REPORT 3

DEVELOPMENT CONTRIBUTIONS POLICY

1. Purpose of report

This report recommends changes to the Council's Development Contributions policy to:

- Reduce unnecessary costs to developers in doing business with Council
- Streamline the Development Contribution application, development, assessment, and planning processes
- Change the invoicing date to when a building is occupied or sold
- Reduce the development contribution levies (cost to developers) where the Local Government Act 2002 amendment bill (No 3) proposes changes under which local authorities would no longer be able to charge development contributions for community infrastructure, or charge commercial developments for reserves contributions
- Introduce a remission for significant 'green' building developments to recognise their strategic importance in the city.

2. Executive summary

The Council has programmed a staged review of its development contributions policy which will conclude with the development of the 2015-16 Long-term Plan. The key areas of work being addressed through the review include:

Stage 1

- Making the Council's policy simpler to administer and delivering options to facilitate economic growth through changes to the policy
- Collaborating with Council's across New Zealand to ensure the proposed legislative change is robust and implementing the changes likely to be required by 1 July 2014.

Stage 2

- Reviewing the level of infrastructural investment planned to provide for population and employment growth in Wellington through the Council's asset management plans and reviewing the level of funding required from development.

The results of the review to date have highlighted some opportunities to make the Development Contributions process more effective for the city. These are:

Signal & implement in January 2014

Change the invoice trigger from the current practice at the issuance of the Code of Compliance Certificate (CCC) to 'income' date (when the building is either occupied or sold) for all properties that apply and have 10 or more units in development.

Signal now & Implement in 2014/15

Development Contributions Remission for Green Buildings
Reduce DC fees by 50% from the standard Equivalent Household Unit (EHU) calculation for developments receiving a green rating.

Buildings Under Construction
Remit 100% of sector targeted (Commercial & Residential) rates for buildings under construction (this would expand the scope of the current "buildings under construction" rates remission - currently developers do not pay the Downtown Levy rate while under construction). This opportunity is recommended in report 4 'Earthquake Strengthening – Incentives and support'.

Lower DC Levies and make the information more transparent - Reduce the amount of capital expenditure funded by DC's
Remove community infrastructure levies (libraries, swimming pools, sports fields) which are funded by residential developments (approx 25% of residential levies) and remove reserves levies for non-residential developments (between 7 – 25% of non residential development levies).

The recommendations in this paper focus on the first stage of the review with the related amendments being proposed to the policy to be consulted on as part of the 2014/15 Draft Annual Plan. These changes will advance the council's 'open for business' philosophy and facilitate growth in the Wellington economy.

3. Recommendations

Officers recommend that the Governance, Finance and Planning Committee:

1. *Receive the information.*

2. *Agree the proposed amendments to the Development Contributions policy as outlined in appendix 1.*

3. *Agree to recommend to Council that the implementation of the existing Development Contributions policy be changed to include an invoicing 'trigger', upon application, based on the occupation or sale of a building rather than on obtaining a Code of Compliance Certificate.*

4. *Agree that the proposed amendments to the Development Contributions policy be consulted on as part of the 2014/15 Draft Annual Plan using the special consultative procedure.*

5. *Agree that officers proceed with work on further options for the Development Contributions Policy as detailed in 'stage 2' in the executive summary in this report.*

6. *Note the Development Contributions Policy will be reviewed alongside the 2015-25 Long-term Plan as the setting of the capital expenditure programme determines the Development Contributions levies.*

4. Background

Research and consultation completed by the Department of Internal Affairs during it's review of Development Contributions as prescribed in the Local Government Act 2002, show that there is general agreement from all sectors that Development Contributions have a role to play in Local Government funding. This is supported by the analysis conducted by council officers. This rationale is based on a 'causal nexus' - that new developments cause demand for new infrastructure. These reviews recommend some areas of improvement, mainly around increased transparency over what expenditure the levies are funding, and that there is not inappropriate expenditure being funded by DC's. There was also a desire to introduce an objection process The latter is addressed in proposed legislative changes.

In addition to this the Council has been looking for ways to support economic growth in Wellington and to improve its interactions with the commercial sector under its 'open for business' approach.

5. Discussion

The Council has been working to develop a programme of initiatives aimed at facilitating growth in the Wellington economy. The Council's development contributions (DC) policy was identified as one area where the Council could make a significant impact in making the Council more 'open for business'.

