Development and Financial Contributions Frequently Asked Questions

Why do we review the development and financial contributions (DFC) policy?

The purpose of reviewing our Development and Financial Contributions (D&FC) Policy is to ensure a fair allocation in how we charge for catering to growth – i.e. 'growth pays for growth'. The review is not a revenue gaining exercise.

When do we review our DFC policy?

We review the policy one every three years to line the policy up with our long-term plan. If there are specific issues, we may review it more than once in a three-year period.

What are development contributions (DCs)?

Development contributions (DCs) are a fee that Council charges for new building developments. The fee contributes to the costs of building the infrastructure that supports them.

When are DCs charged?

DCs are usually charged at the time of issuing the building consent to the person that is building the house (or non-residential building).

- There are three exceptions to this.
  1. When we extend our network to service properties that were built some time ago and have operated from wells and/or with septic tank systems, we collect a DC at service connection. This is not common but has happened in the past and is expected to recur in future.

  2. In the 2021 policy, we also state our proposal to collect DCs at service connection for developments where the building consent has been issued by another building consent authority, such as Kainga Ora. This is a new issue that is expected to occur in the next three years for the first time.

  3. The third possibility is where a resource consent is issued for a change of land use that increases demand on services but doesn't require building consent. This has not previously occurred as such a development is very likely to require building consent as well as resource consent, but it is theoretically possible and in such cases we would take the DC at resource consent.

What's the legal basis for charging DCs?

The charge is made under our Development and Financial Contributions Policy, which is made under the Local Government Act 2002.

What happens if I do not pay my DC?

Council can withhold code compliance certificate (CCC), service connection or resource consent. As well, the normal terms of trade apply. Council would expect payment by the 20th of the following month. If it is not paid, Council pursues normal debt recovery processes.

The issue of CCC is usually required before insurers will offer insurance on a new build, and insurance is typically a condition of bank finance.

What does my DC pay for?

The fee contributes to the costs of building the infrastructure that supports the property. To be more precise, it pays for **PART** of the **CAPITAL COST** of that infrastructure.

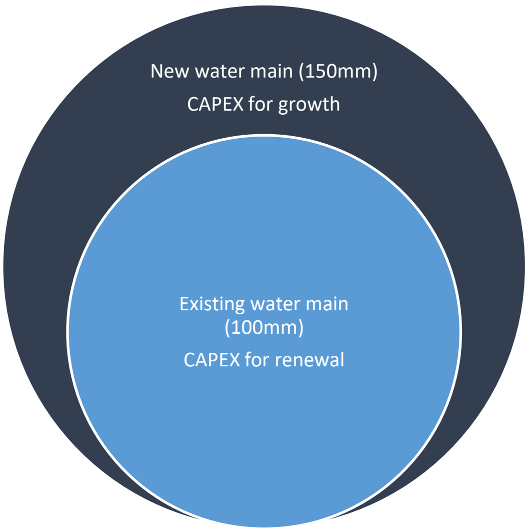
It does **NOT** pay for **OPERATING COSTS** .

What do you mean by capital costs?

There are three types of capital spending that local government must account for.

1. **CAPEX for growth** - capital spending to meet additional demand for an activity. This is the only capital spending that can be funded from development contributions.
2. **Capital spending to improve level of service** - this is generally funded from loans, and the loans are repaid from rates.
3. **CAPEX for renewal** - capital cost to replace existing assets, or "replacing like with like". This is usually funded from depreciation reserves and/or loans, which are in turn funded from rates. Depreciation reserves are funded over the life of the asset; loans are funded over the term of the loan, usually 20-25 years.

What is an example of these three kinds of capital cost?



- If we replace an existing water pipe with a larger one because of expansion of housing due to new subdivisions, the marginal cost of the larger pipe is capital expenditure to meet additional demand or CAPEX for growth.
- The balance of the cost of the new pipe is the replacement of the original asset. That is capital spending to replace existing assets or renewal.
- An example of water expenditure to improve level of service is the work done to raise bore heads. This work improves the safety of the water supply (hence improved levels of service.

What are financial contributions?

