



**Waitakere City Council**  
*Te Taiao o Waitakere*

## Cost allocation and cost recovery framework

This document supports the draft development contributions and financial contributions policy  
Supporting information: Document A01  
April 2009

## Summary

Waitakere City Council uses development contributions and financial contributions to fund some of the costs it incurs because of growth. This document is part of the supporting information behind the development contributions and financial contributions policy.

This document is the cost allocation and cost recovery framework for development contributions. It sets out:

- The purpose of cost allocation (identifying the cost of growth);
- The purpose of cost recovery (identifying how the cost of growth should best be shared);
- The issues and factors that need to be reflected in decisions about cost allocation and cost recovery, and included in each methodology;
- A set of guidelines derived from those factors that can be used to guide each methodology.

The key factors to be considered as part of putting a development contributions policy in place include elements of the legislative framework; growth; economic efficiency; asset management; equity; operations; recognising uncertainty; impacts on development. Each of these factors is discussed in turn.

Guidelines derived from these factors can be used in the Methodology documents for each of the activities for which development contributions will be charged. These assist in determining the specific costs of growth to be recovered through development contributions, and how those costs will be shared across all developments taking place over the appropriate timeframe, using appropriate units of demand.

This document should be read in conjunction with the other documents in the supporting information pack.

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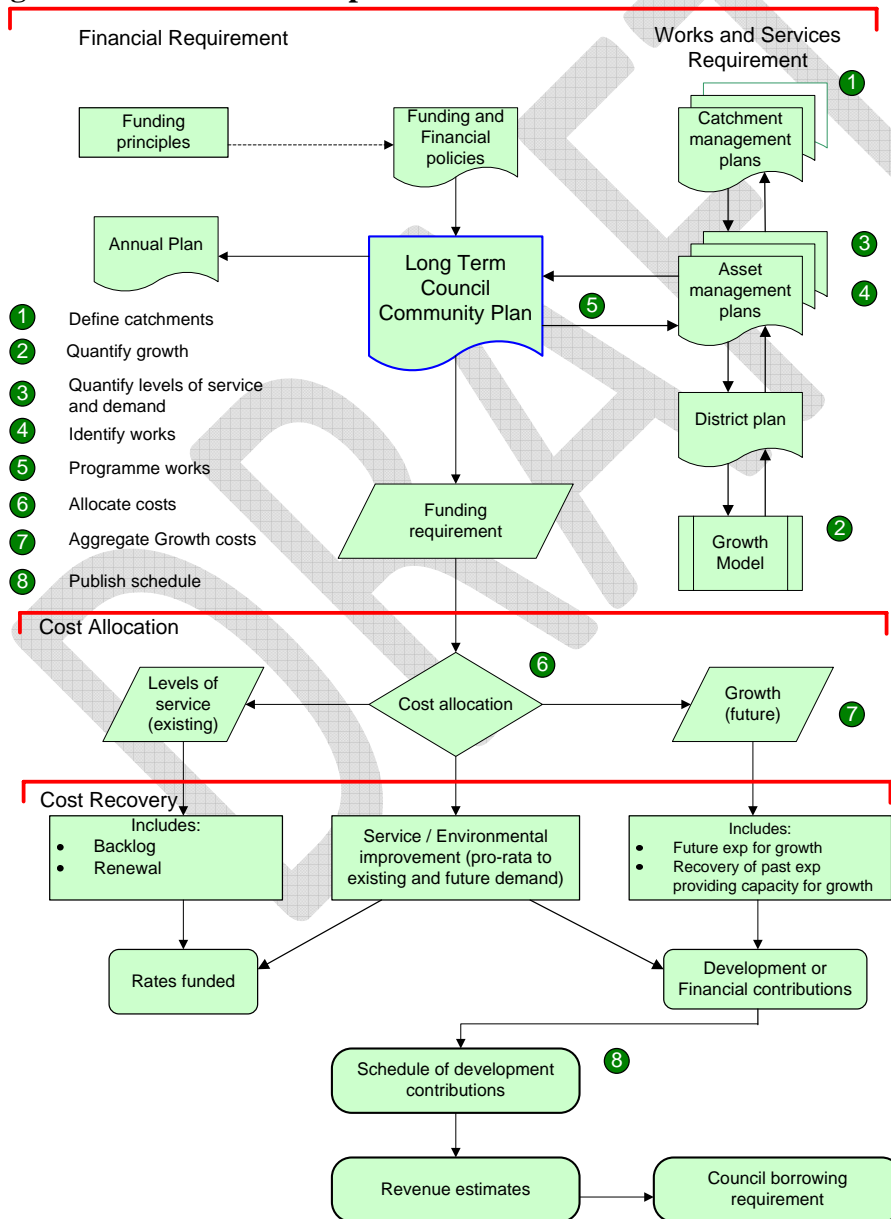
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# 1.0 Introduction

## 1.1 Use of development contributions

Waitakere City Council charges development contributions to recover the costs of growth from developers. The development contributions and financial contributions policy forms part of the Long Term Council Community Plan (LTCCP) and is reviewed and updated every three years. A basic outline of how development contributions operate (based on LGNZ material) is given in figure 1 below.

