OTOROHANGA
DISTRICT COUNCIL
Otorohanga - where kiwis can fly

Development and Financial Contributions Policy

Policy on Development and Financial Contributions

Introduction

In the early 2000's the Otorohanga District did, after a prolonged period of stability or slight decline, experienced development pressures in both its urban and rural areas. Whilst this surge of development activity now appears to have passed without a significant associated increase in overall District population, it has resulted in some localised population growth and the creation of a large number of newly subdivided lots, which if utilised for the purposes created, would impose a significant increased demand on Council infrastructure.

A small proportion of Council's ten-year capital expenditure identified in the Long Term Plan (LTP) provides additional infrastructure capacity to accommodate such growth.

In the interests of achieving financial equity between existing ratepayers and new developers, Council has decided that developers should pay the growth related capital expenditure costs of providing infrastructure in those cases where a linkage between growth and infrastructure development requirements can be clearly established at a local, regional or District – wide level.

Such linkages do not exist for all Council services; some infrastructure (for example libraries and swimming pools) is believed to have sufficient spare capacity to cater for any growth that is likely over the next ten years.

There is however considered that some growth-driven development of road and piped services network infrastructure will be required within the period of the LTP. At this stage it is expected that such development will be relatively localised, since the overall level of growth is unlikely to require District-wide increases in asset capacity.

Council will continue to fund the provision of new parks and reserves infrastructure through its existing financial contributions policy under the District Plan.

This policy provides a summary of the financial contributions specified in the District Plan. It then outlines Council's policy in relation to development contributions under the Local Government Act 2002 (LGA). The financial contributions and development contributions are separate charges and are used to fund separate categories of expenditure by Council.

Development contributions may be required where the effect of the development (or of the development in combination with other developments) is to require Council to invest in new or additional assets or assets of increased capacity.

This policy summarises and explains the capital expenditure identified in the LTP that Council expects to incur to meet the increased demand for network infrastructure resulting from growth in the District.

The LGA allows development contributions to be collected for historic capital expenditure made with the expectation of fee recovery from future development. There are now some projects which have been completed for which such fee recovery was signaled through previous versions of this policy, and which therefore now fall into this category. No historic capital expenditure made in anticipation of growth and with an expectation of recovery prior to the introduction of a Development Contributions Policy is however recognised.

The Policy refers to some of Council's assumptions in relation to growth in the Otorohanga District over the next ten years.

The Policy sets out how and when Development Contributions are to be calculated and paid, and a summary of the methodology and the rationale used in calculating the level of contribution.

The background information supporting the Development Contributions Policy is included in the Methodology section.

<u>FINANCIAL CONTRIBUTIONS IN THE DISTRICT PLAN – A SUMMARY</u>

A Development Contributions Policy under the LGA may be used in place of, or alongside, the RMA system of financial contributions applied via the District Plan.

Council's policy is to utilise development contributions under this Policy and the following financial contributions under the District Plan where individual developments give rise to capital expenditure on a localised basis that is not budgeted for in the LTP and therefore not included in Council's Development Contributions Policy.

The following is a summary of Council's specific financial contributions under the RMA, detailed in the Operative District Plan. Copies of the District Plan are available for inspection at the main Council Building.

Under the District Plan, a subdivider or developer of an existing lot is responsible for funding all work within its boundaries relating to services directly required for the subdivision or development.

Financial contributions for public works and services may be imposed as a condition of either land use or subdivision consent as set out below.

- New roads and footpaths, and safety improvements to existing roads. Payment may be required for a proportion of costs based on the development's share of new demand provided for by the new works.
- Public water supply, sewage and stormwater collection, treatment and disposal. Payment may be required for a proportion of costs based on the development's share of new demand provided for by the new works.
- Publicly owned reserves, sports fields and community facilities. The charge is based on the concept of a buy-in to the Council's existing reserves infrastructure investment. The charge is calculated as follows:

(Value of Council owned reserve land & buildings divided by the district population) multiplied by the average household size. The sum is rounded down to the nearest ten dollars and GST is added.

Based on data as at 31 August 2005 the reserve contribution is ($2,928,671 divided by 9,279) multiplied by 2.8 = $883.75, rounded down to $880 and multiplied by 1.15 (GST) to give a charge of $1012.

<u>OTHER CAPITAL FEES AND CHARGES</u>

Council's fees and charges for properties outside the community areas defined as "urban services" in the district plan include: A capital contribution of $1,500 for connection to water in both

Otorohanga and Kawhia for properties outside the Community area.

- A capital contribution of $1,500 for sewer connections in Otorohanga for properties outside the Community area.

Funding considerations

The LGA s101 (3) states that Council funding must be met from appropriate sources with regard to community outcomes, the distribution of benefits across the community over time, those driving the need for the expenditure, costs and benefits and impact on future revenue requirements. Council has made the general considerations noted below. Discussion of the specific considerations made under LGA s 101(3) for each infrastructure item is noted in Section 8.0 Methodology by Activity further below.

- **Community outcomes.** Otorohanga District's community outcomes addressed by this policy are those economic and environmental objectives that are delivered by adequate funding of Council's capital programmes, balanced by outcomes of ensuring ongoing business growth and affordability for residents.

- **Distribution of benefits between the existing community and newcomers.** It is appropriate that development contributions fund the addition of capacity benefiting new households. On the other hand, the cost of maintaining or improving levels of service provided by Council infrastructure to the existing population cannot be included in capital expenditure to be funded out of development contributions, as this expenditure does not benefit developers or new households.

- **The period over which the benefits are expected to occur** in terms of current capacity, projected growth, economic efficiency and affordability. The design capacity of the infrastructure has been a principal consideration in setting fees and in some cases the capacity may provide for growth well beyond ten years.

- **The impact of the actions of developers causing demand on the district's infrastructure**; The need to install new capacity in Council-provided roading, stormwater, wastewater and water supply networks is caused by those undertaking subdivision and development in the district resulting in the creation of new household equivalent units. Accordingly it is appropriate for the costs of installing additional capacity to be passed on through development contributions payable by developers on the granting of resource or building consent.

- **Costs, benefits, transparency and accountability in funding the additional infrastructure needed as a result of growth through development contributions**. The benefits of collecting development contributions are expected to outweigh the marginal administrative costs of collection. Benefits also include greater transparency and allocative efficiency through passing on the true costs to developers.

- **Overall impact on community wellbeing.** Ensuring adequate levels, and balance, between the various sources of funding to provide appropriate infrastructure is central to promoting the social, economic, environmental and cultural wellbeing of the district. Funding the cost of providing increased capacity in Council infrastructure through development contributions rather than rates serviced debt promotes equity between existing residents and those responsible for Council incurring these additional costs.

