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## **DEVELOPMENT CONTRIBUTIONS POLICY REVIEW**

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### **1. Purpose of Report**

The Council is required under section 106(6) of the Local Government Act 2002 (LGA) to review the Development Contribution (DC) policy at least once every three years using the special consultative procedure. As part of that review the Council must update the fees schedule.

This report updates the previous fees payable by development to reflect the 2012 Long Term Plan (LTP) infrastructure spending plans. The fees need to change because the amount spent on some infrastructure is changing.

It also:

- Explains the rationale for the development contributions policy;
- Outlines current Government reviews into development contributions;
- Outlines the possible changes to the rules the Council must follow for development contributions.

### **2. Recommendations**

Officers recommend that the Strategy and Policy Committee:

1. *Receive the information.*
2. *Note that under section 106(6) of the Local Government Act 2002 the Council is required to review the development contribution policy every 3 years.*
3. *Approve the updated Development Contributions Policy (attached as appendix 3) to undergo public consultation using the special consultative procedure under Section 83 of the Local Government Act 2002. In conjunction with the Annual plan Special Consultative procedure in April 2013.*

### **3. Executive Summary**

The DC policy provides the Council with a means of recovering the costs of specific infrastructure required for new developments where these developments create an increase in demand on infrastructure for the city.

Infrastructure is planned and budgeted for through asset management plans and budget decisions are confirmed in the Long Term Plan. The DC Policy identifies and charges for the growth component of infrastructure for transport, open space/reserves, water, wastewater, storm water, and community infrastructure.

Previously changes to the DC policy were undertaken within the LTP process. Changes to the LGA now allow changes to the policy to be made separately, as the development contributions policy no longer forms part of the LTP document.

We suggest the Council follows a two step process to updating and reviewing the DC policy.

The first step, covered in this paper, is to meet the requirement of a review under section 106(6) of the LGA that a DC policy must be 'reviewed' at least once every three years. This review updates the policy to take account of the Council's asset plans and growth forecasts in the 2012 LTP. The revised charges to developers are outlined in detail in the section on levies.

The Government is planning a number of reviews that will impact on DCs. The Government reviews are likely to change the rules that Development Contribution Policies must follow, as well as updating guidelines for best practice. We recommend that changes to the operation of Wellington City Council policy are investigated as part of the second step. This will allow Council to make changes that will take account of any new policy direction from Government.

#### **4. Background**

The DC policy reflects the Council's decision to charge for the provision of growth infrastructure on a user pays basis. The Council has previously made the decision that developers bear 100% of growth infrastructure costs in the areas of reserves, network infrastructure and community infrastructure. The DC policy sets out:

- The charges that will apply to development;
- An explanation of, and justification for, the way each development contribution in the schedule of charges is calculated;
- The significant assumptions underlying the calculation of the charges;
- The conditions and criteria that will apply in relation to the remission, postponement or refund of development contributions.

The policy sets out the charges that will apply to developments and the operational policy on how these will be determined and collected. It should be noted that the policy provides for a self assessment process where infrastructure use associated with a development is expected to be higher or lower than the standard assessment and allows for the remission of fees at the discretion of a Council committee (but not officers).

## **Why the Council has a Development Contributions Policy**

The justification for providing (and paying) for higher capacity in the City's infrastructure than would otherwise be required for the provision of services to the current city population is to attract and provide for city growth. Infrastructure decisions contained in the LTP show that the Council has decided to build infrastructure in anticipation of future growth.

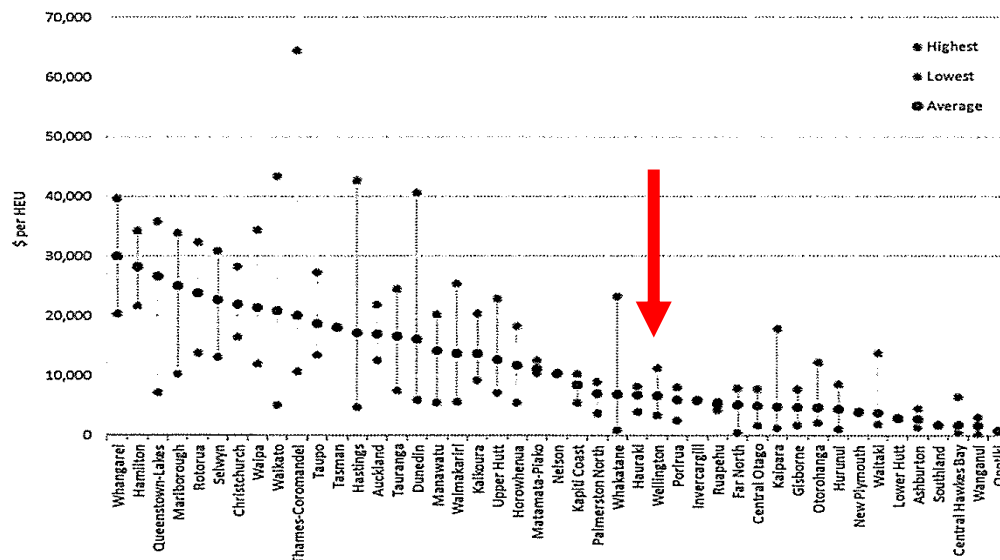
The DC policy reflects the decision to fund growth on a user pays basis though charges on new commercial and residential buildings. The user pays position is that growth should be paid for by those who are the primary beneficiaries of that growth. It also reflects Council policy that it would be wrong to use general rates collected from existing citizens who already have their infrastructure needs provided for. User pays can also pass on the true costs associated with the choices of housing or office location. Development Contributions will be higher in some parts of the city where the cost of infrastructure is higher.