**Figure 1: Outline of development contributions flow**



One of the main purposes of the development contributions policy is that developers should bear an appropriate proportion of the cost of the increased demand development places on the city's infrastructure through paying development contributions that reflect this cost.

Waitakere City is continuing to experience significant growth, and this is expected to continue into the future. Projections from Statistics New Zealand (medium series projection, 2006 base) estimate that the population of Waitakere City will grow from 195,300 in 2006 to 271,900 in 2031 (an average rate of 1.3% per annum).

Alongside this population growth, the number of households, and businesses and the extent of business and non-commercial activity are also expected to increase. New residents and increased business activity lead to greater demands on the infrastructure provided by the council, and the council incurs costs in meeting the increased demand. These costs are expected to continue and are expected to be significant.

The council's strategy is to accommodate this growth where possible, rather than try to discourage growth. In order to achieve this, it is critical that provision of infrastructure for growth is managed as efficiently, effectively and equitably as possible.

This planning for growth is achieved through several initiatives:

- Asset planning / activity plans / levels of service;
- District plan;
- Regional and local growth strategy / sector agreements;
- Metropolitan urban limits / greenfields;
- Facilitating redevelopments.

The development contributions and financial contributions policy supports those approaches by helping to provide funding for growth-related community facilities.

## **1.2 Purpose of this document**

This document outlines in summary how the Council has proceeded to satisfy the Local Government Act 2002 (LGA 2002) in respect of a development contribution policy. It also provides a guide through the structure and principal considerations of the supporting cost allocation and cost recovery documents.

The LGA 2002 places several requirements on local authorities who intend to charge development contributions, including 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...” (LGA 2002, Schedule 13 clause (1)(a))*

and to:

*“...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.” (LGA 2002, Schedule 13 clause (1)(b))*

and to:

*“...demonstrate in its methodology that it has attributed units of demand to particular developments or types of development on a consistent and equitable basis”. (LGA 2002, Schedule 13 clause (2))*

This Cost Allocation and Recovery Framework is the first step in identifying growth expenditure and the approach to its recovery by setting out the factors relevant to that evaluation. It also forms part of the way that the council meets the requirement set out in s106(3) to keep the development contributions methodology available for public inspection.

The factors discussed here have been used to identify guidelines that help develop the methodology for each Activity Document. The guidelines are then used within the activity methodologies to demonstrate that each methodology meets the relevant requirements, and also identify how the methodologies are consistent. They can also be used to evaluate the appropriateness of alternative methodologies.

These factors encompass the criteria to be used by the council in evaluating the part of the capital programme that relates to growth; determining an appropriate unit of demand for each activity; and in attributing an appropriate proportion of the cost of growth to each unit of demand. The guidelines can usually be considered individually when establishing each aspect of the cost methodology.

There may, however, be some cases where the importance of one guideline must be weighed against another or of a competing council priority. In such cases judgement must be used. These situations must be resolved in each case by reference to council's overall responsibilities towards its district and the wider aims of the Local Government Act 2002. This will require judgement to balance the multiple factors involved. The basis for any judgements should be recorded in the relevant cost allocation methodology.

The development contributions policy also includes brief comments on the council's financial contribution provisions. These are provided for under separate legislation, and so are not addressed in detail in this set of documents.

