



Waitakere City Council
Te Taiao o Waitakere

NOTICE OF MEETING

LONG TERM COUNCIL COMMUNITY PLAN AND ANNUAL PLAN COMMITTEE

I hereby give notice that a meeting of the Long Term Council Community Plan and Annual Plan Committee will be held on:-

DATE: Tuesday, 16 September 2008 **TIME:** 9.30 am
MEETING ROOM: Council Chamber
VENUE: Waitakere Central, 6 Henderson Valley Road, Henderson, Waitakere

to consider the business as set out herein and to take any necessary action connected therewith.

10 September 2008

Sharon Simiona
COMMITTEE SECRETARY

Telephone (09) 836 8000 extn 8820

MEMBERSHIP:

Councillors	JM	Clews, QSO, JP (Chairman)
	RI	Clow (Deputy Chairman)
	DQ	Battersby, JP
	BA	Brady, JP
	MFP	Chan, JP
	LA	Cooper, JP
	AK	Corban, OBE, JP
	RP	Dallow, QPM, JP
	WW	Flaunty, QSM, JP
	PA	Hulse
	MM	Jolley
	JP	Lawley, JP
	PG	Mitchell
	VS	Neeson, JP

Mayor RA Harvey, QSO, JP (ex officio)

(Quorum 5 members)

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(Meeting Room could be subject to change)

(The reports and recommendations contained in all agendas are reports and recommendations only and are not to be construed, in any way, as Council policy until adopted.)

**AGENDA FOR A MEETING OF THE LONG TERM COUNCIL COMMUNITY PLAN AND
ANNUAL PLAN COMMITTEE TO BE HELD IN THE COUNCIL CHAMBER AT
WAITAKERE CENTRAL, 6 HENDERSON VALLEY ROAD, HENDERSON,
WAITAKERE, ON TUESDAY, 16 SEPTEMBER 2008
COMMENCING AT 9.30 AM**

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AGENDA FOR A MEETING OF THE LONG TERM COUNCIL COMMUNITY PLAN AND ANNUAL PLAN COMMITTEE TO BE HELD IN THE COUNCIL CHAMBER AT WAITAKERE CENTRAL, 6 HENDERSON VALLEY ROAD, HENDERSON, WAITAKERE, ON TUESDAY, 16 SEPTEMBER 2008 COMMENCING AT 9.30 AM

1 APOLOGIES



2 URGENT BUSINESS

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 provides that where an item of business is not on the agenda, it may only be dealt with at the meeting if:

- (i) the Committee by resolution so decides; and
- (ii) the Chairman has explained at the beginning of the meeting (when open to the public) that the item will be raised for discussion and decision, why the item is not on the agenda, and why it cannot be delayed until a subsequent meeting.

The Committee may make a decision on a matter determined to be urgent.

NOTE: Urgent Business need not be dealt with now and may be delayed until later in the meeting.



3 CONFLICTS OF INTEREST

The Council has acknowledged in its Code of Conduct that Elected Members need to be vigilant to stand aside from decision making when a conflict arises between their role as a member of the Council and any private or other external interest they might have. This note is provided as a reminder to members to check that no such conflicts arise in relation to any items on this agenda.



4 CONFIRMATION OF MINUTES

Meeting Minutes - Tuesday, 15 July 2008

RECOMMENDATION

It is recommended that the Long Term Council Community Plan and Annual Plan Committee resolves to:

Receive the minutes of the meeting of the Long Term Council Community Plan and Annual Plan Committee held on, Tuesday, 15 July 2008 as circulated, and that they be taken as read and now be confirmed.



5 **KEY ISSUES CONCERNING THE DEVELOPMENT CONTRIBUTIONS POLICY - CATCHMENTS**

GLOSSARY

Development Contribution	(DC)
Finance and Operational Performance Committee	(FOP)
Local Government Act 2002	(LGA 02)
Long Term Council Community Plan	(LTCCP)
Northern Strategic Growth Area	(NorsGA)

EXECUTIVE SUMMARY

The purpose of this report is to seek the Committee's agreement in principle to the approach proposed for the determination of catchments under the Development Contributions (DC) Policy.

The Council is responsible for providing community facilities (reserves, network infrastructure and community infrastructure) essential for the present and future social, economic, environmental and cultural wellbeing of the community in the City. With the growth of population and business enterprises in the City, additional capacities of infrastructure are needed to serve the new developments, so that a uniform level of service across the City could be maintained. The DCs policy enables the Council to fund the part of the costs driven by growth separately from new developments so that the funding burden on current ratepayers can be minimised.

One of the key issues involved in establishing a causal nexus between infrastructure cost and new developments is the existence of spatial differences in demand for and cost of infrastructure within the City. Should the DC be uniform across the City or different in relation to spatial differences in infrastructure costs?

A sub-catchments (multi) based approach to calculate DCs is theoretically sound, equitable and economically efficient, if demand for and costs of infrastructure can be clearly identified and estimated. It is also consistent with the principles of cost allocation.

However, there are practical and legal issues involved when attempts are made to adopt a sub-catchments (multi) approach to cost allocation. The adoption of a sub-catchments (multi) approach could raise the degree of uncertainty of developments and the risks associated with funding infrastructure requirements of the City as one entity. DCs are not transferable among different catchments in the event of a change in the spatial distribution of new developments, and unused money has to be refunded. These constraints could undermine the predictability and certainty about the level of DCs available to meet the citywide cost of growth.

It will also lead to a very complex DCs regime which will be costly and difficult to administer.

Therefore it is prudent to examine whether there are significant cost differences in different parts of the City to warrant the adoption of a sub-catchments (multi) approach. For this purpose a two-stage, iterative approach is recommended to identify costs and amalgamate sub-catchments where cost differences are not significant.

RECOMMENDATIONS

It is recommended that the Long Term Council Community Plan and Annual Plan Special Committee resolves to:

1. **Receive** the Key Issues Concerning Development Contributions Policy: Catchments report.

2. **Agree** in principle that the current policy on high level catchments be altered only if there are significant cost differences among different geographic locations identified on the basis of an analysis of the demand for and capital cost of various community facilities in sub-catchments.

BACKGROUND

1. The Council adopted its first development contributions and financial contributions policy in June 2004. It was reviewed subsequently and a revised version was adopted in June 2006 as part of the Long Term Council Community Plan (LTCCP) 2006/2016. The DC policy is now due for review and adoption as part of the LTCCP 2009/2019 process.

