DEVELOPMENT CONTRIBUTION POLICY REVIEW OMNIBUS REPORT

REPORT C: STAFF RESPONSE TO THE REPORT OF THE DEVELOPMENT CONTRIBUTIONS WORKING PARTY

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PURPOSE OF REPORT

1. The purpose of this report is to provide a staff response to the findings and recommendations of the Development Contributions Policy Review Working party to assist the Council in making a decision on changes to the Policy

EXECUTIVE SUMMARY

2. This report has been prepared following an examination of the report of the Working Party and in particular its 16 recommendations to the Council. Many of its findings and recommendations are considered to be appropriate and together with other changes identified by staff will considerably improve understanding and implementation of the DC Policy. There are a number of instances where staff do not agree with the direction taken by the Working Party and these are canvassed in the report. In addition there are two significant areas; the proposed shift to a cost (HUE) based system for calculating reserve contributions (currently a flat 7.5% of land value), and the alignment of methodologies across the UDS partners which staff consider sett the right direction but which will need some time to implement with any degree of confidence.

LEGAL CONSIDERATIONS – GENERAL

3. Most of the recommendations of the working party do not raise any legal issues. There are no legal issues that arise from the proposals for more meetings with developers, etc, as this will be informal consultation carried out by the Council. It will be necessary for any formal consultation with developers to be carried out in accordance with the provisions of the Local Government Act 2002 (LGA02).

The recommendations that suggest there should be clarification of or expansion of information and definitions in the policy will only serve to improve the legal robustness of the policy, and are supported. Any specific changes suggested to be made to the policy will be reviewed by the Legal Services Unit before the draft policy comes back before the Council.

The recommendations which give rise to legal comment are:

- the attribution of costs *(Recommendation 12.4)*;
- the proposals that the calculation of development contributions (DCs) in relation to reserves be brought into alignment with the calculation of network infrastructure and community infrastructure DCs, *(Recommendation 12.9);*
- the undeveloped non-residential HUE credit *(Recommendation 12.12)*;
- the past projects *(Recommendation 12.13)*; and,
- the recommendations regarding alignment with other Council's DCs *(Recommendation 12.14)*

Legal considerations on these matters are incorporated with the staff response on each recommendation.

FINANCIAL CONSIDERATIONS – GENERAL

4. Where applicable, there are specific financial implications on the Council for each recommendation. Those, where known at this point, are added to each of the recommendations discussion below under the staff responses. A complete picture of the financial costs will be presented to the Council at the seminar on 23rd February 2007, once staff have received direction by Council on the policy changes it wishes to pursue.

As a general statement, any reduction in the charges to developers below the full 100% charge results in a loading on rates over time. The shortfall from a full 100% recovery is funded by loans with debt servicing charged to ratepayers over time.

Several of the recommendations are accepted as a refinement of the method of calculation and whilst may result in a minor change in costs, are desirable to improve the efficiency, equity and clarity of the process.

STAFF RESPONSE AND RECOMMENDATIONS TO COUNCIL

5. Council staff have been involved in an advisory capacity with the Working Party as it has proceeded with its review task. The Working Party, under the very capable chairmanship of David Caygill, has been able to develop a good understanding of both the development community and the Council/wider community needs through what has been a very good interactive process. The outcome of this will be a much improved, and hopefully more generally acceptable Development Contributions Policy, with many of the ideas that have evolved being followed through into recommended changes to the policy document.

   It is intended that a revised policy statement and schedule of charges will be recommended to the Council for consideration in February. This will incorporate the changes generated by the review of the Policy and other requirements including the revised asset expenditure programme and charge calculation, currently being completed by the Council Asset Managers.

6. The Working Party report (Report B above) includes a number of recommendations relating to both process and content of the DC Policy. All the recommendations are requested to be enacted prior to the adoption of the amended DCP in 2007. In the following section the report highlights each Working Party recommendation, provides a staff response and makes a recommendation for the Council to adopt.

"***11. The Working Party endorses the LECG recommendations:***

- ***that the Council obtain independent review of the level of costs allocated to growth for major projects in the future as a standard procedure, and take other steps to ensure that cost allocations for different projects are robust and consistent and suggests its expansion to include a random sample of smaller projects" and***
- ***the Council's commitment in the draft Urban Development Strategy to align development contributions with those of the other councils"*** *Note: this matter is discussed in 12.14 below.*

Staff Response

An external review of the capital expenditure and DC calculation is possible, however the following should be considered:

- The scope of the review should address:
    - a review of the application of the methodology to selected projects to confirm the growth cost portion of the project with specific attention to the methodology's requirement to identify the level of service and associated capacity/demand measures,
    - the application of the growth assumptions and consistent application of the funding model,
- But it should *not* include
    - the project rationale, timing, cost and delivery decisions. These are decisions of the Council.
- There will be a cost to mount a review, therefore the number of projects selected and frequency of review should be aligned to the three yearly LTCCP updates.
- The capital expenditure programme may not be available (before the LTCCP is developed) in time to support an external review. There is considerable pressure to meet the internal deadlines, let alone those external to the Council.