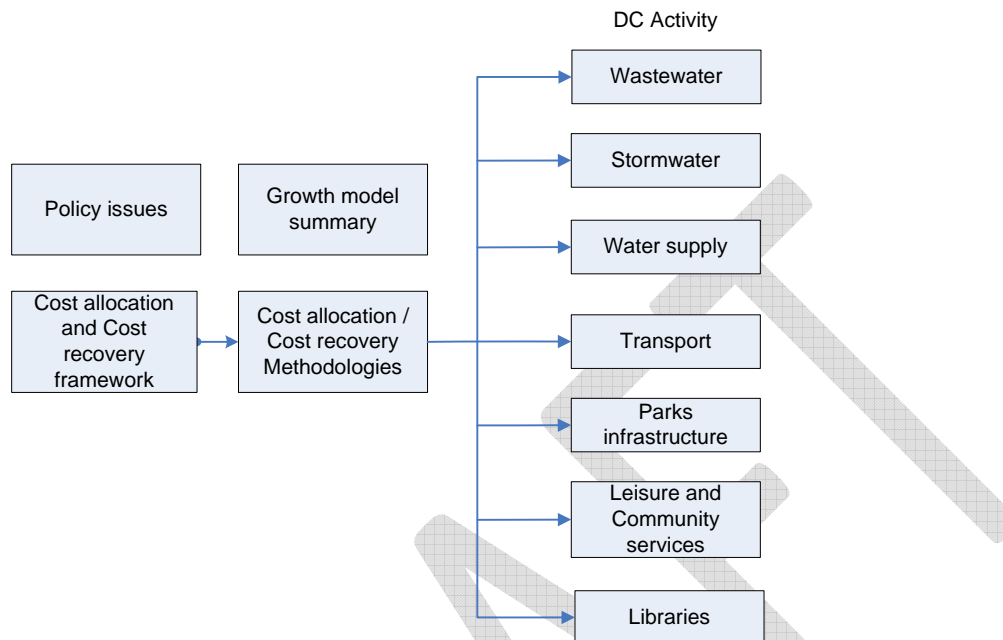
### **1.3 Supporting information set**

The purpose of the supporting information is to present and explain the methodology that lies behind the development contributions policy.

An outline of this document set and a diagram of how it links together is shown below in figure 2. This illustrates how the factors and guidelines provide links within these documents; they thus show the consistency between the methodologies of different asset

types, and simplify the demonstration of each methodology's compliance with the requirements for development contributions.

**Figure 2: Outline of supporting document set**



## 2.0 Factors and Guidelines – Cost allocation and Cost recovery

### 2.1 Basis for and use of the Factors and Guidelines

The Factors discussed in this section are the key areas that should be considered within the Activity Documents. They provide a summary framework against which each Activity methodology can be measured.

To make these links more explicit, a series of Guidelines are extracted from the discussion of the factors. These guidelines can then be carried forward into each methodology, to demonstrate that each methodology complies with the requirements relevant to development contributions.

### 2.2 Legislative requirements

The Local Government Act 2002 is the act that controls how development contributions are to be implemented and operated.

### 2.2.1 Key requirements of the LGA 2002 – development contributions

The LGA 2002 enables the council to charge development contributions and sets out the requirements for doing so, which include the requirement to identify the costs of growth to be recovered.

The purpose of the Local Government Act 2002 is given in s 3 as:

- (3) The purpose of this Act is to provide for democratic and effective local government that recognises the diversity of New Zealand communities; and, to that end, this Act—*
- (a) states the purpose of local government; and*
  - (b) provides a framework and powers for local authorities to decide which activities they undertake and the manner in which they will undertake them; and*
  - (c) promotes the accountability of local authorities to their communities; and*
  - (d) provides for local authorities to play a broad role in promoting the social, economic, environmental, and cultural well-being of their communities, taking a sustainable development approach.*

The purpose of local government is given in s 10 as:

- The purpose of local government is—*
- (a) to enable democratic local decision-making and action by, and on behalf of, communities; and*
  - (b) to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.*

In the context of growth, and of the development contributions regime, ways to achieve these purposes are set out more specifically in:

- *Section 11, “Role of local authority”;*
- *Section 12, “Status and powers”;*
- *Section 14, “Principles relating to local authorities”;*
- *Part 6, “Planning, decision making and accountability”: Subpart 1, “Planning and Decision Making”;*
- *Part 6: Subpart 2, “Reporting”;*
- *Part 6: Subpart 3: “Financial management”, in particular s101, “Financial management”, s102, “Funding and financing policies”, and s106, “Policy on development contributions or financial contributions”;*
- *Part 8: “Regulatory, enforcement and coercive powers of local authorities”: Subpart 5, “Development contributions”;*
- *Schedule 10, “Council plans and reports”;*
- *Schedule 13, “Methodology for calculating development contributions”.*

Broadly, the Local Government Act 2002 requires that the council acts in the best interests of its district, including future members of the district, and carries out its business in an open and accountable manner.

### **Guideline 1:**

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General and activity-specific information regarding all aspects of cost allocation and cost recovery for development contributions should be publicly accessible.

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## **2.2.2 Key requirements of the LGA 2002 – cost of growth**

In relation to cost allocation methodologies, the key provisions are considered to be:

- The development contributions policy must “*summarise and explain the capital expenditure identified in the [LTCCP] that the local authority expects to incur to meet the increased demand for community facilities resulting from growth*” (s106(2)(a));
- The policy must “*state the proportion of that capital expenditure that will be funded by (i) development contributions, (ii) financial contributions, (iii) other sources of funding*”, and explain why “*these funding sources [are used to meet that] capital expenditure*” (s106(2) (b) and (c)), with reference to s101(3);
- That the council must “*keep available for public inspection the full methodology that demonstrates how the calculations for [development] contributions were made*” (s106(3));
- That the council must provide a “*methodology for calculating development contributions*” (Schedule 13, clause (1)).