DECISION MAKING

2. Under section 77 of the Local Government Act 2002 (LGA 02), a local authority must seek to identify all reasonable and practical options to achieve the stated objectives. The Development Contributions and Financial Contributions Policy Review Project Steering Group identified and considered the costs and benefits of the options.
3. In terms of section 101 (2) of the LGA 02, the Council is required to make adequate and effective provision in its LTCCP and its Annual Plan to meet the expenditure needs identified in those Plans. Such funding needs must be met from those sources that the local authorities determine to be appropriate following the consideration of the factors set out in section 101 (3) of LGA 02.
4. Section 101(3) requires Councils to consider community outcomes to which the activity primarily contributes; the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; the period in or over which those benefits are expected to occur; the extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity and the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and the overall impact of any allocation of liability of revenue needs on the current and future social, economic, environmental and cultural well-being of the community
5. DCs are identified as the appropriate method of funding of growth and the policy seeks to provide predictability and certainty about the sources and levels of funding in accordance with section 102 of LGA 02. In determining the maximum DC levied on a particular development, LGA 02 (schedule 13) requires that:
6. "A territorial authority must first (a) identify the total cost of the capital expenditure that the local authority expects to incur in respect of the community facility or activity or group of activities, to meet increased demand resulting from growth **within the district, or part of the district**, as the case may be, as set out in the long term council community plan in accordance with section 106 (2)(a)".
7. These provisions require the Council to consider whether cost of infrastructure should be distributed equally city-wide or allocated differently to specific geographic locations.

Issues

8. To maintain the present and future wellbeing of the community, the Council treats the entire City as one unit, so that the scope and level of services provided are, as practicable as possible, uniform across the City. This Citywide approach to the provision of community facilities is essential for the achievement of Council's strategic goals.

9. The network infrastructure such as roads, supply of potable water, management of wastewater and stormwater are planned, designed, implemented and managed as single integrated networks servicing the entire City. Community infrastructure and reserves provide open access to all, and enhance the environmental quality and amenity value in the City.
10. However, property developments within the City are geographically dispersed; and the demand generated by new developments for various infrastructure services could vary depending on the geographic location, the type of development, and the nature of infrastructure. This could result in spatial differences in the costs of different services. These differences could be quite significant between greenfield areas and the existing built areas, as greenfields need significantly higher amount of investments to bring them up to the level of services elsewhere in the City. The cost differences within the built areas are likely to be much less.
11. The LGA 02 requires councils to identify the share of costs attributable to each unit of demand. Schedule 13, Clause 1 (b) states that in order to calculate a DC, a territorial authority must “identify the share of that expenditure attributable to each unit of demand, using the units of demand for the community facility or for separate activities or groups of activities, as the case may be, by which the impact of growth has been assessed.”
12. The existence of spatial differences in demand for and cost of infrastructure raises a fundamental issue in relation to funding by those who cause such costs or by those who benefit from the facilities provided. Should the DCs be uniform across the City or different in relation to spatial differences in infrastructure costs? The answer to this question could be of interest to the developers as they do not wish to pay for the infrastructure costs unrelated to their own developments.
13. One of the basic principles underpinning the cost allocation is that, if there are significant differences in the demand for and costs of infrastructure in different geographic locations, and if they could be clearly identified and quantified, the costs apportioned should be closely related to those who use them. Under such circumstances, a greater degree of equity and economic efficiency could be achieved by apportioning costs on the basis of geographic areas.
14. The LGA 02 recognises the possibility of applying different amounts in different parts of the City or a uniform DC across the City. In determining the maximum DC levied on a particular development, councils are required to “identify the total cost of the capital expenditure that the local authority expects to incur in respect of the community facility or activity or group of activities, to meet increased demand resulting from growth **within the district, or part of the district**, as the case may be (Schedule 13).
15. The maximum amount levied cannot exceed the cost attributable to a particular development: this part of the clause is critical. In effect, it prevents cross-subsidisation of developments in high cost locations by the developers in relatively low cost locations. The allocation of costs based on spatial differences could, to a large extent, minimise such cross-subsidisation.
16. In the choice of an appropriate funding source, Councils are also required to consider “the costs and benefits, including consequences for transparency and accountability, of funding the activity separately from other activities” (Section 101). A location based approach could results in a further breakdown of growth costs for separate funding.

17. In the context of DCs, geographic areas served by particular infrastructure facilities such as water, wastewater, transport and community infrastructure can be treated as catchments. They need to be distinguishable geographic areas by their specific characteristics (physical geography and topography, environmental sensitivity, the degree of development, level of demand and the level of service delivery etc.) that influence the infrastructure costs.

Options Identified

18. Basically, there are two options:
- (a) continue with the current policy of allocating costs on the basis of three high level catchments, i.e. greenfields such as Northern Strategic Growth Area (NorsGA), built area (inner), built area (outer); and
 - (b) introduce additional sub-catchments within current catchments (i.e. multiplicity of sub-catchments).

Assessment of Options

Sub-catchments (multi): advantages

- The nexus between growth cost and developments could be established in a more transparent manner (in terms of s101 of LGA 02), so that potential risks of legal challenge may be reduced;
- The allocation of costs based on catchments is more equitable, as the DC levied is closely related to the cost of development in the location of the developments;
- It could minimise, if not eliminate, cross-subsidisation of developments in high cost locations by the developers in relatively low cost locations;
- It could send more realistic cost signals to developers and encourage developments based on true relative costs. This could be more acceptable to developers; and
- It could lead to more efficient allocation of resources within the City and better alignment with the Council's strategic goals such as urban intensification. For example, the demand for and cost of infrastructure in the greenfields could be significantly different to the built areas.

These advantages need to be weighed against a number of practical issues and legal implications involved in fine tuning the DCs policy to allocate costs by sub-catchments (multi).

Sub-catchments (multi): disadvantages

- In the choice of funding sources the Councils are required to consider the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural well-being of community (s 101 (3) (b) of LGA 02). The adoption of a sub-catchments approach could restrict the Council's ability to respond to the changing infrastructure needs in different parts of the City.
- There is no certainty that the actual population growth (and units of demand) in different sub-catchments will follow the projected growth path. This could expose the Council to potential risks of creating excess infrastructure capacities in some catchments, while under-serving other catchments.

- DCs collected must be used for or towards the capital expenditure for which it was collected (S 204 1 a). The amounts collected are not transferable among different catchments, and the amounts not used for the purpose for which they were collected in one catchment need to be refunded in terms of s209 (1) (d). This could introduce a degree of inflexibility to infrastructure investment decisions and capital budgeting related to the whole City, and uncertainty about the level of development contributions predicted for meeting the citywide costs of growth.
- Separate accounting records need to be maintained for each infrastructure investment by catchments to monitor the amounts spent from the development contributions collected until the investment is completed.
- Some community infrastructure facilities (libraries, community halls, parks etc) can be accessed by all residents regardless of their property location. Allocation of costs on the basis of small catchments tends to ignore the benefits accruing to residents outside the catchments. The quantification of spatial distribution of these benefits is difficult due to data limitations.
- Estimation of DCs by sub-catchments (multi) may involve extra work for the Council staff, and it might increase the cost of policy development and policy administration.
- The consideration of benefit distribution as required under s 101 (3) of LGA 02 will become even more complicated and difficult.
- When DCs are different in different locations, community may not be able to easily understand the policy.

