

# ***Development Contributions***

Council Briefing  
2 July 2020

# *Development contributions briefing agenda*

## 1. Development Contributions

- Overview
- Legislation
- Alternative funding sources for growth related infrastructure
- Income
- Complexity

## 2. WDC's numbers

- Key Inputs
- Charge Calculation methodology
- Counter intuitive outcomes
- Indicative Charges
- On-site solutions

## 3. Why are they complicated?- key issues

- Consistency in charges across New Zealand
- Economic impact of development contributions

## 4. What needs to be done from here?

# 1 Overview



Assessment:  
Resource Consents  
Building Consents  
Public Utility Connections

Ensuring legislative compliance

Communication with stakeholders

Revenue collection

Responding to reconsideration requests, objections  
and legal challenges

Key issues, compliance - transparency – fairness -  
equity

Policy review:  
Calculating charges, legislative changes, User  
friendly

# ***Funding part of the puzzle***

## Activity Management Plans

- Driven by the need to manage Councils existing assets and provide adequate capacity for future growth, aspirations and challenges  
Informed by Policies and strategies



Long Term Plan for the next 10 years  
of service delivery to the community



Development contributions funding  
the delivery of growth related capital  
works

# Legislation – Local Government Act

Development contribution legislation was 1<sup>st</sup> introduced into the Local Government Act (LGA) in 2002 with significant amendments in 2014

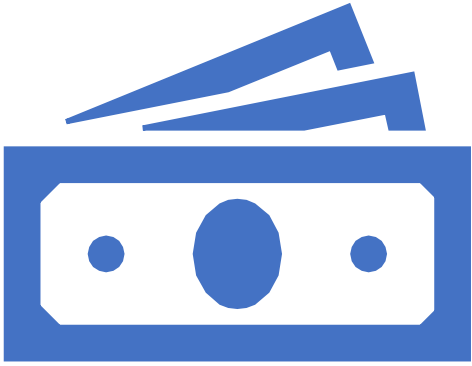
Whangarei District Councils' 1<sup>st</sup> Policy was introduced in 2005, this has been reviewed every three years, in conjunction with the Long Term Plan process

The majority of Councils have a development contributions policy – those that don't are generally not experiencing significant growth

Development contributions partially recover the costs of projects that have additional capacity to service new growth within the community. They are a funding source that allows Council to recover a fair, equitable and proportionate cost of capital expenditure necessary to service growth over the long term from those persons undertaking development

The underlying principals of development contributions are simple, administering, calculating and complying can be complex

# Alternative Funding Sources



Council has decided to use development contributions as a funding source, options include:

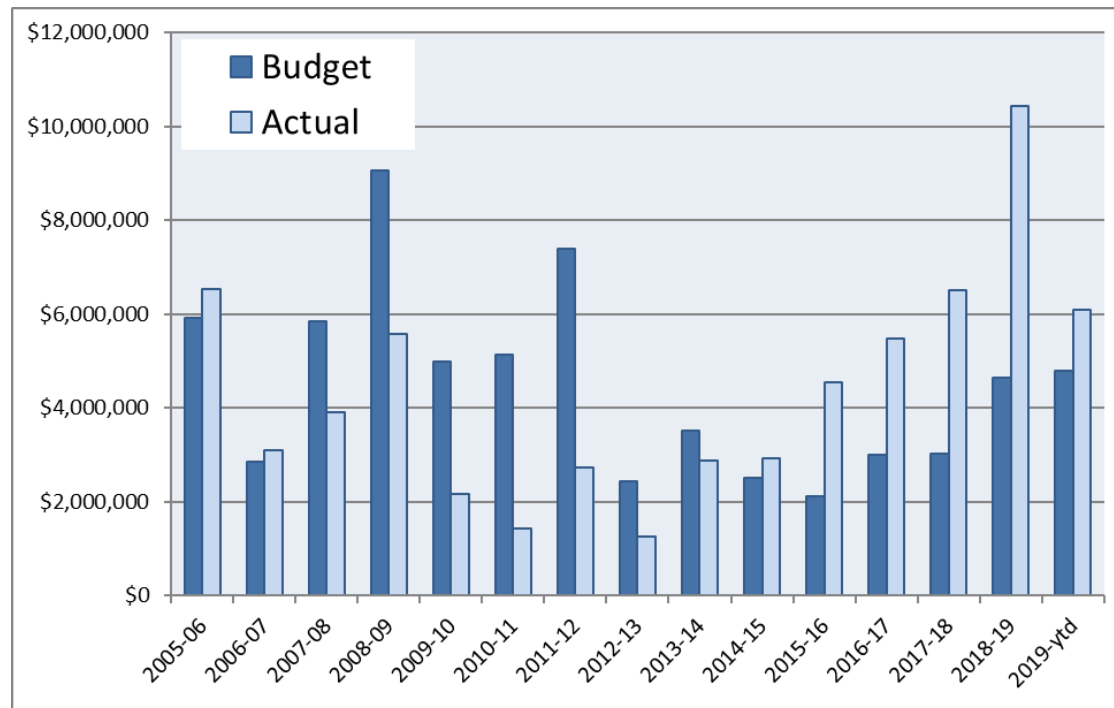
- Financial contributions under the RMA
- Rates funded
- Targeted Rates
- Connection Fees
- Infrastructure bonds
- Public/private partnerships