Development Contribution Basis - Summary

A summary of the basis on which Development Contributions are calculated as at 30 June 2015 is presented in Table 1 below. Elements of this Contribution Basis may be revised at any time. Resultant levels of Development Contributions are contained in Council's schedule of fees and charges.

Table 1. Contribution Basis Summary

a	b	c	d	e
Activity & project	Area of benefit and application of fee	Year(s) & cost (inflation adjusted, ex GST)	Growth percentage and $	Growth HEUs
Road safety improvements - Pirongia Roads	Hanning, Te Tahi and Mangati Roads	2008 onwards $1,845,000	100% $1,845,000	149
Otorohanga Community water reservoir	Otorohanga urban area	2020/21 $498,000	Up to 100% $498,000	434
Otorohanga wastewater treatment capacity upgrade	Otorohanga urban area	2011/12 and 2017/18 $1,383,400	5% $69,170	55
Otorohanga stormwater capacity upgrade	State Highway 3 / Factory Drive / Timber Company area.	2009/10/11 $235,192.	100% $235,192	268

How to calculate your development contribution

Residential - roading, water, wastewater and storm water

1) Identify the catchment(s) within which your subdivision or development is located. See appendix one for catchment maps.
2) For each relevant catchment type, identify the fees payable per Household Equivalent Unit (HEU) from Council's Schedule of Fees and Charges.
3) Calculate how many HEUs your development will create (See pages 13 and 14).
4) Calculate how many (if any) HEU credits apply to your development (see page 14) and deduct the number from the number of HEUs in step 3 above.
5) Multiply the number of HEUs from step 3 above by the fee per HEU in step 2 and add 15% GST. This is the total development contribution fee payable IN ADDITION to financial contribution fees that may be payable under the District Plan.

Non-Residential – roading, water, wastewater and storm water

1) Identify the catchment(s) within which your subdivision or development is located. See appendix one for catchment maps.
2) With reference to Table 4 on pages 13 and 14, determine the level of demand from the proposed development in household equivalent terms for the following asset types:
   - Roading: daily traffic movements.
   - Water supply: daily consumption.
   - Wastewater: daily production.
   - Storm water: impervious area.
3) Go to the section on "Credits", calculate the credit in HEUs for each asset type, and subtract from the numbers of HEUs calculated in step 2 above.
4) Refer to Council's Schedule of Fees for the fees payable per HEU for each asset type, and multiply the number of HEUs by the fee per HEU, and add 15% GST to give a total contribution for each asset type.

GENERAL POLICY

Adoption

This Policy was revised as part of Council's 2015 LTP. The Policy will come into force on 1 July 2015 and will apply to all resource consents, building consents and authorisations for service connections that are granted on, or after that date.

The Policy will be subject to continuous review. Any amendments to the Policy will most likely take place concurrently with the LTP process.

LGA Requirements

Section 201(1) of the LGA 2002 requires the Development Contribution Policy to include, in summary form, an explanation of and justification for the way each development contribution is calculated.

In summary, each contribution has been calculated in accordance with the methodology set out in schedule 13 of the LGA 2002, by using the following seven-step process.

Table 2. Methodology steps

Step	Explanation	LGA Reference
One	Define catchments A catchment is the part of the district served by a particular infrastructure, e.g. reservoirs, pumping stations and pipes. Catchments are defined with reference to characteristics of the service, the common benefits received across the geographical area supplied and judgement involving a balance between administrative efficiency and the extent of common benefits.	LGA Schedule 13 1(a)
Two	Identify ten-year capital expenditure resulting from growth Historic capital expenditure in anticipation of growth The proportion of total planned costs of capital expenditure for network and community infrastructure and reserves from the LTP resulting from growth. Growth costs (capacity increase to cater for new entrants) can be funded in full or in part by using development contributions. This is one of three components of the total ten-year capital costs budgeted in the LTP, the other two components being level of service improvements and renewals. These two costs must be met from funding sources other than development contributions. Justification for the level of growth capital expenditure should be supported by Financial Management funding considerations and show significant assumptions and impacts of uncertainty.	LGA 199(2) LGA 106(2)a and Schedule 13 1(a) LGA 106(2)(a) LGA 101(3)(a) LGA 201(1)(b)
Three	Identify the percentage of growth related ten year capital expenditure to be funded by development contributions For all but one of the identified growth-driven projects 100% of the growth related capital expenditure will be funded by development contributions because: - It directly relates to the planned capital expenditure set	LGA 106(2)(b)

Step	Explanation	LGA Reference
	- out in the LTP and detailed in the Council's Asset Management Plans; and - The capital expenditure identified for growth can be reasonably identified. The one exception to this case is the road improvements on Te Tahi, Mangati and Hanning Roads, where something less than 67% of the non-NZTA subsidised capital cost of these works will be funded by development contributions, recognising that a proportion of the additional capacity created by these works will benefit developments completed before this policy took effect. Funding of the portion of cost not provided for by development contributions will be through a District wide general rate. That 100% funding through development contributions has been adopted for all other identified projects does not reflect a high level policy decision of Council that may overlook the requirements of LGA 101 (3). The adopted 100% figures instead reflects that there are in all cases extremely strong linkages between growth and infrastructure requirements at a very localised level, which makes determinations in respect of LGA 101 (3) relatively straightforward and justifies allocation of all benefits to developers at these locations.	
Four	Identify the appropriate units of demand The selected unit of demand is Household Equivalent Units ("HEU") calculated as follows: - For greenfield residential development, fees per HEU will be applied uniformly for each lot regardless of size for reasons of administrative simplicity and lot size is not considered to have a material impact on demand.	LGA Schedule 13(1)(b)

Step	Explanation	LGA Reference
	• For an infill residential development, a residential dwelling as defined in the District Plan.	
Five	Identify the designed capacity (in units of demand) provided for growth The designed capacity may vary between different types of infrastructure. In some cases it may be considered economically prudent to provide spare growth capacity considerably beyond current ten-year expectations of growth. Costs are recovered across the full designed number of HEUs. Projected growth in HEUs over the ten year period of the LTP will be relevant to the Council's budgeting of revenue but not to the calculation of the development contribution per HEU.	LGA Schedule 13(1)(b) & (2)
Six	Allocate the costs to each unit of demand for growth The development contribution charge per HEU is calculated by dividing the total capital expenditure resulting from growth (step two) by the designed units of demand for growth (step five).	LGA Schedule 13(1)(b)
Seven	Prepare schedule of fees A detailed schedule must be prepared as part of the policy that enables the development contributions to be calculated by infrastructure type and catchment. The policy will be supported by the significant assumptions made to determine the development contributions payable and their impacts, contribution and conditions and criteria for remission, postponement or refund, the valuation basis for assessment of maximum reserves and catchment maps.	LGA 201(2) LGA 201 (1)(a) LGA 201(1)(b),(c) & (d)

Units of demand

The unit of demand used for each activity is the Household Equivalent Unit (HEU). An HEU represents one household unit.

