PART 2: SUBSTANTIVE POLICY

7 Basis for this Policy

7.1 Legislative requirements

7.1.1 This document sets out the Council's policy on development contributions under the Local Government Act 2002 (LGA 2002). Under section 102(2)(d) of the LGA 2002, the Council is required to adopt a policy on development contributions or financial contributions as a component of its funding and financial policies.

7.1.2 Section 198 of the LGA 2002 provides the Council with the power to require a contribution from developments.

7.1.3 This Policy has been prepared to meet the requirements for development contribution policies set out in sections 106, 197-211, and Schedule 13 of the LGA 2002. In summary, this Policy:

- Summarises and explains the capital expenditure identified in the 2015 to 2025 LTP that the Council expects to incur to meet the increased demand for network infrastructure (roads, water, wastewater and stormwater collection and management) and reserves resulting from growth; and
- States the proportion of that capital expenditure that will be funded by development contributions; and
- Explains the rationale for using development contributions as the funding mechanism (as opposed to other mechanisms such as financial contributions, rates, or borrowings); and
- Specifies the level of contribution payable in different parts of the city; and
- Specifies when a development contribution will be required; and
- Prescribes conditions and criteria applying for remission, postponement and refund of development contributions.

7.2 Relationship with financial contributions in the District Plan

7.2.1 This Policy is distinct from and in addition to the provisions in the District Plan that provide the Council the discretion to require financial contributions under the Resource Management Act 1991.

7.2.2 The Council will apply this Policy where a development contribution is payable for a particular purpose within a catchment and for all citywide contributions.

7.2.3 However, where a development results in the Council incurring capital expenditure that is not included in the LTP capital expenditure in this Policy, the Council may impose a financial contribution as a condition of resource consent under section 3.4.5 of the District Plan which states that:

> *"Where a proposed development creates the need for increased capacity or upgrades to infrastructure at the point of connection (in terms of traffic, stormwater, sewers, or water) the Council may require a payment towards the cost of necessary works. The Council will set a payment on the basis of what is believed to be a fair and appropriate proportion of the costs that should be borne by the developer (up to 100%)".*

7.2.4 The Council will also continue to impose financial contributions on any development to which this Policy does not apply.

7.3 Summary of financial contributions

7.3.1 Under the Local Government Act 2002, the Council is required to summarise the provisions that relate to financial contributions in the District Plan. The financial contributions provisions are set out in section 3.4 of the District Plan. They are made up of development impact fees (section 3.4.3 and 3.4.4), payments required under 3.4.5 (set out above) and vesting of land (section 3.4.6). The exact development impact fees are set out in a separate *Guide to Development Impact Fees*.

8 Planning for growth

8.1 Growth in Wellington City

8.1.1 City growth assumptions underpin the Council's asset management plans and capital expenditure budgets in the LTP for the period 2015/16 to 2024/25.

8.1.2 Estimates prepared for the Council by Forecast ID in 2014 indicate the resident population of Wellington City will increase from 202,669 to 216,289 over the period of the LTP (2015 - 2025).

8.1.3 Growth projections are subject to significant uncertainties as to the quantum, timing and location of growth. Therefore the regular update and assessment of growth projections is a key component of planning future infrastructure requirements.

8.1.4 Informed by the above estimates and recognising potential forecasting errors, for calculation purposes a 10-year EHU growth assumption of 7 percent population growth has been used for the period 2015-25. Previous assumptions for both sectors over ten years (ten percent growth) continue to be applied to previous years to calculate EHUs over the total budget timeframes considered in this Policy.

8.1.5 The increase in capital expenditure resulting from growth is not necessarily proportional to the increase in population and employment, ie actual costs to provide for growth will depend upon the particular capital works required. However for citywide catchments in water, stormwater, roading and parks and reserves, the Council has assumed such a proportional relationship as there is little spare capacity and capital works have been designed with an ongoing provision for growth.

