Nelson City Council
Te Kaunihera o Whakatū

Consultation Document

Proposed Policy on Development Contributions 2021

A2538607

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Nelson City Council invites submissions on its draft Development Contributions Policy 2021.

Following a review of the current Development Contributions Policy 2018, Council is proposing changes that will help to ensure that those who create a need for new or additional assets, or assets of increased capacity, contribute their fair share to the cost of providing those assets.

Nelson continues to grow in its population, visitors, development and local economy. This growth generates increased levels of subdivision and development activity which places greater pressure on the assets and services provided by Council. Investment is required to meet the demands of growth by providing additional assets or increasing the capacity of existing assets.

Council considers that Development Contributions (DCs) are the most effective mechanism available to ensure the cost of growth is met by those who have created the need for that cost. Council considers it inappropriate to impose those costs on the community as a whole, by way of rating or other payment means, to meet the cost of growth.

The draft Development Contributions policy 2021 proposes to entirely fund the portion of capital expenditure (“capex”) that is attributable to growth through DCs wherever it can be done so lawfully, fairly, reasonably and practically. The draft Policy also includes an explanation of how DCs will be calculated for residential and non-residential activities.

Through the consultation process, Council would like to hear from people who may be affected by or interested in the proposed changes. Following the consultation period, Council can either adopt the draft Policy or amend it based on the submissions received.

Proposed Significant Changes to the Policy

The proposed significant changes to the Development Contributions 2018 include the following issues, many of which were identified during Council's review:

- simplifying the policy complexity and readability
- removing the 30 Housing Units of Demand (HUD) upper financial year limit on city centre Development Contributions waivers so that all city centre residential development receives a waiver
- Providing support for 1.1Ha of Greenfield Site reserves per 1000 residents, (a reduction from 1.7Ha per 1000 residents in the 2018 policy), in line with ‘levels of service’ proposed in the Long Term Plan 2021-31.
- Introducing a fixed fee for greenfield neighbourhood reserve DCs based on average sales values of bare residential land in the previous calendar year, and noting that this part of the Policy will need to be updated annually subject to a public consultation process (most likely via the Annual Plan)
- Replacing the neighbourhood reserves land DC with a neighbourhood reserves intensification DC that applies in the existing built urban area. This DC is proposed to fund improvements to existing reserves to cater for intensification.
- adding a waiver for state integrated schools

- removal of the 25% discount for brownfield intensification
- updating schedule 1 with growth projects programmed in the LTP
- outlining the procedure around development agreements

The DC amount for infrastructure, based on the draft Long Term Plan 2021-31 is approximately 55% higher than in the 2018 Development Contributions Policy. However, the proposed changes in 'levels of service' for reserves will reduce the reserves DC amount below those in the 2018 Policy, effectively offsetting the increase in infrastructure DCs. There is expected to be a nett reduction in DCs payable by developers of residential sites.

To provide some sense of the scale of the changes in terms of the Development Contributions payable (excluding GST) per new household, the table below summarises an example for greenfield and intensification under the 2018 Policy and draft 2021 Policy.

	2021 draft Policy (excl. GST)		2018 Policy (excl. GST)	
	Intensification	Greenfield	Intensification	Greenfield
Category	**Any intensification per HUD**	**600sqm site @ $350,000**	**100sqm site @ $350,000**	**600sqm site @ $350,000**
Stormwater	$5,520	$5,520	$3,460	$3,460
Wastewater	$6,570	$6,570	$5,360	$5,360
Water supply	$3,620	$3,620	$2,200	$2,200
Transportation	$1,720	$1,720	$1,470	$1,470
Community Infrastructure	$2,430	$2,430	$300	$300
Infrastructure total	**$19,860**	**$19,860**	**$12,790**	**$12,790**
Neighbourhood reserves (greenfield)	$ -	$10,725	$70,000	$23,333
Neighbourhood reserves improvement (intensification)	$130	$ -	$300	$ -
General reserves	$730	$730	$1,240	$1,240
Reserves total	**$860**	**$11,455**	**$71,540**	**$24,573**
Total	**$20,720**	**$31,315**	**$84,330**	**$37,363**

The above is a summary of the proposed significant changes under the Development Contributions Policy 2021. To review all of the proposed changes, please read the complete draft policy attached.

Options considered by Council

The following provides more information on the options that were considered by Council and their advantages and disadvantages.