Residential and non-residential development

Residential developments will be assessed on the number of additional household units created by the development.

Non-residential developments will be assessed on the basis of additional HEUs created on the basis of a case-by-case assessment of demand and conversion to household equivalent units.

Significant Assumptions

Section 201(b) of the LGA 2002 requires the Development Contributions Policy to state the significant assumptions underlying the calculations in the Development Contributions Policy. These include the growth, financial and costing assumptions below.

Otorohanga District growth assumptions for 2015-2025

The drivers of growth related capital expenditure by Council include:

- Population growth.
- Increased household formation as indicated by declining average number of inhabitants per household. This trend can occur even where a population is not growing.
- Subdivisional growth with occupants not necessarily being recorded in the census – such as second home owners, or possibly speculative development that may demand service connections, but is not as yet occupied.
- Non-residential commercial, industrial or retail development.

The LTP notes a small increase in District population at the last census, after a prolonged period of slow decline, at a rate of -0.5% per annum. This recent increase is not considered to indicate that the general trend of declining population has been arrested, but it is seen as further evidence that the Otorohanga District occupies a relatively neutral space in a continuum between the strong growth of Hamilton and its surrounds and the pronounced loss of population being experienced by areas to the south.

Occupying this relatively neutral space, there is still considered to be potential for major new businesses to come to the District, that would (directly or indirectly) place significant additional demands on Council infrastructure.

For most activities no growth pressure is however assumed in development of the LTP’s capital expenditure. In this majority of cases the existing infrastructure has spare capacity to handle growth if it occurs.

While strong population growth prospects may not be likely for the Otorohanga District, it is however often prudent for engineers to provide for additional growth capacity when existing capacity limits have been reached. It is also recognised that whilst the overall population of the District may not be increasing, there are variations within the District, and that the populations of some localised areas may be increasing despite an overall decrease.

There have been localised cases where development imposes capital costs. Examples include roading works around Pirongia and localised water and roading costs around subdivision developments. Additionally, some of the water infrastructure serving Otorohanga is operating at near to its design capacity. It is therefore prudent to provide additional capacity when renewals or levels of service upgrades are proposed.

Financial and costing assumptions

- Average costs have been applied in calculating the growth HEUs share of total costs when apportioning costs between expenditure that benefits existing residents.
- All costs from projects in the LTP used in the Development Contributions Policy are based on current estimates of infrastructure construction prices in 2015 dollar terms. The LTP provides further inflation adjustment of all operating and capital costs over the ten years of the plan. It is assumed that interest received on fees collected in anticipation of construction later in the LTP ten-year period will go some way to offsetting construction cost inflation. No cost of capital, including interest and compensation of Council for taking the risk of building infrastructure in advance of demand, is included at this stage in growth cost calculations. Future development contributions policies may develop cost of capital calculations.
- Income generated from rates will be sufficient to meet the operating costs of growth related capital expenditure into the future.
- All New Zealand Transport Agencies subsidies will continue at near to present levels and that eligibility criteria will remain largely unchanged.
- The methods of service delivery will remain substantially unchanged.

POLICY DETAILS

Catchments

Council has defined specific catchments for each activity and capital expenditure subject to a development contribution fee.

Requirement for development contributions

Development contributions shall be required for the following activities:

- Roading for properties on Mangati Roads, Te Tahi and Hanning Roads.
- Water storage for the Otorohanga Community
- Wastewater treatment in the Otorohanga Community.
- Stormwater in one area of the Otorohanga Community.

A contribution towards parks and reserves capital expenditure is made through the District Plan's financial contributions.

Financial contributions under the District Plan towards road improvements on the upper sections of Mangati Road (above Road Position ('RP') 4.95km) and Te Tahi Roads (above RP 1.9km) may also be levied on a case by case basis, these being in addition to the development contributions applicable to all developments on these roads.

Developments where there is no practical connection to water supply or wastewater reticulation systems will not be required to pay water and wastewater contribution fees. If the Development is subsequently connected to the water and/or wastewater reticulation systems, the applicable contribution will be payable prior to connection.

Development contributions shall be required in money unless, at the sole discretion of Council or an authorised officer, a piece of land or infrastructure is offered by the developer that would adequately suit the purposes for which the contribution is sought.

Where Council accepts, at its sole discretion, a developer's offer to provide network infrastructure or community infrastructure in lieu of paying a development contribution, the parties will need to enter into a development agreement (detailed further below).

Assessment

The development contribution will be assessed on any:

- Resource consent granted under the Resource Management Act 1991; or
- Building consent granted under the Building Act 2004; or
- Authorisation approved for a service connection.

A reassessment may be made on each and every event described above.

An applicant may pay the development contribution within 12 months of the date of each assessment. If payment is not received in accordance with the table below Council may, at its discretion, review its assessment.

The development contribution must be paid as set out in table 3 below.

Table 3. Situations triggering assessments and request for payment of development contributions.

Subdivision resource consent	Prior to issue of section 224(c) certificate
Other resource consent	Prior to commencement of the consent
Building consent	Prior to issue of code compliance certificate
Service connection	Prior to connection

Unless the development contribution has been paid in full, the Council may:

- In the case of subdivision consent, withhold the section 224(c) certificate.
- In the case of any other resource consent, prevent the commencement of the resource consent.
- In the case of a building consent, withhold the code compliance certificate.
- In the case of a service connection, withhold the service connection.
- Register the outstanding development contribution as a charge on the subject land under the Statutory Charges Registration Act 1928.

Residential Development

The unit of demand for each activity is the *Household Equivalent Unit* – 'HEU'. An HEU represents one household unit. Residential developments will be assessed on the number of additional household units created by the development.

Minor Household Units

Minor household unit means a residential household unit with a maximum gross floor area of 65 square metres that is additional to a residential household unit already established on the allotment. A minor household unit shall be assessed at 0.5 of an HEU per additional unit.

Fee Simple Subdivision

Each allotment in a fee simple subdivision represents one HEU.

Non-residential Development

Where the level of demand is known for a non-residential development, the number of HEUs generated by the development will be determined by reference to the following table (which sets out the average level of demand per HEU).