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

8.2.1 The most equitable way to apportion the cost of new infrastructure in response to growth demand is on the basis of the number of equivalent new households expected in Wellington as detailed in 8.1 above for both residential and non-residential uses.

8.2.2 Residential development is defined in section 5 of this Policy. Non-residential development is likewise defined, and essentially means all development not falling within the definition of residential development.

8.2.3 In a residential development, the unit of demand will be an additional household unit as defined in the District Plan. In a subdivision development, the identifiable unit of demand is an allotment.

8.2.4 For a non-residential development, the Council has assumed that an employee requires approximately 16m^2 of gross floor area (gfa)[2] and that 2.6 employees, being the equivalent average household occupancy, would require 42m^2.

8.2.5 When calculating the number of EHUs in a non-residential development:

- The 42m^2 of gfa will be applied on a pro-rata basis (rather than rounding to the nearest EHU). In other words, a non-residential development with a gfa of [100m^2] will equate to [2.4] EHUs.
- Except that for development less than 10m^2 no contribution will be payable.

8.2.6 In summary:

Type of development:	**EHU assessment based on:**
Residential development	▪ 1 EHU per household unit ▪ 0.7 EHU per one-bedroom household unit
Fee simple subdivision	▪ 1 EHU per allotment
Non-residential development	▪ 1 EHU for every 42m^2 of gfa unless changed following an assessment under the process in 2.5.5

[2] Government Property Management Centre of Expertise 'Workplace Standards and Guidelines for Office Space July 2014'

9 Rationale for funding the costs of growth through development contributions

9.1 Legislative background

9.1.1 Section 106(2)(c) of the Local Government Act 2002 requires this Policy to explain why the Council has determined to use development contributions as a funding source, by reference to the matters referred to in section 101(3) of the LGA 2002 detailed below.

9.2 Community outcomes

9.2.1 The following community outcomes have particular relevance to the decision of how to fund growth related infrastructure:

- Wellington's long-term environmental health will be protected by well-planned and well-maintained infrastructure.
- Opportunities for active and passive recreation in Wellington will be diverse, safe, affordable, accessible and attractive.
- Wellington's communities will have ready access to multi-use indoor and outdoor facilities and spaces.
- Wellingtonians will protect and have access to public green open spaces and the coast.
- Wellington's governing bodies will comply with all legislative requirements and will behave in an ethical and fair manner.

9.2.2 Charging new development for the additional infrastructure ensures a fair contribution to the community outcomes. This means, for example, that:

- Traffic resulting from development is managed by a programme of works that maintains existing traffic flow, pedestrian and cycle access, parking and safety standards;
- Large, efficient reservoirs and pumping stations are built and shared across a number of developments; and
- Reserves are created and developed to service growth.

9.3 Distribution of benefits and the extent to which particular individuals or groups contribute to the need to undertake an activity

9.3.1 It is appropriate that development contributions fund additional capacity in water supply, wastewater, stormwater, roading and parks and reserves. The benefits of this additional capacity mainly accrue to new households (EHUs) and businesses generating demand for that capacity. Development contributions paid by developers are likely to be passed on through section and building prices to the residents of new households and businesses. Existing residents and businesses, however, gain a much reduced benefit from the infrastructure and resulting growth in the city, and therefore they should not be required to fund the majority of the costs (where the benefit accrues to new developments) through rates.

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

9.4 Costs and benefits of funding the activity distinctly from other activities

9.4.1 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. Although development contributions are not a significant administrative cost once systems are established, for small catchments collection of development contributions may not be cost effective and therefore a citywide fee will be more efficient for some activities with a large number of widely located projects. Citywide fees are also appropriate when infrastructure operates as a network (eg stormwater).

9.5 Overall impact on the community

9.5.1 Ensuring adequate levels and balance between the various sources of funding to provide appropriate infrastructure is central to promoting the purpose of local government. Funding the cost of providing increased capacity in the city's infrastructure through development contributions rather than rates serviced debt promotes equity between existing residents and newcomers.

