Auckland Council
Te Kaunihera o Tāmaki Makaurau

Date: **Tuesday, 6 December 2022**

Sharing the cost of Drury's growth Contributions Policy 2022 variation A Consultation

WRITTEN FEEDBACK

Submission number	**Organisation name,** *if applicable*
4439026	
4451108	
4454025	
4454993	
4456375	
4456938	
4517212	
4517277	
4517471	
4517873	
4517923	
4518269	
4518278	
4518290	
4518354	GYP Properties Limited
4519360	
4519487	
4521869	
4525023	
4546633	
4564026	
4566465	
4567788	
4570537	
4571541	
4575523	
D001	Te Runanga o Ngati Whatua
D002	ToneA Investments (NZ)
D003	
D004	Smith Architects Ltd
D005	Reidy &Co and Resident Properties
D006	Haydn & Rollett Ltd
D007	Founders Development Limited
D008	Willis Bond
D009	Cooper and Associates (2013) Limited
D010	Fulton Hogan Land Development Limited
D011	Summerset Group Holdings Limited
D012	Drury South Limited
D013	Ergon Properties
D014	BRO Tonganui Limited
D015	Lomai
D016	Property Council NZ
D017	Kiwi Property Group
D018	Beachlands South Limited Partnership (BSLP)
D019	Fisher and Paykel Healthcare
D020	Ryman Healthcare
D021	The Neil Group
D022	Oyster Capital
D023	Fletcher Residential Limited
D024	Retirement Villages Association of New Zealand

[Type here]

Submission number	**Organisation name,** *if applicable*
D025	Tack Group
D026	Metlifecare
D027	Infrastructure NZ
D028	Waka Kotahi
D029	Hugh Green
D030	New Zealand Green Building Council
D031	Te Waihanga
D032	Woolworths NZ
D033	Euroclass Design and Build
D034	MADE Group
D035	New Zealand Storage Holdings Limited

Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

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Your feedback

Question:

Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?

What do you think of this proposal? **Support**

Tell us why:

New investment needs to cover the cost of additional infrastructure. new investment would include intensification, greenfields, increasing the size of an existing building (esp toilets bedrooms etc), etc

Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

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Tell us why:

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What do you think of this proposal? **Support**

Tell us why:

I strongly support internalising the costs of greenfield development. Suburban sprawl has high costs of infrastructure, and low population densities (and therefore property values) with which to fund them. This video gives a good overview of how low density areas create inequitable costs for cities, it's called "Suburbia is Subsidized: Here's the Math"
https://www.youtube.com/watch?v=7Nw6qyyrTeI
Besides the simple financial cost, suburban sprawl and greenfields development also increases commute distances, which are one of the main drivers of greenhouse gas emissions. This is again well demonstrated in the data:
https://i0.wp.com/www.greaterauckland.org.nz/wp-content/uploads/2014/10/Annual-CO2-emissions-per-commuter-v1.jpg
And just to top it off, low density greenfields development reduces the land area available for farming, forestry or public parks.
Internalising the costs is not only fair, it will help to disincentivise development which is not in the best interests of Aucklanders.

Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

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What do you think of this proposal? **Support**

Tell us why:

I think developers should pay their fair share towards infrastructure.

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What do you think of this proposal? **Support**

Tell us why:

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What do you think of this proposal? **Do not support**

Tell us why:

All new development needs to pay for the necessary infrastructure for that development and not pass costs onto ratepayers and future generations. There must be no cost transfer from developers to ratepayers. As it is, ratepayers and future generations have to pay for upkeep and maintenance costs for the life of the infrastructure which is way in excess of the initial capital cost

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What do you think of this proposal? **Do not support**

Tell us why:

It is not good modern planning, we should be able to fundraise for Elon Musks's "Boring tunnel" for central Auckland to connect to another main area to reduce the traffic on the motor way, this would reduce the need to create more ugly roads & have more ugly traffic accidents. Houses are too crammed together - & poorly design with not enough views between housing. It is stressful living. Resolving a great deal of the traffic on the Southern motorway & congestion inner city & surrounds will help reduce the stress from ugly living & building.

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What do you think of this proposal? **Support**

Tell us why:

Developers make significant profits from the uplift in value as land is developed.
A good example is 88 Fred Taylor Drive, Westgate. This was purchased in 2007 for $3,150,000. It was then sold in December 2020 for over $40,000,000. The land was unchanged. The land is a farmers field, 8.1787ha in area. There is a significant uplift in value from rural to intensively developed urban land.

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Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?

What do you think of this proposal? **Not found**

Tell us why:

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What do you think of this proposal? **Other**

Tell us why:

Council should support the infrastructure development more. We pay rates and the council should use those funds to build better infrastructure around us.

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What do you think of this proposal? **Support**

Tell us why:

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What do you think of this proposal? **Support**

Tell us why:

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What do you think of this proposal? **Support**

Tell us why:

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What do you think of this proposal? **Support**

Tell us why:

This area will continue to grow over more than the next 10yr and will require ongoing support for infrastructure - roading, trains, other public transport, water, drainage etc

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Submitter details

Organisation (if applicable):GYP Properties Limited

Your feedback

Question:

Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?

What do you think of this proposal? **Do not support**

Tell us why:

Significant changes to the Plans are likely beyond 2031. Taking these in to full consideration and then getting developments in the initial phases (those already committed to the area) in onerous and basically unfair. Ongoing reviews of status of projects and funding requirements should be undertaken not trying to forecast between 10 -20 years.

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What do you think of this proposal? **Support**

Tell us why:

This is new infrastructure to support new homes built by developers for a profit. At worst this is a business expense for the Developer

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What do you think of this proposal? **Do not support**

Tell us why:

The developers should pay the full bill.

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What do you think of this proposal? **Support**

Tell us why:

Cost to develop should be by the developers, and the current DC policy is totally flawed. DCs should be based on land value I.e 10% of value at date of sale (registered valuation on titles or date of sale)
The cost to provide infrastructure for a large development it greater than 20 years not the 10 you are limiting it to.

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What do you think of this proposal? **Other**

Tell us why:

Any new development needs to be fully funded by the developers. Any profit goes to the developers. Only those benefiting by housing or other buildings to buy or by selling any buildings should be paying all costs. No Council/Ratepayers from other areas should fund one cent of another new development. We have funded too many dodgy developments.

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What do you think of this proposal? **Support**

Tell us why:

Developers pay out of their profit, whereas ratepayers pay out of their income...it is central government and its immigration policy driving Auckland's growth, so government should fund it

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What do you think of this proposal? **Support**

Tell us why:

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What do you think of this proposal? **Support**

Tell us why:
Longer term planning

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What do you think of this proposal? **Other**

Tell us why:

Auckland is too big as is. Stop the growth. The city is full. 2.4 m is hideous

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What do you think of this proposal? **Do not support**

Tell us why:

Developers should pay for the infrastructure, why else would council build the infrastructure there.

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Tell us why:

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What do you think of this proposal? **Support**

Tell us why:

Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

Feedback must be received by 5.00pm **8 November 2022**

Auckland Council uses development contributions (DCs) to ensure that an appropriate share of our investment in infrastructure is recovered from those that create the need for, and benefit from, the investment.

Our Contributions Policy sets out the costs to be recovered and how these are translated into DC levels in different parts of the region. This is regularly updated to reflect new information, such as updated projections about growth or planned investment, or policy decisions made.

The current contributions policy was consulted on in late 2021 and became effective from 1 January 2022. We are now proposing a variation to this policy, to enable the inclusion of infrastructure for Drury beyond the ten period of the Long-term Plan 2021-2031.

We strongly encourage you to read the proposed approach and accompanying information before answering any of the following questions.

We encourage you to give feedback online at akhaveyoursay.nz, or you can:

Scan and Email your completed form to:

Contributions.PolicyTeam@aucklandcouncil.govt.nz

Post your completed form to:

Contributions Policy Team
Auckland Council
Private Bag 92300, Victoria Street West
Auckland, 1142

Your details

Your name and feedback will be included in public documents. All other personal details will be kept private.

First name: [redacted] Last name: [redacted]

Email address or postal address: [redacted]

Your local board: Franklin

Is your feedback on behalf of an organisation or business? (If yes, this confirms you have authority to submit on the organisation's behalf)

☒ Yes ☐ No Name of organisation/business: TONEA Investments (NZ) Limited

Your feedback

Our contributions policy ensures that the cost of infrastructure is shared between developers and ratepayers, based on who causes the need for and/or benefits from the infrastructure.

The first priority growth area we're focussing on is Drury-Ōpaheke– an area whose population is projected to grow from 4,000 to over 60,000 in the next thirty years and will require supporting investment of $2.869 billion. This investment will include a public and active transport led approach to transport infrastructure, parks and open spaces, and a new community facility that will include a local pool, leisure centre and library.

We estimate investment in this area will take around 30 years to deliver. Currently, the policy only requires developers to contribute to investments in infrastructure that will be delivered over the next 10 years. Without this funding from development contributions, the burden of providing infrastructure and risk of undesirable outcomes will fall on the remainder of the city's ratepayers and the future residents of Drury.

We are proposing that it is more appropriate to include the full amount of this investment required to support growth in the contributions policy. This would mean all developers in the area will contribute an average level of contribution in this area of around $83,251 per Household Unit Equivalent.