Table 4. Household Equivalent Units

Activity	Units of Demand – Residential	Units of Demand – Non-Residential HEUs
Roading	10 light vehicle movements per day	Case by case assessment of likely traffic generation, converted into HEUs.
Water Supply	1,500 litres per day per household.	Case by case assessment
Wastewater	1,200 litres per day per household.	Case by case assessment

Stormwater	200m2 of impervious area based on an assumed 600m2 average lot size with 30% impervious area coverage.	Case by case assessment. Each 200m2 of proposed impervious area (constructed and paved area) is an HEU.

The above table does not apply where the level of demand is unknown, in which case the Council will require a special assessment as detailed further below. An applicant for resource consent, building consent or service connection may also elect, at their own cost, to provide a special assessment provided that any Council fees for processing the special assessment are met.

Development contributions for non-residential development will not apply to an addition of less than 10 square metres of gross floor area to an existing building.

Credits

Credits are expressed in units of demand and may be used to reduce the number of units of demand created by a development.

Credits only apply in respect of an existing or prior use of the site, and cannot be used to reduce the number of additional units of demand from the proposed development to less than zero.

The prior use of the site must have been current within the 2 years prior to the application. Credits from a prior use cannot be transferred to or from another site.

Existing allotments as at 1 July 2000 are deemed to have a credit of one HEU.

Remissions, Reviews and Postponement

Development contributions required on a development may be considered for remission at Council's discretion on a case-by-case basis. Such consideration will normally be only be initiated in response to a request by an applicant.

The applicant shall make any such request in writing within 15 working days after Council has advised the applicant in writing of the amount of development contribution required on the development. The application must be made before any development contribution is paid, as the Council will not consider a retrospective application for remission.

In undertaking the review the Council shall as soon as reasonably practicable consider the request. The Council may determine whether to hold a meeting for the purposes of the review, and if so, give the applicant at least five working days notice of the date, time and place of that meeting.

Council may, at its discretion, uphold, reduce or cancel the original amount of development contribution required on the development. The Council may delegate these responsibilities and decisions to an authorised officer. Where Council decides to consider such a request the following matters shall be taken into account:

- The Development Contributions Policy.
- Council's financial modelling.
- Council's funding and financial policies.
- The extent to which the value and nature of the works proposed by the applicant reduces the need for works proposed by Council in its capital works programme.

- Any credits that may apply to the site.
- Whether Council determines that the development contributions are manifestly excessive in relation to the impact of the development on infrastructure:
- Whether other conditions placed upon the applicant are likely to reduce the need for the works proposed by Council in its capital works programme.

Council will not consider any request to postpone a development contribution.

Refunds

Sections 209 and 210 of the Local Government Act 2002 apply to refunds of development contributions paid to Council, where:

- Resource consents lapse or are surrendered; or
- Building consents lapse; or
- The development or building does not proceed; or
- The Council does not spend the money on the purpose for which the development contribution was required; or
- Previous overpayment has been made (for whatever reason).

The development contribution assessment (less a fair and reasonable administration fee, where this is considered appropriate) will be refunded to the registered proprietors of the subject allotment as at the date of the refund.

Cross boundary issues

In some cases, developments may cross District Council boundaries. Where the development crosses District Council boundaries, the Council will only assess the development for that part of the development, which is within Otorohanga District.

Special assessment and development agreements

Council reserves its discretion to require a developer to provide a 'special assessment' either where the level of demand on Council infrastructure is unknown or where a proposed development may have a significantly greater impact than is envisaged in the averaging implicit in Council's development contributions model after applying methodology in this policy (including the application of any credits arising). For all special assessments, the applicant will be expected to provide supporting information and detailed calculations of their development's units of demand on various activities and such further details as to support the credits applied for under the policy.

Where it is in the best interests of all parties, Council may enter into a development agreement with the developer. The development agreement must clearly state the departure from the standard processes and calculations, and the reasons for these differences.

Valuations

Where land is required to be valued, the assessment of land value will be carried out by a registered valuer based on the market value of the land being developed:

- In its 'developed' state (which includes the proposed development and any other development authorised by resource or building consents);
- As assessed not more than 12 months before the contribution is paid; and
- Including GST.

Guarantee

An applicant may request that Council accept a guarantee for development contributions in excess of $50,000. This request will be considered at the discretion of an authorised officer. Guarantees:

- Will only be accepted from a registered trading bank.
- Shall be for a maximum period of 24 months, subject to later extensions as may be agreed by an authorised officer.
- Will have an interest component added, at an interest rate of 2% per annum above the Reserve Bank official cash rate on the day the guarantee document is prepared. The guaranteed sum will include interest, calculated on the basis of the maximum term set out in the guarantee document.
- Shall be based on the GST inclusive amount of the contribution.

At the end of the term of the guarantee, the development contribution (together with interest) is payable immediately to Council.

If Council accepts the guarantee, the applicant will meet all costs for the preparation of the guarantee documents.

Goods and Services Tax

All assessments are exclusive of GST and do not constitute an invoice for the purposes of the Goods and Services Tax Act 1985. The time of supply shall be the earlier of:

Council issuing an invoice to the developer; or

The payment of the development contribution in accordance with this policy (including the execution of a guarantee in accordance with this policy).

GST will be added to the invoice at the time of supply as required by the Goods and Services Tax Act 1985.

Council Developments

Council developments are liable to pay development contributions.

Transitional Provisions

Assessments for development contributions under this Policy will apply to all applications for resource consent or building consent received on or after 1 July 2007, and to authorisations for service connections granted on or after 1 July 2007.

For those subdivisions where a resource consent authorising the subdivision has been issued prior to 1 July 2007, then no development contribution under this Policy will be payable on a building consent and/or service connection application that are received before 1 January 2008 to give effect to an identical development.

Methodology by Activity

Note: Cost figures contained in this section reflect project cost estimates made as at 30 June 2015, and these costs may change as better information becomes available. The following sections reflect the general principles upon which development contribution fees will be based, but do not necessarily identify the applicable level of fees, which are instead contained in Council's Schedule of Fees and Charges.

District Roading

No historic roading capital expenditure prior to 2007 was made in anticipation of growth and with an expectation of recovery through a development contribution is recognised.

Roading is generally considered a district-wide network providing district-wide benefits that should be funded on a district-wide basis through the general rate.

However, growth related non-subsidised roading capital expenditure totalling $1,819,000 exclusive of GST is recognised (and has commenced) on Hanning, Te Tahi and Mangati Roads in the north of the district around Mt Pirongia.