10 Capital expenditure in response to growth

10.1 Activities and catchments for which development contributions may be required

10.1.1 Local Government Act 2002 allows the Council to require a development contribution from any development for:

- capital expenditure expected to be incurred as a result of growth; or
- capital expenditure already incurred in anticipation of growth.

10.1.2 Development contributions will be required for Council-funded capital works resulting from growth associated with the provision of the following network infrastructure and reserves.

Water supply

10.1.3 Development contributions will be required for:

- the ongoing citywide upgrade in capacity of the water supply network of pipes and pumping stations
- capital works to provide additional reservoir and pump station capacity for specific catchments.

Wastewater

10.1.4 Development contributions will be required for:

- the ongoing citywide upgrade in capacity of the networks of wastewater pipes and pumps
- Council funded capital works associated with the provision of the Council's Veolia project that serves the Moa Point and Karori wastewater catchments and was developed with additional capacity in anticipation of growth

Stormwater

10.1.5 Development contributions will be required for the ongoing citywide upgrade in capacity of the network of pipes and streams that make up the stormwater system.

Roading

10.1.6 Development contributions will be required for the ongoing citywide upgrades of roads, public transport facilities, cycle ways, pedestrian walkways and associated infrastructure to facilitate growth.

Reserves

10.1.7 Development contributions will be required in three catchments – a citywide catchment, an inner city catchment and for Greenfield development (in accordance with section B6.1.2 to B6.1.5 of this Policy).

10.2 Growth-related capital expenditure

10.2.1 The table in Appendix A (Table 1) sets out for each activity:

- the capital expenditure identified in the 2015/25 LTP that the Council expects to incur to meet the increased demand for network infrastructure and reserves resulting from growth
- the total amount of development contribution funding sought for that activity
- the proportion of the capital expenditure that will be funded by development contributions and other sources of funding.

10.2.2 Where Council anticipates funding from a third party (such as the New Zealand Transport Agency) for any part of the growth component of the capital expenditure budget, then this proportion is excluded from the costs used to calculate development contributions.

10.3 Capital costs already incurred in anticipation of growth

10.3.1 Development contributions will also be required from development to meet the cost of infrastructure capacity already incurred in anticipation of development where the Council has assessed it appropriate and reasonable.

10.3.2 For the purpose of this Policy, taking a development contribution for capital expenditure already incurred in anticipation of development is considered appropriate for the wastewater network infrastructure in the catchment areas of the Moa Point and Western treatment plants (Veolia), the Council's share of the Porirua Treatment Plant and for several water supply catchments but not for any of the other listed activities in section 1 above.

10.3.3 The capital expenditure already incurred prior to 1 July 2005 to meet increased growth demand for network infrastructure and reserves is summarised in Appendix A (Table 2).

10.4 Use of development contributions

10.4.1 The Council will use development contributions either for or towards the capital expenditure for which they were required, or for providing analogous reserves or infrastructure.

10.4.2 Where a development contribution is received for capital expenditure that has already been incurred by the Council, the Council will have met its obligations under the Local Government Act 2002 that relate to the use of the development contributions, unless a refund is due.

10.4.3 Where the Council has received development contributions for reserves, in addition to the powers governing the use of development contributions for reserves in the Local Government Act 2002, the Council must use the land or cash received as follows:

- cash - within 20 years of it being received
- land - within 10 years of it being received, unless a longer period is agreed with the party who paid the contribution. (Note: in all circumstances the Council will seek to reach such an agreement).

11 How development contributions have been calculated

11.1 Local Government Act 2002 Requirements

11.1.1 Section 201(1)(a) of the Local Government Act 2002 requires this Policy to include, in summary form, an explanation of and justification for the way each development contribution in the schedule to this Policy is calculated.