Please see attached letter

1. **Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?**

- ☐ Support
- ☐ Do not support
- ☒ Other
- ☐ I don't know

Tell us why

Please see attached letter

2. **Do you have any other feedback?**

Please see attached letter

TONEA INVESTMENTS (NZ) LTD

16 September 2022

Contributions Policy Team
Auckland Council

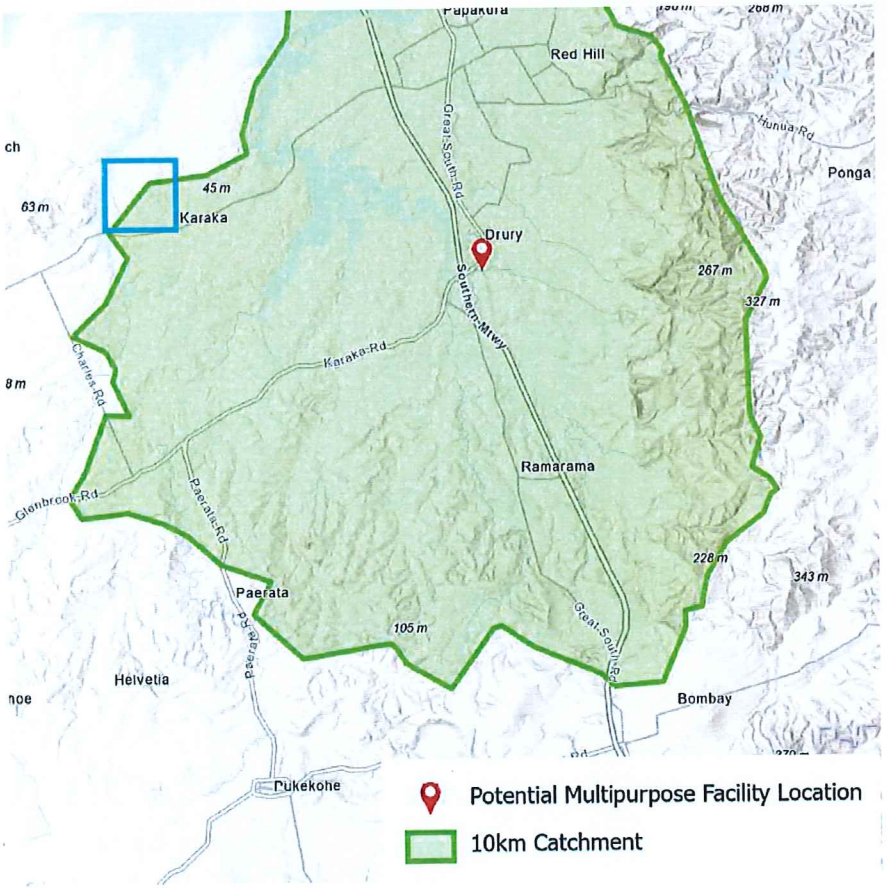
Via email: contributios.PolicyTeam@aucklandcouncil.govt.nz

Contribution Policy 2022 Variation A

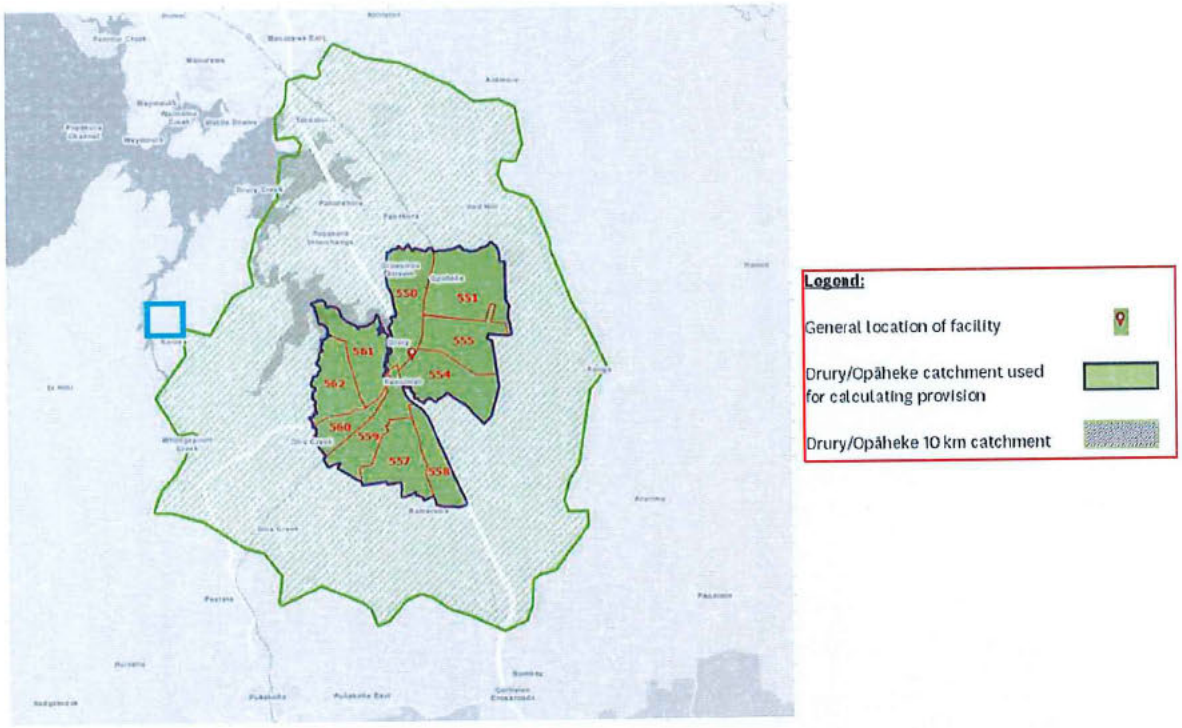
TONEA Investments (NZ) Limited is providing feedback on the Council's proposed Variation A to the 2022 Development Contributions Policy. The feedback is made on behalf of itself and other related group companies which own land within the areas covered by this variation.

We have chosen not to get into merits of levying contributions for infrastructure up to 30 years out.

Having reviewed the proposed Funding Area Maps (in Appendix G1) and the Supporting Advice for the community facility provision (Appendix C1) there is inconsistency between the funding area plans in these two documents.



Map 2 Driving catchment of 10km from facility in MSM 554



The first map is the proposed Funding Area Map and the second is the more detailed map in the Supporting Advice. On both maps we have shown one example, in blue, where they differ. We believe that the two maps should be consistent and that he second map is the more accurate one.

We have raised this with the DC Policy Team who have advised that we should provide formal feedback and further advised:

> *"... They were created by the same department for the same purpose and the differences were not identified internally by us previously.*
> *The map at this stage is indicative of the location of the proposed facility and the existing road layouts uploaded into our systems.*
> *The calculations in our modelling was based on the map in the supporting information documentation and not the later produced funding area mapping ..."*

If the proposed development contribution is based on the area in the second of the two maps (which the extract above confirms) then the funding area map needs to be updated to reflect the same. This appears to be an administrative oversight which we believe should be fixed before the policy is finalised.

Yours faithfully

[redacted]

Director
TONEA Investments (NZ) Limited

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Your details

Your name and feedback will be included in public documents. All other personal details will be kept private.

First name [redacted] Last name: [redacted]

Email address or postal address: [redacted]

Your local board: Waitemata

Is your feedback on behalf of an organisation or business? (If yes, this confirms you have authority to submit on the organisation's behalf)

☐ Yes ☑ No Name of organisation/business: _____

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We estimate investment in this area will take around 30 years to deliver. Currently, the policy only requires developers to contribute to investments in infrastructure that will be delivered over the next 10 years. Without this funding from development contributions, the burden of providing infrastructure and risk of undesirable outcomes will fall on the remainder of the city's ratepayers and the future residents of Drury.

We are proposing that it is more appropriate to include the full amount of this investment required to support growth in the contributions policy. This would mean all developers in the area will contribute an average level of contribution in this area of around $83,251 per Household Unit Equivalent.

1. **Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?**

- [x] Support
- [ ] Do not support
- [ ] Other
- [ ] I don't know

Tell us why

It is fair. Developers should contribute fully to infrastructure. Without the development, which they profit from, infrastructure is not necessar

2. **Do you have any other feedback?**

No - its all about sharing the cost in a fair way. And ensuring that every development has infrastructure that will take us forward into the next century.

8 November 2022
Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council
Freepost Authority 182382
Private Bag 92 300
Auckland 1142

Auckland Council draft Development Contribution Policy

1. Summary

1.1. Smith Architects Ltd welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year funding model and $83,000 average DC fees. We recommend:

- The new Mayor and the Council not adopt the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;

- The Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent (very much a minimum reduction we are seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
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2. 30-year timeframe creates complexities with funding and financing

2.1 The previous Council was working towards introducing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
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6.1. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, we are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframe.

6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

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Causation

7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

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8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
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8.4. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of St Heliers. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

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9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

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Smith Architects

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2 November 2022

Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council
Freepost Authority 182382
Private Bag 92 300
Auckland 1142

Auckland Council draft Development Contribution Policy

1. Summary

1.1. Reidy & Co & Resident Properties welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council revisit the 30-year funding and financing plan decision that the previous Council made and replace it with a 30-year strategic vision that is financed and reforested in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

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6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

6.3. We recommend the new Mayor and the Council not adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

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Causation

7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

7.3. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

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8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. Increased DC fees will likely result in the following outcomes:

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- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

8.3. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

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8.1. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing huge inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone.[1] These increases must be factored into the DC policy.

8.5. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

8.6. We have serious reservations towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs from around $23,000 to $83,000 average per household will have significant consequences and likely hinder unlocking Drury development altogether.

