
REPORT 5
(1215/52/IM)

DRAFT DEVELOPMENT CONTRIBUTIONS POLICY 2009: REPORT FROM DEVELOPMENT CONTRIBUTIONS SUBCOMMITTEE

1. Purpose of report

To report to the Strategy and Policy Committee on the Development Contributions Subcommittee's consideration of the submissions received on the draft Development Contributions Policy 2009, and to recommend the draft Development Contributions Policy 2009 to the Strategy and Policy Committee, with no amendments made as a result of submissions, for consideration as part of the 2009/19 LTCCP deliberations. This paper also recommends several minor financial and administrative amendments and corrections to the draft policy to the Committee.

2. Executive summary

The submissions received on the draft Development Contributions Policy 2009 (Policy) raised a number of issues that required the Subcommittee's consideration. No changes to the draft 2009 Policy are recommended by the Development Contributions Subcommittee as a result of these submissions.

The Subcommittee agreed, however, that there is merit to the proposal to establish a new "industrial development" sub-category of non-residential developments, with appropriate contribution rates for some developments – such as warehouses – which have growth impacts on infrastructure demand that are potentially different to the non-residential development type currently identified in the policy. This work will be incorporated into a 2010 review of the Policy. In the meantime, the Subcommittee has agreed that officers will use the special / self assessment processes to ensure relevant industrial developments will be appropriately assessed.

Operational level responses are available within the draft Policy to deal with many of the other issues identified by submitters. These are discussed in this paper.

The Subcommittee recommends the draft Development Contributions Policy to the Strategy and Policy Committee and for its referral to Council for approval as part of the 2009/19 Long Term Council Community Plan (LTCCP).

3. Recommendations

The Development Contributions Subcommittee recommends to the Strategy and Policy Committee that it:

1. *Receive the information.*
2. *Note that nine submissions were received on the draft Development Contributions Policy 2009 during consultation on the draft 2009/19 LTCCP.*
3. *Agree to recommend the draft Development Contributions Policy 2009 to Council, with no amendments made as a result of submissions.*
4. *Note that further work will be undertaken to examine the growth impacts of industrial developments on infrastructure demand and the potential for establishing a new “industrial development” sub category of the non-residential category, and appropriate contribution rates.*
5. *Note that the schedule of development contribution fees in the draft Development Contributions Policy reflects capital expenditure in the draft 2009/19 LTCCP and that the final schedule of fees will be agreed by Council when the 2009/19 LTCCP capital expenditure budgets are confirmed.*

Officers recommend to the Strategy and Policy Committee that it:

6. *Agree to the minor financial and administrative corrections and amendments summarised at Appendix One, and incorporated into the revised draft Policy (Appendix Two).*

4. Background

4.1 Context

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. Development contributions have been revised to reflect the growth components of the Council’s capital expenditure which respond to increase in demand resulting from population and employment growth.

The consultation draft of the Policy was approved by Strategy and Policy Committee for inclusion in the Draft 2009/10 LTCCP on 10 March 2009. The draft is an update of the existing Development Contributions Policy (2007) and takes into account:

- revised population and employment data

- capital expenditure for the three new out-years added to the calculation timeframe since the last LTCCP/ policy revision (2016/17 to 2018/19)
- inflation
- changes to work programmes (budgets and timing)
- addition of capital expenditure not previously attracting development contributions
- revising other funding for capital expenditure, including subsidies (principally from NZ Transport Authority (NZTA)).

Changes were also made to the methodology for calculating contributions. Specific changes included:

- 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 (The formula for calculating EHUs will reduce from 65 sq m gross floor area (GFA) per EHU to 55 sq m per EHU)
- amending the development contributions calculation for storm-water for multi-storey development from “total EHUs” to “the greatest number of EHUs on any floor”
- introducing a set of revised water supply catchments to more accurately reflect the network nature of water supply
- the establishment of an open spaces acquisition programme to be fully funded by Development Contributions
- the inclusion of the following additional infrastructure in the Policy:
 - i. Sports fields (synthetic turf surfaces)
 - ii. Cemeteries
 - iii. Johnsonville Town Centre Plan (roading and some associated infrastructure)
 - iv. Adelaide Road Project (roading and some associated infrastructure)
 - v. Growth related open space land acquisition deemed of citywide benefit
- amending the 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 development contributions for construction by the Council.