Staff Recommendation:

As part of the LTCCP programme, an audit step of key projects (plus a selection of other projects) be introduced to test the correct application of the methodology and cost allocation process.

"12.1 – The Council facilitate a regular series of meetings (we suggest three or four times a year) with the development community to allow for joint developer/Council review of the content, timing and progress of the Council's Capital Works Programme"

"12.2 – It should be part of the responsibility of appropriate Council officers to liaise regularly with developers"

Staff Response

Regular meetings with development industry representatives provides a good mechanism for maintaining and improving mutual understanding of needs and should probably be at staff level with appropriate reporting to elected members. The question of industry representation will need to be determined by the industry. Developers are key stakeholders and provided they are prepared to share their plans and desires these meetings should result in an improved capital expenditure programme, more aligned to the needs of land development and the demands on the infrastructure that will result.

It should be acknowledged that considerable liaison already occurs with individual developers through, for example, the Area Plan process, and that this should continue and be further advanced. The suggestion is to also establish a forum to discuss Council's wider strategic infrastructure programme. A greater shared understanding should result in improved efficiency in both the delivery of infrastructure and the uptake of investment and demand.

Staff Recommendation:

The Council accepts the Working Party's recommendations and that staff be requested to implement these as appropriate.

"12.3 - The availability of private developer agreements be more clearly acknowledged, and that clear guidelines be put in place as to when and how PDAs can be used"

Staff Response

The use of PDAs can be to the mutual advantage of the Council and the developer, and is supported. There may be some financial effects in that the Council may acquire vested assets instead of cash.. Any change, through a PDA, to the "standard" contribution may impact on capital and operational costs, both in respect of timing and amount, as part of the asset acquisition probably will not have been budgeted. However, a PDA, and any changes to the contribution, would only be agreed on the basis there are other benefits to the Council.

A PDA should not be perceived as a case by case bargaining tool, and should be seen as an opportunity for achieving certainty. Typical uses of PDAs relate to large scale or "special" developments where the "who does what" relationships are defined. Projects which may be considered suitable for a PDA include such things as developments undertaken at the airport by Christchurch International Airport Limited, or other major infrastructure steps. More clarity can be set down in the policy, but more detailed guidelines are likely to be developed outside of the Policy document. Things that will be covered in a PDA are likely to include that HUEs may be settled on based on agreed demands, transactional matters will be agreed, timing of payments agreed, the impacts of the development on the capital works programme are understood and funding arrangements are agreed.

Staff Recommendation:

The Council accepts the Working Party's recommendations and that staff be requested to implement this as appropriate.

"12.4 The Council ensure that only the costs attributable to new developments are recovered by way of development contributions. All growth factors not causally connected to new developments should be removed from the calculation of DCs"

Staff Response

The SPM methodology as currently used by the Council was validated by LECG and accepted by the Working Party. It does already provide a process which identifies the new growth component of developments. Its correct application for the calculation of DCs excludes the increases in demand not caused by new development. Staff have conducted a detailed review of the application of the DC methodology to the capital programme. A number of revisions have been made to improve the robustness of the model's application.

From a legal perspective this recommendation seeks that the Council do something it is already legally required to do under section 199(1) of the LGA. (and which the SPM model does) However, it should be kept in mind that section 199(3) provides that the cumulative effects of a development, taken in combination with another development, can be considered in assessing the effects of a development on the demand for new infrastructure and reserves

Staff Recommendation:

The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

"12.5 - The DC Policy include an explanation of the factors and calculations used to convert business and other forms of development in to HUEs)"

Staff Response

This should improve clarity and understanding and is supported. It is proposed that this additional information will be provided in the DCP itself and also through amendments to the supporting information currently made available at Council offices and on the internet.

Staff Recommendation:

The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

12.6 Consideration be given to smaller units paying a lower development contribution on a sliding scale based on their floor area

Staff Response

The rationale behind this recommendation recognises that smaller residential units consume/demand less than larger ones and a change along the lines suggested supports the intensification policies relating to the central city and the Urban Development strategy. The assistance of working party members in developing the proposal is acknowledged and will provide the basis for an appropriate change to the Policy.

Staff Recommendation:

The Council accepts the Working Party's recommendation and that staff be requested to refine the details and report to the 23 February seminar.

"12.7 - The Council revisit the definition of "undeveloped" and "developed" in relation to vacant land"

Staff Response

This recommendation would improve clarity and provide certainty and is supported. This work needs to be completed in conjunction with changes to the DCP around demolished/destroyed buildings and requires a policy decision as to how long credits on previously developed vacant lots will survive.

Staff Recommendation:

The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

"12.8 - There be a clear process for determining the credits available in advance of demolition"

This recommendation is supported as it will enable the recording of credits while current demand is measurable reducing confusion and administrative effort when redevelopment occurs. It also provides certainty for land owners as to what credits are available under the DCP.
Transitional issues will remain for non-residential buildings demolished prior to implementation of this process and where there is not sufficient evidence to support an assessment of the previous demand on community facilities.