This work also includes changes that are expected to result from the recent release of a series of changes proposed to the Local Government Act by the Government. Some of the proposed legislative change will affect the Council's development contributions policy and its ability to fund some capital expenditure incurred to provide for growth in the city. The review has therefore focused on these areas and four options have been identified in stage 1 of the review:

1. **Align DC payments required with developers cash flows** – The Council is actively seeking to reduce the cash flow burden on developments that are not yet receiving an income (that are not open for business) and so is proposing to allow developers the opportunity to change their invoice/payment, on application, from Code of Compliance Certificate (CCC) to the 'income' date (wait until the building is either occupied or sold) by up to 2 years maximum. This will be applicable for all properties that apply and have 10 or more Equivalent Household Units in the development.

2. ***Recognition for significant 'Green' rated Buildings*** – The Council is proposing to recognise the strategic benefit of Green Buildings in the City– It is proposed that developers will be able to apply for, and receive, a 50% reduction in the standard Development Contributions levy assessment which reflects the strategic importance of developing good quality green buildings in Wellington.

   This remission should also significantly reduce the level of spending required for external consultants, lawyers and officers for both developers and the Council to assess applications for self assessments of development contributions for green buildings.

3. **Implement requirements of proposed legislative change** – In November Central Government announced another suite of changes to the Local Government Act (LGA). There were some significant changes proposed to the Development Contributions legislation within the LGA, which Council is currently working through. Officers are collaborating with a NZ wide Council DC officer working group on a joint submission to the Local Government and Environment Select Committee. It is expected that submissions will be called for in December 2013 and will close at the end of February2014. The Council is also likely to prepare a submission for Wellington City Council which will include our response to the other legislative change proposed as well.

   In anticipation of the legislative change it is proposed Council proactively removes the charges for community infrastructure levies (libraries, swimming pools, sports fields etc) which are levied on residential developments and also remove reserves levies for non-residential developments

5.1 Consultation and Engagement
In the development of these proposed policy changes many parties have been consulted. The significant consultations have been carried out by the Department of Internal Affairs, Personal Communications with the Wellington Development community by WCC Finance, Planning and Policy officers, and also during the development of the Economic Development strategy. The amendments to the Development Contributions policy is recommended to be consulted on as part of the 2014/15 Draft Annual Plan using the special consultative procedure

5.2 Financial considerations
The Financial considerations associated with this proposal mainly relate to:
- DC revenue timing –from code of compliance certificate to 'occupation'. The deferred payment option will defer Development Contribution income for applicable developments by up to 2 years. It is unlikely that this will have a significant impact as the time delay between the issue of the current invoice trigger and occupation of a building (proposed invoice trigger) will be minimal. This is because larger new developments generally have tenancy contracts before construction begins, and

construction contracts work to construction deadlines (with penalty clauses for delay). The risk is that if developments occur and are not occupied for two years then there will be a lower than forecast DC revenue, having the impact of not being able to repay borrowings by this amount, which increases the forecast interest cost As the current total DC revenue is averages $3.1m p.a. then the interest on half of this would equate to around $90,000 p.a. at a maximum. The impact has been included in the proposed budget in report 5 with an extra $45,000 interest budgeted.

- Reduction in DC income as a result of removing 'Community infrastructure' and removing reserves contributions from commercial developments – as proposed in the Local Government Act 2002 amendment (No 3). Overall these combined impacts could lead to an up to 25% reduction in current DC income. The proposal of a reduction of levies by 50% for 'green' rated buildings that are over 10 EHU's in size, will reduce the overall Development Contributions that funds the borrowings related to this cost. This impact has been forecast at a $1.7m reduction from current budgeted levels over an average of 6 months, as a result of the remission on applicable buildings. The level of this cost recovery income (and therefore income reduction) is included in the proposed budget included in report 5, as increased interest on borrowings at $42,000 p.a.

- Financial advantages from these changes include benefits to the city from improving processes and mechanisms to encourage high quality building developments in the city. This consequently contributes to economic growth during the development and through subsequent business activity from the development. These developments also benefit the Council by increasing the value of the ratepayer base which reduces the rating taxation impost on existing ratepayers, and/or allows for additional services to be funded without increasing the impost on existing ratepayers.

- Financial considerations of related rates remissions of building under construction (relating to DC's) are considered as part of the 'earthquake strengthening - incentives and support' paper.

