

21. **DEVELOPMENT CONTRIBUTIONS POLICY:
PROPOSED TRANSITIONAL ARRANGEMENTS**



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PURPOSE OF REPORT

1. The purpose of the report is to consider how the Council should manage the introduction of its Proposed Development Contributions Policy 2006, (DCP06), as a result of the consultation and submission process undertaken as part of the Long Term Council Community Plan (LTCCP).

EXECUTIVE SUMMARY

2. The proposed DCP06 was introduced as part of the Draft LTCCP, to replace the existing 2004 policy.
3. The DCP06 policy introduces changes to the manner of calculation, the range of services and infrastructure from which contributions are taken, and reflects the costs associated with an updated, and extended 10 year capital infrastructure programme.
4. The proposed policy has led to a number of concerns being expressed across the development community. These include the quantum of the changes, and their affordability, the timing of the new fees, and the apportionment of growth components to Council's capital works programme.
5. The Local Government Act 2002 requires that the Development Contributions Policy be considered and adopted as part of the adoption of the LTCCP. Accordingly Council does not have the luxury of deferring any decision on the policy while it consults further with submitters and industry groups. It is considered that ongoing dialogue would be valuable and that Council needs to consider how both this, and its obligations under the LGA02 can be achieved.
6. The Council has a limited number of options.
 - (a) Adopt (subject to any amendment) the DCP06 but introduce both a transitional regime (which limits payments over the next 12 months to levels as close as practicable to the 2004 Development Contributions Policy), and a working party with the development community to continue to work through the policy and make any suggested improvements, in time for the policy to be reviewed as part of an amended LTCCP in 2007.
 - (b) Do Nothing: allow the submissions to proceed and adopt (subject to any amendment) the DCP06.
 - (c) Abandon the DCP06 and revert back to the 2004 Policy, and review from scratch the Proposed 2006 policy.
7. Having assessed the options it is recommended that Option (a) be the basis of Council direction. It provides a clear signal that the principles of the DCP06 are endorsed by Council, but recognises that genuine issues around affordability and implementation have been raised by submitters.
8. The DCP06 is closely entwined with the Capital Works Programme in the Proposed LTCCP, and does fairly reflect the Capital Works required to address ongoing growth in the city over the next 10 years. The introduction of a transitional arrangement provides the opportunity for the marketplace to plan towards the new policy, and a timeframe for staff and the industry to work through the policy and confirm it or recommend improvements to it. It provides the breathing and dialogue space not able to be obtained through the LTCCP hearing process.
9. The proposed Working Party comprising Council staff and submitter representatives will also provide a forum to continue to dialogue the proposed Incentive Package Council also requested staff to investigate. If the transitional regime adopted results in charges which approximates the 2004 Development Contributions Policy income there is no need to make any early decisions on the Incentive Package, and this element could be usefully explored by the Working Party as part of a wider process.

10. In considering the preferred option Council also needs to consider the appropriate processes to be adopted to fulfil its obligations under the Local Government Act 2002 surrounding its overall funding approach in the city on the submissions received, which are yet subject to consideration by Council. These do suggest changes to the policy, and staff will also be advising on charges that tidy up elements of it. Accordingly it is appropriate for Council to consider this report, and if, following consideration of the submissions there is support for the direction outlined, to consider these recommendations at the meeting it will hold in June to deliberate on the Development Contributions Policy and LTCCP.