Staff Recommendation:

The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

"12.9 - The calculation of DCs in relation to reserves be brought into alignment with the rest of the DC Policy; and specifically that a similar "cost-based" approach to the calculation of DCs for reserves be adopted as for network and community infrastructure"

Staff Response

This suggestion has merit on several counts but is not without its challenges. There is a body of work to be completed to achieve this approach and to identify the possible cost recovery options but generally staff support this recommendation:

HUE based advantages

- Simplicity of calculation
- Is consistent with the calculation of infrastructure DCs
- Can be regionally determined achieving alignment between the capital spent in an area with the charges in that area
- Can be broken into component charges - that is a separate HUE charge for regional, local, metropolitan classifications.
- The nexus between DC and planned works would be more transparent
- More aligned with the UDS, gives ability to adjust charges in specific areas to achieve other policy objectives.
- The 20m2 charge, currently applied in the Central City on apartment blocks, is inconsistent with the approach. Its removal would overcome an administratively complex and expensive charge that penalises high density residential development.

HUE Based disadvantages

- Establishing the non-residential equivalence factors for reserves will be complex, and is likely to result in a reduced contribution by business development to reserves (particularly local reserves)
- Loss of income as the charge to any development can only be the minimum of either the HUE charge of the 7.5%/20m^2 charge. High value developments may end up with a reduced charge. (this situation is anticipated only in a minority of developments)

- The present percentage based charge achieved a cost nexus between the parks land purchase and the value of land in the area served by the park. NB. it is possible to retain a percentage charge system even under a HUE based calculation to overcome this specific concern.
- Break with tradition and general understanding of the community
- Break from approach adopted by most Councils in NZ – though to be fair most Councils have adopted some modification of the % charge, most have some form of cap or reduction from the maximum. Some include a HUE based component.

From a legal perspective, the Working Party recommendation regarding the calculation of reserves DCs is supported. Further discussion of the legal issues around this are in the public excluded section of this report.

There is concern that the move to a HUE based system may significantly reduce income from development for reserve purposes. A more fundamental issue however is getting a transparent alignment between Council's anticipated reserves programme and its relationship to city growth, which is the Working Party's overriding concern. Once this is established ensuring a fair recovery mechanism that reflects the true cost of acquiring reserve land in different parts of the city will be required to ensure that Council retains an effective and fair reserves development programme.

The capital expenditure program focused on growth will need to be more specific than in the past, in line with the calculation of assets. In any event the Council may need to adopt this approach for DC's. The work required to implement the charge has commenced but will take some time to complete. If the Council adopts this approach it is intended to have this available for consideration at the time it adopts the final 2007 DCP policy.

Staff Recommendation:

The Council accepts the Working Party's recommendation of a move to cost based approach, and that details be further developed, including fee recovery options, to ensure that income from reserve contributions meets the needs of growth.

"12.10 - The Council avoids including in its DC Policy any system of incentives or remissions for social purposes or to give effect to other Council policies. These should continue to be addressed by separate means"

Staff Response

These have been removed from the current policy, but the question of alternative incentives is still to be resolved. It should be noted that clearly stated and consistently applied reductions may be an appropriate technique in some instances, as may also a system of "transactions" in the case of negotiation for reserves, and that these are not considered to be "remissions".

Staff Recommendation:

The Council accepts the Working Party's recommendation.

"12.11 All undeveloped residential lots receive a credit of one HUE for all services/activities and reserves"

Staff Response

This suggestion is supported as it provides certainty and simplifies the DCP. As a result the administrative burden on council systems and staff and developers time is reduced.
This change effectively removes the confusing "roll-back" provision where undeveloped residential lots created after 1 July 1994 received less than 1 HUE credit based on a sliding scale.
As a result there is some lost opportunity to charge as up to 1HUE on those lots transitioning into the DCP 2006/16 methodology but still achieves the original intent of the policy for new lots going forward.

Staff Recommendation:

The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

"12.12 Undeveloped non-residential lots subdivided before 1 July 2004 be entitled to a credit up to the value of any development they would have been entitled to pursue at that time, i.e. any development that would have complied with the relevant land-use zoning requirements"

Staff Response

The impact of this recommendation is very far reaching, as it would require the Council to consider the value (in multiple HUEs) of any site, and to produce a credit for this value. This is in contrast to residential sites where the credit is fixed at 1 HUE per site. However unlike residential development the scope, scale and intensity of demand for identical industrial or commercial sites can vary considerably.

There is a concern that the policy, if accepted, would effectively exclude commercial and industrial development from paying DC's and the right to develop individual sites is not constrained by future subdivision because zone allowances are area based rather than lot based.