Council has seen development contributions as the best fit for Whangarei, deciding that:

- It was unfair for ratepayers to bear the costs of infrastructure that they do not gain benefits from
- Development contributions charges are a fair and proportionate allocation of costs to those who benefit

# Income – the numbers

- Development contribution revenue has been nearly \$66 million over 15 years, an average of \$4.37million annually this may be negatively impacted in the short term
- Revenue is recovering capital expenditure for either past or planned works. It is ringfenced and can only be used for the purpose's it was collected for. Revenue collects funds for only the activity it was collected for.
- Actual revenue is subject to economic swings - infrastructure costs are recovered in the long term – per annum. Revenue is not consistent and subject to development market conditions.
- For accounting purposes development contribution income is excluded from a 'balanced budget' calculation.



## 2. Key inputs 'The Policy' and the setting of charges - It's simple

*DC charges = Capital cost of growth related works, past and planned*

### *Predicted Growth*

Growth is measured in Household Unit Equivalents (HUEs)

The key inputs required to calculate these charges include:

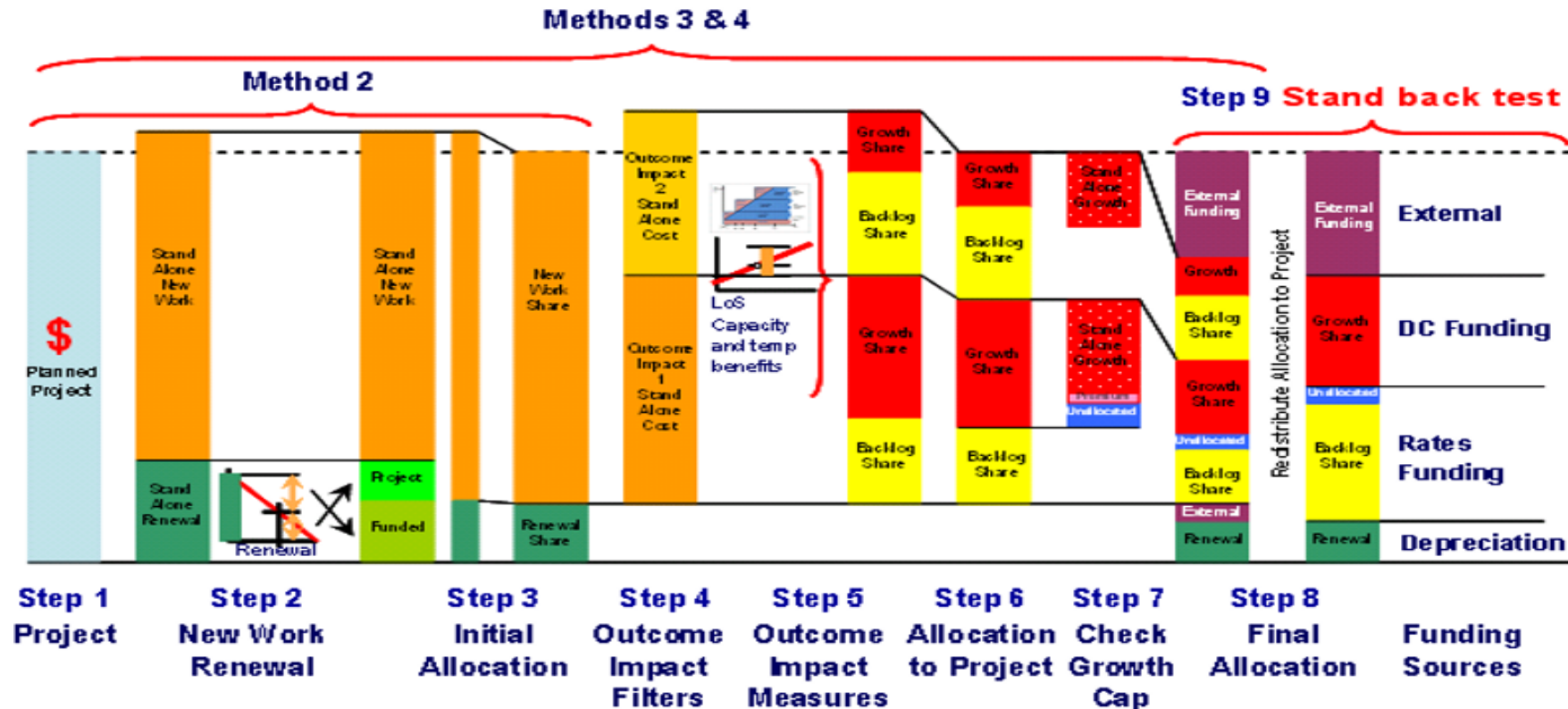
- Predicted growth identified in Councils' Growth Model
- Capital projects/programs with growth related components – asset managers identify and separate out the drivers for each project/program and identify the growth related capex costs
- Third party funding is subtracted
- Defined catchments for each activity
- Interest costs over funding period
- Benefits of the project to the existing community

It's not that simple - Council inputs this information into a custom modeling tool called SPM which uses a consistent methodology to calculate the charges. This accounts for the change from growth community to ratepayer, and benefits to existing users that will erode over time.