Current Policy of Waitakere

19. The current policy has adopted a relatively simple and pragmatic approach to cost allocation. There are three main catchments:
 - (i) greenfield areas (i.e. NorsGA);
 - (ii) built areas served with water supply and wastewater service (inner area); and
 - (iii) built areas not served with water supply and wastewater service (outer area).
20. For most infrastructure facilities, citywide catchments (single) are used for the following reasons:
 - Preference for a relatively simple charging regime for administrative efficiency;
 - Dividing the City into small catchments can result in a disproportionate increase in costs for those developments in areas which require significant infrastructure before growth could occur;
 - Changing patterns of urban growth may result in capital expenditure for smaller catchments remaining unfunded in whole or in part; and
 - The difference in the rate of contribution between small catchments and large catchments proved to be negligible in many cases.
21. Those catchments which are not citywide have been derived from geographical, historical or environmental features (e.g. natural stormwater catchments or existing infrastructure such as water supply). So far, the current approach has not been opposed by developers, and it has allowed for citywide efficiency in the provision of Council services.

Policies in other Councils

22. Over the last four years or so, a number of councils have refined their own DC policies to improve transparency and accountability. However, there is no uniformity in the catchments policies adopted by different councils. Notwithstanding the practical problems raised above, several councils (for example, North Shore, Tauranga, Wellington, Kapiti Coast, Christchurch and Queenstown) have adopted a complex system of multiple catchments (up to 20 in Wellington). Councils such as Waitakere, Auckland, Manukau and Hamilton have applied a simple approach of having a smaller number of large catchments (however, Auckland City has differentials for high and medium density housing developments which are concentrated in the central business district).

Consideration of Community Views

23. Community members have not made any submissions to the Council during consultations on the current policy on catchments. However, they have reiterated that the Council needs to provide a “causal nexus” between capital investments required in relation to growth. They have also emphasised the need to ensure that assets that are not linked to the effect of development are not included in calculating cost of growth.
24. These views have been taken into account when costs of growth were estimated and allocated to new developments.

STRATEGIC CONTEXT

25. The Council is responsible for providing community facilities (reserves, network infrastructure and community infrastructure) essential for the present and future social, economic, environmental and cultural wellbeing of the community in the City. With the growth of population and business enterprises in the City, the demand for these facilities increases, causing considerable pressure on the existing capacities built to serve the current population. Additional capacities of community facilities are needed to serve new developments, so that a uniform level of service across the City could be maintained, without compromising the wellbeing of the current community.
26. The primary driver of the capital expenditure related to additional capacities is the growth of demand generated by new developments. The DCs policy enables the Council to fund these costs separately from new developments so that the funding burden on current ratepayers would be minimised. Separate funding would make the growth costs more transparent and accountable, and send cost signals to developers, encouraging more efficient use of resources.
27. The operational simplicity of the policy is important for efficient and effective implementation. A complex policy would make implementation more cumbersome, time consuming and costly (some developers have expressed their concern about the cost of time taken for Council consent processes).

Preferred Option

28. Rather than making an *a priori* decision on catchments policy, it is prudent to examine whether there are significant cost differences in different parts of the City to warrant the adoption of a sub-catchments (multi) approach. For this purpose a two-stage, iterative approach is recommended.
29. First, establish the following principles for the estimation of costs based on catchments.

30. Second, based on these principles examine the demand for and costs of infrastructure by geographic areas to identify appropriate catchments in relation to specific services.

The principles

- Where demand and costs are confined to a well defined geographic area and if demand and costs can be clearly identified and estimated, treat that area (or areas) as a separate catchment, provided that the cost differences are significant; and
- Where demand and costs cannot be clearly identified and estimated in relation to separate catchments, allocate such costs citywide. For example, network roads, water supply, wastewater and stormwater are planned, managed and delivered as a single integrated network servicing the entire city to maintain a uniform level of service. These costs need to be allocated citywide.

The process

1. Spatially identify (Citywide or catchments-based) each capital works project or programme as the case may be for which a development contribution is required.
2. Estimate population growth that aligns with the areas to which capital works were assigned.
3. Estimate a set of catchments-based charges using the information produced in steps 1 and 2.
4. For each activity, examine whether there are differences in cost in different catchments, and consider whether there are any reasons for aggregation. For example, if cost difference per unit of demand in two adjacent catchments is less significant (say less than 10%), they could be amalgamated for administrative convenience. Similarly, there could be other unifying reasons such as the need to have greater flexibility in infrastructure investment to meet the overall demand in the City.
5. Report back the results to the Council's Policy Review Project Steering Group to determine the final configuration of catchments prior to consideration by the LTCCP and Annual Plan Committee.

CONSULTATION

31. A selected number of developers and the community had been consulted before the current DC policy was adopted in June 2006.
32. The issues raised in this report have been discussed with the Council's DCs Policy Review Project Steering Group, other Council officers involved with the review of the current policy and policy implementation, and external consultants.

RESOURCES

33. Resources have been allocated for the development of the policy in 2008/2009 budget.

IMPLEMENTATION ISSUES

34. There will be two levels of consultations. During the policy development process, key stake holders will be consulted by conducting meetings with selected "focus groups". When the draft policy is ready, a special consultative procedure will be followed during the LTCCP 2009/2019 process.

35. A complex policy would make implementation more cumbersome, time consuming and costly.

Report prepared by: Ariya Randeni, Senior Analyst: Economic Policy.



**6 KEY ISSUES CONCERNING THE DEVELOPMENT CONTRIBUTIONS POLICY:
DEVELOPMENT CONTRIBUTIONS BY HOUSEHOLD SIZE**

GLOSSARY

Development Contribution	(DC)
Development Contributions and Financial Contributions Policy	(DC & FCP)
Local Government Act 2002	(LGA 02)
Long Term Council Community Plan	(LTCCP)
High Density Housing	(HDH)
Household Unit	(HHU)
Medium Density Housing	(MDH)

EXECUTIVE SUMMARY

This report seeks the Committee's approval, in principle, for the continuation of the current practice of applying a uniform amount of development contributions (DCs) on residential households regardless of their size in terms of the number of bedrooms.