A zone based HUE credit is therefore not supported by staff, however some form of credit should be acknowledged. Instead it is proposed that all undeveloped non-residential lots receive 1 HUE credit per lot the same as undeveloped residential lots:

- This approach is aligned with further staff suggested change for non-residential subdivision assessments to a 1 HUE per lot charge from a zone based charge.
- Pre DCP 2006/16 contributions where largely the same dollar amount as residential lots so should not receive more than the residential credit of 1 HUE (lots created and assessed under DCP 2006/16 would be transitioned on HUEs actually paid for)
- It provides certainty of credits and charge for undeveloped lots.
- Simplifies entire credit and assessment process for staff and developers
- Eliminates confusing zone-based non-residential 'subdivision portion' and defers full charge to completion of build when full demand is created (more closely aligned to developer's cash flow).
- Addresses lack of pre-amalgamation DC credit history on Banks Peninsula by eliminating the "roll-back" provisions as per residential lots in 12.11

Legal Implications - The Working Party's suggestion confuses resource management concepts with the ability under the LGA to fund, in part, network infrastructure, community infrastructure and reserves (community facilities) from development contributions. Using the maximum zone allowance as the basis for whether or not a future development should pay any development contribution is not consistent with the need to examine the causal connection of the development; its effects on increased demand for community facilities. Different types of development, which would all be permitted in terms of the maximum allowable under the District Plan for that land, could have quite different "demands" in terms of the community facilities. From a legal perspective, this recommendation of the working party is not supported.

Staff Recommendation:

That all undeveloped non-residential lots receive 1 HUE credit per lot, i.e. the same as undeveloped residential lots:

"12.13 The Council should not use DCs to fund projects which were already funded prior to the 2004-14 DC Policy becoming operative"

Staff Response

Appendix 3 of the DCP lists a number of past projects, i.e. Capital Development projects initiated prior to the policy becoming operative. The Working Party is of the opinion that where an earlier project was planned and initiated its funding was, prior to 2004, not anticipated to be sourced from Development Contributions, but from other sources. (There is an exception in the form of Cost Share Schemes which were an early form of direct development charge.) The Working Party considers that these projects should be excluded from the DCP.

Section 199(2) of the LGA is relevant in relation to this issue. Any reassessment of the current Policy's Appendix 3 should be done in light of this section, which provides that a Council can require a development contribution to pay, in full or in part, for capital expenditure already incurred in anticipation of the development. This means that for any past projects the Council continues to collect development contributions for, the Council will need to show that it originally carried out/proposed the project in anticipation of development, and not for some other reason.

If the Council can meet this requirement in relation to the projects in Appendix 3, then it becomes a policy decision as to whether or not the Council considers it should remove some projects. The Working Party view is that the Council should remove most of the pre-2004 projects, because the Council would, at the time, have expected to fund these projects from sources other than DCs. The former cost shares are an exception to this.

Staff Recommendation:

That old cost shares be retained as past projects, and other projects be reviewed with those that are not clearly growth related to be removed.

> ***"12.14 - The Council should conduct further analysis of how its proposed DCs would compare to those in other districts, especially those closest to the city, i.e. Selwyn and Waimakariri Districts."***

Staff Response

This recommendation arises out of concern about the different (often lower) DC charges of the adjoining local authorities.. Further analysis has been undertaken, and this is described in the attached appendix. Although not explicit in the recommendation , the working party in its report sees the need for an alignment of methodology and charges for DCs. There are specific legal and financial implications that the Council needs to consider, and these are outlined below.

Legal implications – The primary legal issue in relation to the alignment of the Council's DC charges with other Councils is whether the LGA requires the Council to consider what other Councils are charging for development contributions. Section 106(2)(c) requires the Council to explain, in terms of the matters required to be considered under section 101(3), why the local authority has determined to use development contributions (as well as any other funding sources) to meet its expected capital expenditure. Section 101(3)(b), in particular, requires the Council 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 the community*".

It is arguable that the amount charged by neighbouring Councils may have an effect on the amount or type of development carried out in the Christchurch district. If the Christchurch DC charges are high compared with neighbouring districts then that *may* discourage development in Christchurch which in turn may have an effect on the social and economic well-being of the community. It is possible therefore that some consideration of what other Councils are charging may be relevant in terms of section 101(3)(b). However, what other Councils charge is also just one factor that must be weighed against other considerations that come within section 101(3)(b), and the section 101(3)(a) factors.

Another issue concerns the meaning of "alignment" in the UDS. It should not be thought of as about alignment of the dollar values, but could appropriately be about the alignment of the Councils' methodologies. The Council's assessment of growth and its capital expenditure projects inform what the Council's DC charge will be, in accordance with the methodology and other requirements of the LGA. This is likely to be different than other Councils, who will all have different growth in their districts, and different capital expenditure projects. However if the charges are to be aligned then it seems the Council would need to make some adjustments to its figures after the calculations have been made in accordance with the LGA methodology. Any such adjustment would be in the nature of an across the board remission, where the Council's charge is higher than other Councils, or a loading of the charge, where it is lower. Any loading of charges is likely to be ultra vires, because section 203(2) sets the maximum charge the Council can make. In terms of a possible remission, the Working Party itself recommends that specific remissions are not appropriate in this Policy, although they do recommend broad options to the Council at the end of their report, which includes the options of further transitional periods/phasing in of charges, and/or having the Council choose to recover less than 100%, both of which would also amount to an across the board remission. Legally, the Council can choose not to charge 100% and it can provide for remissions.

The Council should also note that there is a judicial review case which was heard by the High Court last year, relating to the North Shore City Council development contributions policy. A decision is expected shortly on that case, and it may provide direction in relation to the Council's Policy, and that of its neighbours, (although any decision may be appealed). The Legal Services Unit will report to the Council as soon as the decision is issued, on its implications for the Council's Policy.