11.1.2 In summary, each contribution has been calculated in accordance with the methodology set out in Schedule 13 of the Local Government Act 2002, by using the following seven step process:

Step	Explanation	Local Government Act 2002 Reference
One	**Define catchments** ▪ A catchment is the area served by a particular infrastructure, eg reservoirs, pumping stations and pipes. ▪ Catchments are defined with reference to characteristics of the service, the common benefits received across the geographical area supplied and judgement involving a balance between administrative efficiency and the extent of common benefits.	Sch 13 (1) (a)
Two	**Identify 10-year capital expenditure resulting from growth** ▪ The proportion of total planned costs of capital expenditure for network and infrastructure, parks and reserves from the LTP 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 10-year capital costs budgeted in the LTP, 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 9 above) and show significant assumptions and impacts of uncertainty.	S 106 (2) (a) and Sch 13 (1) (a) S 106(2) (a) S 101 (3) (a) S 201 (1) (b)
Three	**Identify the percentage of growth related 10-year capital expenditure to be funded by development contributions** Unless the Council wishes to reduce fees for clear policy	S 106 (2) (b)

Step	Explanation	Local Government Act 2002 Reference
	reasons, this is likely to be fully funded by development contributions in most cases, because: ▪ it directly relates to the planned capital expenditure set out in the LTP and detailed in the Council's Asset Management Plans and ▪ the capital expenditure for growth can be reasonably identified.	
Four	**Identify the appropriate units of demand** The selected unit of demand is Equivalent Household Units (EHUs) calculated as follows: ▪ For a Greenfield development, an allotment, eg in Northern Growth developments the average lot size is 550 - 600m^2. ▪ 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. ▪ For non-residential development, 42m^2 (based on average space per office worker of 16m^2 and an average number of persons per household in the Wellington region of 2.6 (per the 2013 census and Forecast ID) or by self-assessment supported by an impact report or by special assessment whereby the Council prepares an impact report as a basis for assessment. ▪ For an infill development, a residential dwelling as defined in clause 5 - Definitions.	Sch 13 (1) (b)
Five	**Identify the designed capacity (in units of demand) provided for growth** ▪ 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 10-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 10 year period of the LTP will be relevant to the Council's budgeting of revenue but not to the calculation of the development contribution per EHU.	Sch 13 (1) (b) & (2)
Six	**Allocate the costs to each unit of demand for growth** ▪ The development contribution charge per EHU is calculated by dividing the total capital expenditure resulting from growth (step two) by the designed units	Sch 13 (1) (b)

Step	Explanation	Local Government Act 2002 Reference
	of demand for growth (step five).	
Seven	**Input results to comprehensive schedule of fees by catchment** ▪ A detailed schedule must be prepared as part of this Policy that enables the development contributions to be calculated by infrastructure type and catchment. ▪ This 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.	S 201 (2) S 201 (1) (a) S 201 (1) (b), (c) & (d)

11.2 Significant assumptions

11.2.1 Section 201(1)(b) of the Local Government Act 2002 requires this Policy to state significant assumptions underlying the calculation of the schedule of development contributions.

System-wide view

11.2.2 In developing a methodology for the development contributions, the Council has taken a system-wide view in identifying the cumulative effect of development on infrastructure, ie 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

11.2.3 The planning horizon varies by infrastructure type typically ranging from 10 years to more than 50 years. This is consistent with the 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 (ie greater number of EHUs).

Growth forecasts

11.2.4 The overall planning assumption is for a 7 percent increase in growth and capacity for renewals and upgrades for citywide catchments to take account of the impact on infrastructure of continuing growth within the city over the next 10 years.

Application of costing methods

11.2.5 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 incremental costs and average costs reflect a fair allocation of capital infrastructure costs to newcomers.

Cost of individual items of capital expenditure

The Council has used the best information available at the time of developing this Policy to estimate the cost of individual items of capital expenditure that will be funded in whole or part out of development contributions. It is likely that actual costs will differ from estimated costs due to factors beyond the Council's ability to predict, such as changes in price of raw materials, labour, etc, and the time of capital works. The Council will review its estimates of capital expenditure annually and adjust the LTP.

