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WELLINGTON CITY COUNCIL

DEVELOPMENT CONTRIBUTIONS SUBCOMMITTEE
24 FEBRUARY 2009

REPORT 1
(1215/52/05/IM)

DEVELOPMENT CONTRIBUTIONS POLICY: ADDITIONAL PROPOSED AMENDMENTS

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1. Purpose of report

To report to the Development Contributions Subcommittee on further amendments arising from the review of the Development Contributions Policy and to seek the Subcommittee's agreement to the proposed revisions and update of the Development Contributions Policy.

2. Executive summary

The Development Contributions Policy 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 development. This report recommends a further set of amendments to those already agreed by the Subcommittee for inclusion in the deliberations on the draft 2009/19 LTCCP.

On 16 December the Subcommittee agreed to a set of changes to the Development Contributions Policy. These changes are set out in detail in section 4.1.

The Subcommittee also agreed to further work continuing on:

- refining the Development Contributions Policy for open spaces
- the inclusion of additional infrastructure in the Development Contributions Policy (in particular, additional community infrastructure)

This paper reports on the outcome of this further work and recommends a further set of revisions and investigations to amend the Development Contributions Policy including the establishment of a reserves acquisition programme to be fully funded by Development Contributions and the inclusion of the following additional infrastructure in the Policy:

- Sports fields (Synthetic Turf Surfaces)
- Cemeteries
- Johnsonville Town Centre
- Adelaide Road Project.

3. Recommendations

Officers recommend that the Subcommittee:

1. *Note the information*

2. *Note that, as agreed by the Subcommittee on 16 December 2008, further work has been undertaken on:*
   a. *reviewing all qualifying capital expenditure, including new planned capital expenditure arising from Long Term Council Community Plan (LTCCP) planning, to identify whether there is a growth component and, if so, whether and how the expenditure can be met through development contributions*
   b. *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*
   c. *establishing clear parameters and operating rules for non-cash development contributions (including vested land) under private agreements.*

3. *Agree to recommend to the Strategy and Policy Committee that development contributions be applied as a funding tool for:*
   a. *sports fields (Synthetic Turf Surfaces)*
   b. *cemeteries.*
   c. *roading infrastructure for the Adelaide Road Precinct*
   d. *roading infrastructure for the Johnsonville Town Centre*
   e. *a reserves acquisition programme 0f $3.725m to purchase strategic open space of city-wide benefit with ecological, landscape and/or recreational values, based on an assessment of the value of land that has been identified as necessary for growth to maintain the current ratio of open space to population.*

4. *Agree to amend the Development Contributions Policy in relation to local purpose reserves (local playgrounds and community playgrounds) to explicitly distinguish between land and infrastructure by providing that land may be vested (given in kind) – but that developments on land must be explicitly funded through levies for construction by the Council.*

5. *Note that capital expenditure will be included in the 2009/19 LTCCP in 2018/19 to reflect the costs of anticipated local purpose reserves construction.*

6. *Agree to recommend to Strategy and Policy Committee a revised schedule of development contributions to reflect:*
   a. *policy changes as outlined in recommendations 3 and other previous decisions*
   b. *updated population and employment estimates*
   c. *updated capital expenditure budgets*
   d. *inclusion of capital expenditure from 2016/17, 2017/18 and 2018/19.*

7. *Agree to recommend to the Strategy and Policy Committee that, having considered each of the infrastructure projects above (recommendation 3), it finds there is no demonstrable case supporting departure from the key funding principle in the existing Development Contributions Policy that development contributions fund 100% of growth—related capital expenditure.*

8. *Note that consideration is being given to recovering a component of the cost of the additional four Indoor Community Sports Centre courts through residential development contributions, should the current targeted rate be removed.*

9. *Agree to recommend to Strategy and Policy Committee that the proposed changes to the Development Contributions Policy will form part of the 2009/19 LTCCP 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.*

10. *Agree to delegate to the Chair of the Development Contributions Subcommittee and the Chief Executive Officer the role of confirming that the changes agreed in the recommendations above are correctly and accurately recorded in the amended draft policy, for referral to the Strategy and Policy Committee.*

4. Background

4.1 Context

The Development Contributions Policy 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 Development Contributions Policy 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.

On 16 December 2008 the Subcommittee agreed to the following set of specific recommendations:

- introducing a minor dwelling provision to reflect the lower impact on infrastructure of smaller residential units and to better accommodate projected occupancy trends (Single bedroom dwellings will be charged development contributions at 0.7 Equivalent housing units (EHUs))

- amending the non-residential development contributions formula to reflect recent trends towards more intensive space utilisation (EHU equivalence will reduce from 65 sq m gross floor area (GFA) to 55 sq m)

- 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 (Appendix A).

Further work has subsequently been undertaken at the Subcommittee's direction on:

- refining the proposed policy changes on development contributions for open spaces, including the proposed introduction of a strategic reserves acquisition programme, to be funded solely through development contributions

- establishing clear parameters and operating rules for determining and implementing non-cash development contributions under private agreements, to minimise associated risk. This involves 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.