Financial Implications - The CCC charges will come from the CCC capital expenditure programme and the Policy assumptions and calculations.

If there was an alignment of the CCC charges with SDC or WDC , then it would be based on an assumption that either:

- our capital expenditure, assumptions and calculations are exactly the same (this is extremely unlikely), or
- The CCC remits or loads our charge to be the same as the other Councils.

As neither is possible or desirable, an alignment of the calculation methods (not the charge itself) may be possible and will be investigated by staff, however as the councils are so different in character and stage of community development, full alignment may not be feasible.

The desirability of achieving greater alignment between adjoining authorities has already been signalled in the proposed Urban Development Strategy. Achieving this will require considerable on-going discussion and while desirable is not achievable prior to the adoption of the revised policy. It is considered that this process should be supported as part of the longer term implementation of the UDS, including greater alignment between the infrastructure, reserves and other investment by the UDS partners.

Staff Recommendation:

That the principle of improving the alignment of DCP methodologies of the City Council and its immediate neighbours be pursued as part of the implementation programme of the UDS.

"12.15 The Council re-evaluate the proposed level of development contributions in the light of the Urban Development Strategy, the expected impact of its revised Policy on future development and the ongoing discussions with the development community recommended above."

Staff Response

This recommendation from the Working Party summarizes a significant section of its report, but one that is more philosophically driven, in contrast to previous parts of the report which largely addresses specific technical changes to the policy or its mechanics. The recommendation also intuitively raises the issue of whether developers are the only beneficiaries of growth and therefore whether they expected to pay for 100% of the growth costs or whether, irrespective of the technical improvements to the policy, there is as the Working Party suggests, a wider benefit to the community of development which suggests that they should pay only a portion of the development related cost of growth. (See Para. 101-WP report). The Working Party has further endeavoured to address this in terms of an affordability argument and has presented within its report a number of broad options around the future policy. These are outlined in Paras. 104-105 of its report, and are detailed below.
"In essence the Council must choose between the following broad options in relation to the revised capital works programme:

- *Maintaining the proposed increase in charges to capture 100% of the impact of new development in DCs as from 1/7/07;*
- *Increasing the charges, but by an amount that recovers less than 100%;*
- *Abandoning the proposed increases.*
- *In addition, the Council has a choice as to timing. It could make either of the above changes abruptly or gradually."*

The overriding recommendation of the Working Party is as outlined at the beginning of this section, and invites Council to re-evaluate the development contribution in the light of:

: The Urban Development Strategy (UDS)
: the expected impact of its revised policy on future development
: ongoing discussions with the development community

It is appropriate to take each of these in turn. The discussion on the previous recommendation (12.14) already addresses the issue of UDS alignment. This is not a step that can be taken lightly or quickly. The process of aligning methodologies will require some time to achieve, thought the principle of consistency is supported by staff. Aligning the raw dollar values paid is not supported by staff nor is it a sensible way to treat development costs. The development contribution charges even within the city vary as to cost, based on future works and local catchments, so simplistically aligning the costs to either Selwyn or Waimakariri would undermine that principle within the policy. However, understanding the differences that developers may pay and how this might shape investment choices, is a very important element that Council will need to consider in setting its final charges.

Another key element is captured in the second point. That is, Council and the Working Party have yet to see the fiscal impact on the development contribution charges of the revisions proposed. As commented in Para. 103 of the Working Party report, the outcome of this may alter the development community's concern about the "cost to developers". This does of necessity imply a hoped for reduction in charges, which the wider community would need to pick up in some manner, but improved rigour in both the rationale and determination of any charges should at least make the development community more sympathetic to its validity, if not to its quantum.

The third area raised is that of ongoing discussions. Clearly this about developing a mutual awareness of the need for the Council's Capital Works programme and its ability to support and enable good development to occur in the city in a timely and cost effective manner. Once again a better understanding should lead to a better acceptance of the need to charge and the quantum of that charge.

However, in the light of each of these elements the Working Party still suggests that the Council needs to re-evaluate the charges, either by way of some reduction in the overall charge, some acceptance of a charge that is less than 100% of development driven growth and/or to accommodate one or more other factors (eg. the charges of neighbouring communities).

The essence of this invitation by the Working Party rests on its concern about the capacity or willingness to pay, and practically, on the perceived impact of the charges on development activity in the city. The LECG report did consider this aspect; and concluded that the charges proposed by Council would have a dampening effect on development, but that this would be limited in time, before the industry adjusted and recovered its confidence. This does seem to be the evidence of other centres, notably North Shore City.