Consultation on the draft Development Contributions Policy 2009 (Policy) was undertaken as part of the consultation on the draft 2009/19 LTCCP. Nine submissions were received on the draft Policy. Several submitters raised issues in common (i.e. arguments for a concession for Green Star rated buildings and that development contributions should be reduced in recognition of the positive economic contributions that developments make to Wellington). All nine submitters elected to make oral submissions in support of their written submissions.

4.2 Summary of Submissions

Issues raised by submitters:

Submission	Submitters	Sub No
VUW should be exempt from development contributions as some competitor universities are exempted, and as the EHU approach is not well suited to the nature of some of the VUW developments. The exemption should be backdated to include the Te Puni Village and Alan McDiarmid Building developments.	Victoria University of Wellington (VUW)	362
If an exemption in full is not granted, a specific category should be introduced to deal with VUW as a significant proportion of new development at VUW does not result from materially higher student populations. Development contributions should reflect actual impact on infrastructure rather than gross floor area. Student accommodation may even require its own sub-category, utilising a five bed measure per EHU to reflect the larger size of student accommodation generally.	VUW	362
The VUW campus currently covers two development contribution catchment zones (<i>Kelburn and Central and Coastal</i>). The entire university should be included in the <i>Central and Coastal</i> catchment zone.	VUW	362
The Policy should recognise the reduced infrastructure requirements imposed by Green Star Rated buildings.	Property Council NZ Centreport Wellington Regional Chamber of Commerce AMP Capital Investors The Wellington Company	101 459 396 455 446
Development contributions should recognise the significant contribution developments make to the Wellington economy, and incentivise development to realise this.	Property Council NZ Centreport Wellington Regional Chamber of Commerce AMP Capital Investors The Wellington Company	101 459 396 455 446
The proposed changes to the Development Contributions Policy will result in significant increases which cannot be justified. Introduction should be delayed pending consultation with commercial developers justifying the need for the revised basis of development contribution determination and rates.	Centreport	459
The increases in development contributions are significant and add further cost to development at a time when housing affordability is a national issue.	Best Farms Ltd Stebbing's Farmlands Ltd Hunters Hill Ltd	177
It is not equitable to charge the same development contribution for office, retail and industrial buildings. This must change if WCC wants new industrial development in the city. The gross floor area per EHU for non-residential	Best Farms Ltd Stebbing's Farmlands Ltd Hunters Hill Ltd	177

development has decreased from 65sqm to 55sqm resulting in an increase of approximately 20% in non-residential development contributions, and the rationale for this change was not presented in the draft Policy.		
The cost for new infrastructure should be spread over a greater area. We are unclear on the basis for the EHUs for growth and note as the principal developer in the Churton Park area there has been no discussion with us on any of the above.	Best Farms Stebbing's Farmlands Ltd Hunters Hill Ltd	177
We are concerned about the lengthy delays in collecting development contributions from the local property developer. Churton Park has been under development for over 30 years and yet it seems development contributions have only been levied very recently.	Churton Park Community Association	129
The current policy is based on average costs – the policy should be independently validated using the principles of marginal costing as a comparison.	Bernard Harris	390

5. Discussion

5.1 Exemption for Victoria University of Wellington (VUW) - issues specific to universities

Comment:

The Subcommittee noted that to exempt universities from actual infrastructure impacts would shift the burden for new developments to the other developments in the city. The Subcommittee considered that the most appropriate approach is to establish what the actual growth component impacts on infrastructure of specific VUW developments are, and to set development contributions accordingly. This implies that any variation to the application of existing policy should be through the self assessment or special assessment processes which require all relevant factors to be considered as a package.

The current catchments for VUW reflect the actual infrastructure impacts of building in different locations within the VUW campus. Buildings within the “Kelburn” and “Central and Coastal” catchment zones are located within different water catchment boundaries, and are therefore served by different reservoir networks.

