Proposal to renew the Auckland Council Contributions Policy

Introduction

Auckland Council is required to review its Contributions policy by 1 July 2018. The Contributions Policy sets out the capital expenditure to be funded by development contributions (DCs) and the level of charge developers will pay.

DCs are paid by developers based on the size and location of their development. The DC charge is set so that each development pays an equitable share of the local and regional infrastructure required to support the development.

DCs do not determine what infrastructure projects are delivered or where they are delivered. Under the proposed policy DCs are set based on the capital expenditure for growth related projects in the Council's Long-term Plan. DCs provide an alternative funding source to rates that is targeted to the beneficiaries of the council's investment in growth infrastructure.

The Council has reviewed its Contributions Policy (adopted in 2015), and proposes a number of changes which are included in the draft Contributions Policy 2018, based on the capital expenditure programme in the draft Long-term Plan (LTP) 2018-2028 and proposed Regional Land Transport Plan (RLTP) capital expenditure.

Proposals

The following sections set out the changes proposed in the Contributions Policy 2018, the reasons for them and the alternatives considered.

1. LTP Investment

The draft LTP 2018-2028 and RLTP provides for additional projects with a growth component $1.4 billion higher than the LTP 2015-2025. While the majority of the increase is transport related, this also includes an additional $322 million investment in community infrastructure and parks. The additional investment in infrastructure will enable the construction of 120,000 dwellings to house an expected 300,000 additional Aucklanders.

As a result of the increased investment the average urban DC price will rise to $27,000 (excl GST). The draft policy extends the time for DCs payment by at least six months for residential developments.

With Auckland Council's current financial constraints, the ability to debt-fund growth infrastructure is constrained. DC prices need to rise to allow this investment to proceed. Without an increase in prices general ratepayers would continue to subsidise growth or investment will be delayed or halted. This would impact on the ability to maintain service levels in response to growth and to support housing development.

Alternatives

The council considered two alternatives to the proposed increase in DCs;

- defer or halt proposed capital projects supporting growth
- increase ratepayer funding of these projects.

1. The proposed increase in DCs price over the 10 years of the LTP 2018-2028 is forecast to provide an additional $800 million of revenue. Without this revenue the council would need to reduce its proposed capital expenditure by between $1 and $3 billion depending on which projects were prioritised. This sum may exceed the loss in

revenue because DCs make up varying proportions of the funding of individual projects1. Council does not recommend this option as these investments are vital to:

- maintaining service levels in the face of growth pressures
- supporting making land available for new development in both the greenfields and brownfields.

To maintain the proposed level of investment without increasing DCs would require an increase in rates funding of between $50 and $150 million per annum. This is equivalent to an additional general rates increase of between 3 and 10 per cent per year. Land owners, developers and the owners of new construction are the beneficiaries of the portion of investment in infrastructure that supports growth. Council does not support this option as it is appropriate that the growth share of funding comes from the beneficiaries via DCs not general ratepayers.

The council's draft Revenue and Financing Policy (consulted on at the same time as the LTP 2018-2028) provides for the use of targeted rates to fund growth infrastructure. However, no proposals have been consulted on as part of the LTP 2018-2028. As rates can only be struck as part of an Annual Plan or LTP this is not a practical option for the 2018/2019 year. The council may consider targeted rates to fund growth infrastructure in the future.

2. Funding Areas

The draft Contributions policy 2018 includes four additional funding areas for transport. These funding areas allocate the cost of transport infrastructure to the priority growth areas in Kumeu/Whenuapai/Redhills, Dairy Flat/Wainui/Silverdale, Greater Tamaki and Albany. An additional funding area has also been created for reserves and community in Greater Tamaki..

The council rejected the option of keeping these developments within the current funding area framework as DCs for development in these areas would be below the actual cost. This would result in increased costs for other developers in the existing areas.

3. Development Types

The council currently separates different developments into distinctive types in order to accurately share the costs of providing growth infrastructure between developers. The council proposes to amend the following development types to better reflect the demand they place on infrastructure.

Student accommodation

Create a new "student accommodation units" category for student accommodation (administered by schools/universities). Student accommodation is closer to their residents primary travel destination and these institutions generally provide some open space. This category will have a lower price for transport and open space than residential development.

Aged care rooms

The DCs payable for Aged Care Rooms will be reduced by removing the requirement to pay for Community Infrastructure. Council considers that the nature of the persons occupying these units makes it unlikely that they would use Community Infrastructure such as playgrounds, toilets or community halls.