Unfortunately there is no magic formula to achieve this position, which may be why the Working Party has asked that Council re-evaluate its charges, rather than recommend a specific change. This is a reasonable step. However, it is one that Council can only make once it sees the likely fiscal impact of the changes to the policy. To guide it in this decision it might be useful for Council to establish some ground rules to help that decision making. It is suggested that these could be as follows:

- That the Council recognises that the development contributions charges established do reflect an accurate appraisal of the cost of servicing new development within the city.
- That new development does cover wider benefits to the whole community of Christchurch, and needs to continue to be supported and encouraged.
- That the Council has a broad level partnership with the development community in achieving growth, but that growth needs to occur in a manner and at a level of service that reflects the broad community expectations established with the Christchurch community through its Long Term Council Community Plan (LTCCP).
- That the relative costs of development with adjoining authorities is of direct relevance to levels of investment and that changes should seek to ensure that market activity is supported in line with the agreed objectives of the UDS.
- That the Council balances the desire to maintain and encourage a level of new investment that is commensurate with the city's needs and expectations. While acknowledging that the distribution of costs to other parts of the community need to recognise that financial impact on the community as a whole.

It is suggested that the Council will ultimately need to consider the impact of the technical changes offered to the development contributions policy through this process and make a policy decision around the final level of charging to be adopted. This could include some form of general discount, a further stepped transition, or no change to its present position. It is suggested that this can only be made in the light of the information that will be presented at the seminar on 23 February 2007.

Staff Recommendation

That Council adopt the Working Party Recommendation and request that staff prepare a proposal on the final 2007 charges, in the light of the financial change to the Proposed DCP policy that arise as a consequence of the recommendations adopted with this report, and present to Council on 23 February 2007, taking into account the ground rules outlined above.

"12.16 The Council actively promotes and publicises its new policy"

Staff Response

This will be done through the SCP consultation and through the DCP newsletter which has been updating some 300 stakeholders since the establishment of the working party

Staff Recommendation:

The Council accepts the Working Party's recommendations and that staff be requested to implement this as appropriate.

OVERALL STAFF RECOMMENDATIONS

It is recommended :

1. That the Council congratulate and thank the Working Party for its hard work and excellent report.

2. That the Council adopt the staff recommendations as set out in the above report as follows:

11:
As part of the LTCCP programme, an audit step of key projects (plus a selection of other projects) be introduced to test the correct application of the methodology and cost allocation process.

12.1-12.2:
The Council accepts the Working Party's recommendations and that staff be requested to implement this as appropriate.

12.3:
The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

12.4:
The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

12.5:
The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

12.6:
The Council accepts the Working Party's recommendation and that staff be requested to refine the details and report to the 23 February seminar.

12.7:
The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

12.8:
The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

12.9:
The Council accepts the Working Party's recommendation of a move to cost based approach, and that details be further developed, including fee recovery options, to ensure that income from reserve contributions meets the needs of growth.

12.10:
The Council accepts the Working Party's recommendation.

12.11:
The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

12.12:
That all undeveloped non-residential lots receive 1 HUE credit per lot the same as undeveloped residential lots.

12.13:
That old cost shares be retained as past projects, and other projects be reviewed with those that are not clearly growth related to be removed. That old cost shares be retained as past projects, and other projects be reviewed , to be retained if valid.

12.14:
That the principle of improving the alignment of DCP methodologies of the City Council and its immediate neighbours be pursued as part of the implementation programme of the UDS.

12.15:
That Council adopt the Working Party recommendation and request that staff prepare a proposal on the final 2007 charges, in the light of the financial change to the Proposed DCP policy that arise as a consequence of the recommendation adopted with this report, and present to Council on 23 February 2007, taking into account the ground rules outlined above.

12.16:
The Council accepts the Working Party's recommendation and that staff be requested to implement this as appropriate.

APPENDIX 1

CHRISTCHURCH CITY COUNCIL DEVELOPMENT CONTRIBUTION POLICY COMPARATIVE ASSESSMENT

Summary
An evaluation of the current DC's excluding the discount structures of the Council was compared with the neighbouring Councils' DC policies. This comparison was undertaken through both an academic application of the policy frameworks as well as real life scenarios (a member of the developer community was involved in the real life scenarios). In addition to the comparison with the neighbouring Councils, an comparative assessment of the DCs *vis-à-vis* other councils have been concluded (Wellington- and North Shore City Councils). On a simplified basis, the DC's of CCC are:

- Generally comparable with the North Shore City Council
- Higher than the Wellington City Council
- Generally comparable with the Waimakariri District Council
- Higher than the Selwyn District Council.

It is however emphasised that the outcomes of the analysis as indicated above is influenced by a magnitude of variables, ranging from the methodological issues to design parameters of the development.

Introduction
An assessment of the comparative position of the Christchurch City Council (CCC) Development Contributions (DC) was undertaken to shed light on the relative cost of the charges *vis-à-vis* other Councils in New Zealand. As part of this review, the following areas were included:

- Wellington City Council
- North Shore City Council
- Selwyn District Council
- Waimakariri District Council.

The areas included was identified by the Working Party.