VUW applied for a remission for the Te Puni Village development and this case was considered by the Development Contributions Subcommittee in August 2007 and November 2008. The Development Contributions Subcommittee agreed to a partial remission of the transport and roading component of VUW's development contributions.

The Subcommittee recommends no change to the draft Policy as a result of this submission.

5.2 Green Star rated buildings (Property Council NZ, Centreport, Wellington Regional Chamber of Commerce, AMP Capital Investors, the Wellington Company)

Comment:

At its meeting of 5 November 2008, the Development Contributions Subcommittee specifically considered and rejected the use of development contributions to incentivise the building of 'green' buildings. The Policy provides, through the self assessment process, for a developer to seek a reduction in development contributions if they can demonstrate that their development imposes a lower infrastructure impact than that provided for by application of the standard development contributions formula. This would take into account any identifiable reductions in infrastructure impacts as a result of 'green' building features. It would, however, require an assessment of all aspects of infrastructure impacts, rather than considering one isolated aspect of a particular development.

The Subcommittee recommends no change to the draft Policy as a result of these submissions.

5.3 Reduce development contributions in recognition of positive economic impacts (Property Council NZ, Centreport, Wellington Regional Chamber of Commerce, AMP Capital Investors, the Wellington Company)

Increases to development contributions are too high (Best Farms Ltd, Stebbings Farmlands Ltd, Hunters Hill Ltd)

Comment:

The increases in development contributions reflect an assessment of the actual infrastructure costs imposed by developments as provided for by the Local Government Act 2002. They reflect the Council's policy that 100% of the costs arising from growth-related development should be met by development contributions unless there is a good policy reason to do otherwise. Lower development contributions than those proposed would shift some of the infrastructure costs of new developments to existing ratepayers and be inconsistent with the Policy.

The Subcommittee recommends no change to the draft Policy as a result of these submissions.

5.4 Development Contributions Policy should distinguish between office, industrial, and retail developments (Best Farms Ltd, Stebbings Farmlands Ltd, Hunters Hill Ltd)

Comment:

The revised EHU calculation for non-residential developments reflects revised data on office occupancy levels. The Policy provides for self assessments and special assessments to cater for situations where the impact of a development varies from the standard application of the Policy. Officers will communicate directly with the submitter on both the rationale for the change to the non-residential EHU formula and on the facility for self /special assessments.

Although no change is proposed to the draft 2009 Policy as a result of this submission, the Subcommittee considers there is merit to the proposal to establish a new “industrial development” sub-category of non-residential developments with appropriate contribution rates for some developments – such as warehouses – which have growth impacts on infrastructure demand that are potentially different to the non-residential development type currently identified in the policy. This work will be incorporated into a 2010 review of the Policy. In the meantime, officers will use the special / self assessment processes to ensure relevant industrial developments will be appropriately assessed.

5.5 The cost for new infrastructure should be spread over a greater area (Best Farms Ltd, Stebbings Farmlands Ltd, Hunters Hill Ltd)

Comment:

The catchments upon which levies are based reflect the area served by a particular infrastructure. For example, water catchments are specifically related to the areas which a reservoir, or network of reservoirs, pump station upgrades and pipe network is capable of serving. Wastewater catchments are based on the service areas of the three wastewater plants. Roading and traffic catchments reflect the specific areas served by new roads.

The EHUs for growth to which the submitter specifically referred, were the growth EHUs for roading catchments in the Churton-Stebbing and Grenada-Lincolnshire catchments. The numbers of EHUs for these roading catchments remain unchanged from the existing (2007) policy as they reflect an assessment of the designed capacity of the new roading infrastructure.

The Subcommittee recommends no change to the draft Policy as a result of this submission.

5.6 Delays in collecting development contributions (Churton Park Community Association)

Comment:

The Policy was first introduced in 2005 and applied only to developments that commenced following its introduction. As development contributions are payable at the completion of a development, contributions have only become due for payment relatively recently. This may have created an impression that development contributions had not been levied when in fact they had been.