5. Discussion

5.1 Review of capital expenditure

Officers have analysed projects with a capital expenditure component to more clearly separate capital expenditure for:

- renewals (asset replacement)
- upgrades (new or 'extended' assets) to:
    - enhance levels of service
    - to respond to existing demand
    - to respond to increase in demand resulting from population and employment growth.

Development contribution levies have been revised to reflect the growth components of the capital spend which respond to increase in demand resulting from population and employment growth.

The development contributions financial model has been updated to take into account:

- capital expenditure for the three new out-years added to the calculation timeframe since the last LTCCP/ policy revision (2017/18 and 2018/19).
- inflation
- changes to work programmes (budgets)
- addition of capital expenditure not previously attracting development contributions
- other funding for capital expenditure, including subsidies (principally from NZ Transport Authority (NZTA)) .

Officers also reviewed the policy to assess the merits of including the cost of capital (interest) during construction in the asset value and whether this could be recovered from development contributions. The Council does not currently include the cost of borrowing (during construction) in the value of its assets. It is therefore not appropriate to include this in the cost to be recovered from development contributions.

Non-financial variables review

Other non financial factors that impact on the calculation of development contribution levies have also been reviewed. These include:

- growth projections for Wellington, measured in EHUs
- assumptions in the development contributions model
- the treatment of private agreements in the model.

Growth Projections

Projected EHUs have been revised taking into account Statistics NZ predictions of Wellington's population growth over the period of the LTCCP (9.7%)[1] and 2008 modelling of projected equivalent full time jobs (11.1%)[2]. Revenue stream projections have been discounted to reflect the anticipated downturn in developments in the current economic climate. (It should be noted there is a lag between changes in developer behaviour and revenue realised, due to the long lead times involved in property development.)

Private Agreements

The policy currently allows for private agreements to enable the receipt of non-cash development contributions (vested assets) such as land, or built infrastructure.

It is important that there are clear policies and processes in place to manage the treatment of non-cash assets to minimise any potential risks.

[1] Projections produced by Statistics New Zealand (February 2009)
[2] MERA, WTSM Demographic Projections Report, 2006 Base Run for GWRC (2008)

The Subcommittee is asked to agree an amendment to the Development Contributions Policy to specify that, where land is provided by a developer through a private agreement (in lieu of development contributions), the developer will, in addition, normally be required to pay development contributions to enable the Council to develop the reserve land (e.g. build a playground).

The Subcommittee is asked to agree that the costs and financial benefits of a private agreement be recorded in the LTCCP budget. Effectively this will recognise the cost and the revenue from the vested asset. These will be equal amounts and there will be no impact on cashflow.

5.2 Development contributions for open spaces

Further work has also been undertaken on reviewing the framework for development contributions for open spaces.

Strategic reserves acquisition
One component of the proposed framework is the establishment of a strategic reserves acquisition programme to be funded solely through residential development contributions for strategic city-wide acquisitions.

Residential growth impacts the city's needs for strategic reserve land in a number of ways including altering the ratio of hectares of green belt per head of population. While the existing population derives some benefit from additional reserves, this benefit is offset by the increased utilisation of existing reserve land by the 'growth population'. It would be difficult to mount a case for purchasing strategic land to offset population growth through rates, given there is no indication that current levels of provision are inadequate.[3]

The strategic reserves acquisition programme would provide for the purchase of strategic open space of city-wide benefit with ecological, landscape and/or recreational value. In some instances, land acquired in the context of greenfield developments operates as a city-wide strategic asset and should therefore be funded from city-wide contributions. Under the proposed approach, growth related strategic city-wide acquisitions would be funded through a city-wide residential development contribution which would encompass both greenfield sites, and in-fill sites. Draft legal advice supports this approach.

The Subcommittee is recommended to agree to the inclusion of provision of $3.725m in the LTCCP to purchase strategic land - on the basis that the land is necessary for growth, primarily to preserve the current ratio of open space to population. While the provision will not specifically identify individual parcels

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[3] An indication of adequacy of provision may be found in residents' ratings of ease of access to their local park or other green open space: 90% of Wellington residents surveyed said it was easy to access a local park or other green space. Comparable figures for other centres were Auckland 88%, Christchurch 95%, Dunedin 92%.

of land, the provision has been estimated based on assessment of likely purchases already identified.

The acquisition and development of this network would be paid for through a city-wide residential development contribution, to be funded as follows:

1. Council and the developer agree on the amount of, and valuation for the strategic open space and any improvements, such as tracks
2. Council pays for the land plus improvements from city-wide development contributions
3. Council carries out any works required such as tracks and fencing.

Local purpose reserves (local playgrounds and community playgrounds)
The framework has also established 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. Specific amendments recommended are to:

- amend the current policy to explicitly distinguish between land and infrastructure.
- provide that land may be vested (given in kind) – but that developments on land must be explicitly funded through levies for development by Council
- include capital expenditure for the construction of local and community parks in the LTCCP to be funded by development contributions in the relevant local catchments (as discussed in 5.1, above).