Financial contributions (FCs) are a fee that we, as in Council, charges for purposes set out in the District Plan. These help ensure positive effects on the environment to offset any adverse effect from a development.

FCs are charged at subdivision, when the subdivision creates new lots. The charge is a cost to the person (usually the landowner) who applies for subdivision resource consent. The requirement to pay a financial contribution will be a condition of resource consent.

What is the legal basis for charging financial contributions?

Financial contributions are collected under the Ashburton District Plan, which is made under the Resource Management Act 1991.

When are financial contributions charged?

A financial contribution is only charged for subdivision for residential purposes under the District Plan.

What happens if I do not pay my financial contributions?

All conditions of resource consent (including payment of financial contributions) must be met before Council will issue a certificate under s.224(C) of the Resource Management Act 1991. This prevents subdividers from being able to obtain titles and benefit from the subdivision.

What does my financial contribution pay for?

Financial contributions can be used for any capital expenditure on recreation and open spaces.
To be clear FCs are **NOT** used for the **operating costs** of recreation and open spaces.

Can you give an example?

Yes. Remember three types of CAPEX discussed earlier for DC? Well the same applies here.

We have a programme of public toilet replacements, where existing public toilets are replaced with new toilets. Let's take an example of replacing four toilets without disabled access with six toilets, including one unisex toilet with access for people with disabilities. The first four new toilets are essentially **renewal** (replacing like for like). There is also **improved LOS** (access for people with disabilities) and, in this example, two extra toilets (meeting **growth in demand**).

Financial contributions cannot be used to meet the operating costs of the toilets, such as toilet cleaning.

John and Janet are building a new home in a subdivision while Tim and Tina have lived in their house for 20 years just down the street. Why should John and Janet be the only ones paying for the growth?

The short answer is in two parts.

- The first part is that Tim and Tina (or the previous owners of their Property) paid for their share of the infrastructure according to the rules that applied twenty or more years ago. John and Janet are also paying their fair share under the rules that apply now. Both developments added demand on the network from the time they were built.
- The second part has to do with the catchments we choose to use to fund DCs. We fund drinking water DCs on a "whole of network" basis. If two people build a house at the same time at opposite ends of the Ashburton network, they pay exactly the same DC. They are both expected to impose similar demand on the network.

How about the 'Dan' the developer. Why shouldn't he pay the development contribution instead of John and Janet?

Dan has already paid for the land, the cost of preparing the resource consent application, the cost of installing the subdivision infrastructure, and the financial contributions. By law we could choose to recover DCs for water, waste water and community infrastructure from Dan too. But we choose to recover the costs from John and Janet, because of concerns that charging all of these costs to the subdivider may discourage the subdivision development.

Simon has decided to subdivide his section and build a new house. He has received a bill and is not happy. Why is it fair to charge Simon?

Like Janet and John, Simon is building a new house and contributing to the demand that requires assets of more capacity.

Hermione wants to build a new house in Hinds because the land is cheaper there, but has received a bill for development contributions and is a bit cross. Why should we be charging someone in an area where there is not much growth?

We can only charge a contribution where we have spent money creating assets with capacity for growth. Hermione's development contributes to more demand. If there are no new houses, then Council will not collect any DCs.

Within the policy, we may set limits on how much we charge per area. If the desire is to charge a lesser contribution in Hinds or other areas, this is entirely possible. For Hinds water, this would transfer cost from Hermione to all water consumers of Council supplies by increasing water rates.

How does what we do in Ashburton compare to what other Councils like us do?

Let's start with Financial Contributions. It is common for Councils to charge FCs. According to DIA research from 2008 70 of 73 local authorities (96%) had such a policy.

It is hard to tell how we sit compared to other Councils as we all use different approaches and even the Department of Internal Affairs found no reasonable basis to compare FCs between Councils.

Our District Plan sets a financial contribution of 5% of the value of new lots. This is less than the maximum 7.5% allowed under the Resource Management Act.

When thinking about Development Contributions, these are also common, but not as common as financial contributions. Our research shows that in 2018, 63% of all territorial authorities (TAs) have a development contributions policy.