# Charge Calculation Methodology

- A cost allocation methodology has been developed to support the implementation of a development contributions policy that complies with LGA 2002 (as amended). The outputs of the analysis are presented in a manner that will meet the requirements of Section 106 in respect of the level and detail of information that should be made available for review. The charges are derived from inputs including: schedules of projects, growth information, catchments, project cost splits, inputs, interest, short term, long term and transitiona.l



## *Unexpected outcomes –*

**Charges** are variable between catchments - less growth generally means higher development contribution charges – If project costs are consistent and predicted growth either goes down or there has never been much growth - the charges will be higher because the project costs are divided by fewer new households. Conversely higher growth generally leads to lower charges

**Growth** Covid 19 economic fallout will lead to increased uncertainty in growth projections and therefore greater uncertainty in calculating charges – we think that we have the growth model correct for the long term

**Catchments** Smaller catchment areas with larger projects can lead to hyper-sensitivity in charges – however there is a requirement in the LGA that District wide catchments be avoided

**Alternate Funding** If projects win funding from central government i.e. Provincial Growth Fund or economic stimulus project funding this will be deducted from the project costs prior calculating development contribution charges. This may lead to a reduction in charges and therefore reduced income from development contributions

# Indicative residential Household Unit Equivalent Charges

North Rural			
Activity	HUEs	Costs	Total
Roading - North Rural	1.00	\$ 12,950	\$ 12,950.00
Library - Rural	1.00	\$ 144	\$ 144.00
Parks and Reserves - Countr	1.00	\$ 1,831	\$ 1,831.00
Wastewater - No Charge	1.00	\$ -	\$ -
Water - No Charge	1.00	\$ -	\$ -
Total (GST excl.)			\$ 14,925.00
GST (15%)			\$ 2,238.75
Total (GST incl.)			\$ 17,163.75