9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

Yours sincerely,

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General Manager – Property Development
Founders Development Limited

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7 November 2022
Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council
Freepost Authority 182382
Private Bag 92 300
Auckland 1142

Auckland Council draft Development Contribution Policy

1. Summary

1.1. Willis Bond welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year funding model and $83,000 average DC fees. We recommend:

- The new Mayor and the Council not adopt the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;

- The Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent (very much a minimum reduction we are seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
- The Council work closely with the residential developers to better understand the implications that DC increases have on house prices.

2. 30-year timeframe creates complexities with funding and financing

2.1 The previous Council was working towards introducing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
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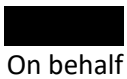
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Submission on Auckland Council Development Contributions Policy 2022 Variation A

To:

Contribution Policy Team

Auckland Council

Private Bay 9230, Victoria Street West

Auckland 1142

By email: Contributions.PolicyTeam@aucklandcouncil.govt.nz

SUBMITTER DETAILS

Name of Submitter: Fulton Hogan Land Development Limited (FHLD or the Submitter)

1. FHLD makes this submission on Auckland Council's Development Contributions Policy 2022 – Variation A (the Policy) as follows.

2. FHLD are concerned that the approach taken to the Policy Variation, in particular for Drury East, will have significant impacts, and could further prevent development from occurring in this location, given the substantial $70,000 increase proposed in the Development Contributions taking them up to $99,298 per Household Unit Equivalent (HuE).

3. FHLD could not gain advantage in trade competition through this submission.

4. FHLD opposes the Policy, for the reasons outlined in this submission.

OVERVIEW OF FULTON HOGAN LAND DEVELOPMENT

5. FHLD is one of New Zealand's largest residential land development companies and has made a significant contribution to housing supply in the Auckland region over the past 20 years through developments such as Dannemora, Millwater, and more recently Milldale. FHLD is also developing land for housing at Pokeno and One Tree Point in conjunction with Joint Venture partners and in the South Island around Christchurch.

6. FHLD has an interest in the DC Policy that is greater than the interest of the general public, given FHLD's significant landholdings in Drury East.

7. FHLD have been responsible for the recently approved Plan Change 49: Drury East Precinct, to rezone 184ha of Future Urban zoned land to a mix of residential zones, with a small neighbourhood centre zone.

8. Overall, the Policy Variation has the potential to give rise to significant effects, and has not been given fair consideration nor have the proposed changes been evenly distributed across the Future Urban zoned land within the wider Drury-Opaheke future growth area.

SUMMARY OF SUBMISSION

9. FHLD welcomes the opportunity to provide feedback on the Policy. It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

10. FHLD strongly oppose the proposal to on average increase the development contribution fee from around $23,000 in Auckland to $83,000 in Drury, and more specifically the proposal to increase the development contributions for Drury East to $99,000 per HuE. Increases of this magnitude will have a negative impact on the number of houses developed and housing affordability.

11. Furthermore, Auckland Council advises that stormwater infrastructure is yet to be taken into account in calculating the Drury-Opaheke contributions. This omission adds further to the uncertainty and lack of clarity of the Policy Variation, and could be a significant additional cost, that has not been considered in the calculations for Drury-Opaheke DCs.

12. FHLD recommend the new Mayor and Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act.

13. FHLD are extremely concerned that if the Council approve Drury DCs to the magnitude proposed for Drury East ($99,298), it will prevent development from occurring in this location, and in turn the cost of housing will be significantly increased. This will in turn put more pressures on Auckland's housing supply and will likely see the sector look outside of the Drury-Opaheke Future Urban area, which has been strategically zoned for future growth and for development opportunities. Central Government has identified Drury as a priority development area and has consequently invested significant funds into infrastructure to support the future development of this area. The Policy Variation proposed by Auckland Council will effectively prevent this development from occurring, making it unviable for developers to deliver housing in this location.
14. The suggestion by Auckland Council that the Policy Variation will have no impact on the cost of housing is incorrect as it ignores the fact much of the land for development has already

been purchased and that the DC's and Watercare Infrastructure charges on a per hectare basis would be as much as the cost of Future Urban Zoned land.

KEY REASONS FOR SUBMISSION

Growth Rates Adopted

15. The proposed DC policy for Drury East does not include development occurring within the Plan Change 48, 49 or 50 areas until after 2028 which is now redundant, given a consent order has been received from the Environment Court and live zoning will be applied to the three Plan Change areas. Agreement has been reached between all the parties on these plan changes.

16. FHLD are of the view that the DC Growth model needs to be updated to reflect the growth that will be occurring in these areas earlier than currently modelled in the Policy. This will have the effect of reducing the predicted interest costs and land values for projects given the aggressive land inflation figures adopted by Council in the current model.

17. The Policy Variation requires the Drury-Opaheke Funding Areas to pay contributions towards the cost of infrastructure that is anticipated to be implemented after 2032. FHLD are concerned that this will disincentivise development in Drury as a consequence of elevated contribution requirements, while incentivising early development elsewhere in the city prior to the introduction of similar contribution regimes there. This will effectively incentivise development in locations which are less proximate to public transport investment.

18. FHLD are concerned that the Policy variation does not equitably calculate the contributions required in respect of works that are to be carried out in the future and most notably beyond 2032 as the Policy appears to have assumed extremely high land purchase and construction costs and / or to have applied multiple contingencies over time that collectively elevate the inputs to the models to an unrealistic extent.

Assumed Transport Infrastructure Projects

19. There is a significant lack of justification provided for the full list of transportation projects arrived at by the Supporting Growth Alliance, as being required to mitigate the effects of development in Drury East, and assumed through the Policy.

20. FHLD are concerned that the transport component of the Policy Variation is inaccurate and has been calculated on unreliable and outdated information.

21. A number of the listed transport projects that have been included in the costing for the proposed DC Policy will be delivered by developers, including FHLD, and therefore should

not be included in the policy and the calculations to determine the DC's, for example the interim upgrade to Waihoehoe Road.

22. It also appears that the Contributions Policy assumes that Council will purchase land at full price from developers such as FHLD. In practice, Council and its related entities are likely to require the land and infrastructure on it to be vested without charge or at a discount through the consent process. In that case, they will not incur these costs.

23. A process needs to be agreed to work through the above matters so as to narrow the areas of difference between the parties.

Fixed Price vs Incrementing Price

24. The Council is proposing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

25. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. FHLD are concerned that the calculations become increasingly inaccurate and uncertain past 10 years.

26. Given the issues raised throughout this submission, FHLD are concerned that there are fundamental issues with the proposed DC policy.

27. Whilst it would be preferable to pause the Policy Variation and work through the matters raised above constructively, if Auckland Council are intent on proceeding now it is FHLD's strong preference to adopt the Incrementing Price Option set out at page 36 of the 'Methodology for Calculation DCs for Drury'.

28. As partially acknowledged by Auckland Council at paragraph 147 of the aforementioned document the Fixed Price approach unfairly encumbers with costs including interest and an aggressive land inflation cost for projects that are projected to occur 20-30 years after the payment is made.

29. FHLD recommend the new Mayor and the Council not adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure) which could result in grossly overcharging through development contributions. FHLD consider the costs are overstated as discussed throughout our submission.

30. FHLD are of the view that the Incremental Price is a much fairer approach to adopt, as it will also mean that the size of any overpayments being made in the early years whilst the real costs to mitigate development at Drury East are being worked through are significantly less than the Fixed Price option. This means that parties would have more capital to develop sites and increase the level of growth, thus having an overall benefit to everyone wishing to develop and live in Drury as this will reduce the interest costs and limit the extent of land inflation included in the DC pricing.

31. The above would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $99,000 average DC fee per household in Drury East. This will help ensure fairer allocation, better transparency and intergenerational equity.

32. Given the very conservative nature of the DC model, which appears to have been developed to act as deterrent to development occurring at Drury East and given the inflated costs and excessive DC figures arrived at, there is no risk of early developers being charged a 'disproportionately lower share of growth infrastructure cost' as suggested could be the by Council at paragraph 147 of the Methodology report.

Lack of Transparency

33. Council released consultation documentation in the form of documents and 2 spreadsheets on or around 14 September.

34. Within the package, one small spreadsheet contained some detail around transport projects for the Drury area and the other was titled "Drury_DC_model_Released_12_Sept.xlsb". This is made up of a number of tabs that contained values set against projects and years that represented things such as DC Revenue forecasts, DC Interest estimates and DC Prices. The values in the tables appear to be the product of a number of calculations that pulled together information on; growth of HUEs, capacity at existing facilities, new facility cost and land costs to generate estimates of development contributions pertaining to Drury. The calculations (for the most part) are not included in the model spreadsheet.

35. Many of the calculations and decisions made about how much to spend, where to spend it, how to allocate costs between existing and growth and so on, occur in other models. The Drury DC Model (as released) contains references to excel macros1 that run processes and calculations – but the macros were not included with the model as released. Furthermore, a number of spreadsheets linked to the Drury DC Model were also not available in the

[1] A macro is a piece of code that may run a number of calculations in a particular sequence and is used to automate calculation of formula that are repeated numerous times throughout a spreadsheet.

consultation package. This is difficult to verify as the operation is driven by macro's that are not included in the model as released.

36. FHLD considers there is limited ability for developers or other interested and impacted parties to assess how the distribution of benefits influence, or how demand drives infrastructure costs and therefore development contributions.