Financial assumptions

11.2.6 The following financial assumptions have been applied:

- All costs in this Policy are based on budgeted infrastructure prices and allowance has been made for inflation from 2010/11.
- Income generated from rates will be sufficient to meet the operating costs of growth related capital expenditure into the future.

- All New Zealand Transport Agency subsidies will continue at present levels and eligibility criteria will remain unchanged.
- The methods of service delivery will remain substantially unchanged.

12 Application of methodology to specific activities

Development contributions are required both on a citywide basis and on a more localised catchment-by-catchment basis depending on the type of infrastructure and reserves, the type of development and the impact of development on infrastructure and reserves. Further details of the basis for the development contributions in this Policy are set out in Appendix B.

12.1 Citywide development contributions

12.1.1 Citywide fees are applied to:

- Network infrastructure – those systems characterised by interdependent components where development growth adversely impacts other areas of the network if action is not taken to mitigate those effects. The network infrastructure attracting citywide development contributions will comprise roads and the water supply, stormwater and wastewater reticulation networks.
- Reserves that are destination amenities used by groups from across the city such as the Botanic Gardens.

12.1.2 Increases in capacity resulting from growth are factored into the regular, ongoing renewal and upgrade work undertaken on these networks and reserves. Over a 10-year period these works typically comprise a variety of projects right across the city.

12.1.3 In estimating the cost proportion of additional growth-related capacity included in renewals and upgrades the Council has assumed that:

- Capacity increases are designed to reflect the overall level of growth in EHUs expected over the next 10 years;
- Growth for capacity planning purposes is estimated after consideration of projections of population, households and employment prepared by Forecast id, Infometrics Ltd and Statistics New Zealand.
- Average cost is a reasonable proxy for the incremental cost of additional capacity. The cost of additional capacity for development growth installed during renewal projects is limited to the appropriate proportion of materials costs as all other costs are deemed to relate to the renewal of the asset.

Citywide water supply

12.1.4 The water supply reticulation system comprises a network of pipes and pumping stations supplying fresh water from 18 bulk water supply points around the city. Development growth reduces the level of service standards for water pressure for other households within the network although not necessarily for that new development. To maintain the level of service, additional capacity is continually built into the network either as specific upgrades or as part of the renewal programme.

12.1.5 Citywide water supply excludes the Northern Growth area (catchments I and J) as water is supplied directly from the bulk main and does not rely on the wider city network. The water supply distribution network in this area will be provided by developers at their cost as they develop through the area.

Citywide stormwater

12.1.6 Flooding has occurred in the past in the central city, Miramar, Karori, Island Bay/Berhampore, Kaiwharawhara and the Tawa basin. The lack of sufficient pipe capacity and the resulting need to implement flood protection works across the city is seen as one of the most significant impacts of continued development. Planned works are ongoing across the city as growth continues. The priorities for these works are determined after consideration of the impact of flooding, environmental risk, existing consent and potential growth.

Citywide wastewater

12.1.7 The wastewater reticulation system comprises a network of pipes and pumping stations clearing wastewater and sewage to the Moa Point, Western and Porirua treatment plants.

12.1.8 Development growth increases the volume of wastewater requiring additional capacity to be built into the network on an ongoing basis either as specific upgrades or as part of the renewal programme.

Citywide traffic and roading

12.1.9 The transport and roading network comprises the city's main arterial routes and secondary roads including related bridges, walls and embankments, footpaths, walkways and cycle ways, parking and public transport access and shelters.

12.1.10 Development growth increases traffic volumes and congestion which adversely impact traffic flows, safety, and wear and tear on road surfaces. To maintain the level of service, additional works are required across the network on an ongoing basis. These works typically comprise many small projects right across the city over a 10-year period. Works are planned to approximately match expected growth to ensure cost effective use of the Council's resources and assets.

