



Waitakere City Council
Te Taiao o Waitakere

Policy issues and issues common across several activities

This document supports the draft development contributions and financial contributions
policy
Document A03
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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 describes various policy issues and issues that are common across several activities, as relevant to the council's 2009 Development Contributions and Financial Contributions Policy¹. Particular issues mentioned in brief in the complementary documentation are addressed here in more detail.

This document covers:

- Commencement and Transition;
- Units of demand;
- Catchments;
- Credits;
- Cost of finance;
- Choice of consent type to charge against;
- Payment timing and reductions;
- Significant assumptions.

¹ See report to LTCCP Committee (17 February 2009) *Draft Development Contributions and Financial Contributions Policy for consultation*.

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1.0 Introduction

1.1 Background

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 policy allows recovery of an appropriate proportion of the costs associated with increasing infrastructure capacity as a result of demand from growth, from those whose developments cause the council to incur those costs.

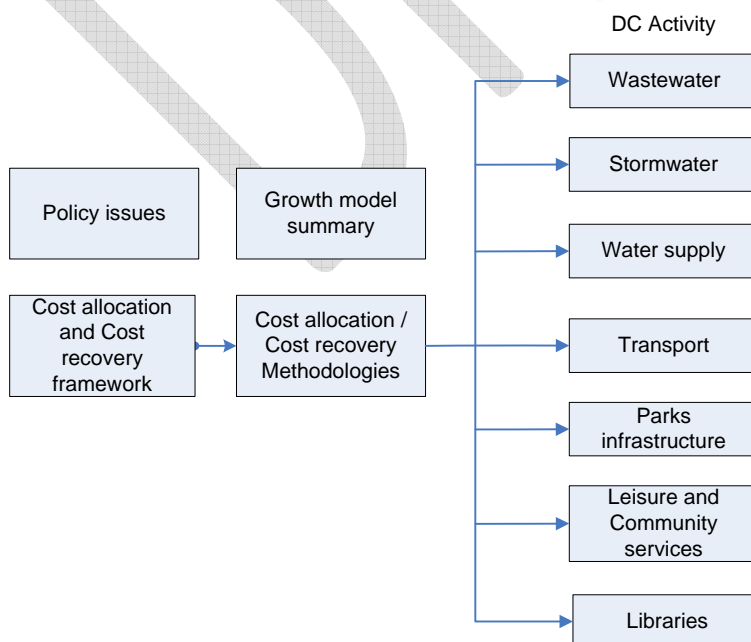
1.2 Purpose of this document

The purpose of this document is to describe the various policy issues and issues common to several activities, as relevant to the council's 2009 Draft Development Contributions and Financial Contributions Policy. Particular issues mentioned in brief in the complementary documentation are addressed here in more detail.

1.3 Supporting information set

The purpose of the supporting information document set is to present and explain the methodology that lies behind the development contributions policy. The relationship between these is illustrated in figure 1 below.

Figure 1: Outline of supporting document set



2.0 Issues

2.1 Commencement and Transition

It is expected that this policy will be in place from 1 July 2009, following amendments arising from the public submission process. The way in which the new policy starts to apply needs to be carefully considered, in particular, for developments which may have been started before the draft policy was published or came into force.

The process by which the new policy comes into force should:

- Be clearly expressed, so that all users of the policy can understand how it will apply;
- Provide an opportunity for developments that had been started under a different policy to not be unfairly and materially disadvantaged by the new policy;
- Reflect that (once finalised and adopted) the new policy represents the council's view of its cost of growth for the period covered by the Long Term Council Community Plan (LTCCP);
- Represent a balance between developers and the wider community that is consistent with the overall aims of the policy, i.e., developers pay an appropriate share of the costs they impose on the council.

Consistent with these, the council's first policy (in 2004) provided a set of exemptions (from the new charges) for certain developments that were underway before the policy came into force. Many of these developments are likely to have been completed over the intervening five years.