RELIEF SOUGHT

37. FHLD seeks the following relief on the DC Policy:

    a. that the Drury East DC model be **corrected** through:
        i. **reviewing and updating** the growth figures which are significantly out of date, given the three Drury East Plan Changes (PC48, PC49 and PC50) have now been approved, with a Consent Order from the Environment Court;
        ii. **reviewing and updating** the list of transport infrastructure projects included in the DC Policy (and the calculations) to only those transport projects that are required to mitigate the effects of development at Drury East (and exclude those projects being funded by others, including developers, from the calculation and DC Policy).
        iii. **reviewing and updating** the adopted land inflation figure of 7.2% p.a. and **reducing** this to something that is much more realistic and accurate.

    b. the **Incremental Price Option is adopted** rather than the Fixed Price Option, and that Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032.

    c. that the Contributions Policy be **amended** to remove geographical inequities and adopt a consistent and equitable approach to the geographical allocation of funding responsibility for infrastructure.

    d. that Auckland Council prioritise undertaking active engagement with landowners to secure agreements for land required for reserves and other specified projects so as to reduce the costs of the same. Agreements can include delayed settlements and IFA's can be used to offset costs against DCs payable.

    e. that Auckland Council include details of the stormwater and other works that Council anticipates will ultimately be included in the Contributions Policy but which are currently omitted.

f. that the **Policy Variation is put on hold** until all information is made available and the quality of that information has been accepted by all relevant experts and all matters above have been addressed.

CONCLUSION

38. FHLD strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house in Drury East contribute just under $100,000 in DCs. This will have significant negative effects on development in Drury.

39. FHLD wishes to be heard in support of this submission.

40. FHLD would consider presenting a joint case if others make similar submissions.

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[redacted]
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Auckland 1140

Contact Number: [redacted]
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Summerset Group Holdings Limited
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Website: www.summerset.co.nz

8 November 2022

Finance and Performance Committee
Auckland Council
Private Bag 92300
Victoria Street West
Auckland 1142

Email: contributions.policyteam@aucklandcouncil.govt.nz

Dear Sir/Madam

Submission on Sharing the cost of Drury's growth – Contributions Policy 2022 variation A (Variation A) on behalf of Summerset Group Holdings Limited

1. Summerset is New Zealand's second largest developer and operator of retirement villages, which makes it one of New Zealand's largest home-builders. Summerset has 35 villages completed or in development across New Zealand and provides a range of living options for more than 6,600 residents.

2. New Zealand is facing a housing crisis, including a retirement living and aged care crisis. It is vital that the regulatory environment recognises and provides for the development that is required to meet this growing demand, and funding for associated infrastructure, but does so on a fair and proportionate basis that reflects, for comprehensive care retirement villages like Summerset's:

   2.1. the reduced occupancy per unit when compared to a typical household unit - Summerset's average occupancy for its independent units is 1.3 residents per unit and for its care units is 1 resident per unit; and

   2.2. the typically low pattern of demand on community infrastructure, amenities and facilities when compared against the demand assumptions for a typical household unit - residents entering Summerset's villages average 81 years, have specialist physical and social needs, and access Summerset's extensive range of on-site amenities.

3. Summerset made a submission on the Auckland Council Proposed Development Contributions Policy 2021 and is grateful for the opportunity to provide further feedback to the Council on Variation A.

4. Summerset wishes to express its support for the submissions of the Retirement Villages Association of New Zealand and the Property Council New Zealand in their entirety. Summerset requests the Council engages constructively with the Retirement Villages Association and the Property Council New Zealand in relation to Variation A.

Yours faithfully,

[redacted]

[redacted]

General Manager Development
Summerset Group Holdings Limited

SUBMISSION ON AUCKLAND COUNCIL'S CONTRIBUTIONS POLICY 2022 VARIATION A

To: Auckland Council ("**Council**")

Submitter: Drury South Limited ("**DSL**")

Submission on: Auckland Council's Contributions Policy 2022 Variation A ("**Variation A**")

Introduction and Summary

1. DSL welcomes the opportunity to submit on Variation A.

2. DSL was established by Stevenson Group Limited to deliver the Drury South Crossing project. DSL has substantial landholdings in Drury South, which it is developing progressively as part of a 361-hectare master-planned mixed-use development next to State Highway 1. Once the Precincts have been fully developed, they will provide around 45 hectares of residential, 170 hectares of industrial and 10 ha of commercial land.

3. For the reasons set out below, DSL supports the proposed approach to contributions for Drury South under Variation A.

The Drury South context

4. Over the last 14 years, DSL has undertaken the plan change, designed and engineered various infrastructure requirements and is now at the stage where those plans are being implemented, with the construction of roads and infrastructure connections being put in place. Construction of the first new warehouses and commercial facilities began in late 2021, with the development expected to be completed by 2027.

5. The Drury region is well placed to distribute services through Auckland and the wider area, including the Tauranga–Hamilton corridor, and avoids the traffic congestion associated with locating in central Auckland. As the land in this area is less built up, there are opportunities to build on a scale far greater than in other more established parts of Auckland. We have seen demand from a range of industries for land within this development, including logistics, warehousing, transport businesses, automotive, contractors, trade retail, food manufacture and distribution.

6. Once operational, the development will make direct provision for 6,900 jobs and facilitate an additional 12,200 jobs in the region. It is forecasted to make an annual contribution of $780 million to regional GDP and facilitates flow-on annual GDP benefits of $2.3 billion. The construction of the site itself, as a one-off impact, will result in $620 - $820 million in regional GDP and provide for the equivalent of 8,700 – 11,500 jobs during its development.

7. To enable the development of Drury South, DSL has agreed with Council, Auckland Transport and Waka Kotahi on the funding and delivery of the infrastructure upgrades necessary to facilitate the development of Drury South. The upgrades are clear, have largely been constructed, and importantly are distinct from any of the upgrades needed to facilitate new residential growth in the broader Drury-Ōpaheke policy area, to the north of Drury South. The broader Drury-Ōpaheke policy area is in a far earlier stage of the planning process and does not share the same approach as Drury South for infrastructure funding and delivery needed to support growth.

Development Contributions at Drury South

8. Drury South is subject to transport and stormwater contributions in the Development Contributions Policy 2022. The only change in Variation A proposed to Drury South is a small adjustment to regional transport contributions ($3,801 per HUE to $3,834 per HUE).

9. DSL supports retention of the current approach to development contributions for Drury South as proposed in Variation A because:

   (a) the infrastructure investment to meet demand generated by Drury South has been primarily addressed through a separate process, and those upgrades to Drury South have already largely been constructed; and

   (b) it is necessary and appropriate for Drury South to continue to be recognised as distinct from the Drury-Ōpaheke policy area to allocate contributions fairly and based on demand generated by growth.[1]

[1] Schedule 13 of the Local Government Act 2002.

Decision sought

10. DSL seeks that the Council:

(a) retain the approach in Variation A to Drury South; and

(b) such further other orders, relief or other consequential or other amendments as considered appropriate and necessary to address the concerns set out above.

DRURY SOUTH LIMITED by its solicitors and authorised agents Russell McVeagh:

Signature: [redacted]

Date: 8 November 2022

Address for Service: [redacted]
Russell McVeagh
Barristers and Solicitors
Level 30
Vero Centre
48 Shortland Street
PO Box 8/DX CX10085
AUCKLAND 1140

Telephone: [redacted]

[redacted] [redacted]

8 November 2022

Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council
Freepost Authority 182382
Private Bag 92 300
Auckland 1142

Auckland Council draft Development Contribution Policy

1. Summary

1.1. Ergon Properties Ltd welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council revisit the 30-year funding and financing plan decision that the previous Council made and replace it with a 30-year strategic vision that is financed and reforested in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year timeframe and $83,000 average DC fees. We recommend:

- The new Mayor and the Council reconsider the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;
- The Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent (very much a minimum reduction we are seeking);

- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
- The Council work closely with the residential developers to better understand the implications that DC increases have on house prices.

2. 30-year timeframe creates complexities with funding and financing

2.1 The previous Council decided to introduce a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's decision to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

6.1. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, we are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframe.

6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

6.3. We recommend the new Mayor and the Council reconsider the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We

already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

6.4. Instead, we are supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

7. Problems with model

Causation

7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

7.3. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

7.4. We are also concerned around double dipping. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. We strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

7.5. We are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

8. Housing affordability

8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or

- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

8.3. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

8.4. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of Remuera. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

8.1. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing huge inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone.[1] These increases must be factored into the DC policy.

8.5. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

8.6. We have serious reservations towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs from around $23,000 to $83,000 average per household will have significant consequences and likely hinder unlocking Drury development altogether.

9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

Yours sincerely,

[redacted]

[redacted]
Director
Ergon Properties Limited

[1] Consumers set to pay, as builders have a supply chain reaction. Stuff NZ. 9 July 2021. Retrieved from https://www.stuff.co.nz/business/125690062/consumers-set-to-pay-as-builders-have-a-supply-chain-reaction

8 November 2022
Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council
Freepost Authority 182382
Private Bag 92 300
Auckland 1142

Auckland Council draft Development Contribution Policy

1. Summary

1.1. BRO Tonganui Limited, of 1121 Great South Road Drury, welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year funding model and $83,000 average DC fees. We recommend:

- The new Mayor and the Council not adopt the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;

- The Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent (very much a minimum reduction we are seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
- The Council work closely with the residential developers to better understand the implications that DC increases have on house prices.

2. 30-year timeframe creates complexities with funding and financing

2.1 The previous Council was working towards introducing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's intent to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
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- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

6.1. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, we are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframe.

6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

6.3. We recommend the new Mayor and the Council not adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

6.4. Instead, we are supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

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7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

7.3. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

7.4. We are also concerned around double dipping. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. We strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

7.5. We are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

8. Housing affordability

8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

8.3. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

8.4. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of St Heliers. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

8.1. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing huge inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone.[1] These increases must be factored into the DC policy.