Approach Followed
During the review, it became apparent that a range of factors negatively influenced a *direct* and *simplistic* comparison of the DCs. In order to circumvent these factors two approaches were followed – both with limited success. Firstly a Household Unit Equivalent (HUE) based approach and secondly a "real life" scenario" approach was followed. **It is important to realise that the DC charge is linked to a specific spatial location (within CCC as well as the other Councils).** In other words, the location of the development in the city-wide (or district-wide) context influences the size of the DC charge. Additionally, as indicated in the main body of the report, the specific determination of the total charge is furthermore influenced by the "reserve component" because it is based on property values. To eliminate the influences of the reserves on the total DC charges, they were omitted from this exercise. Furthermore as part of the comparisons, no discounts were taken into consideration. The specific scenarios that were investigated had the following characteristics:

1. ***Residential assessment*** - 1 underlying title replaced with 10 titles, land value $1'000/ 20m^2, site size 6'000m^2 subdivided into 600m^2 lots, suburban catchment (locality)
2. ***Residential assessment*** - 1 x existing HUE replaced with 4 HUE's, site size 2'400m^2 existing land value of $1'000/ 20m^2.
3. ***Commercial assessment*** - undeveloped industrial 10'000m^2 site, 6'000m2 plan (GFA), 4'000m^2 hard standing area (ISA), 50 traffic movements per day, 5'000 litres per day water usage, land value of $10'000/ 20m^2.

The potential for developments to be "replicated" in other areas has its own merits and detractions. While it allows for a comparison, the scale of the development might not be appropriate for the specific locality e.g. Christchurch vs Tai Tapu for a commercial development.

Key Findings
The key findings of the assessment is presented in two tables. Table 1 summarises the key findings relating to the comparison with the other cities while Table 2 outlines the DC in relation to the neighbouring Councils.

With reference to the commercial development, the Christchurch DCs are generally similar to those of Wellington (in terms of the total charge incurred for the development but the charge per HUE is marginally higher in Christchurch). Conversely the DC charge that will be incurred in the North Shore City Council for the commercial development is sensitive to the HUE conversion ratios associated with the different land use zonings. This feature is indicated through the dramatic variance of the total DC charge for a similar development with diverse zonings – this variance is despite the charge per HUE being fixed. Regarding the residential scenario’s, the DC charges of the Wellington City Council is markedly lower than those of both the Christchurch and North Shore DC charging regimes. A closer inspection of the Wellington DC charge scheme revealed however that the DC charge contains a *standard city wide charge*. This charge accounts for approximately 50% of the total DC charge.

TABLE 1: KEY FINDINGS - CITIES

Scenario \ Area			***CHRISTCHURCH***		***WELLINGTON***		***NORTH SHORE***	
			HUE ($)	TOTAL ($)	HUE ($)	TOTAL ($)	HUE ($)	TOTAL ($)
Commercial development			12,134	179’677	9,503	176’730	8,884	269’421[1]
			16,402	236’335	10,185	223’205	8,884	531’243[1]
Residential Scenarios	1-10	Low[2]	11,457	103,117	4,839	43,551	11,947[3]	107,527[3]
		Medium[2]	11,570	104,137	10,185	91,665		
		High[2]	12,134	109,206	4,710	42,390		
	1-4	Low[2]	11,457	34,372	4,839	14,517	11,947[3]	35,842[3]
		Medium[2]	11,570	34,712	10,185	30,555		
		High[2]	12,134	36,402	4,710	14,130		

1 = Influenced by the land use parameters
2 = Based on a the general property values (not a site-by site evaluation)
3 = One area included as a result of the diverse and overlapping “catchment areas” associated with the infrastructure services.
NOTE: Totals may vary marginally as a result of rounding

In addition to the “city comparison”, the DC charges of the neighbouring Councils were also reviewed to determine the relevant position of the CCC charges. The information contained in the following sections is based on the Council staff calculations, an “academic interpretation”[1] of the Selwyn and Waimakariri District Council DC policies as well as inputs from members of the Working Party. Table 2 presents the information necessary for the comparison and includes a synopsis of a “greenfield development”[2]. The focus is mainly on the residential DC charges. Once again, the reserve contribution was excluded from the analysis.

TABLE 2: KEY FINDINGS – NEIGHBOURING DISTRICTS ($/HUE)

CHRISTCHURCH		***WAIMAKARIRI***		***SELWYN***	
Phillipstown	11,457	Rangiora	8,466	Kirwee Rural	4,443
Burnside	11,570	Kaiapoi	5,322	Prebbleton (Township)[2]	8,190
Sumner	12,134	ODA[1]	8,263	Tai Tapu (Township)[2]	13,744

CHARGES INCURRED BY DEVELOPER (GREENFIELD)[3] - $/HUE

Greenfield	Rangiora	8,654	Excludes reserves
	Kaiapoi	4,155	
	Lincoln	6,476	
	Prebbleton	8,335	
	Rolleston	9,010	
	Halswell West	12,579	

1 = Outside Development Area Plan
2 = These areas incur a $4,473 charge to account for the “proposed upgrade of the Christchurch wastewater treatment plant”. The charge is *not* included in the reflected value
3 = The figures presented in this section is based solely on the inputs of a working party member
The figures provided is exclusive of GST.