Reviewing this in 2009, it is considered that the policy should now start to apply to all developments. This is on the basis that:

- The use of development contributions and financial contributions is now well established, and it is expected that most people involved in building or subdivision work are aware of these charges;
- An opportunity has been provided over recent years for any developments that were close to being completed, to be completed without being subject to significant additional contributions.

2.2 Unit of Demand – HHU and HEU

A unit of demand is needed for each activity, for two key purposes.

- a) Units of demand are used as part of the growth model, and from that model feed into asset planning and management. This process is part of designing the infrastructure needed as the city grows, and the number of units of demand is also a key input to the cost recovery approach. It identifies how many units of demand are sharing in a particular cost (and therefore allows the charges to be set to recover that cost from those units).

b) Units of demand are used when an individual development is assessed.

For residential developments, the unit of demand is the household unit (HHU), for all activities. This represents a typical dwelling. This unit of demand is a reasonable proxy for growth, is easy for people to understand, and aligns with the charging of development contributions at the time of development, as consents are granted.

For activities that are also charged on non-residential developments, the household equivalent unit (HEU) is used. This is designed to represent an equivalent demand to that from a HHU, for that activity. It therefore provides a consistent method of assessing the cost of growth across the city and between different types of developments.

2.3 Catchments

Generally, for the purpose of determining the design capacities of assets and the costs, the council considers the overall demand for community facilities within the city as a whole. The various groups of assets are each planned, managed and delivered as a single network, servicing the entire community at a uniform level of service and collectively meeting citywide demand². Works are generally prioritised on a citywide basis. These factors tend to promote the use of citywide catchments.

However, where infrastructure costs can be identified in relation to localised demand, the Council believes that there can be a case for the treatment of such areas as separate local catchments for the purpose of levying development contributions.

However, there are risks and practical issues involved in attempting to collect development contributions on the basis of a large number of small local catchments. These include:

- The projection of growth for small catchments is more uncertain and likely to have higher margins of error. Greater deviations of actual development levels from the projections could undermine the predictability and certainty of the level of funding available;
- Collection of development contributions by small catchments would introduce a degree of inflexibility to infrastructure investment decisions and capital budgeting related to the whole city;
- It increases the complexity and administrative effort required to develop, implement and manage the policy;
- Dividing the city into smaller catchments can also result in very high charges for some areas which might then affect balanced development of the city in inappropriate ways.

These have been considered for each of the activities, in deciding the appropriate approach to catchments for that activity.

² Noting that some areas of the city do not have reticulated wastewater or water supply systems (and so are treated differently).

2.4 Credits

Credits are given for earlier payments, or for earlier uses of the site. In particular:

- Credits are given (typically in dollar terms) where a financial contribution has been paid for network infrastructure under a cost sharing scheme established under section 283 of the Local Government Act 1974, or has been recovered under the transitional provisions of the Resource Management Act 1991;
- Credits are given for previous payments of development contributions. This will usually apply to developments which involve more than one type of consent (e.g. land use and building consents), where development contributions were imposed on the first consent lodged. Where the later consent is applied for within a defined period after the earlier consent, credits will be given in terms of the units of demand that were paid for in connection with the earlier consent. Outside that period, credit will be given in terms of the amount actually paid, which could mean additional charges will be imposed on the subsequent consent.

The change in the way that credits are applied after a specified time period (usually 3 years) has been adopted to help ensure that developments pay their fair share of the costs they impose on the council. It is anticipated that the council's growth costs will increase over time.

In addition to the above, development contributions are not usually charged on relocated dwellings, or those which replace one which was recently destroyed or demolished. Such credits are only available where the prior building was lawfully established.

2.5 Cost of finance

As a result of the long-term timeframes for some capital projects and some developments, the Council may be exposed to significant financing costs, or receive a financial benefit, arising from the mismatch in timing of development contributions payments and capital expenditure for growth. Typically, financing infrastructure spending in advance of development contributions revenue means the Council borrows the required funds, thus incurring finance costs.

