to development and full utilisation of the land
- Must be more than "doing no harm" or taking a neutral view
- Should strengthen the position of Māori landowners to retain ownership of the land and to use the land for the benefit of themselves, their whānau, and their hapū

Te Ture Whenua Māori Act 1993

- HCC has a policy for rates remission that supports this obligation
- Provides a useful framework for development contributions too:
  - Targets support to Māori freehold land and other land in collective Māori ownership, with well-defined constrains around the latter.
  - Provides support for cultural and community focused development and use of land, as outlined in section 4 of that policy.
  - Provides discretion to adjust any remissions based on the extent to which a development supports the outcomes supported in section 4 of that policy.
  - Was previously consulted on with Māori.
- Recommend incorporating rates remission policy by reference

Remissions and discounts – Current

Current policy has scope to reduce charges:

- Demand based reductions – special assessments and reduced amendments for smaller homes
- Remissions – wide discretion but with underpinning principles e.g. avoided costs to council

No changes proposed to these

Remissions and discounts

Housing outcomes – e.g. urban design:

- Primary purpose of DCs is to fund growth infrastructure
- Demand based reductions already in place (e.g. environmentally sensitive design and smaller homes)
- Discounts not justified on demand grounds shifts costs of infrastructure to rates, but without transparency
- Conflicts with funding principle of growth pays for growth

Do not recommended using DCs to influence other housing outcomes, budgets funded from rates provide more transparency.

Options for draft policy

A. Retain current funding policy and programme

B. Revisit growth pays for growth principles in one or more areas or activities

C. Change catchment approach – e.g. one catchment

D. Limit capex window to 10 years for all project and areas (reduces Wainuiomata's charges to circa $33k).

Officer's recommendation is option A – consult on draft policy and charges before considering changes.

Questions?

Appendix 1

Appendix 1: Background information on development contributions

1. Development contributions are charges that may be levied under the Local Government Act 2002 (LGA) that enable councils to "…recover from those persons undertaking development a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term".

2. This recognises that most growth-related developments will create a need for new or increased infrastructure capacity.

3. Development contributions can be levied on people undertaking development such as subdivisions, new homes, changes in land use and, new or altered non-residential buildings. Development contributions may be required upon the granting of a resource or building consent (or a certificate of acceptance), or a service connection authorisation if a development is generating a demand for an activity covered in the council's Development Contributions Policy (DCP) for that area (see discussion below on assessment).

4. Every council must adopt a policy on development (and financial) contributions as part of a suite of funding and financial policies under the LGA and that policy must be reviewed at least every three years. However, the choice of whether to use development contributions (and to what extent) is Council's. This choice is guided by the Council's overall approach to funding its activities as outlined in its Revenue and Financing Policy and the scale of growth, and growth-related costs, expected. Development contributions are more suitable when growth and growth costs justify the operating costs of developing and administering the policy.

5. If development contributions are used, the policy (which includes the charges) and supporting processes must comply with a range of requirements in the LGA, including the overarching principles set out in section 197AB. The principles affect:

   - The calculation of development contribution charges and the liability of individual developments for paying them (s.197AB paragraphs (a), (b), (c) and (g)).
   - Policy transparency and accountability (s.197AB paragraphs (d), (e) and (f)).

6. Collectively, the principles encourage councils to develop DCPs that provide:

   - Fairness and equity: Ensure that those who create a need for new or additional assets/capacity, contribute a proportionate share of the cost of providing those assets/capacity.
   - Simplicity: Ensure that the DCP is easy to understand and administratively simple to apply.
   - Certainty and transparency: Provide developers with a clear understanding of what will be funded from development contributions, what they will have to pay towards those costs, and when.
   - Consistency: Ensure that like developments are treated in a like manner.

7. Development contributions can be used to partly or fully fund the total cost of capital expenditure incurred by council on community facilities, provided they are needed to provide for growth. Community facilities means:

- Network infrastructure: The provision of roads and other transport, and water, wastewater, and stormwater collection and management.
- Reserves: The acquisition of land or development of parks and reserves.
- Community infrastructure: Land, or development assets on land, owned or controlled by the council for the purpose of providing public amenities. This is a wide definition and can potentially include community centres or halls for local or neighbourhood use, play equipment on neighbourhood reserves, public toilets, recreation and sports complexes and pools, and libraries.