Citywide Reserves

12.1.11 Citywide reserves comprise amenities such as the Botanic Gardens and open spaces. They are destinations that provide active recreational facilities to the city community. Increased demand can come from anywhere within the city.

12.1.12 Growth impacts on these amenities in a number of ways including degradation in the quality of the amenity, overcrowding, changes in activities and usage by residents, etc. Capital works are continually required to upgrade these reserves to enable increased usage and to purchase new land and assets. Works are planned to cater for growth to ensure cost effective use of the Council's resources and assets.

12.2 Development contributions for specific catchment areas

12.2.1 In addition to citywide development contributions, capital works are required to mitigate the impacts of development growth in clearly defined catchments. Examples include:

- a new water reservoir designed to provide capacity for a development (i.e. an identifiable catchment of EHUs)
- a new link road to provide a subdivision with access to main arterial roads
- development of local infrastructure such as an open space to service a new subdivision or to cater for additional growth in household units within existing suburbs or the inner city.

12.2.2 It is anticipated that specific catchments will be defined from time to time as specific local works are required to mitigate the impact of growth on the local community. There are specific catchments for water supply, wastewater, reserves and roads.

Specific catchments for roading and associated infrastructure

12.2.3 The future urban development of the land currently used for port and railyards will generate a substantial amount of new vehicle traffic onto an important gateway route into and out of the city as well as substantial increase in pedestrian numbers between the new development, public transport hubs and the rest of the central city. This will require improvements to be made to the road corridor and to key intersections to facilitate this growth and ensure that congestion is managed appropriately.

12.2.4 Therefore a sub-catchment has been defined based on the areas of future development which will generate the majority of the increased traffic and turning movements

12.2.5 Specific catchments for roading and associated infrastructure have also been defined in the Northern Growth area, the Johnsonville Town Centre and the Adelaide Road development. Further details are provided in Appendix B (B5.1)

Water supply catchments

12.2.6 There are 13 specific water supply catchments where water reservoirs and pumping station upgrades are required to provide for growth, either to provide the necessary water storage capacity based on projected population or to increase the level of service to enable further development.

12.2.7 The water supply catchments comprise:

- Roseneath
- Karori
- Brooklyn-Frobisher
- Kelburn
- Johnsonville-Onslow
- Ngaio
- Churton-Stebbings
- Grenada-Lincolnshire
- Newlands
- Melrose
- Central and Coastal
- Tawa
- Wadestown

Wastewater catchments

12.2.8 Three wastewater catchments have been defined around the service areas of the three wastewater treatment plants:

- Moa Point
- Western (Karori)
- Porirua (Northern Suburbs).

12.2.9 The Veolia treatment plants (Moa Point and Western) were built with the intention of providing significant capacity for growth over a long period of time, with Moa Point having the capacity to service twice the current population. Development contributions will be used to recover the costs of this additional capacity against new developments.

Reserves – inner city

12.2.10 The growth in residential apartments is increasing demand for additional local reserves. This requires the redevelopment of existing reserves to accommodate additional usage and the purchase of additional inner city land to create new reserves.

Therefore, an inner city catchment has been defined where the predominant users of these reserves are local inner city residents

Reserves – Greenfield development

12.2.11 Any development falling within the definition of Greenfield development is required to meet the Council's policy for reserves (in accordance with section B6.1 of this Policy). Generally, developers contribute appropriate areas of land and either develop the reserve themselves or the Council develops the reserve and charges a contribution per allotment.

Reserves - other

12.2.12 Current reserve management policies indicate that other areas are adequately provided with local reserves and open space (except for citywide reserves). As further reserves management plans are developed, new local reserves may be required in established suburbs as a result of infill development growth.

12.3 Application of s101(3) of the Local Government Act 2002

12.3.1 The Council has considered each of the above catchment and citywide categories, and determined the fees payable for each per EHU, based on the benefits accrued. The development contribution calculation is considered to be reasonable and does not need to be amended for the overall impact of the allocation of liability on the community.