5.3 Climate change impacts and considerations
None.

5.4 Long-term plan considerations
The Development Contributions Policy will be reviewed again as part of the 2015/16 Long Term Plan as the setting of the Capital Expenditure programme determines the Development Contributions levies

6. Conclusion

Development Contribution revenue (cost recovery) remains an important and equitable funding tool to local authorities across the country, based on the demand for new infrastructure developments create. A review of the implementation and impact on 'users' of the policy has highlighted some improvements that can be made to streamline the process. These amendments, when combined with levy exclusions proposed in the amendment to the local Government Act 2002 (No 3) will also reduce the cost of doing business with council. These proposed changes also contribute to one of the economic development strategy support mechanisms – helping make the council and the city 'open for business'.

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SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The policy supports Council's overall vision of Wellington Towards 2040: Smart Capital. The policy supports Council activities as a provider of infrastructure services. Agreement to the policy will contribute to Council meeting the outcome of offering a low intervention process and reduce the cost of development contributions, and recognise the wider benefits of the developments.

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

The policy creates a funding mechanism which recovers the cost of capital expenditure required for population and workforce growth. The changes indicated here will lead to a reduction in the revenue collected for this purpose due mainly to proposed changes in the Local Government Act 2002 which excludes some capital expenditure items, which are currently being recovered by DC levies .

3) Treaty of Waitangi considerations

None

4) Decision-making

This is not a significant decision. The report sets out a number of options and reflects the views and preferences of those with an interest in this matter who have been consulted with.

5) Consultation

A subset of affected parties have been consulted with during the development of these proposals . See section 5.1 above

6) Legal implications

Council's lawyers have been consulted and provided legal advice during the development of this report.

7) Consistency with existing policy

This report recommends certain measures which are intended to improve consistency with existing WCC policy, such as the Economic Development Strategy and rates remissions policy

APPENDIX 1

Proposed changes to the Development Contributions policy, effective 1 July 2013.

Changes and impacts to section 2.4.2

Summarised schedule of development contributions with proposed impacts of policy changes

	City Wide ($ per EHU)		Catchment Specific Infrastructure ($ per EHU)				Total		Impacts of policy change proposed as part of 2014/15 AP			
Policy Map Zone	Residential	Non-Residential	Water Supply	Waste Water	Transport	Reserves	**Residential**	**Non-Residential**	Residential Levy Excluding Community Infrastructure	% Change	Non-Residential Excluding Reserves	% Change
A Roseneath	$ 4,377	$ 2,723	$ 2,360	$ 1,185	$ -	$ -	$ 7,921	$ 6,268	6,438	-19%	5,588	-11%
B Karori	$ 4,377	$ 2,723	$ 1,720	$ 2,440	$ -	$ -	$ 8,537	$ 6,884	7,053	-17%	6,204	-10%
C Beacon Hill	$ 4,377	$ 2,723	$ -	$ 1,185	$ -	$ -	$ 5,562	$ 3,908	4,078	-27%	3,229	-17%
D Brooklyn -Frobisher	$ 4,377	$ 2,723	$ 1,156	$ 1,185	$ -	$ -	$ 6,718	$ 5,064	5,234	-22%	4,385	-13%
E Kelburn	$ 4,377	$ 2,723	$ -	$ 1,185	$ -	$ -	$ 5,562	$ 3,908	4,078	-27%	3,229	-17%
F Johnsonville-Onslow	$ 4,377	$ 2,723	$ 1,193	$ 1,185	$ -	$ -	$ 6,755	$ 5,101	5,271	-22%	4,422	-13%
G Ngaio	$ 4,377	$ 2,723	$ 850	$ 1,185	$ -	$ -	$ 6,412	$ 4,759	4,928	-23%	4,079	-14%
H Maldive	$ 4,377	$ 2,723	$ -	$ 1,185	$ -	$ -	$ 5,562	$ 3,908	4,078	-27%	3,229	-17%
I Churton-Stebbings	$ 3,903	$ 2,250	$ 2,939	$ 722	$ 3,176	$ -	$ 10,740	$ 9,087	9,257	-14%	8,407	-7%
J Grenada-Lincolnshire	$ 3,903	$ 2,250	$ 4,082	$ 722	$ 1,184	$ 295	$ 10,186	$ 8,533	8,703	-15%	7,558	-11%
K Maupuia	$ 4,377	$ 2,723	$ -	$ 1,185	$ -	$ -	$ 5,562	$ 3,908	4,078	-27%	3,229	-17%
L Newlands	$ 4,377	$ 2,723	$ 851	$ 722	$ -	$ -	$ 5,950	$ 4,297	4,467	-25%	3,617	-16%
M Melrose	$ 4,377	$ 2,723	$ 1,996	$ 2,440	$ -	$ -	$ 8,813	$ 7,159	7,329	-17%	6,480	-9%
N Central & Coastal	$ 4,377	$ 2,723	$ 873	$ 1,185	$ -	$ -	$ 6,435	$ 4,782	4,951	-23%	4,102	-14%
O Tawa	$ 4,377	$ 2,723	$ -	$ 722	$ -	$ -	$ 5,099	$ 3,446	3,616	-29%	2,766	-20%
P Wadestown	$ 4,377	$ 2,723	$ 2,333	$ 722	$ -	$ -	$ 7,432	$ 5,778	5,948	-20%	5,099	-12%
Rural	$ 3,423	$ 1,770	$ -	$ -	$ -	$ -	$ 3,423	$ 1,770	1,940	-43%	1,090	-38%
Q Inner city Residential	$ 4,377	N/A	$ 873	$ 1,185	$ -	$ 1,878	$ 8,313	N/A	6,829	-18%	N/A	N/A
Q Inner city Non-Residential	N/A	$ 2,723	$ 873	$ 1,185	$ -	$ 235	N/A	$ 5,016	N/A	N/A	4,102	-18%
R Johnsonville	$ 4,377	$ 2,723	$ 1,193	$ 1,185	$ 2,108	$ -	$ 8,863	$ 7,209	7,379	-17%	6,530	-9%
S Adelaide Road	$ 4,377	$ 2,723	$ 873	$ 1,185	$ 3,856	$ -	$ 10,291	$ 8,638	8,807	-14%	7,958	-8%
T Pipitea Precinct - Resdiential	$ 4,377	N/A	$ 873	$ 1,185	$ 2,644	$ 1,878	$ 10,956	N/A	9,473	-14%	N/A	N/A
T Pipitea Precinct - Non Residential	N/A	$ 2,723	$ 873	$ 1,185	$ 2,644	$ 235	N/A	$ 7,660	N/A	N/A	6,746	-12%