In determining the maximum DC that may be required for a particular development, the Council is required to demonstrate that it has attributed the units of demand to the development in question. One of the key issues involved in attributing the units of demand to residential developments is the existence of households of different sizes (e.g. bedrooms).

A unit of demand is defined as one household unit (HHU). The number of household units generated by growth is estimated by dividing the population increase by the average occupancy rate of 2.8 persons per household assumed for the plan period. Then the growth related cost per HHU is applied across all new households irrespective of the number of bedrooms.

Although there are theoretical arguments in support of applying differentials to DC levies in relation to HHU size, the latter is not considered when estimating the demand for community infrastructure in the first place. Forecasting household composition for the next 10-20 years is a difficult process fraught with uncertainty and errors. Such forecasting errors could undermine the predictability and certainty about the level of funding available from DCs, and raise the Council's exposure to the risk of under-funding growth costs. Further, any attempt to fine tune the policy would make it more complex and implementation more cumbersome and costly.

For these pragmatic reasons, it is preferable to maintain the current policy of applying a uniform amount on all residential household units regardless of their size.

RECOMMENDATIONS

It is recommended that the Long Term Council Community Plan and Annual Plan Committee Committee resolves to:

1. **Receive** the Key Issues Concerning the Development Contributions Policy: Development Contributions by Household Size report.
2. **Agree** in principle that the current development contributions policy of applying a uniform amount on all residential household units regardless of their size be continued.

BACKGROUND

1. The Council adopted its first Development Contributions and Financial Contributions Policy (DC & FCP) in June 2004. It was reviewed subsequently and a revised version was adopted in June 2006 as part of the Long Term Council Community Plan 2006-2016. The DC policy is now due for review and adoption as part of the LTCCP 2009-2019 process.

DECISION MAKING

2. Under section 77 of the Local Government Act (LGA 02), a local authority must seek to identify all reasonable and practical options to achieve the stated objectives. The Development Contributions and Financial Contributions Policy Review Project Steering Group identified and considered the costs and benefits of the options available for attributing units of demand to households of different sizes.
3. In terms of section 101 (2) of the LGA 02 the Council is required to make adequate and effective provision in its LTCCP and its Annual Plan to meet the expenditure needs identified in those Plans. Such funding needs must be met from those sources that the local authorities determine to be appropriate following the consideration of the factors set out in section 101 (3) of LGA 02.
4. Section 101(3) requires the Councils to consider community outcomes to which the activity primarily contributes; the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; the period in or over which those benefits are expected to occur; the extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity and the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and the overall impact of any allocation of liability of revenue needs on the current and future social, economic, environmental and cultural well-being of the community.
5. DCs are identified as the appropriate method of funding the cost of growth in accordance with the provisions of the LGA 02. The DC & FCP seeks to provide predictability and certainty about the sources and levels of funding in accordance with section 102 of LGA 02. The decisions on cost allocation to household units, therefore, need to consider the provisions in this section, in conjunction with other relevant sections.
6. The maximum amount that could be levied under the DCs policy is determined by the relationship between the units of demand and the cost of infrastructure capacities required to meet that demand.

7. The LGA 02 requires councils to identify the share of costs attributable to each unit of demand. Schedule 13, Clause 1 (b) states that in order to calculate a DC, a territorial authority must “identify the share of that expenditure attributable to each unit of demand, using the units of demand for the community facility or for separate activities or groups of activities, as the case may be, by which the impact of growth has been assessed.”
8. According to Clause 2 of Schedule 13:

“For the purpose of determining in accordance with section 203 (2) the maximum development contribution that may be required for a particular development or type of development, a territorial authority must demonstrate in its methodology that it has attributed units of demand to particular developments or types of development on a consistent and equitable basis.”
9. The definition of units of demand and how they are applied to calculate the amount of development contributions levied on a development is critical in ensuring consistency, equity and efficiency.

Issues

10. The key driver of the demand for additional infrastructure capacities (including reserves) is the growth of developments, which in turn, is propelled by population growth in the City. In the DCs policy adopted in 2004 and in 2006, the growth of household units is arrived at by dividing the population increase by the average occupancy rate of 2.8 persons per household assumed for the plan period. The average cost per HHU is then applied across all households irrespective of the number of bedrooms.
11. According to the most recent population Census (2006), there is significant diversity of the household size and number of occupants in different household units. Just over one-half (53%) of households have 3 bedrooms, while about 20% of the total households have 2 bedrooms or less. Households with more than 3 bedrooms account for 27% of all households.
12. The number of occupants is closely related to the number of bedrooms. For example, there is only one occupant in 70% of the one bedroom households, while 77% of the two bedroom houses are occupied by two people or less. On the other hand, over 67% of the households with more than three bedrooms are occupied by four or more residents.
13. The average occupancy in one bedroom houses is 1.4 persons, while the average occupancy in two bedrooms is 2 persons. The number of residents in four bedrooms is 3.69 persons, and the number increases with the increase in the number of bedrooms as shown in the table below.

Distribution of dwellings by size and number of occupants in Waitakere city - 2006

	One BR	Two BR	Three BR	Four BR	Five BR	Six+ BR	Unknown Num BR	Total
Number of Dwellings	2,406	9,255	30,408	11,949	3,006	918	3,888	61,830
Dwelling %	4.2%	16.0%	52.5%	20.6%	5.2%	1.6%	Excluded from % calculation	100.0%
Number of Occupants	3,327	18,513	88,545	44,076	13,056	4,320	10,653	182,529

Occupants %	1.9%	10.8%	51.5%	25.6%	7.6%	2.5%	Excluded from % calculation	100.0%
Average number of occupants	1.38	2.00	2.91	3.69	4.34	4.71	2.74	2.95

Source - Statistics New Zealand, Census 2006

14. This distribution pattern of household size could be aggregated to three broad types of household units for the purpose of DC policy discussion.

Minor household units

15. These are buildings with gross floor area (excluding garage) of up to 65 square meters, intended for use as living accommodation. Their use is associated with an existing dwelling on the same site.
16. Some developers have argued that minor household units should be exempted from DCs, on the grounds that “the impacts are minimal”. Although minor units may not require a second connection to the Council’s water service infrastructure, additional loadings are placed on that infrastructure which, eventually, will have to be upgraded at Council’s cost. This applies to existing (infill) as well as new (greenfield) sites. Total exemption of minor household units from DC would unfairly shift the burden back to ratepayers.
17. Another argument is that minor household units are usually lower priced, and therefore a fixed price contribution system is disproportionately burdensome. Current DC policy treats all dwellings the same, regardless of their price, because it is legally required to be based on the demand for Council infrastructure, and there is a poor correlation between demand for infrastructure and dwelling price.