This cost framework and the associated cost methodologies provide the information needed to meet these requirements.

Further legislative provisions are:

- That development contributions must be used for “the capital expenditure ... for which the contribution was required [and] must not be used for the maintenance [of those assets]” (s 204(1)(a) and (b));

### **Guideline 2:**

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The cost of growth to be recovered by development contributions may only include capital costs that the council expects to incur. Operating costs, such as maintenance, must be excluded.

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- That the methodology for relating the cost of community facilities to units of demand includes identifying “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” (schedule 13 (1)(a)).

### **Guideline 3:**

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The cost of growth to be recovered by development contributions may only include expenditure to meet demand created by future growth.

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It is noted however, that s199(2) allows recovery through development contributions of past expenditure incurred in anticipation of growth;

- The council “must not require a development contribution ... if, and to the extent that- (a) it has, under section 108(2)(a) of the Resource Management Act 1991, imposed a condition on a resource consent in relation to the same development for the same purpose; or (b) the developer will fund [those same works]; or (c) [council] has received or will receive funding from a third party”. (s 200(1)).

This clause represents a requirement to avoid “double funding”, that is, recovery (across all sources) of more than the total cost (of the project or programme being recovered). The council often funds projects from a variety of different sources, including general rates, targeted rates, external funding sources (such as the New Zealand Transport Agency subsidy, formerly LTNZ) and financial and development contributions. These funding sources combine to cover the total cost of the project.

#### **Guideline 4:**

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The cost of growth may not include costs that have been or will be funded from other sources.

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### **2.2.3 Requirements of the LGA 2002 – cost recovery**

In relation to cost recovery, the key provisions of the LGA 2002 are considered to be:

- That “*development contributions may be required in relation to developments if the effect of the developments is to require new or additional assets or assets of increased capacity and, as a consequence, the local authority incurs capital expenditure ...*” (s 199(1));
- “*Development contributions for reserves must not exceed the greater of – (a) 7.5% of the value of the additional allotments created by a subdivision; and (b) the value equivalent of 20 square metres of land for each additional household unit created by the development.*” (s 203(1));
- “*Development contributions for network infrastructure or community infrastructure must not exceed the amount calculated by multiplying the cost of the relevant unit of demand calculated under clause 1 of Schedule 13 by the number of units of demand assessed for a development or type of development, as provided for in clause 2 of Schedule 13.*” (s 203(2));
- In order to charge development contributions, a local 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.*” (Schedule 13, clause (1)(b));
- “*Attribution of units of demand to developments— 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.” (Schedule 13, clause (2)).*

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**Guideline 5:**

The unit of demand must reasonably relate to demand.

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A unit of demand relates to demand when the number of units of demand created by a development is related to the level of demand for the council’s services and/or assets which that development generates.

In addition to relating to demand, the unit of demand also has a cost dimension. The number of units of demand a development is deemed to represent should be related to the cost of growth generated by that development.

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**Guideline 6:**

The cost of growth attributed to each unit of demand must be representative of the cost of meeting the demand that the unit generates.

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### **2.2.4 The policy as a funding decision (s 101 analysis)**

The way that development contributions are used can be seen as a funding decision, and the considerations given in s101 of the LGA 2002 are therefore relevant. Under subsection (3)(a), the council must consider the following for each activity to be funded.

- (a) *(i) the community outcomes to which the activity primarily contributes;*  
Each activity will work towards one or more of the community outcomes. This can be identified in each of the methodologies.
- (ii) the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals;*  
This issue is largely addressed within sub-sections 2.5.1 and 2.5.2 below, which deal with approaches to equity and geographical concerns respectively.
- (iii) the period in or over which those benefits are expected to occur;*  
This issue is addressed within sub-section 2.5.4 below, which deals with equity over time.
- (iv) the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity;*  
This is addressed within sub-sections 1.1 and 2.5.1 below, which deal with growth and approaches to equity respectively.
- (v) the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities;*  
This is a question of the “activities” themselves, and is therefore dealt with in the LTCCP itself. It is also addressed within sub-section 2.6 below, which deals with administration and operational issues. It has relevance to the decisions around catchments (discussed in section 2.5.2 below).

The Council must also consider subsection (3)(b):

- (b) *the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.*

The use of a “stand-back” check in the methodologies is part of this. This is also relevant to equity; a conservative cost of growth is probably fairer and is likely to have less impact than over-stating cost of growth.

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**Guideline 7:**

The proposed approach should consider the overall impact on the well-being of the current and future community.