8.5. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

8.6. We have serious reservations towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs from around $23,000 to $83,000 average per household will have significant consequences and likely hinder unlocking Drury development altogether.

9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

Yours sincerely,



[redacted]
BRO Tonganui Limited.

[1] Consumers set to pay, as builders have a supply chain reaction. Stuff NZ. 9 July 2021. Retrieved from https://www.stuff.co.nz/business/125690062/consumers-set-to-pay-as-builders-have-a-supply-chain-reaction

AUCKLAND COUNCIL DEVELOPMENT CONTRIBUTIONS 2022 VARIATION A

To: Contribution Policy Team
Auckland Council
Contributions.policyteam@aucklandcouncil.govt.nz

LOMAI PROPERTIES LIMITED submits as follows in respect of the proposal:

Identification

1. Lomai Properties Limited is a major landowner at Drury and initiator of Private Plan Change 61 to the AUP which was approved by a consent order in the Environment Court on 27 September 2022.

Issues

2. Lomai's principal issues of concern are:

   (1) The inconsistency of policy approach with areas outside Drury.

   (2) The unexplained scale of the increased costs.

   (3) The need for a full audit of projects, their timing, and costings provisions.

   (4) The need to review interest calculations and methodology to ensure that Council is not over-recovering on its cost of funds.

   (5) Council provides no commitment or certainty as to timing or conclusion of the projects.

Inconsistency

Selective application of 30 year horizon

3. If Auckland Council intends to apply 30 years as a constant project identification and funding policy it should do so evenly, in a way that does not unfairly differentiate one particular development area such as Drury from the rest of the region. Not to do so would be a breach of section 197AA which enables a *"fair, equitable and proportionate"* recovery of growth costs.

4. Council's development contribution policies incorporating rules as to the amount of contributions payable, have until now been underpinned by and have applied a single and consistent set of policies for application across the region. Application of the rules has in some instances resulted in varying HUE charges (as best exemplified with the stormwater levies) reflecting the particular demands of servicing particular catchments. Variation A seeks to impose upon Drury some selective new policies and rules that are inconsistent with the rest of the rules applying region wide. Accordingly, Council's proposal is better described as **"a selective addition to"** rather than a **"revision"** of the 2022 Policy.

5. Until now, Council has attempted to work on a 10 year project and costing horizon, updated periodically to keep the schedules and costs relevant. No research or evidence has been produced to indicate any advantages of abandoning the 10 year horizon, subject to updating it each three years, or sooner if circumstances require it.

6. The potential 30 year gap between the first dwellings being occupied and some of the infrastructure being completed raises serious doubts as to *"distribution of benefits"* and *"contribution to the need"* in terms of the financial management requirements of section 101(3)(a) of the Local Government Act 2002.

7. It is unfair that initial developments at Drury should be funding infrastructure (including interest) that they do not cause, require, or benefit from in any way. Further, it is not clear what happens to the initially unspent portions of development contributions paid, but intended to fund works that are 1, 2 or 3 decades in the future.

8. Working to a 30 year horizon involves significant assumptions in respect of:

- Land value inflation.
- Construction cost
- Inflation
- Other factors including patterns of development that may affect project cost for infrastructure works

9. Applying standard interest charges to all HUE's from the outset penalises those who have paid early.

Project Schedules

10. Council reports refer to the multi-billion contribution of the Crown in respect of improved roading to the southern motorway and the extension and electrification of the railway service. Given that the main connections to Drury will not be Council funded, and that the internal subdivision roading infrastructure will be funded by developers, no explanation is given for the high cost for the balance of roading infrastructure that Council seeks to fund.

Costing – Unexplained increase

11. Lomai Properties Ltd is concerned that the costings for the various projects incorporate excessive assumptions in respect of construction cost, contingency funding cost, and general inflation. Lack of access to Council's model makes it impossible for any submitter to undertake a proper audit.

Relief sought

(1) The application of a 10 year horizon consistent with the Contributions Policy 2022 as it applies to the region.

(2) An independent audit of the proposed projects and their intended scale is requested which, amongst other things, would help ascertain how much of the increased cost relates to local rather than general factors.

(3) An independent audit of the project costings – subject to any adjustments to the nature or scale of those projects as a result of the initial project audit.

(4) A full review of present and anticipated cost funds to Council.

(5) A commitment to provide all required works in a timely manner that does not require temporary works or interim funding from developers.

(6) A further round of public submissions following release of the audits.

(7) Public hearings before the Governing Body of the final proposals.

Property Council New Zealand

Property Council New Zealand

Submission to Auckland Council on

Sharing the cost of Drury's growth – Contributions Policy 2022 variation A Consultation

8 November 2022

For more information and further queries, please contact
[redacted]

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Corporate Sponsors

Property Council New Zealand

8 November 2022
Auckland Council
Auckland 1142
Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz

Auckland Council 'Sharing the cost of Drury's growth – Contributions Policy 2022 variation A' consultation

1. Summary

1.1. Property Council New Zealand ("Property Council") welcomes the opportunity to submit to Auckland Council on the 'Sharing the cost of Drury's growth – Contributions Policy 2022 variation A' consultation ("DC Policy"). It is absolutely critical to have a robust Development Contribution ("DC") policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of the cost of development amongst all ratepayers.

1.2. Property Council strongly opposes the proposed increase in average development contribution fee per household from $22,564 to $83,251. This is an increase of over 268 per cent in the average development contribution fee per household. This increase is of an extreme magnitude and will have a significantly negative effect on the number of houses developed in Drury, will reduce housing affordability.

1.3. We are deeply concerned that Council intends to introduce a 30-year DC funding and financing model for Drury, because of the deep harm it will result in. Instead, Property Council recommends that the new Mayor and Council revises the proposed approach of the previous Council and replaces it with a 30-year strategic vision for Drury that is financed and funded in successive 10-year increments.

1.4. This would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the rate of DCs in Drury down from an average of $83,251 and preventing unnecessary pressure on housing supply and affordability.

1.5. Property Council notes that 'causation' is not a term in the Local Government Act 2002. We are concerned that Council's proposal to incorporate causation in the DC Policy is unjustified. Accordingly, we recommend that the Council remove the causation component from the DC proposal. This would result in an immediate 9.5 per cent reduction in Drury DCs. We stress that we believe there needs to be greater reductions alongside those from removing causation.

1.6. Property Council is also deeply worried that this DC Policy will set a negative precedent for development across the rest of Auckland. In the event of similar changes to DCs in other areas, there is a high risk that future developments (residential, commercial, industrial and retail) currently in the pipeline will be put on hold. This is due to the significant impact of that changes to DCs of this scale entails. This will in turn put more pressure on Auckland's housing supply and will likely see the sector look outside of Auckland for development opportunities – only adding to New Zealand's housing affordability pressures.

1.7. A reduced development pipeline across Auckland will have a harmful effect on Auckland Council's finances, with reduced revenue from growth associated sources (both development contributions and future rates revenue).

2. Recommendations

2.1. We strongly oppose both the proposed 30-year funding model and over 268 per cent increase to DC fees for Drury. We have made a list of recommendations to influence better and fairer outcomes for all:

- The new Mayor and the Council does not adopt the 30-year infrastructure funding and financing approach due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to instead develop a 30-year strategic vision for Drury, with funding and financing occurring in 10-year increments;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding under the IFF;
- The Council remove causation from their modelling which would automatically decrease Drury DCs by 9.5 per cent (very much the minimum reduction PCNZ is seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
- The Council work closely with the private sector to better understand the implications that DC increases have on house prices.

3. Introduction

3.1. Property Council is the leading not-for-profit advocate for New Zealand's most significant industry, property. Our organisational purpose is, "Together, shaping cities where communities thrive".

3.2. The property sector shapes New Zealand's social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand.

3.3. Property is Auckland's largest industry. Property provides a direct contribution to GDP of $12 billion (12 percent) and employment for 71,940 Auckland residents.

3.4. Property Council is the collective voice of the property industry. We connect property professionals and represent the interests of 387 Auckland based member companies across the private, public and charitable sectors.

4. Procedural transparency

4.1. The development sector remains deeply concerned with the lack of transparency from Auckland Council regarding Drury development contributions. When Auckland Council previously consulted on Drury development contributions in 2021, Property Council raised our concerns that the formal

consultation period on Drury development contributions lasted less than one month, was during a COVID-19 lockdown, and did not make Council modelling available to the public.

4.2. As a result, the previous Council delayed the implementation of new DC fees in Drury, with instructions to provide the public with more information, but still committed to a 30-year funding timeframe, in principle, for other Investment Priority Areas.

4.3. We firmly believe that the previous Council made an error in agreeing to an in principle 30-year funding and financing timeframe approach without having clarity on what the modelling or costs would be on future development.

4.4. The current consultation process has similarities with the 2021 process. We once again have had limited time and data provided (requiring the use of the Official Information Act by Property Council), with the most recent data being provided 13 working days before the due date of this submission. We understand that the root cause of difficulties and uncertainty that have arisen throughout the Council's process – is because of the 30-year funding timeframe ideology.

4.5. Despite having the late additional data, one clear question remains a concern from our members – how capital expenditure be accurately calculated and allocated beyond a 10-year period? This question remains unanswered by Council staff, due to the complexities that a 30-year timeframe establishes.

4.6. In particular, we have been advised by Council staff that if DCs are over-collected, at the end of the 30-year period the Council will track down developers to provide compensation. This proposal is very far from ideal. We are not aware of this happening at present, where Auckland Council proactively refunds overpaid development contributions. Anecdotally, the property sectors experience to date has been the opposite.

