SUMMARY STATEMENT
PC26 – Financial Contributions
Mr McIlrath for Waipā District Council
20/09/2023

1. The proposed PC26 seeks to expand the aspects covered by Financial Contributions (FC) to include a proposed residential amenity and Te Ture Whaimana FC. I have worked with the Council to develop the FC methodology for the two new FCs.

2. As part of my assistance to the Council for PC26, I raised several issues in the initial FC approach. I believe these issues are addressed in the proposed FC methodology.

3. These notes summarise the key points of my Evidence, Rebuttal as well as the Joint Witness Statement[1].

4. In my view, the following key points are relevant for the FCs:
    (a) The principles to guide the FC,
    (b) The process used to calculate FCs,
    (c) The assumptions regarding retirement villages,
    (d) Interplays with Development Contributions, and
    (e) The challenges posed by unplanned growth.

5. I provide brief commentary on these points.

PRINCIPLES TO USE

6. There is considerable statutory guidance and direction about how to estimate, calculate and apply Development Contributions (DCs). However, this is not the case for FCs. This provides some leeway in how FCs can be calculated and applied.

7. I used the principles outlined in the Local Government Act 2002 (LGA) relating to Council's obligations regarding DCs to help guide my FC review and to set up the FC methodology. These principles include:

[1] Prepared together with Mr Akehurst, economic expert Retirement Villages Association of New Zealand Incorporated and Ryman Healthcare Limited.

(a) "fair, equitable and proportionate",

(b) "proportional to, the persons who will benefit from the assets to be provided (including the community as a whole), as well as those who create the need for those assets".

8. Mr Akehurst and I agree that these principles are appropriate.

PROCESS TO CALCULATE FCs

9. Conceptually, there are two parts to the FC calculation process. Firstly, the total project costs are expressed on a 'per dwelling' basis. And secondly, this FC is then applied to different developments to calculate the 'per development FC'.

10. The Council provided a list of example projects to consider for the residential amenity and the Te Ture Whaimana FCs. An important issue in estimating the FCs is the interplay with other Council funding sources, especially DCs and rates. I have assumed that project budgets are not already recovered through DCs or rates.

11. Next the distribution of costs and benefits are considered. If, for example, existing households will benefit from a project, then those households should also contribute towards the project costs. This is normally recovered through rates. But if a project is paid for via rates, then growth households will also pay that portion. The FC reflects any shortfall in the cost that are recovered from growth households after accounting for the portion of costs recovered via rates. The FC load per dwelling (growth unit) is estimated using a goal seek approach that accounts for the costs recovered via rates from existing households and growth households. The total cost recovered is reconciled against assumed project cost to ensure that there isn't any over/under recovery.

12. The main elements used to calculate the FCs are:

(a) The projected household growth based on the 2021 NPS-UD Housing Development Capacity Assessment[2].

(b) Project details:

[2] M.E Ltd, 2021. *NPS-UD Housing Development Capacity Assessment: Future Proof Partners,* Final, 30 July 2021.

(i) Project budget (capital costs) and financing costs,

(ii) The distribution of benefits and costs, across locations (e.g., Cambridge, Kihikihi, Te Awamutu), and growth parts (infill, greenfield, existing). The distribution is entered using the relative shares that are then used to distribute the costs to different households based on the (assumed) share of benefits received. The costs falling to different housing segments are influenced by these shares.

(iii) Timeframes (a 10 year period is used to reflect the growth/change).

13. In this case, FCs are used in an intensification context with several unknowns that limit the ability to identify and pre-plan specific projects to deal with growth pressures and the specific requirements or responses. Consequently, it is difficult to define specific project catchments, budgets and scopes in anticipation of those pressures.

14. I understand that the anticipated average annual budgets (over ten years, and relevant portion for FC) across the relevant Council projects are:

    (a) Te Ture Whaimana – in the order of $450,000/annum,

    (b) Residential amenity – in the order of $350,000/annum.

15. Based on the estimated project budgets, assumptions about the distribution of benefits and the understanding that any relationship with other funding sources are captured, I estimated the FCs as:

    (a) Te Ture Whaimana $1,500[3], and

    (b) Residential amenity $1,300[4].