FINANCIAL AND LEGAL CONSIDERATIONS

11. The financial implications of the policy may be measured as the net loss of income resulting from the year 1 transitional financial arrangements adopted. The impact of the recommendations proposed as a percentage rate increase will be 0.13% in Year 1, 0.55% in Year 2, 0.05% in Year 3, and 0.04% in Year 4. The year one cost is a rates equivalent of \$247,714.
12. The Council is obliged to follow the consultation process it has publicly notified before adopting its 2006/16 LTCCP. Submissions in response to the draft DCP06 have been received and 60+ submitters wish to be heard. The Council has provided them with this opportunity.
13. Any decision on the adoption of the DCP06 in its final form cannot be made until the submitters have been heard. However, elected members are entitled to take into account the recommendation made in this report at the time they deliberate on the 2006/16 LTCCP and the DCP06 following completion of the consultation process.
14. Retaining the DCP04 is not a recommended option as it would risk non-compliance with the provisions in the Local Government Act 2002 that require a Development Contribution Policy to first identify the total capital expenditure as set out in its LTCCP before calculating contributions. The Capital expenditure used as the basis of the 2004 Development Contributions Policy is different to that set out in the 2006/16 LTCCP. Therefore it is more appropriate to adopt the DCP06 but to include in it transitional provisions such as those suggested by the preferred option contained in this report.

STAFF RECOMMENDATIONS

It is recommended that the Council recognises the recommendations made below and forwards these to its Deliberation Hearings on the Proposed Christchurch City Long Term Council Community Plan 2006-16 where it will further consider them.

- (a) that in adopting the Proposed Development Contributions Policy 2006 (subject to any amendments made to it) that the contributions contained within the Development Contributions Policy 2006 will only take effect from 1 July 2007.
- (b) that transitional provisions be included within the Proposed Development Contributions Policy 2006 for the period 1 July 2006 – 30 June 2007 to provide that any Development Contributions assessed under the Development Contributions Policy 2006 will be remitted to ensure that any development makes financial contributions at a rate as close as practicable to that which would have been recovered under the Development Contributions Policy 2004.
- (c) that staff be instructed to establish a joint Christchurch City Council and industry Working Party to consider the policy and to report back to Council any changes and alterations that improve the effectiveness of the Development Contributions Policy 2006, so that any alterations can be included in an amended LTCCP in 2007.
- (d) that the Incentive Package requested by Council be referred to the Joint Working Party for consideration and be included in the final report of that Working Party to Council.

BACKGROUND ON DEVELOPMENT CONTRIBUTIONS POLICY: PROPOSED TRANSITIONAL ARRANGEMENTS

OVERVIEW AND ANALYSIS

15. As part of the development of its Long Term Council Community Plan, Council undertook a review of its Development Contributions Policy. The review was necessary because it provided an opportunity for Council to reconsider the basis of its policy, the range of projects and activities over what the policy could be applied, and allowed the policy to be worked up in the light of Council's proposed 10 year Capital Programme for infrastructure and services that the LTCCP process required Council to develop.
16. Fundamentally the policy is based on the principles enshrined into LGA2002, which allows Council to recover the costs associated with supporting the city's growth from developments which places a demand for the provision of new infrastructure and services. This can include both greenfield and brownfield development, and in the latter particularly where it leads to an intensification of demand above agreed Levels of Service. The DCP is based on the Council's projected CAPEX programme over the life of the LTCCP.
17. The CAPEX programme reflects the anticipated investment required by council to meet agreed Levels of Service, based on projected demand or growth in the city. The cost of the policy is therefore simply based on the apportionment of these costs across the demand anticipated to be generated. It is, and has always been anticipated that with each LTCCP the Council CAPEX programme would be reviewed and updated to reflect known growth trends and both the CAPEX and DCPs adjusted accordingly.
18. Council also determined that the policy was to be both transparent and clean. The policy is a mechanism to recover costs, and to do so from different sectors of the market. The role of the policy was not to direct or steer development, but to treat the costs of development equitably. Council in adopting the draft policy did instruct staff to consider an Incentive Package to promote development, that would parallel or complement the policy, but not compromise the policy itself per se.
19. As part of undertaking the review staff did consult with stakeholders on a number of occasions. This began with a stakeholder list of 340 potentially interested parties including developers, planners, architects, surveyors and builders. An initial consultation round was conducted in early February 2006. Once the DCP06 was launched as part of the LTCCP, two further public meetings were specifically held on the Proposed DCP, 3 and 4 April. A full presentation was made to the local branch of the Property Council in late April.
20. Over the weeks of consultation there has been growing awareness by the development community at large of the scale of the changes proposed to the DCP in terms of both the dollars to be collected, the range of projects to be funded (at least in part) by the DCP and the impact of these on development in the city. A significant number of submissions have been received from a range of submitters on the Policy (60+). These have variously sought the establishment of transitional provisions, to ease the policy into existence, the opportunity for Council and the development Community to collectively readdress the policy to establish a more equitable and sustainable regime, or the return to the established 2004 policy. Submitters have also queried the scope of the project covered by DCPs, the growth allocation component of the Council's 10 year programme, the mechanics of the model calculation, and distribution of growth costs into the HUE (Household Unit Equivalent). Developers have also met with staff, and expressed concerns at the financial cost of the policy, particularly on the economic viability of projects planned, or committed to. The financial cost of the policy is significant, and there are genuine concerns that it could create a negative spike in the local development market.
21. The matters raised by the development community are valid, but they are also complex, and difficult to resolve within the shortened timeframe required for the LTCCP hearings and decision-making.
22. This report raises for Council these same questions, and explores how Council might continue to work positively on its DCP06, after the adoption of the current LTCCP.