5. 30-year timeframe creates complexities with funding and financing

5.1. The previous Council worked towards introducing a 30-year timeframe to fund and finance infrastructure in Drury, using development contributions. This is a significant change from current 10-year timeframes within Long Term Plans.

5.2. It is essential that Auckland Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future infrastructure demand over a 30-year period.

5.3. Under section 197AA of the Local Government Act, Auckland Council must ensure that a 30-year approach is fair, equitable and is proportionate of the total costs of capital expenditure to service growth over the long term. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

5.4. Furthermore, there are a number of things that add to the complexity of the modelling and will need to be considered by Council such as:

- Impact of inflation on delivery of projects over time;

- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's intent to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

5.5. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. For example, things like the impact of inflation are extremely difficult to predict over a 30-year timeframe. We have real concerns that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return amount of overcharge. This will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframes, supported by a 30-year strategic vision, over the current 30-years funding model.

5.6. Property Council is also concerned that the Council has not demonstrated sufficient consideration of alternative funding methods such as Infrastructure Funding and Financing through the Crown Infrastructure Partners. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region.

5.7. The Infrastructure Funding and Financing Act was introduced by the government in recognition that existing development contributions mechanisms have been unsuccessful in appropriately allocating growth costs and have already been successfully utilised in Auckland for greenfield development in Milldale and are implemented internationally.

5.8. The main difference between DCs and the Infrastructure Funding and Financing Act, is the level of certainty of over costs. For example, to apply for funding support from the Crown Infrastructure Partners, more certainty of actual costs is required. In comparison, DCs are a blunt tool that allow Council's to be less accurate with the numbers and costs. It is disappointing to see that Auckland Council has once again chosen to use the blunt tool that is DCs which will result in the Council missing out on the opportunity to have Crown Infrastructure Partners funding and to reduce the impact of DCs on housing supply and affordability.

5.9. We recommend the new Mayor and the Council not adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

5.10. Instead, we are supportive of a 30-year strategic vision for Drury, with funding in 10-year increments that can be reforecast overtime. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

6. Problems with the model

Causation

6.1. The causal nexus test was established in New Zealand case law.[1] The causal nexus test determines whether development contributions are paying for infrastructure needed as a consequence of growth. If the development contributions are not, there is no causal nexus, therefore developments are an inappropriate funding mechanism.

6.2. The purpose of development contributions should be to fund growth induced demand for core infrastructure, such as transport or three waters, that is crucial to the viability of a given development. Our members support this premise of development contributions and are in favour of paying an equitable share of the cost of additional core infrastructure.

6.3. Problems arise when councils treat development contributions as an alternative funding mechanism to increasing rates for services and infrastructure that may or may not be used by the eventual users of those developments.

6.4. For example, the Council's model estimates benefits based on household numbers – i.e., use of a facility or asset. The model then adds a causation component – i.e., if the asset was purchased to cater for growth needs, then 100% causation to growth. We disagree with this connection. Using causation to load cost onto growth is problematic and extremely tenuous.

6.5. We therefore strongly disagree with the Council including causation into their modelling. 'Causation' is not a term found in the Local Government Act 2002. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. The Council incorporating causation into their modelling is a blunt and disingenuous way to collect more fees.

6.6. We are concerned that without ringfencing DCs to the Drury development, removing causation and reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront cost of thirty years' worth of infrastructure, the benefit of which they may never see or experience in their time living in Drury. Furthermore, given the difficulties in modelling infrastructure demand over a thirty-year timeframe, it is possible that some of the pre-paid infrastructure could not be required in the future and thus, will not be built. This does not seem equitable or fair.

[1] *Neil Construction Limited & Ors v North Shore City Council 2007*

6.7. We recommend the Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent. Despite our request to remove causation and decrease DCs by 9.5 per cent, it is important for the Council to recognise that the overall percentage increase is still extremely significant even if causation is removed. This remains an unacceptable burden on the sector, and we strongly recommend further reductions.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

6.8. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

6.9. We are also concerned about the potential for double dipping. In particular, where private developers have paid for a piece of infrastructure (i.e., stormwater) but are being charged for that same piece of infrastructure through development contributions. We strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

6.10. Another concern we have relates to land costs. In 2018, Hamilton City Council commissioned Insight Economics[2] to complete an independent report on the likely developer reactions to increased DC charges. The report signalled a number of issues with DCs, which align with our concerns. In particular:

> "**As DCs increase, the cost of land development rise, and thus its profitability falls**…In other words, land developers (who physically pay the DC) will seek to share some of the cost with raw land owners by paying them less for their land…it is unlikely that the resulting fall in land prices will be sufficient to fully compensate them. **As a result, the increase in DCs will also increase the total cost of land development**…"
>
> "**In summary,** economic theory predicts that the imposition of **higher DCs will impact most, if not all, participants in the wider property market."**

6.11. We are particularly concerned that DC costs are rising after land is sold. Thus, the above example where land developers will seek to share some of the cost with raw landowners cannot occur after the fact. More alarmingly, in some instances contracts for residential development have already been negotiated and signed, long prior to the Council proposing a significant increase in DCs. Thus, higher DCs will impact more significantly on developers and future residents having to share the load of DCs.

6.12. Given the above, we recommend the Council consider removing causation within their model to reduce costs automatically and at minimum by 9.5 per cent. We would also like to see reforecasting every 10-years to unlock Crown Infrastructure Partners funding as stated earlier in our submission. We believe that these recommendations would improve intergenerational equity and ensure that

[2] Insight Economics. (2018). Likely Developer Reactions to Increased Development Contribution Charges. Retrieved from https://www.hamilton.govt.nz/our-council/10-year-plan/10Year%20Plan%20documents/Economic%20report%20-%20Likely%20Developer%20Reactions%20to%20Increased%20Development%20Contributions%20Charges%20-%20Insight%20Economics%20Ltd.pdf

those who benefit from the community infrastructure help contribute towards it over a longer period of time, reducing the financial burden upfront (i.e., within house prices).

7. Housing Affordability

7.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all". The proposed Drury DC Policy will result in diametrically opposed outcomes.

7.2. Increased DC fees in Drury will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project;
- Less affordable typologies of housing being built.

7.3. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council's 2021 Economics Assessment[3] concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

7.4. Additionally, Property Council New Zealand has established a Development Contributions Members Taskforce consisting of 45 member companies across the Auckland region. The Taskforce was established in the past month out of concern for the proposal to significantly increase DC fees in Drury and potentially in other Investment Priority Areas across Auckland. Our members concern came from their own practical experience that increased DC fees are often put onto the eventual buyer or that projects are delayed and/or cancelled due to feasibility issues.

7.5. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of St Heliers. Given the greater distance of Drury from the CBD, and geographic impediments on development, we struggle to see the parallel. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

7.6. Furthermore, accumulative costs are an important factor in DC considerations. Our Auckland industry members are already facing huge inflationary costs across the board. In particular, construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone.[4] These increases have to be factored into the DC policy.

7.7. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we

3 Economics Assessment, pages 8 and 9

4 Consumers set to pay, as builders have a supply chain reaction. Stuff NZ. 9 July 2021. Retrieved from https://www.stuff.co.nz/business/125690062/consumers-set-to-pay-as-builders-have-a-supply-chain-reaction

desperately need to be increasing our housing supply, particularly of affordable housing, and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

7.8. We have serious reservations towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs by over 268 per cent will have significant consequences and likely hinder unlocking Drury development altogether.

8. Impact on Auckland Council Finances

8.1. Auckland Council is currently facing significant budgetary pressure, as a result of factors such as high inflation. The latest Auckland Council estimate is for a $270 million budget shortfall in the 2023/2024 financial year[5].

8.2. Property Council notes our firm belief that the proposed approach to Drury development contributions will likely deter already planned development, both in Drury and other Investment Priority Areas. This will have a direct impact on Auckland Council's rating base and the ability to allocate Auckland City's budget across a larger pool of rate payers in future years. Deterring development in growth areas through unpredictability will reduce increased income associated with growth, in terms of both development contributions and future rates revenue.

8.3. As such, we once again strongly urge Auckland Council to reconsider the proposed 30-year approach to Drury development contributions (along with other Investment Priority Areas).

9. Conclusion

9.1. The DC regime for Auckland is significant interest to our Auckland based members. In order for the property sector to make informed long-term investment decisions, it is vital to ensure fair distribution of fees amongst all ratepayers while not creating a further barrier to the development of affordable housing.

9.2. The proposed approach to DCs in Drury is deeply flawed and Property Council strongly opposes it. We are deeply concerned that the proposed policy will establish a precedent that will restrict much needed development across broad swathes of Auckland, resulting in flow on effects to housing affordability and supply.

9.3. To mitigate our concerns, we recommend the following:

- The new Mayor and the Council does not adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing occurring in 10-year increments;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding under the IFF;

[5] Auckland Council Budget Update. Auckland Council. 07 November 2022. Retrieved from: https://ourauckland.aucklandcouncil.govt.nz/news/2022/11/auckland-council-budget-update/

- The Council remove causation from their modelling which would automatically decrease Drury DCs by 9.5 per cent (very much the minimum reduction PCNZ is seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
- The Council work closely with the private sector to better understand the implications that DC increases have on house prices

9.4. We wish to be heard in person in support of our submission, should there be an occasion provided by the Council. For any further enquiries, please do not hesitate to contact Logan Rainey, Advocacy Advisor, via email: Logan@propertynz.co.nz or cell: 021410787.