16. These are the maximum FCs. An advantage of setting an upper limit is that it provides a degree of predictability and certainty to developers. These FC rates reflect the (maximum) Dollar-value to collect from each new dwelling and the second part of the FC process relates to applying FCs to the growth units in a development specific context.

[3] Rounded
[4] Rounded

17. The proposed methodology (formula) has built-in flexibility to acknowledge and reflect development specific attributes.

18. With reference to the Residential Amenity FC, an additional $500/dwelling relating to tree planting will be included in the FC charge. Council staff have advised me that this value is based on the cost to plant a tree in Waipā[5].

ASSUMPTIONS REGARDING RETIREMENT VILLAGES

19. Retirement villages have unique development attributes that need to be considered and reflected when calculating the applicable FCs. Mr Akehurst provides a set of ratios reflecting average demand profiles of retirement village (Figure 1 in his Evidence). The proposed FC calculation retains the ability to reflect such development specific attributes, by applying these ratios. In fact, Mr Akehurst applies the formula to estimate the applicable FCs.

20. However, there is a risk that by using industry averages (i.e., the ratios), that a development could have demand ratios that differ from those put forward with the resulting FC miscalculated.

21. The trade-off relates to providing certainty to potential retirement village developers around the applicable FC, and the ability to reflect development specific attributes. It is accepted that retirement villages have unique demand profiles. Considering the scale of potential discounts, it is important to retain an ability to assess developments on a case-by-case basis. For context, Mr Akehurst suggests that the Residential Amenity FC for an independent unit should be five percent (5%), or $65 per unit (vs $1,300 per unit).

22. In my view, based on the potential scale of the discount, retaining the ability to consider developments on a case-by-case basis helps to mitigate the risk of miscalculating FCs.

INTERPLAYS WITH OTHER FUNDING STREAMS

23. The interplays with DCs and rates are important because of the double counting risk but this can be mitigated by differentiating between funding streams and the projects

[5] The cost includes after-planting care to ensure that the plant establishes.

included in the FC calculation. The FC methodology emphasises this aspect and the calculations are based on such separation.

24. Care needs to be taken during implementation to avoid overlaps between FCs and DCs. This caution is required in implementing the FCs, and is a part of any DC-review process.

CHALLENGE OF UNPLANNED GROWTH

25. A key challenge in estimating the FCs relates to the uncertainty around the anticipated growth patterns. When estimating DCs, the anticipated growth patterns (or the growth that is being planned for) are reasonably well understood. This provides a mechanism to link demand for a project with existing supply, and existing capacity in the asset network. This type of information is key in estimating the effects of the capital investment, and the relationships between the outcomes of a project and community segments like growth households, and existing households. Any change in the Level of Service delivered by a project, and how the benefits of that investment falls to household segments can then be calculated, with the costs proportioned to different household segments.

26. In the context of intensification and unplanned growth, such detailed information is not available. The unplanned nature of intensification means that there is a tension between identifying specific projects to address requirements, and the effects of intensification. This challenge means that using a set of assumptions around the distribution of costs and benefits across existing and growth households is required. Any assessments or modelling seeking to identify specific projects will have the same challenge i.e., how to estimate demand for projects without a clear indication of where, when and how much development will occur over time. For example, assumptions around development patterns will be needed to scope specific projects to address the adverse effects of intensification. These assumed effects can then be used to design specific projects and to then estimate projects budgets, and the cost-demand profiles that would underpin the FCs. Essentially, this approach replaces one set of assumptions for another.

27. In my opinion, a degree of uncertainty will remain in any FC calculation.

CONCLUSION

28. The FCs are calculated using a set of projects[6] and assumptions about the distribution of benefits. The calculation is based on a formula that provides some visibility about the intended approach.

29. Looking forward, the projects and assumptions underpinning the FC calculations will need to be continuously reviewed and refined to better reflect the intended outcomes, and to capture the link between the avoided, mitigated or remedied effects, and the project budgets.

[6] Council supplied.