OPTIONS

23. Development Contributions are fundamental to enable the community to equitably fund the infrastructure and services that the city needs to put in place to support its ongoing growth. However they need to be carefully balanced and imposed in a manner that still continues to support ongoing investment. There is an emerging willingness by the development community to work with Council to ensure that the policy and charging regime remains sustainable, and the Council should reciprocate. Not to do so is increasingly likely to see Council face a Judicial Review of its policy such as presently being faced by North Shore city. A number of submitters have indicated a willingness to pursue such action in Christchurch. Such a course of action is not seen as being constructive, nor is it likely to lead to the creation of a sustainable policy; a collaborative approach to resolving the issues addressed is desirable.
24. As part of the Council's overall consideration of its funding of revenue needs and allocation of these needs between the various sources of funding, the Council is entitled and obliged to take into account the current and future, social, economic, environmental and cultural well-being of the community.
25. Council has a number of options.

ASSESSMENT OF OPTIONS

The Preferred Option

Option A

26. This option provides for the adoption of the DCP06 (subject to any amendments made by Council following the hearing of submissions), and in parallel committing to two directions. The first would be to introduce transitional arrangements that defer the full 2006 charges for 12 months, and recover charges at a level, as close to the 2004 rates as practicable. The second element would be to create a Working Party of staff and the development community that could consider the policy and could recommend changes or improvements to it. Any changes would need to be introduced as part of an amended LTCCP. Council has directly committed to doing this as part of the necessary steps to bring the Banks Peninsula Development Contributions Policy into line with the remainder of the city so this step is already planned.

Option B

27. Option B is essentially do nothing, and to allow the LTCCP process to run its course. While staff have identified some amendments to the policy that may address submitters concerns the scope of the issues being raised are unlikely to be adequately addressed within the timeframes provided for in the LTCCP. The result is likely to lead to a Judicial Review of the policy which is likely to prove unsatisfactory to all parties.

Option C

28. The option would be to abandon the prepared DCP06 and revert back to the 2004 policy. This is not favoured for a number of reasons. Firstly the 2006 policy sets a clear direction as to the range of infrastructure that should be contributed to by development. It is also closely linked to the 10 year projected CAPEX programme, and without the basis of the 2006 policy to go forward with the LTCCP may be compromised. Finally the key issues are elements of immediate financial cost, the quantum of the recoveries, and the apportionment of costs. These are largely allocation elements that sit within the DCP06 and the programme that underscores it. It is most appropriate for council to signal the principles of the programme by adopting the DCP06, and then being prepared to work through the detail of its application with stakeholders.
29. Costs: Each of the options has a range of financial implications. Option B would see Council collect at the rate identified in the policy, but at the risk of a predicted slump in activity as the policy kicks in, which has happened to varying degrees elsewhere in the country. Option A & C would reduce the level of income to approximately 2004 levels, but only for 1 year. The cost of undertaking this is spread over the early part of the LTCCP, and would equate to the following.