Retain DCs vs remove DCs

Council evaluated the option to remove DCs against the current policy of requiring DCs to fund the growth portion of capital projects. The advantage of retaining DCs is that it ensures a fair and equitable apportionment of capital costs to those that create the demand for growth infrastructure. The disadvantage is that it may be a disincentive for some developers to progress their subdivision. Removing DCs would decrease costs to developers but creates a revenue shortfall that would need to be met from rates. Additionally, the removal of DCs may not result in any change to section prices as the housing market, rather than cost to develop, would decide the final section cost.

It is therefore proposed to retain the requirement for payments of DCs.

Introducing a reserves DC specifically for brownfield or intensification areas vs continuing to charge a DC for neighbourhood reserves land in these areas

Under the 2018 Policy, development in brownfield areas (sites that are within the existing built urban environment) pays the same DC for neighbourhood reserve land. Over time it has become clear that acquiring land for reserves in brownfield areas is becoming less viable due to it being already built out with housing.

The removal of the requirement for brownfield development to pay a neighbourhood reserves DC for the purchase of additional reserves land has the advantages of reflecting the planned provision of reserve infrastructure into the future and being consistent with the proposed changes to the level of service for neighbourhood reserves. Disadvantages include departing to some degree from the single catchment approach and adding more complexity to the Policy.

Continuing to charge a neighbourhood reserves DC for land purchase would be more consistent with the one catchment approach that the Policy seeks to maintain but would not be consistent with the proposed new level of service or the likely future provision of new neighbourhood reserves land.

It is therefore proposed to no longer charge brownfield development for neighbourhood reserve land and instead charge only for improvement works for existing reserves.

For greenfield areas: A fixed neighbourhood reserves DC (adjusted for land value changes) vs site-specific neighbourhood reserves DC vs A fixed neighbourhood reserves DC (adjusted for inflation)

One of the difficulties in applying the 2018 Policy for both developers and Council officers has been the bespoke neighbourhood reserves DC calculation for each site.

The first option assessed was to calculate a fixed neighbourhood reserves DC for greenfield sites and adjust it each year based on historical land sales values. The advantages of this approach are that the DC will closely reflect the cost to Council of purchasing new reserve land while also reducing the complication and cost to both developers and Council in implementing the Policy. Certainty for developers is also improved. The disadvantage is that annual consultation may be needed, taking additional time, although this is proposed to be mitigated by utilising the Annual Plan process.

The second option is to continue to require individual valuations to be undertaken by developers and a bespoke DC calculation be done for each site. While this approach would ensure that the DC collected most closely reflected the cost of land purchase, there is an additional cost to developers as well as lacking certainty for them. Additionally, this approach has proven difficult to administer over the last three years.

The final option considered is the same as the first option but with the DC adjusted by inflation each year rather than being based on actual land sales. This has the advantage of being the most administratively efficient and likely to be the lowest cost to the developers. The disadvantage is that it would be likely that Council would not collect enough revenue to fund the purchase of new reserve land due to land prices possibly increasing faster than inflation.

It is therefore proposed to use option one, recalculating the fixed fee each year based on the previous calendar year land sales.

City Centre DC waiver: All residential development gets the waiver vs 30 HUDs per year limit vs no waiver

The current Policy waives DCs for up to 30 HUDs of residential development per year.

The first option considered was to retain the City Centre waiver but remove the 30 HUD limit so all residential development in the City Centre is eligible for a waiver. The advantages of this option are that it encourages City Centre residential development, removes the need for developers to artificially adjust development timing to be eligible for the waiver and is administratively efficient. The disadvantage is that it creates a shortfall in funding for infrastructure in the area that will need to be funded from rates.

The second option is to retain the waiver with the limit of 30 HUDs per year. This option has similar advantages to the first in that is encourages City Centre residential development but not to the same extent. Developers will also likely to be required to delay projects to be eligible for the waiver in a particular year.

The final option is to remove the waiver altogether. This option reduces the cost to ratepayers but without providing an incentive to develop in the City Centre, residential development in this area may slow.

It is therefore proposed to continue to waive DCs for residential development in the City Centre but remove the 30 HUD limit.

Brownfield discount: Remove vs retain

The 2018 Policy has a 25% reserves contribution discount for residential development on brownfield sites. The options considered as part of the Policy review were to either remove or retain the discount. The advantage of retaining the discount is that it reduces costs to developers, making redevelopment of brownfield sites more attractive and in doing so encouraging intensification. The disadvantage is that the cost of additional growth-related infrastructure is carried by ratepayers and developers in other areas.

Removing the discount results in growth infrastructure being funded by those that create the demand but may discourage developers from developing brownfield sites.