Whangarei City			
Activity	HUEs	Costs	Total
Roading - Whangarei City	1.00	\$ 7,768	\$ 7,768.00
Library - Whangarei City	1.00	\$ 338	\$ 338.00
Parks and Reserves - Urban	1.00	\$ 1,972	\$ 1,972.00
Wastewater - Whangarei	1.00	\$ 3,175	\$ 3,175.00
Water - Whangarei	1.00	\$ 6,649	\$ 6,649.00
Total (GST excl.)			\$ 19,902.00
GST (15%)			\$ 2,985.30
Total (GST incl.)			\$ 22,887.30

Ruakaka - Marsden			
Activity	HUEs	Costs	Total
Roading - Ruakaka	1.00	\$ 8,032	\$ 8,032.00
Library - Rural	1.00	\$ 144	\$ 144.00
Parks and Reserves - Satellit	1.00	\$ 1,831	\$ 1,831.00
Wastewater - Marsden Point	1.00	\$ 10,724	\$ 10,724.00
Water - Bream Bay North	1.00	\$ 5,591	\$ 5,591.00
Total (GST excl.)			\$ 26,322.00
GST (15%)			\$ 3,948.30
Total (GST incl.)			\$ 30,270.30

North Coastal - Whangarei Heads			
Activity	HUEs	Costs	Total
Roading - North Coastal	1.00	\$ 9,297	\$ 9,297.00
Library - Rural	1.00	\$ 144	\$ 144.00
Parks and Reserves - Coastal	1.00	\$ 1,915	\$ 1,915.00
Wastewater - Whangarei He	1.00	\$ 21,568	\$ 21,568.00
Water - Whangarei Heads	1.00	\$ 7,732	\$ 7,732.00
Total (GST excl.)			\$ 40,656.00
GST (15%)			\$ 6,098.40
Total (GST incl.)			\$ 46,754.40

North Coastal Rural			
Activity	HUEs	Costs	Total
Roading - North Coastal	1.00	\$ 9,297	\$ 9,297.00
Library - Rural	1.00	\$ 144	\$ 144.00
Parks and Reserves - Coasta	1.00	\$ 1,915	\$ 1,915.00
Wastewater - No Charge	1.00	\$ -	\$ -
Water - No Charge	1.00	\$ -	\$ -
Total (GST excl.)			\$ 11,356.00
GST (15%)			\$ 1,703.40
Total (GST incl.)			\$ 13,059.40

# Commercial Charges

## Whangarei City and Ruakaka

Proposed HUEs = Debit

GFA (sq.m) = 750

Select the Activity type (drop-down list) and sub-type activity (drop-down list)

Activity	Activity sub-type	HUEs	Costs	Total
Roading - Whangarei City	Industrial	4.5000	\$ 7,768	\$ 34,956.00
Water - Whangarei	Industrial	0.7400	\$ 6,649	\$ 4,920.26
Wastewater - Whangarei	Industrial	0.6938	\$ 3,175	\$ 2,202.66
			Total (GST excl.)	\$ 42,078.92
			GST (15%)	\$ 6,311.84
			Total (GST incl.)	\$ 48,390.75

Proposed HUEs = Balance

GFA (sq.m) = 0

Select the Activity type (drop-down list) and sub-type activity (drop-down list)

Activity	Activity sub-type	HUEs	Costs	Total
Roading - Whangarei City	Industrial	3.5000	\$ 7,768	\$ 27,188.00
Water - Whangarei	Industrial	0.0000	\$ 6,649	\$ -
Wastewater - Whangarei	Industrial	0.0000	\$ 3,175	\$ -
			Total (GST excl.)	\$ 27,188.00
			GST (15%)	\$ 4,078.20
			Total (GST incl.)	\$ 31,266.20

Proposed HUEs = Debit

GFA (sq.m) = 750

Select the Activity type (drop-down list) and sub-type activity (drop-down list)

Activity	Activity sub-type	HUEs	Costs	Total
Roading - Ruakaka	Industrial	4.5000	\$ 8,032	\$ 36,144.00
Water - Bream Bay North	Industrial	0.7400	\$ 5,591	\$ 4,137.34
Wastewater - Marsden Point - Ruakaka	Industrial	1.1100	\$ 10,724	\$ 11,903.64
			Total (GST excl.)	\$ 52,184.98
			GST (15%)	\$ 7,827.75
			Total (GST incl.)	\$ 60,012.73