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### **2.3 Economic efficiency**

Economic efficiency means that resources are allocated in such a way that outcomes are achieved for the least cost. Economic efficiency is promoted by ensuring that the costs ascribed to activities are aligned with benefits received. This section addresses the issue of cost sharing.

The costs of providing infrastructure to meet demand from growth should be allocated in a manner that is economically efficient, so that the burden imposed through the recovery of these costs is limited.

Capital projects carried out by the council are generally one of two types of projects: single outcome projects and multiple outcome projects. More often than not, infrastructure projects will have multiple drivers and produce several outcomes (products); hereinafter these will be referred to as multi-product projects.

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**Guideline 8:**

The growth community should pay the full cost of a project that only meets an expected increase in demand driven by growth, and that delivers no material net benefits to the existing community.

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Multi-product projects may include components of renewal, or provision of benefits through service level upgrades and growth. Economic theory does not provide a formula that can be used to produce a single value for the cost of each product in such a project. Instead, it provides a cost range bounded by incremental cost and stand-alone cost measures. Since economic theory suggests a range of appropriate costs (and therefore development charges), rather than a single value, a variety of other factors are pertinent to a decision as to the amount to recover. These factors are discussed below.

The incremental cost is the cost of the project including growth less the cost of the project with no growth component. This is the minimum cost for recovery, as the growth component could not be undertaken at a lower cost separately.

**Guideline 9:**

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The minimum cost of a multi-product project that should be allocated to growth is the incremental cost of growth.

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The stand-alone cost is the cost of providing the services required by growth as a separate (or stand-alone) project, as opposed to being included in a project that has other products (e.g. asset renewal, meeting backlog or the provision of benefits through increased service levels).

**Guideline 10:**

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The maximum cost of a multi-product project that should be allocated to growth is the stand-alone cost of growth.

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Multi-product projects usually include common costs, which are costs that would be incurred irrespective of whether the project was solely for renewal, service level improvement or growth, or whether it was a multi-product project. Examples include costs such as those from resource consent applications or design work, project management and partial or complete demolition of an existing facility.

There can be a wide range between the incremental and stand-alone costs, in particular for infrastructure projects that often have significant economies of scope. Determining the appropriate allocation between the upper and lower limit must be undertaken after consideration of efficiency, equity and any other relevant factors.

## **2.4 Asset planning and management**

“Asset management” is used here to include all aspects of managing the city’s infrastructure, including an understanding of the services which are to be delivered, ensuring that existing assets can continue to provide those services, and providing for improvements needed in those services or the underlying assets as the city changes and grows.

The activity plans (asset management plans) also provide the link between the assets and services and the community outcomes. Level of Service statements are the Council’s expression of those outcomes and are given in detail in the relevant Activity Plans, and in a summarised form in the activity methodologies.

In order to properly and efficiently provide services to accommodate the expected growth in the city, a range of asset management approaches will be required. Different approaches will create different challenges and constraints on estimating the cost of growth.

The phasing of capital works for growth may not match exactly the patterns of growth in the city. Infrastructure may be added that initially has excess capacity, to meet expected future demand. While this means that the cost of carrying this extra capacity will have to be borne, it is considered that in cases of prudent asset investment, this cost will be less than the alternative of building in extra capacity at points in the future.

**Guideline 11:**

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The cost of carrying additional capacity for growth (usually in the form of interest costs on borrowing) is considered part of the growth costs.

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Depending on the type of infrastructure, asset management will either be project-based or more programme-based. Project-based asset management focuses on building discrete assets, whereas programme-based asset management will concentrate on building up a network as a whole. Some assets will operate on a citywide or network basis, others on a more local basis.

**Guideline 12:**

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The methodology chosen for calculating the cost of growth should reflect asset planning, including the network nature of assets and services and the project, programme and catchment-based nature of planning for that activity. Development in a catchment should pay only for costs related to that catchment or to the city as a whole.

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Effective asset management techniques will be essential to meeting the demands of growth in an efficient manner.

## **2.5 Equity**

### **2.5.1 Approaches to equity**

The equitable sharing of the costs of growth is between two groups (as relevant to s101(3)):

- The existing community (i.e. current residents and ratepayers);
- The growth community (i.e. future arrivals), using developers as a proxy.

Within the growth community, there are also groupings:

- The growth community in different areas in the city (i.e. different catchments);
- The growth community at different points in the future (i.e. those who are connected with developments that take place earlier or later);
- The growth community arising from different types of development.

A principle of equity that should be considered for the purposes of the development contributions policy is that of “Causer pays”. This is reflected in section 101(3)(a)(iv) of the LGA 2002. Under “Causer pays”, equity is achieved when those who cause costs are required to pay them. In the case of growth costs this means that the growth community (using new developments as a proxy), rather than the existing community, should, in general, bear the cost of growth.