5.3 Development contributions for sports fields (synthetic turf surfaces)

Sports fields operate as a city-wide network. Because Wellington City has limited options to expand the sports field network, the focus has been on increasing the capacity of existing fields through investment in artificial turf surfaces.[4]

It is appropriate to fund a portion of the additional infrastructure through a city-wide residential development contribution, as the 'growth population' will derive significant benefit from the increased capacity provided.

Based on the proportion of the population participating in sport, the 'growth population' over the ten years from 2009 is estimated to utilise 2.3 of the six planned synthetic turf sports fields provided for in the LTCCP, at a cost of $4.050m. This is estimated to require a $560 development contribution per residential EHU.

5.4 Development contributions for Cemeteries

Both the Cemeteries Management Plan (2003) and the Cemeteries Asset Management Plan 2008/09 identify a number of capital expenditure projects at Makara and Karori.

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[4] Sports Field Asset Management Plan

Capital expenditure of $1,160,000 has been identified over the next 10 years on projects to increase the capacity of the cemetery facilities and amenities. These include new headstone beams, fencing, pathways, roads, landscaping, a natural burial site and a public toilet at Makara Cemetery, and a new ash interment area at Karori Cemetery. These projects should be partially funded from development contributions to reflect the growth in the number of deaths directly related to population growth, estimated at 9.6% of the total cost ($111,360). This would generate a city-wide residential development contribution component of $12 per residential EHU.

5.5 Development contributions for Centre Developments (Adelaide Road and Johnsonville Town Centre)

Both the Adelaide Road and Johnsonville Town Centre developments have significant growth components.

Johnsonville Town Centre: Development contributions proposed for the Johnsonville precinct are based on the Johnsonville Town Centre Plan and have been calculated based on the proportion of total capital expenditure related to growth, taking into account the 50% New Zealand Transport Authority (NZTA) subsidy.

The estimated 80,000 sq m (additional) gross floor area (gfa) created by the development over 20 years equates to 1364 EHUs, using the proposed 55 sq m gfa non-residential equivalency. Fifty percent of the capital expenditure is estimated to be servicing growth. Consequently, once the NZTA subsidy has been taken into account, 25% of the $4.96m total project cost should be recovered through development contributions. The estimated development contribution to recover the growth component is $909 per EHU within the proposed Johnsonville Town Centre precinct.

Adelaide Road: Development contributions proposed for Adelaide Road have been calculated on the basis of the proportion of total capital expenditure related to growth, taking account of the 50% NZTA subsidy on 50% of project costs (ie 25% subsidy component).

The planned growth of 1,550 people equates to 600 EHUs. Total expenditure on the project is $6.813m. Taking into account the existing population of 2,125 people (825 EHU equivalents) the ‘growth population’ will ultimately account for 42% of total population. Based on an allocation of 42% of total expenditure to growth, less the NZTA subsidy, the growth component is $2.15 million. This implies a $3,583 development contribution per EHU within the proposed Adelaide Road precinct.

5.6 Indoor Community Sports Centre (ICSC)

Funding provision for the ICSC currently includes a targeted rate to fund four of the 12 courts. The proposed removal of the targeted rate has potential development contribution implications because although the eight courts funded by general rates are primarily regarded as meeting latent demand, and enhancing Wellington's capacity to attract national sporting events, the additional four courts may provide some capacity to accommodate population growth. No significant work has been undertaken to assess and quantify this component as the targeted rate precluded collection of development contributions.

The Committee is asked to note that consideration is being given to recovering a component of the cost of the additional four Indoor Community Sports Centre courts through residential development contributions, should the current targeted rate be removed.

5.7 Overall impact on levels of development contributions

The proposed changes will result in an approximately 20% increase in city-wide development contributions per EHU (from $2,901 to approximately $3,500). Changes to catchment-specific levies will lead to varying levels of change in the overall development contribution across Wellington.

Detailed tables showing revised development contributions which reflect the proposed policy changes, and supporting analysis, will be circulated prior to the Subcommittee meeting of 24 February.

5.8 Communication and consultation

The proposed changes to the Development Contributions Policy will form part of the draft 2009/19 LTCCP and 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 by June 2009.

6. 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.

Contact Officer: *Peter Leniston - Advisor, Policy*

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 Contributions Policy forms part of the LTCCP. Revisions to the Policy will support the funding of growth-related infrastructure as outlined in the 2009/19 LTCCP.*
3) Treaty of Waitangi considerations *The proposal has no specific Treaty of Waitangi implication.*
4) Decision-Making *The decisions sought in this report are significant. 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** *No issues of concern specifically to Maori have been identified. Generic requirements to consult with Maori will be met through the LTCCP special consultative procedure.*
6) Legal Implications *DLA Phillips Fox have provided advice on specific legal issues and in relation to the general policy approach.*
7) Consistency with existing policy *The recommendations are consistent with core principles of the existing Development Contributions Policy.*

APPENDIX A

Revised Water catchments