8. DCPs must state the activities (water, wastewater etc) that development contributions will be required for. The names and coverage of the activities can be chosen by the council provided they come within the meaning of network infrastructure, reserves, or community infrastructure.
9. A council may also have more than one catchment affecting the same area for similar activities - but not to fund the same assets. For example, a council can set a district-wide charge for community facilities that funds a large pool complex that serves the whole district and set separate charges for local community facilities provided in smaller catchments.
10. Growth related expenditure of council-controlled organisations can also be recovered through development contributions by the council where the expenditure is or becomes capital expenditure of the council – such as capital expenditure of a Council Controlled Organisation.
11. Development contributions cannot be used to fund:
    - Costs of developing or administering the policy.
    - Operational or maintenance costs of community facilities.
    - Capital expenditure incurred by other entities such as Waka Kotahi the New Zealand Transport Agency.
12. A fundamental aspect of development contributions is that they are based on recovering the identified total cost of capital expenditure for growth for particular activities and catchments. This can include expenditure that has already been incurred in anticipation of development; capital expenditure identified in the long-term plan; and capital expenditure beyond the period covered by the long-term plan (if it is identified in the DCP). Any finance or interest costs associated with the growth programme can also be capitalised and recovered through development contributions.

13. As individual contributions are collected, the revenue raised is applied to that capital programme.

14. Development contribution charges for each activity reflect a share of the cost of providing capacity in that activity for new developments – quantified via a common unit of demand (discussed below). In this respect, the calculation relies on a simple relationship.[1]

$$\text{Development contribution charge per unit of demand} = \frac{\text{Infrastructure growth costs}}{\text{Growth capacity provided (measured in units of demand)}}$$

15. While simple in principle, development contribution charges can be difficult to calculate and administer in practice. The calculation relies on good information about expected growth, the programme needed to support that growth, and defensible estimates of growth costs and the capacity life of the assets in the programme. The proportion of the cost of each asset attributed to growth must be determined according to, and be proportional to, the persons who will benefit from the assets to be provided (including the community as a whole) as well as those who create the need for those assets.
16. The calculation may also need to account for inflation, interest costs, and depending on your funding model, indexing.
17. Council must also determine the unit of demand to use in the policy and the calculations. The most common unit of demand used by councils is based on the demands a nominal household places on infrastructure. For example, 600 litres per day for water, 8 trips per day for transport, or 300 metres of impervious surface area for stormwater. This unit of demand is called a EHU (Equivalent Household unit) in Hutt City's DCP.
18. The demand on infrastructure that different types of developments generate is assessed relative to an EHU. The policy must specify how many EHUs to attribute to particular developments or types of development on a consistent and equitable basis. Typically, that means specifying the different types of development that are subject to the policy, and pre-determining the EHU rates that will apply. In addition to residential development, common development types used are commercial, industrial and retail. For example, commercial developments may be assessed at 0.4 EHUs per 100m2 of gross floor area for water and wastewater activities.
19. The higher the number of EHUs a development or development type is assessed at, the higher the charges that will be levied. The formula below and applied separately

[1] This is essentially the relationship conveyed in LGA02 Schedule 13.

for each activity. The charges for each activity are then summed to give a total charge for a particular development.

Development contribution charged	=	Per EHU charge	x	Assessed EHUs

Assessment and payment

20. To be able to require a development contribution for a subdivision, building, land use, or work when granting a consent or authorisation, the council must first confirm:

21. It is a development as defined by LGA02 s.197 (i.e., it generates a demand for reserves, network infrastructure, or community infrastructure).

22. The effect of the development (either alone or cumulatively with other developments) is to require new or additional assets or assets of increased capacity and, as a consequence, the council will incur (or has already incurred) capital expenditure to provide appropriately for reserves, network infrastructure, or community infrastructure (LGA02 s.199 – often referred to as the 'causal nexus test').

23. The development is subject to development contributions under the council's DCP (LGA02 s.198(2)).

24. In addition, the purpose or infrastructure for which a contribution is required must not be funded or provided in some other a way that would result in the requirement being contrary to LGA s.200. For example, if the council has already charged a financial contribution for the same purpose for the same development.

25. Council may undertake a separate assessment at each step in the development process – resource consent, building consent, and service connection for example. However, it must recognise credits for any previous assessment or payments.

26. The assessment for a development made by council is potentially subject to three separate challenge processes – an internal reconsideration process, an objection heard by independent commissioners, and judicial review.

27. Councils are free to determine the timing of payment of development contributions once an assessment is made. Until development contributions have been paid, a council may:

- Prevent the commencement of a resource consent.
- Withhold a certificate under section 224(c) of the RMA.
- Withhold a code compliance certificate under section 95 of the Building Act 2004.
- Withhold a service connection to the development.

- Withhold a certificate of acceptance under section 99 of the Building Act 2004.
- Register the development contribution under the Land Transfer Act 2017, as a charge on the record of title of the land in respect of which the development contribution was required (discussed below).