The Subcommittee recommends no change to the draft Policy as a result of this submission.

5.7 Independent validation of Development Contributions Policy (Bernard Harris)

Comment:

Average costing, marginal costing and activity-based costing are approaches generally used in calculating unit costs in manufacturing for decisions on unit pricing and production quantity, etc.

Marginal costing is taken into account in the Policy where the distinction is made between the renewal and upgrade costs of an asset.

The Policy aims to recover 100% of costs that are caused by growth (an increase in population - residential and workforce).

The actual costs are used where new assets are built or upgraded to provide for growth. These costs reflect the costs of providing the asset. The actual costs to build or upgrade the asset are used in the development contributions calculations to recover the proportion relating to growth. The actual cost is also applied to new or upgraded assets providing for growth when these are capitalised.

If the full actual cost was not taken into account for development contributions, this would not recover the proportion relating to growth and would contravene the Policy. It would also result in inconsistent accounting for the capitalisation costs of an asset.

The Subcommittee recommends no change to the draft Policy as a result of this submission.

5.8. Minor amendments and corrections to draft

Officers have identified a number of minor amendments and corrections to the draft Policy. These are detailed in Appendix One. The changes involve:

- Updated capital expenditure data. No development contribution components are increased as a result of these changes. Two water contributions are reduced to reflect the removal of some capital works from Capacity's work programme. (Kelburn is reduced by \$332 and Ngaio is reduced by \$507.)
- Minor corrections to tables 3 and 4 to ensure consistency with Tables B2.1 ad B6.1
- Adding "Rural" labels to the summary catchment map, and an explicit reference to rural development contributions in the Schedule of Contributions (2.4) - for clarity.

6. Conclusion

The Subcommittee has carefully considered submissions on the draft Development Contributions Policy 2009. No changes to the draft Development Contributions Policy are recommended as a result of the submissions received. The draft Policy (Appendix Two) includes only minor amendments from the consultation draft, and is recommended to the Strategy and Policy Committee to be referred to Council for approval.

Contact: Councillor Andy Foster, Chair of the Development Contributions Subcommittee

Supporting Information

1) Strategic Fit / Strategic Outcome

This proposal 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 not significant.

5) Consultation

a) General Consultation

Consultation has been conducted in the context of the LTCCP special consultative procedure.

b) Consultation with Maori

No issues of concern specifically to Maori have been identified.

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 ONE

Proposed minor amendments and corrections to Draft Development Contributions Policy

Section	Amendment	Reason for amendment
2.4: Schedule of Development Contributions	Reduce water supply contributions for Kelburn and Ngaio by \$332 and \$507 respectively	Reflects revised Capacity work programme
2.4: Schedule of Development Contributions	Correct misalignment of inner city reserves figure within table	Minor correction – no impact
2.4: Schedule of Development Contributions	Add reference to rural (as per existing policy) as follows: “Rural citywide development contribution: Residential \$3,357 Non-Residential \$1416 Water, stormwater and wastewater contributions will also apply where it is practicable to connect to those services.”	Enhancing clarity – consistent with existing Policy
6. Contribution Zones Map	Add “Rural” labels	Enhancing clarity – consistent with existing Policy
Appendix A: Table3	Amend Traffic and roading from \$787 to \$835	Correction of transcribing error in draft. Ensures consistency with other tables and schedules – no impact on contribution levels.
Appendix A: Table 4	Amend inner city non-residential reserves development contribution from \$187 to \$249	Correction of transcribing error in draft. Ensures consistency with other tables and schedules – no impact on contribution levels.
B2.1 Citywide Capital Expenditure Table	Update capital expenditure, gross contribution and EHUs data for citywide water supply to reflect revised Capacity data.	Minor - no impact on contribution levels.
B3.1	Update capital expenditure, gross contribution and EHUs data for catchment-based water supply to reflect revised Capacity data.	Minor – Kelburn and Ngaio contributions reduce by \$332 and \$507 respectively, as noted above.
B5.1	Minor updates to roading and associated infrastructure capital expenditure	Minor - no impact on contribution levels