Small households

18. These represent, as discussed, households with less than 3 bedrooms. Since the majority of these households are occupied by two people or less, arguably the demand they place on infrastructure would be lower than households with the average number of occupants.

High Density Housing and Medium Density Housing

19. High density housing (HDH) and medium density housing (MDH) developments include small dwellings with occupancy rates lower than the average across the city. The impermeable surface area per household unit is much smaller in these developments; and they are likely to be concentrated in the vicinity of transport nodes and town centres.
20. One of the strategic objectives of the Council is to increase housing density in order to reduce the pressure on the environment, improve the efficiency of services such as public transport, and to reduce some infrastructure costs.

Retirement villages

21. The number of people in retirement age in Waitakere is projected to increase, and the demand for certain community facilities (such as recreational facilities) will continue to increase. Retirement villages are a special category of HDH/MDH in that they may provide some of the recreational facilities similar (although smaller in scale and scope) to those provided by the Council for the entire community. There is an argument, therefore, that the occupants of retirement villages do not add to the demand for some of the community infrastructure such as recreational facilities provided by the Council.

22. The access to the community infrastructure provided by the Council is open to all. There is no certainty that the occupants of retirement villages will not use them at all; nor can the Council stop the occupants of a retirement village from using the Council facilities. The population occupying the retirement villages is part of the total population, and is taken into account by the Council for asset planning, capital costing and funding.
23. The residents in high/medium density housing are likely to place relatively lower demand on some infrastructure facilities. For example:
 - **Less car use** - assuming the site is near public transport and/or walking distance to amenities such as a town centre, shopping, entertainment/leisure and/or employment, the occupants are more likely to use their cars less frequently. This contributes to reduce road congestion;
 - **Patronage for public transport** - assuming the site is near public transport, there is likely to be greater patronage for public transport. This could enable the exploitation of economies of scale and scope such as improved services frequency and route diversity; and
 - **Cheaper to service** - The assumption is that higher density offers scale economies to the Council in delivering services such as trunk mains for wastewater.
24. On the other hand, concentration of population in town centres and transport nodes could increase the demand for other facilities such as libraries, open spaces, public areas (parks) and walkways which could be costly because of higher land values.
25. There are two key issues related to HDH and MDH developments:
 - Recognition of smaller size of HDH/MDH units and the lower number of occupants; and
 - Whether there are location specific savings of infrastructure costs resulting from the concentration of HDH/MDH units in and around town centres and transport nodes. If so, whether such cost savings arising from demand reduction could be taken into account when determining the DC on HDH/MDH units.

Options Identified

26. There are two main options:
 - (a) No change to existing policy, namely continue to treat a household as one HHU regardless of size, with no additional remission except in special circumstances.
 - (b) Introduce a differentiation factor based on average occupancy relative to bedrooms: 1 bedroom (and minor HHU) = 0.5 HHU; 2 bedrooms = 0.7 HHU (subject to limits on floor areas). Study rooms and additional "living" rooms of all types treated as bedrooms.

Assessment of Options

27. Overall, there are many factors that would influence the intensity of demand generated by household units. In addition to the number of occupants, the demand for infrastructure services is also influenced by (a) the type and location of the household (high/medium density developments in town centres); and (b) the behaviour of the occupants. Strictly speaking, these aspects also need to be considered if the amount of DC charged is to be closely related to the intensity of demand. At present there are no data to capture all these factors in estimating the intensity of demand generated by different types of households.

28. There are theoretical arguments based on cost allocation principles in support of applying differentials to DC levy in relation to HHU size. However, there are practical issues involved in converting theory into practice. Forecasting household composition for the next 10 years is a difficult process fraught with uncertainty and errors. Such errors could undermine the predictability and certainty about the level of funding available from development contributions, and raise the Council's exposure to the risk of under-funding growth costs. Further, any attempt to fine tune the policy would make it more complex, and implementation more cumbersome and costly.
29. The arguments for and against the application of a DC charging regime based on the intensity of demand (number of bedrooms) are summarised below.

The case for a differential HHU levy

- The allocation of growth costs by HHU size is fairer than the application of an average amount across all types of households;
- The number of occupants is arguably the best available proxy for household demand;
- A dwelling that is two bedrooms or less and therefore typically occupied by two people or less, could be considered as adding to demand by only a fraction of the average 2.8 person household or 4 BR with an average occupancy of 3.7 persons. The average occupancy of two bedroom dwellings is only 2 persons, while one bedroom dwellings average 1.4 occupants;
- Smaller dwellings tend to be cheaper, so a fixed contribution is more likely to be disproportionately burdensome relative to building value;
- A lower DC rate based on demand for infrastructure could encourage the construction of medium density housing with relatively small units. That is more consistent with the strategic goal of urban intensification;
- Smaller dwellings may improve housing affordability for first home buyers and small families, and thus contribute to "social housing"; and
- Council has the objective of increasing density in order to reduce pressure on the environment, improve the efficiency of services such as public transport, and to reduce some infrastructure costs.

The case against a differential for small HHU

- There is a fundamental difference between paying for access to use a service and paying for the actual use of a service. The costs related to the use of the infrastructure facilities are reflected in operating costs, which are largely recovered either through user charges (e.g. water) or property rates (e.g. libraries). A DC is akin to an access fee or a connection fee, and it could be argued that a uniform rate across all households would be more equitable;
- Council has no control over the number of occupants in a dwelling;
- The number of bedrooms may be altered after consent is issued. For example, study rooms and additional "living" rooms of all types could easily be converted to bedrooms. (An imperfect partial solution would be to introduce a maximum floor area to define the 'smaller' categories). Council has no way of supervising that small dwellings will be converted to 3 bedrooms after the consents etc have been obtained;
- Council has no control over the type of occupants in a housing development (e.g. whether they will be occupied by retired persons or students specially when market conditions change);

- A single HHU is simpler to administer. Council preferred a relatively simple policy, including the basic principle that all dwellings be treated equally regardless of size or value;
- If smaller dwellings pay less in DC, conversely larger dwellings will have to pay correspondingly more. The application of a regime of differentials would make the policy more complex, implementation more cumbersome and therefore more expensive; and
- Forecasting household growth by the number of bedrooms would increase the margin of error, and raise risk and uncertainty of collecting the anticipated amount of development contributions. Discount allowed for small dwellings will have to be redistributed to others, probably by size to ensure fairness in cost allocation.

Current Policy of Waitakere

30. The cost per HHU is calculated by dividing the total growth cost by the number of new household units. The average cost per HHU is then applied across all households irrespective of the number of bedrooms. Currently, the stormwater component of high/medium density household units is reduced as the impermeable surface area per household unit is lower than for a stand alone house.