These roads have been the first in the District to have experienced significant recent growth pressures, with small scale rural subdivisions creating ‘lifestyle blocks’ having occurred during the early 2000s. Whilst the impact of these individual developments on the vehicle carrying capacity of these roads has typically been small, they have together created a cumulative effect that has resulted in the carrying capacities of these roads now being fully utilized or exceeded.

For further development to safely occur on these roads it is considered essential that widening, alignment and pavement improvements are undertaken to increase the vehicle carrying capacity of each road, and a program of works with an estimated total cost of $2.452 million was identified as being appropriate in 2009. Adjusting this amount for subsequent cost escalation and deducting the component of these improvement works that are eligible for subsidy from the New Zealand Transport Agency, the ‘local share’ of this cost is estimated to be the non-subsidised portion of $1.819 million.

The area of benefit is focused around the properties serviced by the three roads, as shown in Appendix 1, Map 2. As with all roads, and with reference to LGA s101 (3) a) (ii) & (v), there is a district wide public good benefit element to these works, however the causality principle (LGA s 101 (3) a) (vi) is important in this case. This principle suggests that persons whose development actions cause a need for new works should meet those costs. The associated benefits to existing ratepayers in wider spread locations are limited because the roads in question are all no-exit roads in quiet rural locations and are serendipitous for them. The existing and wider-spread ratepayers, in the absence of the development activity, would not have undertaken the works and cannot be expected to meet a share of the funding. 100% of the costs are therefore considered growth related costs to be met where practical from those developments creating the demand.

Applying the causality principle, the number of both existing and potential lots, which both cause and benefit from the proposed capital expenditure totals 149 as calculated in Table 5 below. The non-subsidised cost of necessary improvement works is divided by 149 to give the fee per Household Equivalent Unit (HEU).

The table is explained as follows:

- Column b shows the number of original lots prior to subdivision starting in year 2000 for which the current road provides adequate capacity.
- Column c shows the number of lots created since the year 2000 which have created a demand on the roads exceeding their current capacity.
- Column d shows the total lots serviced by the three roads. At the time when the development contribution was first assessed.
- Column e shows the engineering assessment of the further lots, in addition to column d, that would be made possible by the additional works.

Column f shows the number of lots that both cause the need for the additional works and benefit from them.

Table 5. Calculation of Pirongia area roading development contribution fee.

a.	b	c.	d.	e.	f.
	Original lots prior to year 2000 adequately serviced by existing road.	New lots created since year 2000 creating the need for additional work.	Total Lots serviced by road as at March 2007 (start of development contribution)	Additional lots enabled by the proposed Capex ($1,845,000)	Total lots both causing and benefiting from proposed Capex (columns c+e = f)
Hanning	7	13	20	10	23
Te Tahi	13	33	46	29	62
Mangati	8	27	35	37	64
Total	28	73	101	76	149

+ =

Some of these 149 lots have already been subdivided and have had building consents issued, which means that Council will not be able to recover the full $1.819 million. However, development contributions are also charged at the building consent stage of development, and by this means it is expected that development contributions may be recoverable from up to 100 lots, representing a recovery of something less than 67% of the $1,819,000 cost. Funding of the residual portion of this cost will be through a District wide general rate.

It should also be noted that whilst it has been identified that 76 additional lots will be enabled by the proposed road improvements, there are some limitations in respect of where these additional lots can be created along the road, because the proposed improvements to Te Tahi and Mangati Roads only provide significant increases in vehicular carrying capacity on the lower sections of these roads (in particular the lower 1.9km of Te Tahi Road and the lower 4.95km of Mangati Road). Investigation has indicated that more substantial increases in vehicle carrying capacity along the higher sections of these roads could not be achieved at a level of cost where a significant proportion of this cost would be realistically recoverable from developers on a uniform basis.

Where applications are made for further development on Te Tahi Road above the 1.9 km point, or on Mangati Road above the 4.95 km point, applicants will therefore need to demonstrate that associated additional traffic generation resulting from the development would be adequately mitigated by additional road improvement works undertaken at the developer's own cost that are over and above those funded by the Development Contribution fee described previously.

The cost of such additional works may be recovered by Council through an associated Financial Contribution levied under the District Plan.

Council's considerations in reaching its decision to impose a development contribution fee across properties on Hanning, Te Tahi and Mangati Roads causing the need for growth related capital works are discussed below.

Some of the affected properties have already been subdivided but will be levied with the development contribution fee at the building consent stage. To ensure properties subdivided since 1 July 2000, but yet to receive building consent, are levied a development contribution fee, Section 7.8 of this policy provides that "Existing allotments as at 1 July 2000 are deemed to have a credit of one HEU".

While it is preferable that Council does not change fees and charges halfway through planning and investment processes, it is also fair that the costs of development are sheeted home to those both benefiting from (LGA s 101 (3) a) (ii)) and causing the costs (LGA s101 (3) a) (iv). Implementation of policy changes such as this charge will inevitably affect someone in the middle of a development process. The alternative of an equivalent one-off charge on each of the district's 4,500 rateable properties would pose even greater unfairness. The Transition Provisions of section 7.17 of this policy also provide a limited opportunity for someone in the middle of a development process to avoid payment of a Development Contribution if the development can be completed in the near future.

This calculation excludes from any development contribution fee those properties that have existed for many years on the roads in their current state, which is adequate to meet their needs in the absence of any increased traffic volumes from further subdivision.

Hanning, Te Tahi and Mangati Roads are 2.4, 4.9 and 8.8 kilometres long respectively. Whilst there is some limited variation in how the $1,819,000 of works are spread between different sections of these roads, there is also some significant uncertainty in respect of underlying assumptions, in particular regarding the number of development contributions likely to be recoverable on each road. For this reason it is considered appropriate that development contributions are applied on an 'averaging' basis across the three roads.

Properties at the top of each road also receive a benefit from a significantly greater amount of capital expenditure than properties at the bottom of each road. Council has considered a system of spreading the fee in proportion to the length of improved road the property benefits from. Properties at the top of the roads would therefore pay more than those at the bottom.