It is proposed to remove the brownfield discount from the DC Policy.

State Integrated Schools exemption: Introduce an exemption vs continue to charge DCs

During the term of the 2018 Policy, Council resolved to waive DCs for development that the Nelson Christian Academy was undertaking. This decision has prompted an assessment of whether State Integrated Schools more widely should have DCs waived.

The first option is to exempt State Integrated Schools from DC costs. The advantages of this approach are that it is consistent with the previous Council decision as well as providing consistency with how schools, in general, are treated by the Policy. The disadvantages are that the land and buildings occupied by State Integrated Schools are privately owned, and the added cost to ratepayers to fund growth infrastructure.

Option two is to continue to charge DCs for State Integrated Schools. This approach ensures that growth costs are borne by those that create the additional demand but is inconsistent with the previous Council decision and how State Schools are treated.

It is therefore proposed to waive DCs for State Integrated Schools.

Discount for 1 and 2 bedroom dwellings: Retain discount if a title is shared vs extend discount to all dwellings of this size vs remove the discount

The 2018 Policy discounts DCs for 1 and 2 bedroom dwellings that share a title with a primary dwelling.

Option one is to retain the discount with no change in the 2021 Policy. The benefit of this discount is it encourages more affordable backyard infill.

Option two is to extend the discount to all 1 and 2 bedroom dwellings, regardless of whether or not they share a title. This has the benefit of reducing costs to developers and potentially encouraging them to allow smaller dwellings to be built on the sections they develop. The disadvantages of this approach include the significant increase in complexity of administering DCs with the DC calculations being required at subdivision stage and again at building consent stage with the final land-owner potentially surprised by additional costs if they choose to build a dwelling with more than two bedrooms. The discount would also no longer be targeting affordable housing in the same manner.

The final option considered is to remove the discount altogether. This is the most administratively simple and ensures DCs are collected in full to fund growth infrastructure. The disadvantages are that it does not encourage backyard infill and reduces opportunities for more affordable housing options.

It is therefore proposed to retain the discount for 1 and 2 bedroom dwellings that share a title with a primary dwelling.

Timing of payment: Require at subdivision vs delay until building consent

Developers have often brought up the issue of the timing of payment for DCs. The feedback is that the demand does not come on the infrastructure networks until the building is constructed so payment of DCs should occur at that stage.

The first option considered by Council is to continue to require DCs to be paid at subdivision consent stage (for those projects requiring resource consent). The advantage of this approach is that the timing of collection of DCs is closer to the time that Council has to spend money to upgrade infrastructure to serve the development areas. Council is required to invest in services before any subdivision can take place and therefore the financial impact has already been felt well in advance of development occurring. The disadvantage to this approach is that it requires developers to carry a higher financial load for a period before they see any income from section sales.

The second option is to require payment at building consent stage for all consents. This does have the effect of assisting developers with managing their financial risk but instead requires Council to carry this risk for longer. Additionally, the cost of DCs will fall to the eventual owner of the section when they apply for building consent which increases their costs.

It is therefore proposed to continue to require payment of DCs at subdivision stage.

Make a Submission

Anyone may make a submission about any aspect of the draft Policy.

If you wish to discuss the draft Policy before making a submission, please contact Team Leader City Development, Lisa Gibellini on 03 546-0200 or via email lisa.gibellini@ncc.govt.nz

A submission form is included at the end of this document. **Submissions must be received no later than midnight on 21 April 2021.**

Any person who wishes to speak to the Council in support of their submission will be given the opportunity to address the Council at a hearing during the period 4 May 2021 – 6 May 2021.

Submissions can be made:

- Online at **Shape.nelson.govt/development-contributions**
- By post to Development Contributions Policy PO Box 645, Nelson 7010
- By dropping off to Civic House, 110 Trafalgar Street, Nelson

Submission Form

Policy on Development Contributions 2021

Name: ....

Organisation represented: (if applicable)...

Address: ....

Email: ....Tel: ....

Do you wish to speak at the hearing? Yes / No. If you do not circle either, we will assume you do not wish to be heard. If you wish to present your submission at the hearing in Te Reo Māori or New Zealand sign language please include this information in your submission.

Public Information: All submissions (including the names and contact details of submitters) are public information and will be available to the public and media in various reports and formats including on the Nelson City Council website. Personal information will also be used for administration relating to the subject matter of submissions. Submitters have the right to access and correct any personal information included in any reports, information or submissions.

Comments:

Please attach additional sheets if needed.

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