Other Councils

31. Since the introduction of DC policy, some councils have applied a differential in determining the amount of DCs payable on houses of different sizes. Auckland City Council, for example, assigns different weights to different types of households (e.g. for community amenities a weight of 0.7 attached to one bedroom units). While the Manukau City Council allows a 50 percent remission on minor household units of 60 square metres or less, the Christchurch City Council (2006 policy) adjusts the DC on small units less than 100 m² (inclusive of 17.05 m² parking allowance) on a sliding scale from 100% to 60%.

Consideration of Community Views

32. The community members have not made any formal submissions during LTCCP 2006-2016 consultation process against the current practice of applying a uniform DC amount on household units regardless of their size. However, Housing New Zealand Corporation submitted that DCs are an additional development cost that would affect the provision of affordable housing.
33. During the focus group meetings some developers expressed their concern that a uniform amount unfairly penalises small houses. These views have been taken into account in the evaluation of the options.

STRATEGIC CONTEXT

34. The Council is responsible for providing community facilities (reserves, network infrastructure and community infrastructure) essential for the present and future social, economic, environmental and cultural wellbeing of the community in Waitakere. With the growth of population and business enterprises in the City, the demand for these facilities increases, causing considerable pressure on the existing infrastructure capacities built to serve the current population. Additional capacities of community facilities are needed to serve the new developments, so that a uniform level of service across the City could be maintained, without compromising the wellbeing of the current community.

35. The DCs policy enables the Council to fund these costs separately from new developments so that the funding burden on current ratepayers would be minimised. Separate funding make the growth costs more transparent and accountable, and send cost signals to developers, encouraging more efficient use of resources. Such cost signals are also important in managing growth.
36. The maximum amount that could be levied under the DCs policy is determined by the relationship between the intensity of demand generated by a development and the cost of infrastructure capacities required to meet that demand. This nexus is established through the concept of “unit of demand”.
37. The operational simplicity of the policy is important for efficient and effective implementation. A complex policy would make implementation more cumbersome and time consuming (some developers have expressed their concern about the cost of time taken for council consent processes in New Zealand).

Preferred Option

38. The current policy of applying a uniform amount on all residential household units regardless of their size is preferable for pragmatic reasons.

CONSULTATION

39. A selected number of developers and the community had been consulted during the development process of the current DC policy in June 2006. The community members in general were consulted during LTCCP 2006-2016 process and their concerns regarding housing affordability was noted.
40. The issues raised in this report have been discussed with the Council's DCs Policy Review Project Steering Group, other Council officers involved with the review of the current policy and policy implementation, and external consultants.

RESOURCES

41. Resources have been allocated for the development of the policy in 2008-2009 budget.

IMPLEMENTATION ISSUES

42. Before the policy is finalised, there will be two levels of consultations. During the policy development process, key stake holders will be consulted by conducting meetings with selected “focus groups”. When the draft policy is ready, a special consultative procedure will be followed during the LTCCP 2009-2019 process.
43. It is observed that a complex policy would make implementation more cumbersome, time consuming and costly.

Report prepared by: Ariya Randeni, Senior Analyst: Economic Policy.



7 **KEY ISSUES CONCERNING THE DEVELOPMENT CONTRIBUTIONS POLICY - REMISSIONS**

GLOSSARY

Development Contributions	DC
Development Contributions and Financial Contributions Policy	DC & FCP
Local Government Act 2002	LGA 02
Long Term Council Community Plan	LTCCP

EXECUTIVE SUMMARY

This report seeks the Committee's approval in principle for the continuation of the current policy of providing remissions only for measures that directly reduce the demand for network or community infrastructure or reserves provided by the Council.

The Council need to take into account the demand reduction measures introduced by developers in determining the amount of DCs in order to avoid possible "double dipping". The grant of remissions for demand mitigations measures is, therefore, fair, equitable and consistent with the policy principles.

Extension of remissions to measures that do not reduce the demand for the infrastructure provided by the Council could undermine the predictability and certainty of DCs as a source funding for growth.

Whether or not Council should provide subsidies to encourage the adoption of sustainability measures unrelated to infrastructure costs, and the appropriate mechanisms to provide such incentives are wider issues that need to be considered separately in the context of Council's overall budget.

If the Council wish to provide financial support for sustainability measures unrelated to demand for community infrastructure, the Council needs to consider the fundamental principles of public finance - fairness, openness and transparency. There are alternative support mechanisms that are based on these principles.

RECOMMENDATIONS

It is recommended that the Long Term Council Community Plan and Annual Plan Committee resolves to:

1. **Receive** the Key Issues Concerning the Development Contributions Policy: Remissions report.
2. **Agree** in principle that the current policy of allowing remissions only for the costs incurred by developers to reduce the demand for community infrastructure provided by the Council be continued.

BACKGROUND

1. The Council adopted its first Development Contributions and Financial Contributions Policy (DC & FCP) in June 2004 as an essential part of the suite of its funding and financial policies. This policy identifies the cost of growth and determines how it is funded. The DC & FCP was reviewed subsequently and a revised version was adopted in June 2006 as part of the Long Term Council Community Plan (LTCCP) 2006-2016. It is now due for review and adoption as part of the LTCCP 2009-2019 process.

DECISION MAKING

2. Under section 77 of the Local Government Act 2002 (LGA 02), a local authority must seek to identify all reasonable and practical options to achieve the stated objectives. The DC & FCP Review Project Steering Group identified and considered the costs and benefits of the two options for granting remissions.
3. In terms of section 101 (2) of the LGA 02 the Council is required to make adequate and effective provision in its LTCCP and its Annual Plan to meet the expenditure needs identified in those plans. Such funding needs must be met from those sources that the local authorities determine to be appropriate following the consideration of the factors set out in section 101 (3) of LGA 02. The DC & FCP conforms to the requirement of this section, and seek to provide predictability and certainty about the sources and levels of funding in accordance with section 102 of LGA 02. The decisions on remissions, therefore, need to consider the provisions in this section, in conjunction with other relevant sections.
4. The options are analysed in accordance with section 101 (3) of the LGA. This section requires councils to consider community outcomes to which the activity primarily contributes; the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; the period in or over which those benefits are expected to occur; the extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity and the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and the overall impact of any allocation of liability of revenue needs on the current and future social, economic, environmental and cultural well-being of the community.