For reasons of administrative simplicity (LGA 101 3) a) (v)) however, the development contribution fee is spread evenly across all properties on the three roads. Other funding options considered for allocation of growth related capital expenditure at Hanning, Te Tahi and Mangati Roads comprised the following:

- Three separate individual roading development contribution fees for works on each of Hanning, Mangati and Te Tahi Roads was not considered appropriate because of the high level of uncertainty regarding some of the assumptions upon which the levels of contribution would be based, in particular the number of future developments likely to occur on each road.
- A roading development contribution fee for works around Pirongia, charged on new development district-wide was not considered an equitable alignment of who pays and who benefits.
- A targeted rate set over recently subdivided properties creating the need for the new works on the three roads only would be similarly fair in comparison to a development contribution fee in its allocation of costs, but a development contribution fee in comparison to a targeted rate has the advantage of sheeting development costs back to developers at the time of development, rather than spreading these costs over subsequent owners.
- District-wide general rate funding of the works is Council's default option whereby the costs are added to the general rate across the district. It is not considered equitable to charge all properties when the primary driver and beneficiaries of the work are an identifiable group.

The proposed works on Hanning, Mangati and Te Tahi Roads will be undertaken progressively as revenue from development contributions is received. The rate at which such contributions is received is uncertain, and the recent slowing of the property market suggests that this rate may be much slower than was originally anticipated. Some works have been already undertaken, but currently no further major upgrading of these roads is scheduled until 2020/21. Other roading capital expenditure considered for application of a development contribution included:

Harpers Avenue seal extension, excluded because of inability to secure adequate revenues.

Footpath construction on Old Te Kuiti Road, Progress Drive, Main North Road, Bluck Road and Merrin Avenue Walkway was rejected because under existing Council footpath policy, the work would probably proceed regardless of any growth.

Water supply capital expenditure

Water supply capital costs for growth are to be allocated 100% to growth activities given consideration, in particular of LGA s 101(3) a) (ii) and (iv) as noted for each piece of infrastructure in a) to e) below. The other option considered in all cases was allocation of costs to existing residents through rating mechanisms. This was not considered a fair allocation of costs in consideration of LGA s 101(3) a) (ii) and (iv).

a) Additional Otorohanga Water Reservoir at Thomson Avenue.

There is already a need to improve water storage capacity in Otorohanga, and this need will be exacerbated by any further growth. It is therefore believed that a contribution towards the cost of an additional concrete water reservoir of 1000m^3 capacity should therefore be required from property developers, despite the level of growth being low in recent years.

The catchment area of benefit is the Otorohanga Community area. Refer to map 3 in Appendix One.

The total project cost is estimated to be $498,000 in 2015 dollar terms, and is scheduled to be completed in 2020/21. This project has a mix of two benefits. The first benefit is improvement of the security of supply for existing residents, which is currently approximately two thirds of typically expected national standards. The second benefit is the provision of spare capacity for growth, being a consideration under (LGA s 101 (3) a) (ii). Any increased demand from development growth however would come at the expense of a reduction in the security of supply for existing residents. Considering these two benefits, it is concluded that any new development should therefore make a contribution to the upgrade costs on the following basis.

The project provides additional water storage capacity to service 1,000m^3 of additional average daily water consumption. Assuming this additional capacity is completely used to service growth it would provide for 434 HEUs assuming an average household mean day maximum month consumption of 2.3m^3 per day.

This level of demand growth is however now viewed as unrealistic in the short or medium term, and a more realistic extent of growth provision is considered to be taking 25% of the cost of the project as growth related, which would benefit 108 additional HEUs, with the remaining 75% of project cost being associated with service improvement for existing users.

Assuming 25% of the capital expenditure is growth related and funded through development contributions, the fee per additional HEU would therefore be 25% of the total project cost divided by 108.

Discontinued development contributions - water supply

Other water supply development contributions have previously existed in respect of a capacity upgrade to the Otorohanga Water Treatment Plant, the installation of an additional water reservoir in Kawhia and the construction of a new water main linking Thomson and Harper Avenues in Otorohanga. These other development contributions have been discontinued from 1 July 2015 because of the less than expected need for, extent and/or cost of the associated works, and the availability of other funding mechanisms.

Wastewater capital expenditure

Wastewater capital costs for growth are to be allocated 100% to growth activities given consideration, in particular of LGA s 101(3) a) (ii) as noted below. The other option considered was allocation of costs to existing residents through rating mechanisms. This was not considered a fair allocation of costs in consideration of LGA s 101(3) a) (ii).

a) Upgrade of Otorohanga wastewater treatment system

A very limited allowance for growth has been incorporated into upgrading works to the Otorohanga wastewater treatment system commencing in 2011/12 for the purpose of securing a new resource consent for this activity.

It is envisaged that these works will be conducted in two stages, and initial stage in 2011/12 with an estimated cost of $1.15 million, and a second stage in 2017/18 with an estimated cost of $233,400.

The rate of community growth incorporated into this project is a very low 0.2% per annum over a 25 year period. As such the total growth incorporated over this period is 5%, representing a population increase of approximately 150 persons

The $1,383,400 total capital expenditure will provide a further 150 persons capacity which at an average household size of 2.7 persons is 55 HEUs. 5% of this total cost is considered attributable to growth and will be recovered by development contribution, given consideration of (LGA s 101 (3) a) (ii).

The catchment area of benefit is the Otorohanga Community area. Refer to map 3 in Appendix 1.

The fee per HEU is derived by dividing 5% of the total project cost by 55.

Flood protection / Stormwater / land drainage capital expenditure

Storm water capital costs for growth are to be allocated 100% to growth activities given consideration, in particular of LGA s 101(3) a) (ii) and (iv) as noted below. The other option considered was allocation of costs to existing residents through rating mechanisms. This was not considered a fair allocation of costs in consideration of LGA s 101(3) a) (ii) and (iv).

a) Stormwater capacity upgrades State Highway 3 / Factory Drive / Timber Company area.

This project, to construct an additional stormwater pipe running parallel to the existing pipe under SH3 and through the grounds of downstream business premises was identified in the 2009 LTP and Development Contributions Policy and was completed in 2010/11 at a total cost of $235,192.

The need for the works was caused by the potential development of 268 HEUs. This total comprises 36 Council developed residential lots, 112 potential further 'Westridge' residential lots and the equivalent of 120 HEUs in industrial area development. The calculation of HEUs for the industrial area is calculated on the assumption of 60,000 m^2 of developable industrial area divided by 1,000m^2 per average residential lot including share of access road areas. This gives a total of 60 residential lots. Industrial development is further assumed on average to result in twice the impervious area compared with an average residential development, giving 120 HEUs.

The catchment area of benefit is shown in map 1 of Appendix 1.

100% of the costs attributable to growth are to be recovered by development contribution given consideration of (LGA s 101 (3) a) (ii) and (iv). The fee per HEU is is derived by dividing the total project cost by 268.