Yours sincerely,

[redacted]

Auckland Regional Chair
Property Council New Zealand

Memo

To: [redacted] Kiwi Property

From: [redacted], Director Market Economic

Date: 8 November 2022

Re: Drury Development Contributions Policy 2022 – Variation A

Introduction

The purpose of this memo is to provide an outline of Market Economics' ("M.E") analysis and findings from Auckland Council's proposed Variation A to the Drury Development Contributions Policy 2022. The aim is to provide Drury land-owners with an view on the approaches, assumptions and implications of the soon to be adopted Variation A to the Development Contributions Policy that Auckland Council is currently consulting with the community on.

Based on our assessment of the consultation material (documents and spreadsheet models) a number of concerns have been identified. They cover the consultation process, the assumptions applied in the modelling, the nature of the modelling and some of the theoretical underpinning of the approach.

Key Areas of Concern

At present we have 5 key areas of concern;

1. Inclusion of Causation in cost allocation process.
2. The lack of comprehensive DC Model development – The Council is looking to implement Variation A to the Drury model in isolation.
3. Impact of inclusion of 30 year projects on developers today on housing affordability.
4. Equity issues – impacts of land inflation modelling, impacts on developers and causal nexus
5. Land value uplift as benefit

I cover the issues and key findings for each separately below, and initially discuss the issue of transparency of process, with respect to the consultation data.

Transparency of the Process

Council released consultation documentation in the form of documents and 2 spreadsheets on or around 14 September. The consultation period is set down to run for 8 weeks, through to November 8th.

Within the package, one small spreadsheet contained some detail around transport projects for the Drury area and the other was titled "*Drury_DC_model_Released_12_Sept.xlsb*". This is made up of a number of tabs that contain values set against projects and years that represent things such as DC

Revenue forecasts, DC Interest estimates and DC Prices. The values in the tables were the product of calculations that pulled together information on: growth of HUEs, capacity at existing facilities, new facility costs and land costs to generate estimates of development contributions pertaining to Drury. The calculations (for the most part) are not included in the model spreadsheet and are likely to reside within Asset Management Plans held by the different departments.

In addition, many of the calculations and decisions made about how much to spend, where to spend it, how to allocate cost between existing and growth and so on, occur in other models. The Drury DC Model (as released) contains references to Excel macros[1] that run processes and calculations – but the macros were not included with the model as released[2]. Furthermore, a number of spreadsheets linked to the Drury DC Model were also not available in the consultation package. Auckland Council has subsequently informed me that the references were not material to the model's operation rather they referred to column hand row titles and headings across the model..

Following requests by third parties (RVA and Ryman Healthcare), additional information was released on October 12th. This included links to other spreadsheets linked to the Drury DC Model and explanation of the cells that are connected between the models. In the letter released on the 12th, there was mention of a further release of information on October 20th (Growth_and_HUE_forecast model, and a detailed transport project cost estimate spreadsheet). In addition, it was mentioned that a key piece of input information (demand factors and distribution of benefits for key areas of cost) was not going to be available until 23 March 2023. This appears to be a significant omission from the policy formation dataset given that the key driver of development contributions should be how much demand is created by growth and how are the benefits of key infrastructure distributed between users.

Given that the consultation period ends 8th November 2022, and some key data not available until 2023, there is limited ability for developers or other interested and impacted parties to assess fully, how the distribution of benefits influence, or how demand drives, infrastructure costs and therefore development contributions.

Inclusion of Causation in Cost Allocation Model

Auckland Council's DC model includes (as a driver of the distribution of costs between existing and growth households) an allowance for "causation". The model references the Local Government Act (s101(3)(a)(iii)) as justification for including "causation" as a valid driver of cost. However, the LGA contains no reference to the word causation, rather it refers to "need" and "benefits" as being the drivers by which councils are to distribute cost. "Need" relates to usage and so does "benefits" (i.e.:

[1] A macro is a piece of code that may run a number of calculations in a particular sequence and is used to automate calculation of formula that are repeated numerous times throughout a spreadsheet.
[2] The macro's were explained to me at a meeting with the Auckland Council DC team on October 26th. They simply run goal seek operations on each project in isolation to arrive at a DC price that clears debt by 2060.

members of the public receive benefits in proportion to the amount of use they make of a facility or piece of infrastructure). "Causation" plays no part of the process under the LGA.

The manner in which "causation" influences cost allocation in the Drury DC model is blunt and has the effect of loading costs onto developers and ultimately new households (in particular in the infrastructure categories of Reserve Acquisition, Reserve Development and Community Infrastructure). As outlined in Figure 1, the effect of "causation" on the proportion paid for by developers is clear. Within the Drury Pool/Leisure Centre 10km line, an assessment has obviously been carried out on who benefits from the development of the pool. This is presumably based on who will most likely use the pool/leisure centre. It found that some 58.64% of the benefits fall to growth households – presumably because growth households generate 58.64% future demand pressure for the facility. This demand requires Council to spend money to develop a pool/leisure centre facility.

Figure 1: Drury DC Model Extract from Project_and_capex_costs tab.

Funding area description	Growth %	Level of Service %	Renewal %	Benefit considerations % benefit to growth s101(3)(a)(ii)	Cause considerations % caused by growth s101(3)(a)(iv)	DC growth % (O12+P12)/2
Reserve Acquisition - Opaheke / Drury				100.00%	100.00%	100.00%
Reserve Acquisition - Opaheke / Drury				99.03%	100.00%	99.51%
Reserve Development - Opaheke / Drury	100	0	0	100%	100%	100.00%
Reserve Development - Opaheke / Drury	100	0	0	99%	100%	99.50%
Community infrastructure - Drury IPA		0	0	81.87%	100%	90.94%
Community infrastructure - Drury Pool/Leisure centre 10km				58.64%	100%	79.32%
Community infrastructure - Drury Pool/Leisure centre 10km				58.64%	100%	79.32%
Community infrastructure - Auckland wide	100	0	0	34.24%	100%	67.12%

This means that existing residential households are expected to generate 41.36% of future demand for the pool/leisure centre facility and are likely to receive 41.36% of the benefits. Fairness and equity would indicate that growth households pay 58.64% of the cost while existing households pay 41.36%. However, because Council have added in a "causation" driver of cost, which has been set to 100% to growth households, the proportion of costs they bear increase to 79.32%.

The methodology is crude – Council simply adds the two drivers together (58.64% + 100%) and divides by 2 = 79.32%. There is no theoretical justification behind this process, it seems to be simply a way to

load additional costs onto growth households that is completely unrelated to the amount of load they place on council services. By doing so Council add a further $44m onto growth households, or approximately 8.9% across these categories listed in Figure 1.

It is clear from Council's analysis that, with the growth households in place there is a rationale for providing a new service that will serve the wider community. That generates a benefit for the existing dwellings and residents as well as incoming residents (as the existing residents will have access to a facility that cannot currently be justified for the existing smaller community). It is, therefore, equitable for the costs of that facility to be shared between all the parties who will have access to and the ability to benefit from it. In contrast, the "causation" approach wrongly suggests that provision of the new service is an infrastructural cost that will bring no benefit to the existing community and hence should be borne entirely by the incoming activity.

Piecemeal Implementation of Policy

Auckland Council is rolling out Variation A to the DC policy in a piecemeal manner, in that it is starting with Drury then moving on to the North West and elsewhere in the region. This is likely to have the effect of sending the wrong signals to the market. Because in most instances in Drury the development contribution price change is large (up to an additional $70,000 per section), house prices will increase (discussed in the next section).

The effect of that is that growth households are likely to be dissuaded to a certain extent from choosing to locate at Drury – an area that has been specifically earmarked to cater for growth. Growth households will begin to make decisions to locate to other areas that may not have the infrastructure capacity to cater for growth or may be less than optimal. In effect, the DC policy equates to imposition of a tax on Drury development, which will bring a distortion to the market such that decisions are not being made based on sound fundamentals but will instead be made in response to minimising the effects of a tax.

In order to minimise the impacts of this distortion, we recommend that the imposition of the Drury DC policy is delayed until such a time as the entire Auckland model is developed and fully specified; and the same approach is applied simultaneously throughout the city. It is only then that household decisions can be made efficiently (from an economic perspective).

Impact of inclusion of 30 year projects

Auckland Council does not believe that an increase in development contributions at Drury will have any effect on house prices. This is because Council has assumed that the residual land value model holds sway. Council's model splits the cost of housing up into its components for a developer and given a market driven price (that an individual developer can not influence) shows how much they are able to pay for developable land. Effectively the purchase price for land is the final sale price, minus all build costs, marketing costs, profit margins and council fees. This means that if council fees go up,

the developer will offer and pay less for the developable land and final market prices for housing will not be impacted.

However, because the DC policy is being imposed in a single hit and the developers that it is being imposed upon have already secured the raw land required to develop the Drury FUZ, the amount they pay for land can not be adjusted. There is no ability to go back to the farmers (and others) and re-negotiate the land purchase simply because Council has changed its policy.

This means that including the long term projects in the model (which have caused a large increase in DC's) will impact house prices. This will happen in one of the following ways.