User pays is viewed by some developers as double taxation where infrastructure is funded but then also rated following development. This view is often cited during the consultation process.

The level of development contribution levies in Wellington is relatively low compared to other Councils and in general, the policy is working and in line with best practice guidelines. The total charge needs to achieve a balance between the desire to provide for growth and the deterrent effect on possible growth by charging fees.

Difference in DC levels between Local Authorities can be due to differing infrastructure costs, differing service levels and differences in policy.

# Total charges



Department of Internal Affairs

## 5. Discussion

The Council is required to review the DC Policy every three years, this is currently overdue.

### Step One: Required Review Areas

The DC policy already follows the 2003 best practice guidelines designed by Local Government New Zealand closely so little change is required. In Wellington residential development contributions are generally between \$5,000 and \$8,000 this compares favourably with other Councils<sup>1</sup> that generally have Development Contributions at higher levels.

Any policy changes to improve the policy are recommended to be incorporated into step two of the review to be implemented at a later date.

### *Updating Levies to reflect the 2012 Long Term Plan*

A required part of the review process is to update the DC Policy to reflect the planned infrastructure spending in the 2012 Long Term Plan. The table below shows 2012 levies by infrastructure group alongside the 2009 levy. The changes reflect changes to asset plans, as recorded in the 2012 Long Term Plan.

<sup>1</sup> such as Tauranga at \$31,229, Hamilton at \$21,124, Christchurch \$10,888 and nearly all of the former Auckland Councils according to the Productivity Commission.

## Levy Table

An explanation of the changes above can be found in Appendix 2.

Infrastructure Group	Catchment Name	Prior Cost/EHU	Current	Increase/ (Decrease)	% Change
Community Infrastructure - City Wide		\$1,533	\$1,484	-\$49	-3%
Parks and Reserves - Catchment Based	Grenada - Lincolnshire	\$295	\$295	\$0	0%
	Inner City - Residential	\$1,988	\$1,878	-\$110	-6%
	Inner-City - Non Residential	\$249	\$235	-\$14	-6%
Parks and Reserves - City Wide		\$989	\$849	-\$140	-14%
Transport - Catchment Based	Churton - Stebbings	\$3,559	\$3,176	-\$383	-11%
	Grenada - Lincolnshire	\$1,528	\$1,184	-\$344	-22%
	Johnsonville Town Centre	\$909	\$2,108	\$1,199	132%
	Adelaide Road	\$3,856	\$5,447	\$1,591	41%
	Pipitea Precinct	\$1,396	\$1,190	-\$206	-15%
Transport - City Wide		\$852	\$1,090	\$238	28%
Storm Water - City Wide		\$141	\$187	\$46	33%
Wastewater - Catchment Based	Central	\$1,185	\$1,185	\$0	0%
	Northern	\$722	\$722	\$0	0%
	Western	\$2,440	\$2,440	\$0	0%
Wastewater - City Wide		\$219	\$293	\$74	34%
Water Supply - Catchment Based	Roseneath	\$1,750	2,360	610	35%
	Karori	\$1,586	1,720	134	8%
	Brooklyn Frobisher	\$1,158	1,156	-2	0%
	Kelburn	\$1,210	0	-1210	-100%
	Johnsonville Onslow	\$1,049	1,193	144	14%
	Ngaio	\$1,024	850	-174	-16%
	Churton - Stebbings	\$2,939	\$2,939	0	0%
	Grenada - Lincolnshire	\$4,082	\$4,082	0	0%
	Newlands	\$852	\$851	-1	0%
	Melrose	\$1,693	\$1,996	303	18%
	Central and Coastal	\$806	873	67	8%
	Tawa	\$1,126	0	-1126	-100%
	Wadestown	\$1,409	2,333	924	66%
Water Supply - City Wide		\$319	\$474	\$155	48%

## **Step Two – Policy Changes**

The second step of the review can make policy changes taking account of new policy direction from Central Government.

Given the degree of activity and uncertainty in this area, there is a strong case for delaying major policy changes until the Best Practice Guidelines and Government expectations are confirmed.

The details of these reviews are included in Appendix 1.