Another principle taken into consideration for the development contributions policy is that of “Paying for benefits received”. This states that equity is achieved when those who receive the benefit of new assets or capacity are required to pay a fair share towards the cost of providing those new assets or capacity. This is reflected in section 101(3)(a)(ii) of the LGA 2002. In the case of growth costs, this means that the allocation of those costs between the growth community (through developers) and the existing community should

reasonably reflect the relative proportion of benefits accruing to each of these communities.

These two different concepts of equity reflect two of the factors outlined in section 101(3)(a) of the LGA 2002 (see above). The allocation of growth costs between the growth community and the existing community should be made after careful consideration of all of the factors outlined in section 101(3).

**Guideline 13:**

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When determining allocation of the costs of growth, due consideration must be given to both those who cause the costs to be incurred and those who will benefit from increased infrastructure capacity.

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**2.5.2 Geographical concerns**

Costs, benefits, and the rate of growth vary geographically within Waitakere City. This means that the issue of equitable allocation of costs from a spatial perspective arises.

The cost of growth charged for specific developments should reflect the cost of providing community facilities in that area. This can lead to setting up different “catchments” across the city, with different charges in each one. Where catchments are used, only costs that are city wide, or relate to a catchment, should be recovered from development within that catchment.

However, many of the council’s assets operate as a network. Therefore, while a particular asset or project is located in one area, the extent of demand for that asset or project may cover a much larger area. In cases where the costs of growth relate to expanding common elements of the network (i.e. elements that are required by more than one geographical area) then it is appropriate to charge the cost of this element across the geographical areas affected. Similarly, if the expansion of common elements of a network will provide benefits across more than one geographical area it is also appropriate to charge the cost of this element across the geographical areas affected.

For some activities, it may be impossible or impracticable for differential costs and benefits to be determined for different areas. Alternatively, it may not be practical to recover different amounts from the growth communities in different areas. Averaging of the cost of growth would be appropriate in these cases also.

**2.5.3 Equity between different types of development**

All activities are charged against residential development, on the basis of the number of household units (or residential allotments) included in that development. The household unit (HHU) therefore represents the underlying unit of demand.

The Household equivalent unit (HEU) is used when assessing non-residential developments. This measure of demand reflects the demand (for that activity) from a typical household unit.

**Guideline 14:**

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The unit of demand for those activities that are charged on non-residential as well as residential developments must apply equally to both types of development.

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The units of demand can be used to: assess demand (where the network is being designed); set the per unit charges; and assess an individual development's charges.

Since the purpose of development contributions is to recover the cost of additional demand generated, developments which generate a similar level of demand should pay a similar amount, that is, be assessed as generating a similar number of units of demand.

**2.5.4 Equity over time**

The issue of equity over time relates to ensuring equity between the growth community at one point in time (e.g. 1 year in the future) against the growth community at a different time (e.g. 10 years in the future), as well as between the existing and growth communities. This principle is reflected in section 101(3)(a)(iii) of the LGA 2002.

Infrastructure investment is often lumpy. This means that periodic large investments that are designed to meet increases in demand for a number of years are much more likely than small annual investments that meet the increase in demand for just one year. As a result, the level of growth expenditure in any given year may not match exactly with the cost of providing for the growth-driven increase in demand that year.

**Guideline 15:**

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The cost of growth should be apportioned across the years over which capacity generated by the investment is used up.

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If this is not done, situations will arise where the growth community in one year will be paying for demand created by a growth community in another year.

The cost of growth will be spread appropriately between developments and over time, ensuring a matching of demand with extra capacity (and cost) from works so that today's growth community will not be subsidising the future growth community or vice versa. The time over which expenditure is recovered can be considered to be the "recovery period". This is usually at least 10 years (matching the timeframe of the LTCCP), and at most 20 years (reflecting the need for intergenerational equity and the influence of inflation and interest over longer periods).

**2.6 Operation and administration**

In choosing appropriate cost allocation and cost recovery approaches, consideration must be given to the resources required to operate and administer the policy. This includes identifying the activities and the components of the cost of growth, maintaining costs as the capital programme changes, measuring the number of units of demand and resolving any disputes over the number of units assessed.

The definition of the activities themselves is aligned with the council's existing financial, asset planning and reporting frameworks, thereby promoting efficiency and transparency. Use of development contributions generally allows the council to recover the cost of growth so as to provide a secure and targeted source of funding for this spending need, and allows the council to better record how it is providing for increased demand arising from growth.

Cost allocation must reflect for each activity information available on the relevant assets, the way that levels of service are presented, any relevant strategies, and the way those assets contribute to the various community outcomes they support. In some cases, the cost of growth calculation is based on an ongoing capital programme that will continue for the near future and which accommodates ongoing growth, rather than on specific works. Such ongoing capital programmes may be either fully or only partially growth-focussed.