The question within the question is "what is a council like us?" We are a Canterbury district council with a population of 34,000 (approx.).

- 86% of all NZ Councils with a population of 30,000 or more collect DCs. This includes all city councils.
- 75% of Councils with a population in the range of 30,000 to 39,999 collect DCs
- 84% of all district councils with a population of 30,000 or more collect DCs.
- 67% of Canterbury district councils collect DCs.

So, overall, we are not out of step with what others do.

What do we charge DCs for right now please?

Our DCs cover

- **Drinking water supplies** - for developments in Ashburton, Rakaia, Methven, Fairton and Hinds, for properties that are to be serviced by those drinking water supplies.
- They also cover Wastewater– for properties in Ashburton, Methven and Rakaia for future connections to the wastewater systems, and
- **Community infrastructure** - for developments in all parts of the district. We currently propose a community infrastructure DC that funds some of the historic CAPEX forEA Networks Centre and the Art Gallery and Heritage Centre, as well as coming investment in the Library and Civic Centre.

How do the dollar values of our DCs compare with other councils?

Value wise, our DCs are cheap compared to others. Our research has found that we sat around the 25th percentile or the bottom quarter of councils who collect DCs, for our 2018 DCs.

If you were to include all the city and district councils with no DCs at all, we would sit around the 50th percentile (or halfway).

How do the types of DC we charge compare with others?

We are similar to the majority of others, with the exception being that we don't charge a roading or stormwater DC.

What changes could we make to our DFC Policy?

We can't change our FCs through this Policy review. Changes to financial contributions need a District Plan change, through the RMA.

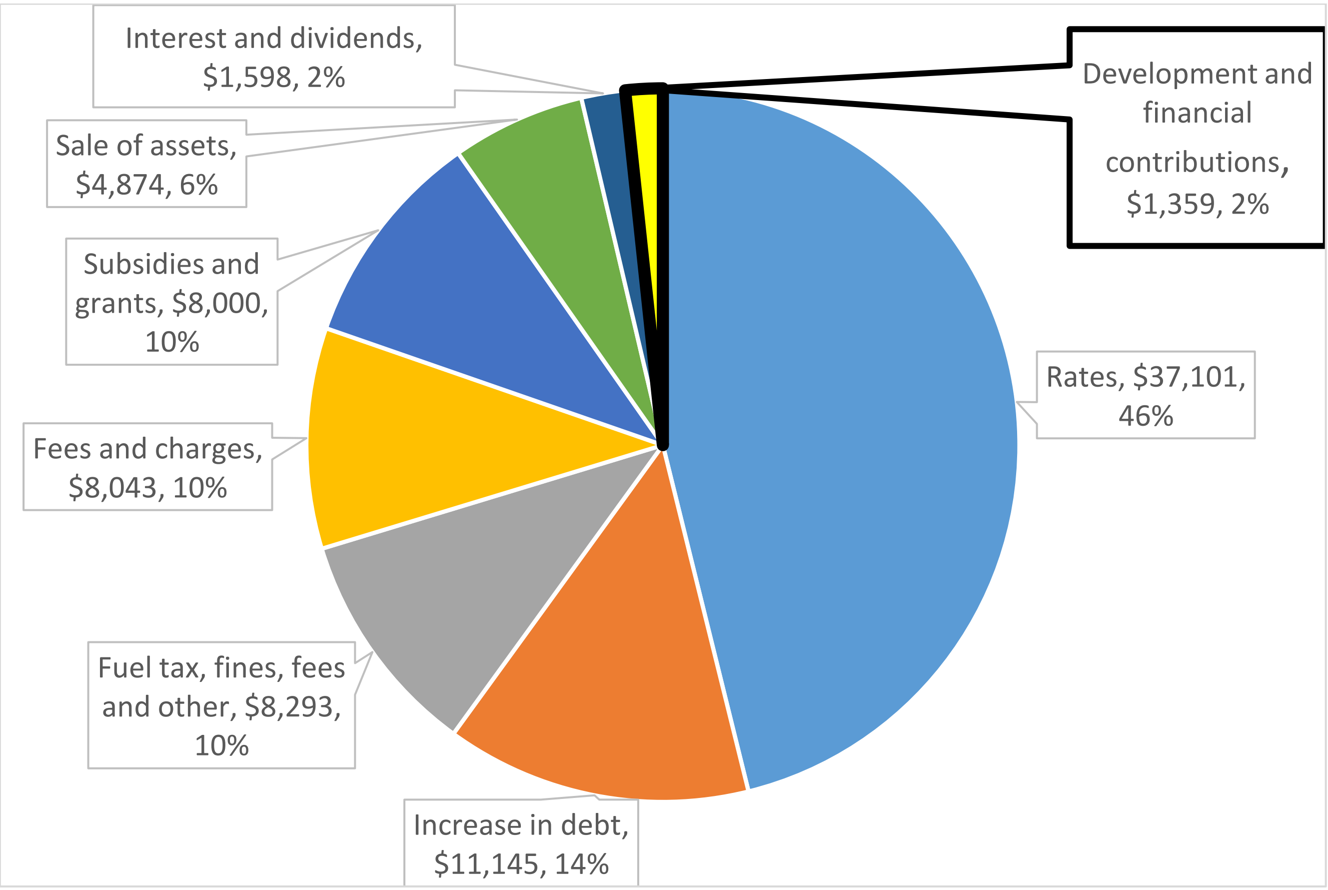
We can lower or raise our DCs. The options we have include:

- reducing DCs to zero
- reducing DCs below current levels
- keeping DCs at current levels (status quo)
- increasing DCs a little bit
- increasing DCs by a bigger bit
- increasing DCs to the maximum allowed (100% of CAPEX for growth).

The status quo can be maintained but it is not recommended. In a nutshell, a slow decline in DCs would see a by slow growth in rates required to compensate for static DC revenues.

The pie chart below shows all revenue sources (budgeted) for 2019/20 from the Annual Plan. The DFC contribution is shown in the yellow slice of the chart.

Around 2% of our income comes from DCs. With FCs added it is more like 3%.



How do we pay for CAPEX for growth if we reduce DCs?

If Council wants to reduce the amount it charges for DCs we would have to obtain revenue from another source, i.e. rates. Essentially, this is a transfer of costs from the individual home builder to the collective ratepayers.

Over the past decade we have collected around $880,000 per year in DCs. In 2019/20, our total rates is $37,010,000. Replacing the $880,000 with rates puts rates overall up by 2.37%.

DC revenue is known to fluctuate depending on economic conditions. Some years we will get less DC revenue than budgeted, some years we will get more. At the same time, while rates are a steadier and more reliable source of income, they are not a great proxy for user pays.

We would need to ensure that we were still being financially prudent, by maintaining a reasonable spread of income sources such as fees and charges and borrowing to avoid becoming too reliant on rates as an income source.

We could decrease DCs by spending less on CAPEX for growth. However, given that our growth projects are in the LTP we believe they are all needed and essential.

An alternative is to recover less than 100% of CAPEX for growth. This can be done by:

- omitting some projects from the schedules (we do this now for community infrastructure),
- setting a policy band in the Revenue and Financing Policy,
- setting a lower cap in the DFC Policy (we have a community infrastructure cap now);
- or setting new caps on previously uncapped DCs.

If we spend more on CAPEX for growth in activities where we already have a DC, this will push the value of DCs up.

We could introduce DCs for activities where we have no DCs and have CAPEX for growth. We could remove caps on the DC for community infrastructure. Or, we could do some mix of these three actions.

This is a political judgement about who pays (developers or ratepayers) and how much. There are arguments for both sides.

Using DCs supports the user pays principles and provide a more diverse and sustainable funding base. DCs improve local economic efficiency and also bring an element of inter-generational equity into the funding of long-life assets.

The flipside of this is that DCs can be a volatile source of income (dependent on the level of economic activity) and there are risks in being too dependent on them. They can be unpopular with people who pay them and some argue they are a disincentive to development and inhibit growth, because they make it more expensive.

The DFC Policy can be complex to administer and to some degree it is more efficient to collect rates than DCs.