Issues

5. The key driver of DCs is the increased demand attributable to new developments; but the overall demand generated by growth could be mitigated to some extent by various demand reduction measures introduced by individual developments. The cumulative effect of these could be a reduction in the level of infrastructure capacity otherwise required to serve new developments in the future. The Council needs to take into account the demand reduction measures adopted by developers in determining the amount of DCs in order to avoid possible “double dipping”.
6. Accordingly, the Council’s current policy provides specific remissions for various measures that will reduce the demand for stormwater, wastewater and water supply infrastructure because the reduction in demand could contribute to reduce the cost of infrastructure. For parks, transport and community infrastructure, no remissions are generally applicable except in special circumstances. The grant of remissions for demand mitigations measures is, therefore, fair, equitable and consistent with the policy principles.
7. It has been suggested that remissions should be extended to other sustainability features that are not related to the demand for community infrastructure for which DCs are collected (for example, construction of affordable houses, installation of energy saving devices, etc). This argument stems from the Council’s commitment to promote sustainability measures citywide. The issue then is not whether DCs should be discounted to support other sustainability measures, but the most appropriate method of providing Council support for such activities.

8. Since DCs are identified as a source of funding for meeting the costs of growth, the policy must ensure the predictability and certainty of the level of funding expected from DCs, as required under section 102 of LGA 02. Remissions for measures that do not reduce the demand for the infrastructure provided by the Council could introduce an element of uncertainty to the level of DCs that would be collected.
9. If the Council wishes to use remissions as a subsidy for sustainability measures unrelated to demand for community infrastructure, then the Council need to consider the fundamental principles of public finance - fairness, openness and transparency. There are alternative support mechanisms that are based on these principles.

Options Identified

10. The following two options have been identified and considered:
 - Grant remissions only for the measures that would reduce the demand for and cost of community infrastructure intended to be funded by DCs; or
 - Grant remissions for all sustainable measures introduced by developers regardless of their relationship to the demand for and cost of community infrastructure intended to be funded by DCs.

Assessment of Options

11. The remissions for measures unrelated to the demand for community infrastructure could be examined in terms of s 101 (3) (b) of LGA 02. This section requires the Council to consider the overall impact of DCs on the current and future social, economic, environmental and cultural wellbeing of the community. The key issue is whether DCs have produced adverse effects on the four-fold wellbeing in the community.
12. The link between DCs and the four-fold wellbeing is the effect on property development costs and prices. An empirical study commissioned to investigate the effects of DCs has concluded that DCs have had no discernible effects on: housing supply; housing affordability both in terms of house prices and rental charges; business investment and employment growth (Covec, *Development Contributions: an Empirical Study of Effects*, July 2008, Auckland).
13. On the positive side, the report concludes that DCs led to a small saving of residential rates which would not occurred have otherwise, and the structure of DCs is consistent with the objective of containing urban sprawl as it reflects the spatial differences in development costs (greenfields vs. built areas). This is consistent with the Council's strategic direction of promoting environmental sustainability.
14. Although remissions for other measures do not involve a cash payment, they do result in a cost to the Council in the form of lost revenue. The amounts remitted will have to be recovered from the rate payers in order for the Council to meet other expenses; and this could result in increasing rates. The real issue, then, is not the remission of DCs, but whether all rate payers should pay for the sustainability measures introduced by new developments.

15. Whether or not Council should provide financial incentives for sustainability measures unrelated to DCs, and the appropriate mechanisms to provide such incentive are wider issues that need to be debated and considered separately in the context of Council's overall budget. For example, there are issues such as what measures and activities should qualify for incentives, who should be eligible (only new developments or all ratepayers or vulnerable groups such as low income households), the extent of the financial incentive and the impact on the funding requirements.
16. If the Council wish to provide financial support to promote sustainability it is important to explore all practicable options available and identify the most appropriate option, rather than tinkering with the development contributions policy which is essentially a cost sharing instrument. The key issues and the reasoning for the current policy are summarised below.
 - The primary purpose of DCs is to recover a part of the cost of infrastructure required by new developments. Therefore, a DC is an integral part of the total cost of new developments (similar to other costs), and not a tax which may be used as a lever to achieve other objectives;
 - Remissions conceal the true costs of new developments and distort the cost signals to developers and property buyers; this can encourage inefficient use of resources in the city;
 - Remissions unrelated to the demand for community infrastructure are, in effect, a subsidy, not a cost of infrastructure; the cost of subsidies cannot be shifted to other developers in the form of higher DCs;
 - Providing subsidies funded by ratepayers only to new developments is a discrimination against existing ratepayers who could retrofit sustainable features and fittings (rain water tanks, solar power generators etc);
 - When remissions are applied, the amount of funding used for the promotion of sustainable developments is not transparent; transparency is essential for the elected members and other stake holders to make better informed decisions, and improve the degree of accountability;
 - The Council has a multiplicity of strategic objectives set out in the LTCCP, and there are trade-offs involved among them. The adoption of the budget process to provide explicit subsidies enables decision-making regarding acceptable and unacceptable trade-offs between different objectives; and
 - The operational simplicity of the policy is important for efficient and effective implementation. A multiplicity of remissions could compound the complexity of the policy and make implementation more cumbersome, time consuming and costly (some developers have expressed their concern about the cost of time taken for Council consent processes).

Consideration of Community Views

17. During the LTCCP 2006/2016 process, Housing New Zealand Corporation submitted that the DCs are an additional cost to developers and, the increase in development cost would affect the provision of affordable housing to low income groups.
18. Their claim was examined during the empirical investigation of the effects of DCs; and the study has concluded that DCs have had no discernible effects on: housing supply; housing affordability both in terms of house prices and rental charges; business investment; and employment growth.

STRATEGIC CONTEXT

19. With the growth of the City, the demand for community facilities (reserves, network infrastructure and community infrastructure) also increases, causing considerable pressure on the existing infrastructure facilities built in the past mainly to serve the current population. The construction of additional infrastructure capacities involves substantial capital costs.
20. DCs are levied to recover some of the capital cost of additional infrastructure capacities required to meet the demand caused by new developments. If new developments do not pay their fair share, the entire cost will fall on all ratepayers in the city, mostly in the form of higher property rates. Property rate is not considered to be a fair and efficient method of funding the cost of growth.
21. The DC & FCP enables the Council to fairly and equitably recover some of the costs of growth. It reduces the burden unfairly placed on ratepayers, and allocates costs to those who are responsible for causing such costs.

Preferred Option

22. No change to the current policy and make provision only for remissions for costs incurred by developers to reduce the demand for the community infrastructure provided by the Council.

CONSULTATION

23. A selected number of developers and the community had been consulted before the current DC policy was adopted in June 2006, and their concerns regarding housing affordability was noted.
24. The issues raised in this report have been discussed with the Council's DCs Policy Review Project Steering Group, other Council officers involved with the review of the current policy and policy implementation, and external consultants

RESOURCES

25. Resources have been allocated for the development of the policy in 2008-2009 budget.

IMPLEMENTATION ISSUES

26. Before the policy is finalised, there will be two levels of consultations. During the policy development process, key stake holders will be consulted by conducting meetings with selected "focus groups". When the draft policy is ready, a special consultative procedure will be followed during the LTCCP 2009-2019 process.
27. It is observed that a complex policy would make implementation more cumbersome, time consuming and costly.