The cost of finance modelling helps to ensure that the costs of growth are fully recovered from the growth community, by taking account of the timing of both revenue and expenditure, and interest that is either received, or incurred, arising from this mismatch. This is carried out separately for each activity, over the appropriate recovery period (which can be longer than 10 years for some projects). The modelling determines the per-unit charge that is required to ensure that at the end of that period all growth costs (after accounting for timing of spending and revenue and for interest flows) have been recovered.

Interest rates used in this modelling are consistent with the council's views on likely long-term interest rates for borrowing and for deposits.

2.6 Choice of consent type to charge against

Council will require development contributions to be paid in respect of a development when granting:

- A resource consent under the Resource Management Act 1991, or;
- A building consent under the Building Act 2004, or;
- An authorisation for a service connection.

In practice this will mean that development contributions are advised to a developer on the first consent that is applied for. This is considered consistent with ensuring that developers are made aware of these charges, and consistent with long-term recovery of these funds. The policy also allows for later re-assessment of the charges, if the development changes, or if a significant period elapses before the charges are paid. This helps to ensure that the council recovers the full cost of growth.

2.7 Payment timing and reductions

2.7.1 Postponement and remissions

Postponement is available only through bonding for the development contributions charges. The bonding process is available for larger developments only as it carries some administration cost for both parties; the developer must meet the council's legal costs. An interest sum will be included in the bond.

2.7.2 Remissions under TUSC

The Tool for Urban Sustainability Code of Practice (TUSC) is a rating system devised by Waitakere City Council in conjunction with the Sustainable Management Fund. It measures the extent to which a new building or other development, whether greenfields or infill, minimises demand on infrastructure. TUSC is a web-based (www.tusc.org.nz) and flexible tool which allows the user to select from a range of options in order to meet the required sustainability target.

TUSC identifies, and gives a rating to, the sustainability features incorporated in the development or building design such as recycled water, rainwater tanks, water saving showerheads and taps, planting of native trees and shrubs, landscaping, increased site density to promote sustainable development and transport demand management, heat pumps or solar water heaters, gas space heaters, roof eaves, awnings, wall and ceiling insulation. (These examples are indicative and not exhaustive.)

A TUSC rating improvement will generally indicate that the development will have a lower demand (on the council's infrastructure) than a standard development. Reductions are therefore available for such developments, as set out in the policy.

2.8 Significant assumptions

The significant assumptions underlying the calculation of the schedule of development contributions are set out below.

2.8.1 Growth

It is anticipated that the City will continue to grow in line with the medium series population projections provided by Statistics New Zealand (and other corresponding residential and non-residential growth projections). It is also assumed that this growth will occur at a rate, pattern, location and type which is in line with the Council's growth model.

If the rate, pattern, location or type of growth changes markedly, revenue from development contributions and financial contributions will be affected. This may lead to a slowdown, or speeding up, of the capital programme that is delivering increased capacity for growth, either generally, or in specific parts of the City, or for specific activities.

The rate, pattern and location of growth can be influenced by a wide range of unpredictable factors such as changes in demographics, and social and economic conditions which are themselves exposed to local, national and international forces.

2.8.2 Service delivery

It is assumed that the Council will continue to provide the assets and services represented by the activities included in this Policy, at the previously agreed levels of service. Changes to the agreed levels of service, or changes in the way that these services are provided, may require alteration of the Council's planned capital expenditure programme, which could have a significant impact on the cost of growth.

2.8.3 Subsidies

Significant subsidies are provided for some parts of the transport programme, by the New Zealand Transport Agency (NZTA). These subsidies are assumed to continue at a similar level into the future.

2.8.4 Asset and construction standards

The Council's code of practice sets out design standards for public assets. These standards are assumed to continue, and to evolve only slowly over time and no allowance has been made for a significant and sudden change (e.g. arising out of the use of new technology).

2.8.5 Interest

The Council has assumed an interest rate of 7.5% paid and 5% earned when setting the development contributions charges.

2.8.6 Inflation

Costs associated with capital expenditure as a result of growth are adjusted to reflect the likely consequences of inflation. Inflation rates for different types of works are taken from the report prepared by BERL³. These rates are used to adjust future planned spend.

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³ BERL (September 2008) *Forecasts of price level change adjustors to 2019*.