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## SUPPORTING INFORMATION

### 1) Strategic fit / Strategic outcome

*The policy enacts decisions made through the Long Term Plan.*

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

*The development contributions policy allows the Council to charge infrastructure related fees for planned and built infrastructure.*

*The DC calculations are based on the Capital projects budgeted as part of the 2012-22 LTP.*

### 3) Treaty of Waitangi considerations

*The policy does not raise Treaty of Waitangi considerations.*

### 4) Decision-making

*This decision will update the charges and allow operational policy changes to take into account the results of Government reviews.*

### 5) Consultation

#### a) General consultation

*This paper is seeking approval to consult with the public.*

#### b) Consultation with Maori

*No specific consultation with Maori has been undertaken.*

### 6) Legal implications

*The policy raises no legal issues.*

### 7) Consistency with existing policy

*The policy is consistent with existing policies.*





## Government Reviews into Development Contributions

There are three Government reviews that may impact on DC Policy. These include the Office of the Auditor-General New Zealand, the Productivity Commission Housing Affordability Review, and reviews of the Local Government Act 2002.

### Productivity Commission

The Productivity Commission report on housing affordability looked at the impact development contributions have on housing affordability. In its final report the Commission had a number of findings and recommendations for changes in the application of development contributions. These included:

- Development Contributions vary considerably across New Zealand and the extent to which they are passed on probably also varies, although they are likely to be largely passed on to households in the long run;
- Development Contributions are particularly suited to recovering the incremental costs of major economic infrastructure assets;
- The Department of Internal Affairs facilitate a process for updating the Best Practice Guidelines to Development Contributions and developing a set of high level principles for development contributions;
- The principles for applying developer charges be included in the Local Government Act 2002;
- The Department of Internal Affairs initiate a training programme to enable councils to enhance their skills in implementing the proposed Best Practice Guidelines for Development Contributions;
- The Department of Building and Housing provide advice to the Government about whether there is a need to increase the scope for legal challenge of development contributions.

The Government is currently considering the findings and recommendations of the Productivity Commission and has indicated it will make changes to the Acts governing the formation of Development Contribution Policies.

In a response to the Productivity Commission report the Government released the following comment:

*Government acknowledges that development contributions may be impeding investment and adding to the problems of housing affordability and will consider these recommendations as part of the Better Local Government programme (being led by the Department of Internal Affairs).*

*This will include an evaluation of how development contributions are operating and how to manage the costs of local government infrastructure provision. A progress report to Cabinet on these issues is due in late 2012. It is proposed that any legislative change required be included in a second local government reform bill, expected to be introduced in 2013.*

*The Auditor-General has advised that she will review council use of development contributions as part of the standard review of the 2012-2022 local government long term plans. The review of the use of development contributions conducted as part of the Better Local Government programme will take into account the Auditor-General's findings. In its recommendations*

*the Government will consider development of access to low-cost legal challenge of council decisions on housing.*

Bill English said the Government agreed with the Productivity Commission that housing could be made more affordable and had launched a "comprehensive work programme". Infrastructure provision has been identified as an area needing work.

## **Better Local Government Reform Programme**

Better Local Government reforms will take the form of an investigation into efficient infrastructure provision and a review of Development Contributions. These work streams will also link with the Productivity Commission's investigation on regulatory roles between central and local government and the Auditor General's inquiries into Development Contributions. This work will feed into a second reform bill proposed for 2013.

### *Department of Internal Affairs Concern*

The Department of Internal Affairs has stated through its Better Local Government Reforms that:

- There is concern about the inconsistency in the application of development contributions and how they are used by councils.
- There are questions over whether Development Contributions are adversely impacting on business and job growth as well as adding to the problems of housing affordability.
- A balance is needed between ensuring developments do not unfairly impose costs on the rest of the community and ensuring that new jobs and investments are not discouraged.

A review of the policy around development contributions is proposed. The Government will undertake a review of development contribution policy following the publication of the Auditor-General's report on councils' long term plans.

### *Auditor General Report*

The Auditor-General, as part of the standard review of the 2012-2022 long term local government plans, has advised of a specific review of council use of development contributions, and report on these likely to be released in 2013. As part of an earlier review The Auditor General has concluded that:

- Development Contributions policies are still in their infancy in the local government sector. Additional or updated guidance on the interpretation and application of the relevant provisions of the Act would help the sector to adopt a consistent methodology to developing and applying the policies.
- Although Development Contributions represent a significant source of funding, their use as a financing mechanism is not without risks, especially where assets are constructed in anticipation of growth.

### Changes Summary

The reason for changes in some levies between 2009 and 2013 are as follows:

- Parks and Reserves - A portion of the overall planned expenditure for reserves has been extended beyond the 10 year plan.
- Transport - The increase in Johnsonville relates to a reduction in expected funding from NZTA, which results in increased costs for WCC. The increase in Adelaide Road is a combination of inflated future costs due to the extension of the timeframe for the project and a reduction in the expected NZTA subsidy for the project.
- Transport City Wide - This increase relates to the increased resurfacing work required as a result of growth.
- Storm Water - These increases are reflective of the additional three years of capital expenditure now included as part of the 2012-22 LTP.
- Water Supply Roseneath - This increase results from a decision to replace the Roseneath #2 reservoir within the next ten years.
- Water Supply Kelburn - This change is a result of a decision to delay the replacement of the Highbury tank.
- Water Supply Tawa - This reduction is a result of a decision to no longer increase the capacity of the Tawa reservoir.
- Water Supply Wadestown - The increase is due to the decision to replace the Highland Park tank and also the addition of another reservoir.