[1] The proportion of DC funding differs for different projects i.e. reserve acquisitions are primarily funded from DCs whereas transport projects have a mix of general rates, NZTA and DC funding. Lower DC funding for parks would reduce capex by a similar amount. Lower DC funding for transport would remove projects of a higher value as we would lose access to the associated NZTA funding.

Alternatives

Council considered retaining the status quo but rejected this option as it would mean these developments would pay a share of contribution costs in excess of the demand they place on infrastructure.

4. Clarifying definitions

The council proposes to make the following changes to the definitions of development type.

Small ancillary dwelling units

Change the 'size' definition of small ancillary dwelling units to those with a gross floor area less than or equal to 65m². This aligns the Contributions Policy with the definition in the Unitary Plan to avoid customer confusion.

Retirement villages

Amend the definition of a 'Retirement Village' to align with the Unitary Plan to avoid customer confusion.

Accommodation units for short term rental

Amend the definition of Accommodation Units to clarify that they include properties used for short term rental. Long-term rentals will continue to be treated as dwelling units.

Alternatives

The council considered retaining the current definitions but rejected this to avoid the ongoing confusion for customers dealing with different definitions in council policies and the additional administration costs incurred to resolve these.

5. Payment Timings

Residential developments are currently required to pay DCs when the building consent is issued. Council proposes to adjust the payment timing for residential developments as follows

- developments that create five or more dwelling units will be classified as non-residential developments. This will allow the DCs assessment to be invoiced at time the Code Compliance Certificate (CCC) is applied for. This will extend the time until council receives payment by an average of 9-18 months.
- all other residential developments will be charged six months after building consent is issued.

Council has proposed this change to support residential developers by better aligning the requirement to pay DCs with developers' cash flows. Reducing the amount of capital investment required prior to construction will make it easier for developers to finance and progress residential projects. Under this option, the timing of payment for residential DCs is more closely aligned to the time at which the increased in demand for infrastructure occurs.

Alternatives

The current requirement for residential developments to pay DCs at the time building consent is issued could be retained. However this would not support residential developers, and would mean that payments would be made in advance of demand for infrastructure being generated.

Future work

The draft Contributions Policy 2018 only includes additional investment in infrastructure in a few priority development areas. This is based on the Auckland Transport Alignment Project and the RLTP which reflect the government's medium term priorities for transport investment. The priorities are public transport and safety with limited provision for roading. Timing challenges have meant only preliminary consideration has been given to future transport needs to support greenfields development. As a result the proposed average greenfields DC price is $27,000 (GST excl), which is at the same level as the proposed average urban DC price.

However, the investment in infrastructure to support the council's Future Urban Land Supply Strategy identifies the cost per house in greenfields as around $150,000. This includes the cost of the government's investment in state highway upgrades, NZTA's contribution to council roading investment and Watercare's Infrastructure Growth Charge. The proportion of the overall cost that would be recovered from development contributions is approximately $70,000.

In the medium term it is important that DCs set for greenfields reflect the longer term overall cost of the required infrastructure. This will ensure that development in greenfields:

- is not subsidised by general ratepayers
- is priced appropriately in comparison to brownfields intensification
- does not allow early movers to pay lower prices and shift the burden to later developers
- ensures more cost-effective infrastructure procurement. For example, it is likely to be cheaper if a 30-year view is taken from the onset when delivering the infrastructure needed to service the ultimate population of greenfield areas. Securing land for future roads and parks prior to development, or initially constructing bridges that provide for future road widening, is more cost-effective than retrofitting infrastructure

The council will work with central government to determine longer term investment plans for the roading to support greenfields development. This will provide a foundation for planning the capital expenditure programme to be funded from development contributions. Progress on this work will be reported on by the end of September.

Process for Contributions Policy

Feedback on the draft Contributions Policy 2018 is welcome from 1 May and 14 May April 2018. This feedback will help inform council's decisions on the Contributions Policy. The 30 May meeting of the Finance and Performance will then recommend a final policy for adoption. This policy will be adopted by the Governing Body on 27 June 2018. The amended Policy will take effect from 1 July 2018.

Ways to have your say on the Contributions Policy

Online

https://www.aucklandcouncil.govt.nz/have-your-say/topics-you-can-have-your-say-on/Pages/default.aspx

Keyword: Contributions

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