Administrative efficiency is promoted by consistency. If there are clear, consistent rules regarding the assessment of development contributions, this will reduce time and cost for developers identifying the number of units of demand when planning and budgeting for their developments. It will also reduce the cost to the council of making an assessment, will reduce the number (and cost) of potential disputes, and will assist in ensuring the policy is applied in a fair and consistent way over the long-term.

Administrative efficiency is not just an issue for the council. Developers are also negatively affected if there is significant uncertainty surrounding the level of development contributions that will be charged on a development. It is important, therefore to ensure that developers can predict, with reasonable accuracy, the level of contributions that their development will require at each stage in the development.

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**Guideline 16:**

The cost of growth and cost recovery approaches must be clear, fair, meet activity specific requirements and reflect a cost effective use of resources.

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Administrative efficiency has particular implications when considering the assessment process, which will over time be applied to thousands of developments. While elaborate systems for attempting to measure exactly the growth impact of any development may be theoretically possible, the cost of carrying out such assessments is likely to be prohibitive.

While more specifically relating growth costs attributed (and charged) to a development to the actual demand created by that development may promote equity, increasing the level of specificity also implies fewer general rules and a greater discretion in making individual decisions for a specific development. This reduces the overall consistency of cost recovery, and makes it harder to ensure that the same rules are applied to all. To the extent that consistency is reduced, equity may also be compromised over the long-term by such a more complex approach.

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**Guideline 17:**

The unit of demand should be simple to apply and able to be consistently applied to the various stages of both actual and proposed developments using readily available information and requiring minimal subjectivity.

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## **2.7 Managing uncertainty (risks and assumptions)**

Evaluating the cost of growth and a recovery approach involves considering future events, which cannot be predicted with certainty. In particular:

- Current levels of service are often difficult or impossible to determine precisely.
- Future costs are uncertain and sometimes difficult to estimate accurately.
- Future growth projections are only estimates, and actual growth is influenced by a wide range of factors which cannot be predicted with certainty.

These factors mean that the cost of growth is not known exactly. The impact of incorrectly assessing the cost of growth is that the amount charged to either the existing community through rates, or to the growth community (and developers) through development contributions, may not be optimal. It is therefore important that risk is appropriately managed.

In addition to ensuring that the best data available is used to calculate the cost of growth, the negative impacts of errors can be mitigated to some extent by taking a conservative approach in ascribing costs to growth. Although this may have impacts for the existing community, this approach is justified by the fact that the impact on individual ratepayers will be smaller as the existing community is almost always much larger than the growth community.

Uncertainties in the level, location, or form of growth may lead to uncertainties in the design of a recovery approach. Variances between actual and projected growth (across any of these dimensions) can affect the council's timing for works, and its revenue. Where such changes are significant, it would be appropriate to re-evaluate the level of development contributions charged.

It is also recognised that the risk of incorrectly assessing the cost of growth of an individual project, or in a specific area, or for a specific period is much greater than estimating it over a group of projects, or the whole city, or a longer time-period. Averaging, therefore, can be used to lower the impact of estimation errors. Where the information is available to support "individual" cost estimates, these should be used. In other cases, a degree of averaging may be appropriate.

### **Guideline 18:**

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The cost of growth methodology should take a prudent approach to estimating the cost of growth. A conservative approach, such as aggregating or averaging, may be necessary in allocating costs, whether between the existing community and the growth community or between sectors of the growth community.

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Developing more certain cost of growth estimates requires more resources and investigation. Administrative costs must therefore be considered in developing and carrying out costing methodologies, and when deciding the appropriate level of risk to accept with regard to cost of growth estimates.

## 2.8 Impacts on development type

Development contributions will affect the cost of undertaking development in Waitakere City. Having different development contributions on different types or kinds of development may influence the way that developments are undertaken.

### **Guideline 19:**

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Development contributions methodologies should avoid incentives that may inadvertently affect development trends in an inappropriate way.

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## Appendix A: Outline of standard Cost Allocation methodology

The standard cost allocation process adopted for the assessment of the growth cost of capital expenditure on community facilities is set out below. This methodology takes the planned cost of a proposed project and assigns it to various cost components:

- Renewal;
- Backlog;
- Growth;
- Unallocated.

The methodology is a seven step process as explained below:

### **Step 1:**

Understand and define the activity. This includes considering the strategic “fit” for the project, and the way that the corresponding activity and programme, and the project itself, contribute to the community outcomes being sought for the city. Key functions of scope, purpose, timing, total project cost, and funding sources are described in detail and recorded. Sources of information are also recorded to aid in auditing and confirming project details. All of these items are included in the relevant activity plan.

### **Step 2:**

Define the catchment served by the activity. The opportunity is provided here to recognise both the local and citywide purposes of the activity.