Report prepared by: Ariya Randeni, Senior Analyst: Economic Policy.



8 **STAKEHOLDER CONSULTATION ON THE DEVELOPMENT CONTRIBUTIONS AND FINANCIAL CONTRIBUTIONS POLICY REVIEW**

GLOSSARY

Development Contributions and Financial Contributions Policy	(DC Policy)
Local Government Act	(LGA)
Long Term Council Community Plan	(LTCCP)
Resource Management Act	(RMA)

EXECUTIVE SUMMARY

The Council adopted its first Development Contributions and Financial Contributions Policy (DC Policy) in 2004. The Council updated the DC Policy in 2006 and is reviewing the current Policy for inclusion in the Long Term Council Community Plan (LTCCP) 2009-2019, a draft new DC Policy will be introduced. An important part of policy development is consultation with key stakeholders and this report seeks that once the principles underlying a new draft DC Policy have been agreed by the Committee (these are covered in subsequent items on this agenda) that appropriate informal consultation with key stakeholders be undertaken.

RECOMMENDATIONS

It is recommended that the Long Term Council Community Plan and Annual Plan Committee resolve to:

1. **Receive** the Stakeholder Consultation on the Development Contributions and Financial Contributions Policy Review report.
2. **Agree** that once the Long Term Council Community Plan and Annual Plan Committee agrees the Development Contributions and Financial Contributions Policy principles, that consultation with key parties is undertaken.
3. **Agree** that the outcomes of the consultation be reported back to the Long Term Council Community Plan and Annual Plan Committee.

BACKGROUND

1. In 2004, the Council introduced its first DC Policy under the Local Government Act 2002 (LGA). The DC Policy was updated in the LTCCP 2006-2016 and is currently being revised and updated for inclusion in the draft LTCCP 2009-2019. The DC Policy is the basis upon which developers are charged for the cost of new or upgraded network or community infrastructure required to accommodate growth. These include roads, water, stormwater, wastewater, parks assets, libraries, cemeteries, community infrastructure etc.
2. In addition to contributions under the DC Policy, developers may also be liable for contributions as a condition of resource consent under the Resource Management Act 1991 (RMA) for reserves, Project Twin Streams and mitigation of any other adverse effects of the proposal on the environment.
3. The timing for the review of the proposed DC Policy is the amended DC Policy will be formally released or notified in the draft LTCCP 2009-2019, and submissions will be invited under the 'special consultative procedure' provisions of the LGA. The Council will consider submissions and it will adopt the DC Policy (incorporating any changes it considers appropriate) as part of the adoption of the LTCCP 2009-2019, before 30 June 2009.

4. However, the 'special consultative procedure' is inadequate to deal with the complexity and sophistication of the DC Policy and it is proposed to consult with key stakeholders, in a managed way, over the next few months. This informal consultation process will allow us to communicate the Council's position, listen carefully to development perspectives and engage in discussion with developers on key policy principles and calculation methodologies. The objectives of this informal consultation are:
 - To better understand the respective positions of both the Council and developers;
 - To gain developer trust and confidence in the Policy development process; and
 - To facilitate debate on key Policy issues.
5. This in turn is expected to result in a better reviewed Policy and less recourse to legal process.

DECISION MAKING

6. The purpose of this report is to inform the Committee and to seek approval to undertake consultation and to gain the its endorsement to the draft principles that will underpin the discussion and future draft DC Policy.
7. In formulating a consultation strategy for the review of the DC Policy, it is important to consider the broader strategic context. The following sections identify four contextual matters that will influence discussions:

i) North Shore City Council Case

A key development since 2006 was the judicial review of North Shore City Council Development Contribution Policy. This enhanced developer confidence in their ability to challenge Council processes and methodology. The judgement has been reviewed by the Council's Manager Legal Services in terms of the Council's present Policy and some relatively minor changes have been recommended. The importance of early consultation with developers was highlighted in the review of the North Shore judicial review decision.

ii) Other (especially Auckland) Local Authorities

It is important to review what is happening at other councils across the region with regard to Development Contribution Policies. The Council's officers have reviewed the development contribution policies of a number of Auckland councils. No specific matters were identified that had not already been considered in the review of the current DC Policy.

iii) Macro Economics

The state of the economy has deteriorated since 2006. Interest rates are higher and the residential development market has slumped. During the same period, oil prices have lifted considerably having a significant impact on road construction costs in particular. All these factors are relevant to developers and the outcome may be:

- Reduced developer confidence;
- Reduced development margins; and
- A slower rate of development.

The combined effect of all this is that developers may take a closer interest in the Council's DC Policy than previously.

iv) Micro Economics

The Council recently commissioned a review of the impact of the current DC Policy on the Waitakere economy since its introduction. Some of the key conclusions of that review were:

- Developers are able to pass on most if not all additional costs associated with development contributions;
- The consequential price effects on property are “minor”;
- When placed in the context of house prices, Waitakere’s development contributions charges were lower than any other Auckland council in the sample group; and
- Empirical analysis suggests that the Waitakere DC Policy has had no discernable effect on housing supply, housing affordability, business investment or employment growth.

STRATEGIC CONTEXT

8. The Council is responsible for providing for infrastructure, reserves, community facilities that are essential for the present and future social, cultural, economic and environmental wellbeing of the City. With growth, the demand for infrastructure and services increases, and this in turn places pressure on existing capacities and services to provide for our communities.
9. Development contributions are essentially a cost sharing method and seek to allocate the costs to those who benefit. In setting out the benefits Council considers a broad strategic framework to ensure that the benefits contribute to the following strategic platforms:
 - Economic - strong and innovative economy;
 - Social and Cultural - strong communities; and
 - Environmental - Urban and rural villages, integrated transport and green network.

CONSULTATION

10. As indicated above, once the Committee has considered some of the underpinning principles behind the proposed DC Policy, it is intended to start consultation with developers on the DC Policy review and these principles.

RESOURCES

11. The approved 2008/2009 budget provides for the development of the draft DC Policy.

IMPLEMENTATION ISSUES

11. Once the Committee has agreed the principles underpinning the draft 2009 DC Policy, this will form the basis of discussion with developers. The outcomes of the consultation will be reported back to this Committee and will be an input into the draft DC Policy.

Report prepared by: Lesley Jenkins, Deputy Director: Strategic Planning.