Proposed HUEs = Balance

GFA (sq.m) = 0

Select the Activity type (drop-down list) and sub-type activity (drop-down list)

Activity	Activity sub-type	HUEs	Costs	Total
Roading - Ruakaka	Industrial	3.5000	\$ 8,032	\$ 28,112.00
Water - Bream Bay North	Industrial	0.0000	\$ 5,591	\$ -
Wastewater - Marsden Point - Ruakaka	Industrial	0.1100	\$ 10,724	\$ 1,179.64
			Total (GST excl.)	\$ 29,291.64
			GST (15%)	\$ 4,393.75
			Total (GST incl.)	\$ 33,685.39

# ***Value for money*** – ***On site V. development contributions***

- On-site water and wastewater provision can be an option. The cost of on-site provision is generally in line with Councils maximum development contributions. For example:
- Average cost of 2 tanks (excluding tanks for firefighting) and pumps and filtration systems \$12-14,000
- Cost of on- site effluent disposal \$15 – 24,000



### ***3. Consistency in development contribution charges across New Zealand***

- Some councils struggle to finance the cost of building infrastructure to meet the demands of current and future population growth
- Development contributions form approximately 4% of Councils total revenue
- Councils vary considerably and the economic, demographic and environmental circumstances of each council are diverse.
- Development contributions charges are calculated, based on the cost of capital works, both past and future projects, undertaken to service anticipated growth.
- Variance reflects each Councils:
  - Asset bases of varying ages, condition and quality
  - Different growth rates
  - Choice of funding source mix
  - Demographic make up and aspirations
  - Charges connections such as Auckland's Watercare



## *How can we help developers – or at least not get in the way*

- Development contributions legislation is not prescriptive about when charges are applied, it rather sets an ability to withhold certain certificates if contributions are not paid, these being:
  1. Section 224c certificate under the RMA
  2. Code compliance certificate and certificate of acceptance under the Building Act
  3. The issue of service connection authorisations
- Approaches vary, some Councils split the payments into Subdivision Impact Fees and Building Impact Fees
- Auckland Council imposes Statutory Land Charges in certain circumstances
- Assisting economic activity by requiring payment as late in the development phase as possible
- Payment plans
- Advising on how to structure applications - staging

***We walk a line between ensuring recovery and not becoming a hindrance to economic activity***



# ***Economic impact of development contribution charges***

## **What Development Contributions are**

- A funding tool specifically for growth related infrastructure
- Equitable, proportionate and fair with appropriate calculation methodology to ensure consistent and repeatable outcomes
- Able to spread the capital costs of providing infrastructure across time, this means that those who enjoy the benefits pay an appropriate amount at the time ensuring 'intergenerational equity'

## **What Development Contributions are not**

- A mechanism to provide affordable housing
- A mechanism to stimulate the economy - if there is development and the cost of the impact is not paid by developers, it will be paid by others
- Funding that may be used for new unspecified projects

**Council is required to turn their mind to the overall impact of the Policy - a stand back test - as to the overall effects of the Policy. Capping in some catchments is an example of striking a balance between the aims of the Policy and pragmatic considerations.**



# 4. *Where to? - the Policy review*

Subject to feedback from Councilors - we are not anticipating any major changes to the written Policy

Legal review will be undertaken and external review

Catchments will be reviewed taking into account zoning movement and reticulation extensions, this will be presented for review

As the LTP capital projects are finalized, charges will modeled and finalized within the Policy - the charges will be presented and any anomalies identified and reviewed

Draft policy presented to Council late November – Early December

Consultation to be carried out in conjunction with the Long Term Plan consultation

## *Key issues - summary*

Development contributions are a well accepted funding tool and used by the majority of growth Councils in New Zealand

No major changes are anticipated to the Policy

Key Issues 2021 – 2024

Reduction in revenue stream

Uncertainty in economic affects of Covid 19 with knock on effects of uncertainty in growth including commercial growth

Balancing the economic effects of development contribution charges and ensuring adequate infrastructure funding

# *Questions*