***Note*: The variance between the charges are as a result of the difference between the policy parameters and the actual application/calculation associated with the policy. During interactions with members of the working party, it became apparent that ad hoc discounts are also being afforded to the developers during the application stages.**

The outcomes need to be interpreted with caution as the decision to include or exclude charge components could be argued either way. For example, in selected areas of Selwyn a developer will, in addition to a sewer charge (payable to SDC) incur a $4,473 charge for the “proposed upgrade of

[1] The academic interpretation is defined as a “cold assessment” and application of the policy thereby excluding any preferential treatments and discounts that might be applied on an ad hoc basis.
[2] The information contained in the greenfield analysis was provided by a member of the Working Party and is based on actual applications.

the Christchurch wastewater treatment plant". If these charges are considered to be part of the DC charges of the neighbouring councils (Selwyn in this case), it would result in DC charges for Prebbleton (and Tai Tapu) to be in excess of the DC charges associated with Sumner and the highest potential charge in Christchurch City . However, if the Christchurch charges incurred in Selwyn are excluded from the analysis, the *DC charges of Christchurch are higher than both the neighbouring councils.* Conversely, if all the potential charges are included in the assessment (no discounts provided) the DC charges in some areas will be *higher than the CC charges*. In Tai Tapu, the DC charge will be more than 25% higher than the highest CC charge.

It is clear that some of the Selwyn cases (included in this investigation) will incur a comparatively lower DC charge based solely on the elements included in the DC policy. As mentioned earlier, the lower charge is (in the instance of Kirwee Rural) net of any provision for wastewater collection and treatment. Therefore, if the DC charge schemes are compared without taking the "transfer of service infrastructure charges" into consideration it could be argued that the Selwyn DC charges, are generally lower than the CCC DC charges.

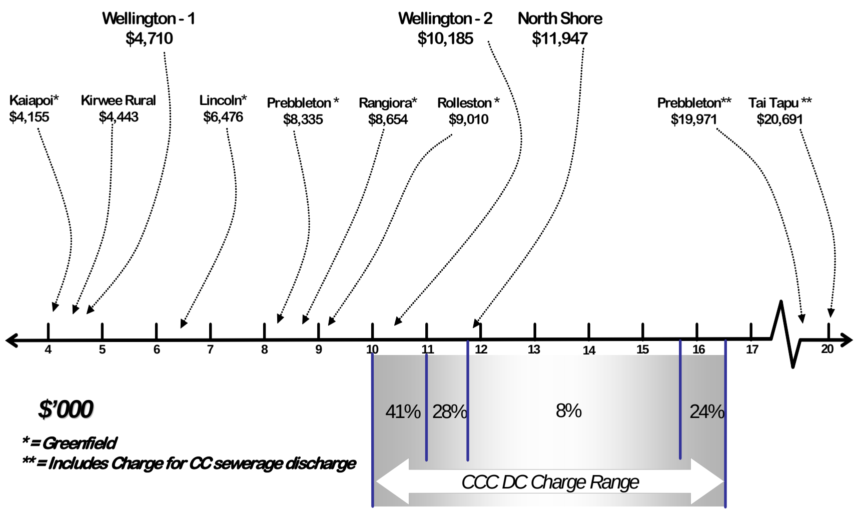
The SDC charges do not include all the cost elements associated with the CCC DC charge scheme. A review of the existing charge structures of the SDC and the CCC reflects that the SDC structure has hidden costs[3] that translates into a lower DC charges. Furthermore, a potentially large portion of the DC charge to be incurred by the developer (portion of the road infrastructure) is also excluded from the analysis as it is dealt with on a case-to-case basis. The comparison revealed, however, that the SDC charges are both higher as well as lower than the CCC charges. Therefore depending on the charges incurred as a result of the road and other infrastructure charges, the SDC charges are DC charge is at a similar level or even higher than the CCC charges.

CONCLUDING REMARKS

Various attempts to obtain a definitive indication, at a detailed level, of how the Christchurch DC charges compare with the neighbouring Councils' DC charges have highlighted the complexity of the DC charge methodologies, influence of the development environment and related systems. For example, the exclusion of infrastructure components from the total DC charge invariable leads to a lower DC level and in the Selwyn case, approximately 70% of all the residents provide their own sewerage disposal systems.

While specific cases have been applied to illustrate the comparison, an additional measure to reflect the distribution of the DC charges is included which is based on the potential outcomes. While the direct comparison of the DC charges is intricate as a result of the features associated with each locality and the development, the results of the preceding is represented in Figure 1.

FIGURE 1: COMPARATIVE POSITION *VIS* CCC *RANGE*



Source: Based on CCC, Inputs from Working Party Members the policy frameworks

The DC charges of the CCC is presented through an indication of the range within which the DC charges fall. Note that the minimum charge is $10,012/HUE and the maximum is $16,402/HUE. It is evident that 69% of the various areas through Christchurch will have a DC charge of less than $11,750 per HUE. From the figure it appears as if the DC charges of the CCC is generally higher than the neighbouring councils' DC charges. Finally, the review of the DC charge need to be undertaken within the perspective of the large development environment and include an assessment of the DC charges and the relative impact of these charging mechanisms on the rating base and rating structure of the various localities.

[3] The hidden costs in this instance relates to costs associated with the development, which are charged under the CCC DC policy but are excluded from the DC charges in other areas. The exclusion does not imply that the actual provision of infrastructure is negated. It reflects that these development costs are being covered by another (potential non-council) mechanism

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