Other significant activities

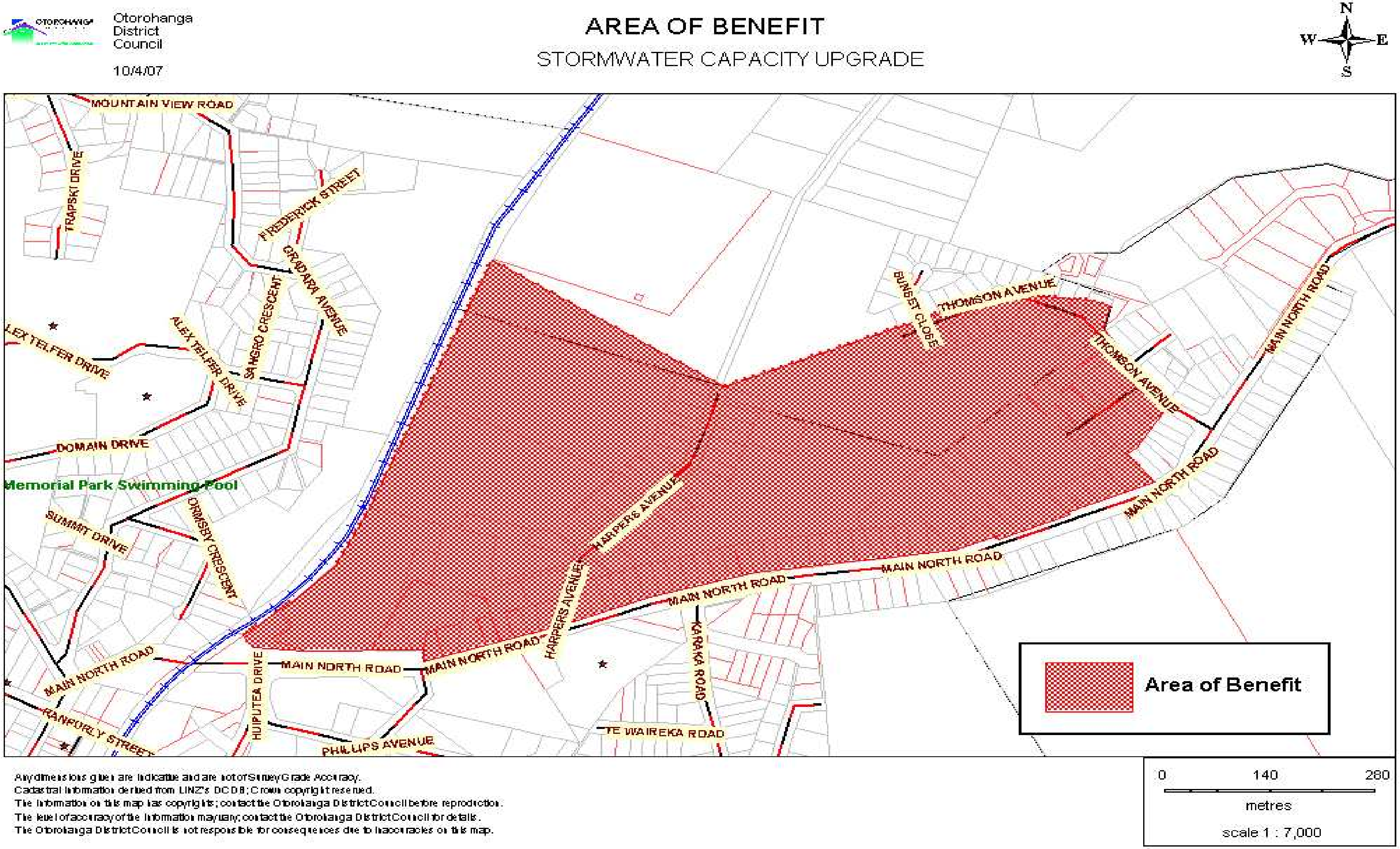
Council continues to collect the $990 financial contribution under the District Plan for addition of parks and reserves capacity to service new subdivisions. These fees are in addition to development contributions for other infrastructure.

No historic or forecast capital expenditure driven by growth in the 2015 – 2025 LTP is recognised for the balance of Council's activities noted below. The capital expenditure in these cases is considered by management to be either renewals or increased levels of service that provide benefits for existing residents.

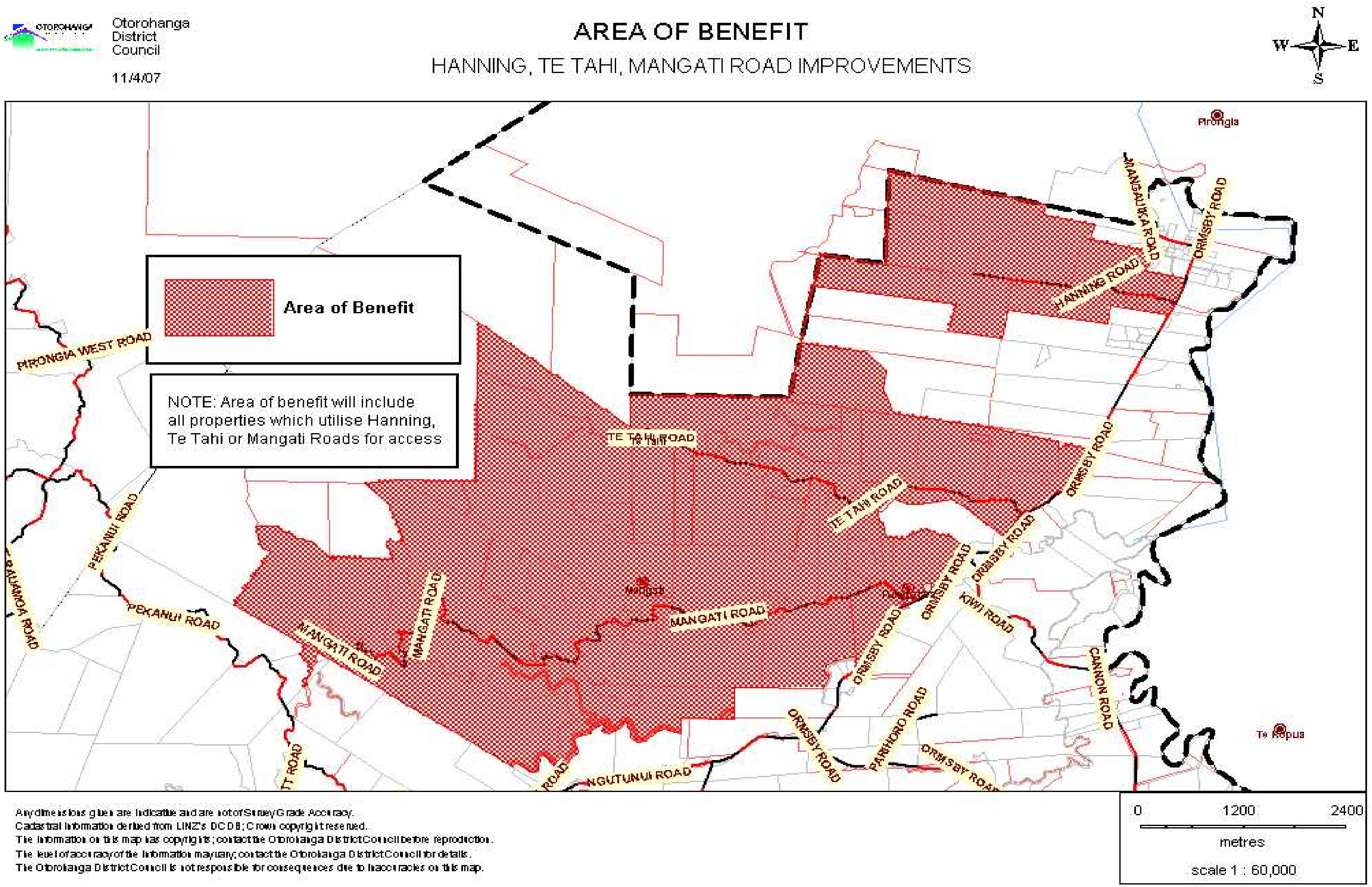
- Solid waste
- Library
- Swimming pool
- Cemeteries
- Security patrol
- District sports co-ordinator
- Environmental services
- Democratic processes
- Other activities