Delete existing section 2.6 and insert replacement section 2.6 as follows:

2.6 Remission and postponement

The Council may grant a remission on development contributions at its complete discretion.

Applications made under this part will be considered on their own merits and any previous decisions of the Council will not be regarded as creating precedent or expectations.

To encourage economic development and recognise the strategic importance of green star rated buildings a standard remission equating to 50% of the total standard assessed levy can be applied for developments that meet the criteria outlined below.

Conditions and criteria for 50% Remission to standard assessment of development contributions levies

A remission of the general rate, downtown levy, targeted commercial or residential rate may apply under the following conditions and criteria:

i. If the building is a commercial or mixed development of greater than 10 equivalent household units it must have received a 5 Star Green Star Certified Rating or higher

ii. the remission must be applied for within 12 months of the Development Contributions being assessed by Council.

iii. the remission will only apply to the standard DC assessment (hereinafter referred to as "the levy") made on the property.

iv. the remission will not be available retrospectively once the Council has invoiced the Development Contributions levy.

Insert the following paragraph into section 3 'Assessment and Payment':

Liability should construction not commence within two years

Should construction of a development not commence within two years of being granted building consent, the remission of charges and fees provided under this policy shall no longer apply. At that stage, all fees and charges will be fully payable for the development as per usual. Commencement of construction will be deemed to have occurred when the activity for which a resource and building consent has been issued, has commenced.

Add the text underlined to clause 3.3.2:

Security

The Council may register any development contributions under the Statutory Land Charges Registration Act 1928 as a charge on the title of the land in respect of which the development contributions were required, as provided for in section 208 of the Local Government Act 2002 <u>or it may require other appropriate security as agreed with the developer.</u>

Community Infrastructure

Delete all references and levies relating to 'community infrastructure' from the Development Contributions policy

Reserves Contributions

Delete all references and levies relating to non-residential 'reserves' from the Development Contributions policy

Delete clause 3.2.9 and replace it with the following:

3.2.9 Payment

All development contributions required by the Council must be paid prior to the Council issuing a code of compliance certificate, a section 224(c) certificate, a consent for a service connection or giving effect to a land use consent (as the case may be), unless a payment delay application has been approved by the Council.

Consequential amendments

Consequentially amend all other related clauses in the policy to give effect to the changes above.