**Percentage Rate Increase from the Deferral of the Development Contributions Policy 2006 Income
from 1 July 2006 – 30 June 2007**

Yr1	Yr2	Yr3	Yr4
0.13%	0.33%	0.005%	0.04%

In year 1 this will result in a direct rating cost of \$247,714.

Incentive Package Options

30. As part of the adoption of the Proposed DCP06 Council also requested that staff investigate a “rates neutral” Incentive Package that would complement the DCPs and allow Council to incentivise different areas, or values in the city. It is important to Council that this not be seen as a form of discounting or remission. This work is underway. However if the Council determines to collect at approximately 2004 rates for the first year there would be little advantage in adding further incentives, and therefore the consideration of these should be deferred. It would also be useful to include consideration of the Incentive Package by the working party to improve effectiveness of any incentives to drive investment in preferred areas.

ASSESSMENT OF OPTIONS

The Preferred Option – Adoption of the 2006 Development Contributions Policy with transitional arrangements

	Benefits (current and future)	Costs (current and future)
Social		The cost of development during the transitional arrangement falls more on the ratepayer
Cultural	Allows time to consider the impacts of the policy on heritage and other cultural factors	-
Environmental	Allows time to consider the impacts of the policy environmental factors	
Economic	In the long term a greater proportion paid by developers for infrastructure. In the short term the policy does not impact on them immediately Development is not stymied in any part of the city, particularly the central city	
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome a <i>prosperous city</i> . Also contributes to a <i>well governed city</i> .</p> <p>Impact on Council’s capacity and responsibilities: Option allows Council to adopt reviewed policy with minimal rate impact. Supports Council’s 10-year capital programme.</p> <p>Effects on Maori: No specific effects on Maori identified</p> <p>Consistency with existing Council policies: Provides time to consider the wider impact of the policy on existing Council policies</p> <p>Views and preferences of persons affected or likely to have an interest: Likely to be seen favourably by the development sector as an opportunity to work with Council to consider policy elements during the transition period.</p> <p>Other relevant matters:</p>		

Option 2 - Do Nothing – allow LTCCP process to run its course

	Benefits (current and future)	Costs (current and future)
Social	The cost of development is not inequitably borne by the ratepayer	
Cultural		Could impact on the retention of heritage buildings and other assets
Environmental		
Economic		The quantum of development contributions payable may stymie growth in parts of the city and may impact the economic viability of current projects.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome <i>a well-governed city</i>.</p> <p>Impact on Council's capacity and responsibilities: Supports Council's 10-year capital programme.</p> <p>Effects on Maori: No specific effects on Maori identified</p> <p>Consistency with existing Council policies: May be inconsistent with Central City Revitalisation Strategy and heritage retention policies in the City Plan.</p> <p>Views and preferences of persons affected or likely to have an interest: Unlikely to be supported by the development sector.</p> <p>Other relevant matters:</p>		

Option 3 – Abandon 2006 Policy and revert to 2004 Policy (status quo)

	Benefits (current and future)	Costs (current and future)
Social		The cost of development falls more on the ratepayer
Cultural		
Environmental		
Economic	Developers pay no more that they are currently required to pay.	
<p>Extent to which community outcomes are achieved: Does not align well to community outcomes.</p> <p>Impact on Council's capacity and responsibilities: Would impact on the capital projects for which development contributions provide a proportion of the funding. Does not support Council's 10-year capital programme.</p> <p>Effects on Maori: No specific effects on Maori identified</p> <p>Consistency with existing Council policies: Inconsistent with Central City Revitalisation Strategy.</p> <p>Views and preferences of persons affected or likely to have an interest: Unlikely to be supported by some parts of the development sector</p> <p>Other relevant matters:</p>		