The funding mechanism for these costs is through the general rate, district wide.

Appendix One: Maps of Catchment Areas



Map One


Otorohanga
District
Council
11/4/07
AREA OF BENEFIT
HANNING, TE TAHI, MANGATI ROAD IMPROVEMENTS
N
W
E
S
Area of Benefit
NOTE: Area of benefit will include all properties which utilise Hanning, Te Tahi or Mangati Roads for access
Pirongia
Te Rapa
PIRONGIA WEST ROAD
PEKANUI ROAD
MANGATI ROAD
TE TAHI ROAD
HANNING ROAD
MANGAUIKA ROAD
ORMSBY ROAD
KIWI ROAD
CANNON ROAD
PARIHORO ROAD
NGUTUNUI ROAD
0
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2400
metres
scale 1 : 60,000
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Map Two

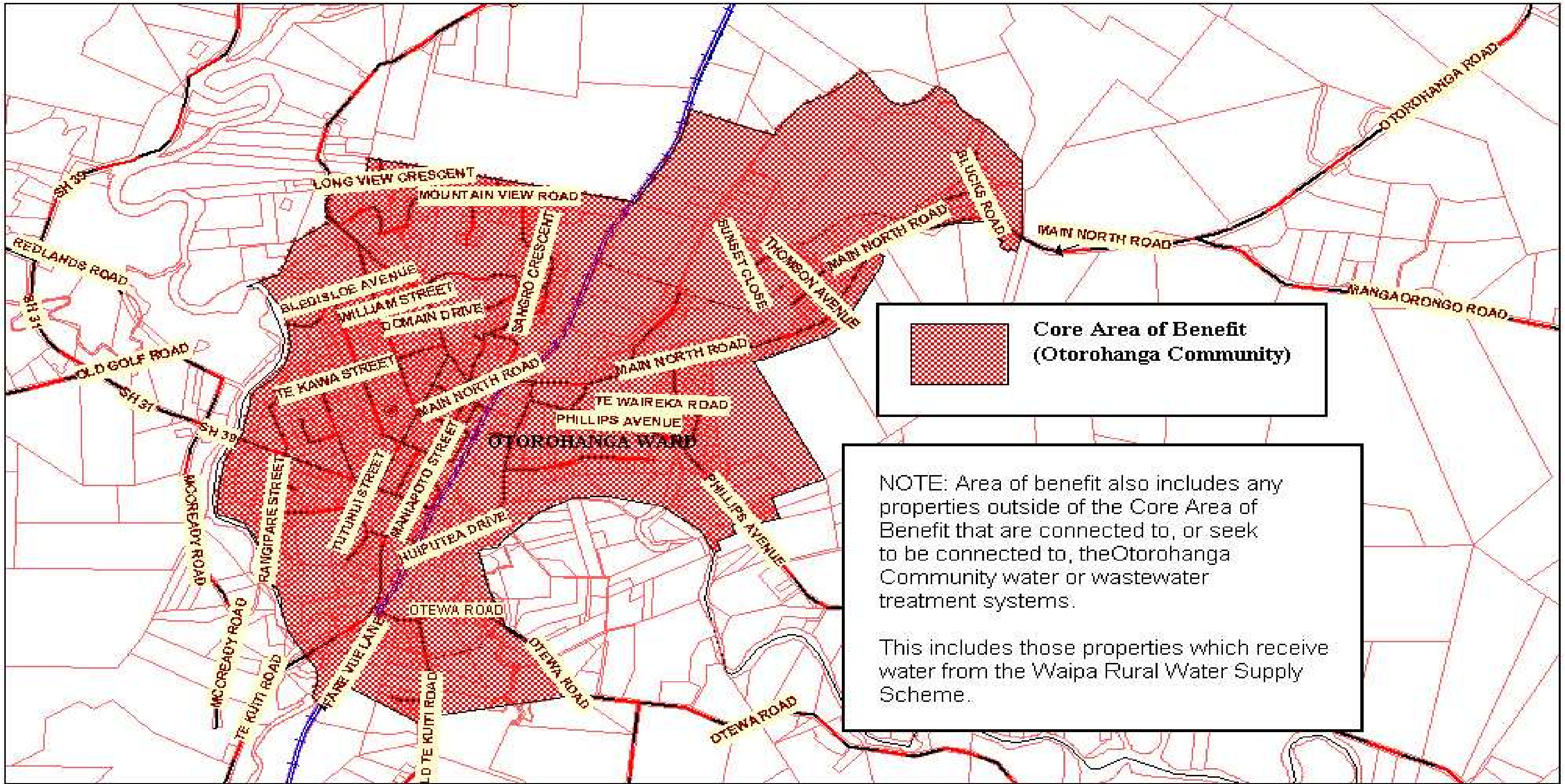
Otorohanga District Council

11/4/07

CORE AREA OF BENEFIT

OTOROHANGA WATER RESERVOIR &TREATMENT, WASTEWATER TREATMENT PROJECTS

N W E S



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metres
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Map Three