### **Step 3:**

Define the capacities associated with the activity. These capacities relate directly to the level of service in the activity plan. The measures of the levels of service are defined. The capacity of the current service, the demand for service required by the existing community and the total capacity provided by the planned project (all in respect of the level of service measure) are determined.

### **Step 4:**

Determine the portion of the project that is renewing existing assets. This step adopts from the most recent valuation the replacement costs of those assets renewed, their ages and expected lives. These are analysed to calculate the net renewal cost, namely total

replacement cost minus current (depreciated) valuation. This amount is deducted from the total project cost.

**Step 5:**

Provides a check in the process. This involves checking to ensure that the total allocated to the new work (growth plus backlog) component is no more than it would be if works were implemented delivering the same outcomes but sized just for the new work.

**Step 6:**

Provides a further check in the process. This includes checking to ensure that the amount recovered from developers through a development contribution or financial contribution is no more than would otherwise have been required to be paid if the implemented works delivered the same outcomes but were sized to accommodate only the developments which are required to pay the relevant contribution.

**Step 7:**

Summarise the outcomes of the allocation process. The renewal cost is deducted from the total project cost. The balance is shared between backlog (portion of the total project cost related to bringing the capacity provided to the existing community up to the demand of the existing community) and growth (portion of the total project cost related to the difference between the total capacity provided and the existing demand – the growth portion). Where the growth portion is assessed as greater than assessed in steps 5 and 6 then the growth cost is limited to the result in steps 5 and 6 and the remaining balance funded from rates.

## Appendix B: Guidelines summary and reference

	Guideline	Reference (LGA 2002)
1	General and activity-specific information regarding all aspects of cost allocation and cost recovery for development contributions should be publicly accessible.	Sections 106 (3), 201, 202, and Schedule 13, clause (1)
2	The cost of growth to be recovered by development contributions may only include capital costs that the council expects to incur. Operating costs, such as maintenance, must be excluded.	Sections 106(2)(a) to (d), 199(c), 204(1)(a) and (b)
3	The cost of growth to be recovered by development contributions may only include expenditure to meet demand created by future growth.	Schedule 13(1)(a)
4	The cost of growth may not include costs that have been or will be funded from other sources.	Sections 106(2)(b), 200(1)
5	The unit of demand must reasonably relate to demand.	Sections 199(1), 203, Schedule 13, clause (1)(b) and (2)
6	The cost of growth attributed to each unit of	Schedule 13, clause (1)(b)

	demand must be representative of the cost of meeting the demand that the unit generates.	
7	The proposed approach should consider the overall impact on the well-being of the current and future community.	Section 101(3)
8	The growth community should pay the full cost of a project that only meets an expected increase in demand driven by growth, and that delivers no material net benefits to the existing community.	Schedule 13, clause 1(b) and 2
9	The minimum cost of a multi-product project that should be allocated to growth is the incremental cost of growth.	Established cost sharing principle
10	The maximum cost of a multi-product project that should be allocated to growth is the stand-alone cost of growth.	Established cost sharing principle
11	The cost of carrying additional capacity for growth (usually in the form of interest costs on borrowing) is considered part of the growth costs.	Sections 101(2) and (3) and Schedule 13 clause 1(a)
12	The methodology chosen for calculating the cost of growth should reflect asset planning, including the network nature of assets and services and the project, programme and catchment-based nature of planning for that activity. Development in a catchment should pay only for costs related to that catchment or to the city as a whole.	Sections 101(3), 202(1)
13	When determining allocation of the costs of growth, due consideration must be given to both those who cause the costs of growth and those who will benefit from increased infrastructure capacity.	Section 101(3)(a)
14	The unit of demand for those activities that are charged on non-residential as well as residential developments must apply equally to both types of development.	Section 101(3), Schedule 13 clause 1(b)
15	The cost of growth should be apportioned across the years over which capacity generated by the investment is used up.	Section 101(3)(a)(iii), Schedule 13 clause 1(b), 2
16	The cost of growth and cost recovery approaches must be clear, fair, meet activity specific requirements and reflect a cost effective use of resources.	Sections 101(1) and (3)(b) and 106(2)
17	The unit of demand should be simple to apply and able to be consistently applied to the various stages of both actual and proposed developments using readily available information and requiring minimal subjectivity.	Schedule 13 clause 2
18	The cost of growth methodology should take a prudent approach to estimating the cost of growth. A conservative approach, such as aggregating or averaging, may be necessary in allocating costs,	

	whether between the existing community and the growth community or between sectors of the growth community.	
19	Development contributions methodologies should avoid incentives that may inadvertently affect development trends in an inappropriate way.	Section 101(3)(b), Schedule 13 clause 2

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