1. Given all the developers in Drury are impacted and that they are all faced with similar increases in costs, they may choose to put up their prices in order to ensure margins are protected and they remain viable. This is demonstrated in Figure 2, below. The effect of localised house price increases is that house buyers will seek alternatives in locations with lower prices, potentially taking advantage of the fact that Council are rolling the DC policy out in a piecemeal manner, rather than as a spatially comprehensive policy that covers all of Auckland. Households will maximise their utility, and this means they trade off the higher house prices at Drury against other locations that may not be as suitable, but are more affordable. This change would be solely driven by the additional DC charge rather than by economic and social fundamentals, leading to a less efficient outcome..
2. Some developers may simply not be able to complete their developments in the short term and or go out of business, given the squeeze on margins the increased DC charge imposes (as outlined in Figure 3). This will cause a reduction in the volume of housing stock coming to market causing prices to rise. In this scenario, developers are operating in a fully competitive market where no localised advantages exist and house buyers are indifferent between Drury and elsewhere. The effect of the DC is to reduce developers' margins significantly. In the example shown in Figure 3 below, developer margins reduce from a normal 20% in the before DC side to 11% following the imposition of the tax. This is below the point where most banks are able to lend money as the risks become too high. Therefore, a portion of developers who cannot proceed due to unavailability of finance will go out of business. This reduces the volume of new housing stock that comes to market in the short to medium term driving prices up.
3. Some developers may choose to develop larger and less affordable, but more profitable, housing typologies that attract purchasers who are better placed to fund the increased prices caused by the high contributions and which hence ensure that profit margins are retained.
4. Finally, some developers may choose to delay residential development until the market prices adjust up to the point where delaying is no longer the economically rational thing to do. In most instances, that will be the point where prices increase such that a 20% developer margin is restored, and the banks will comfortably loan money to fund development works. While some developers may be able to develop at significantly lower margins than 20%, the finance

sector requires developers to be on a sound footing to provide them security to lend. This only occurs when profitability is maintained. This is particularly important in the current economic climate with interest rates rising along with construction sector costs and house prices falling. It is likely to be the case that banks and other financial institutions will require higher profit margins to reflect the increased risks involved in residential development.

In the long run, the market forces Council are relying on to justify the short term position, will come into force and the price paid for land will decrease relative to the total cost. In the short term house prices will rise – reducing housing affordability.

On the basis that Variation A – if adopted - will adversely impact housing affordability by driving up house prices through the actions of developers responding in a predicable and economically rational way to the increase in fees is a significant economic cost on Auckland.

Central government recognised that development contributions have not been a particularly successful way to fund infrastructure and have enacted the Infrastructure Funding and Financing Act 2020 (IFF Act). I understand Auckland Council have chosen not to take advantage of this facility.

Figure 2: Example of how an increase in the DC price increases house prices



Figure 3: Profit reduction effect – margin drops from 20% to 11%



M.E recommend that Variation A be amended to either remove the 30 year projects and revert to a rolling 10 year cycle of contribution fees, or, at the least, bring the policy in over time, such that the effects are price neutral.

One scenario of change is to roll Variation A in over time, so that it has a minimal impact on developer feasibility and/or housing affordability. If the time period over which Council collects DC's is extended every time the policy is reviewed, by 3-5 years. Then over a 12 - 20 year time period, the DC policy would cover 30 years and the impact would be minimal. Obviously, this would need to be assessed appropriately to settle on extension periods and the number of reviews, but it would ensure that any adverse impacts on housing affordability are minimised.

Equity issues, inflation and the causal nexus

The purpose of the development contributions provisions in the LGA is to enable local authorities to recover from those persons undertaking development a fair equitable and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term (s197AA of the LGA 2002)

It is therefore important that the DC price struck is fair, equitable and proportionate and (according to s197AB) based on the benefits received or the need for the assets. This clearly creates a link between benefits and cost allocation, meaning that Council must clearly show the link between growth and the assets required to meet the needs of that growth, in order for the purpose of the Act

to be met. Historically, in the New Zealand context, development contributions are aligned with the 10 year planning horizon as this not only provides a high degree of certainty over assets actually to be built, but it also aligns closely with the average length of time New Zealanders own homes[3].

It is not clear from the documentation provided by Council as part of the consultation pack why selecting a 30 year time horizon results in a more robust outcome than a 10 year horizon – especially given Council are able to re-evaluate their development contributions policy every 3 years and adjust it to incorporate new projects. The advice Council has received states that benefits are best identified as land value uplift from the full planning process[4]. This advice goes on to state that "*In practice, identifying and isolating the benefit of specific infrastructure spending funded by DCs is difficult, perhaps impossible*" (Page 8). This statement is not valid and not correct. Council's asset managers will have identified via robust processes, within their Asset Management Plans, additional infrastructure requirements across the city presumably based on a clear understanding of who uses the infrastructure and therefore what catchments the infrastructure serves.

It is based on this understanding about who uses the infrastructure and what catchments the infrastructure serves that decisions are made to develop future infrastructure. Council uses detailed modelling of current use and consumption of infrastructure to make the decision on how much and where new assets are to be built. It cannot then claim that identifying who benefits from that infrastructure is impossible to determine.

The benefits of infrastructure relate to its use – not the impact the provision of infrastructure has on house prices or land prices. Under the LGA (Section 101 (3)(a) and Section 197AB (1)(a) and (c)), benefits are discussed as they relate to the consumption of infrastructure through use and need rather than through the effect that provision of infrastructure has on land values and therefore developer margins.

Figure 4 outlines when the development infrastructure is to be provided. In total, approximately $1.4bn of additional projects have been added into the DC process, that are to be delivered post 2031. Of this approximately 1/3rd are to be delivered post 2043. However, 88% of the Community Infrastructure is to be delivered post 2043 and almost 75% of the reserve development occurs post 2043.

[3] CoreLogic estimate the average ownership length was 7.4 years in 2019. This is down from a peak of 8.2 years in 2016.

[4] R5 -*Equity of Options for funding long-term infrastructure investment*, Dr Cameron Murray, Dr Tim Helm, June 2022

Figure 4: Drury DC totals by decade, ($m) 2033 - 2052

	2021 - 2031	2032 - 2041	2042 - 2051	TOTAL DC
Reserve Acquisition	0.0	205.4	16.4	221.8
Reserve Development	0.0	47.2	132.1	179.3
Community infrastructure	0.0	17.0	125.0	142.1
Transport	0.0	681.0	197.3	878.3
Total	**0**	**951**	**471**	**1,422**

Source: Drury_DC_model_Released_12_Sept.xlsx, Auckland Council

This means that households who have had to pay significantly more for their sections/houses have to wait over 20 years before they receive any of the benefits from the vast majority of community infrastructure to be provided or the reserves that are to be developed.

In the interim, they are receiving a lower level of service from the existing Council infrastructure due to its location relative to the development and the fact that Council is relying on the delivery of these future projects to meet the community infrastructure and reserve needs of the Drury growth community. In reality, the residents who purchase over the next 10 years, may receive no benefit from the proposed future infrastructure spend, given the average time New Zealand households own their homes, before they move on.

In the alternative, under a 10 year DC regime, reviewed every three years, households who receive the actual benefits of this infrastructure spend are far more likely to receive the benefits of what they actually pay for though DCs

Inflation Projections

Notwithstanding the mismatch between the arrival of households over the next 10 years and the delivery of projects up to 20 years later, the effects of Council's inflation assumptions is to load cost onto today's developers in an inequitable manner, or in a manner that is disconnected from the delivery of benefits. This is because Council do not carry out any discounting of future delivered benefits into today's terms. They apply growth to construction costs at 2.5% per annum and to land at 7.2% per annum as well as interest at 4.46% annually into the future and estimate DC prices today based on the nominal future cost of delivering those assets in future dollar terms.

The reason they do this is that they believe that because the benefits fall to the developers of the land today and that households will not bear any of the costs (given Council's position that prices will not change as a result of imposing additional DC charges), they do not need to discount future benefits.

This is flawed, and it appears as though Council is trying to 'have its cake and eat it too'. The effect of this is stark. By inflating reserve acquisition costs for Suburban Park land at Drury, Council will spend (in nominal terms) almost $65m between 2032 to 2042. Variation A to the development contributions policy, simply divides that number by total households anticipated in the catchments out to 2060 and

allocated it to today's DC price. In other words, they take the $64.6m of capital expenditure and divide it by the 18,932 growth households expected in the suburban park catchment to 2060 resulting in a DC price of $3,448 per HUE (once interest costs are accounted for).

Figure 5: Inflated future expenditures and their values in current terms, ($m) (2022)

	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	Total Cost
Suburb Park Land Acquisition - Drury	$ 6.57	$ 4.56	$ 3.42	$ 3.14	$ 3.37	$ 3.61	$ 3.87	$ 9.04	$ 11.44	$ 12.27	$ 3.29	$ 64.6
Suburb Park Land cost, current terms	$ 4.07	$ 2.62	$ 1.82	$ 1.55	$ 1.55	$ 1.54	$ 1.53	$ 3.32	$ 3.90	$ 3.88	$ 0.96	$ 26.7

However, by removing the effects of the excessive land inflation, the total cost would only be some $26.7m in current terms – or around 40% of the figure used to establish the DC price. By adhering to the dollar of the day values when striking a DC price for today, Council are loading significant costs onto the development community that is not fair, equitable or proportionate – and unrelated to the benefits received.

At the very least, the future expected expenditures should be discounted back to current terms using an expected CPI inflation rate. Doing so would result in a current value of benefits of approximately 64% of the nominal total ($41m compared with $65m). A more appropriate approach would be to adopt a land inflation rate that is inline with citywide growth rather than the land value uplift over recent years. This is because in the long run, growth in land value is likely to be far more closely aligned with overall citywide growth than the extremely low interest, low land tax regime of the past 20 -30 years.

Causal nexus

It is important that in setting a development contribution price, Council are clear about the relationship between growth and the need to invest in new or additional capacity in infrastructure to meet the needs of that growth. Council should not be able to load significant costs onto the growth community for infrastructure that the growth community are not going to benefit from. Infrastructure that is developed in a location and plays no role in meeting growth needs elsewhere, or infrastructure that is developed so far into the future that it delivers no benefits to growth that occurs in the next 5-10 years should not be included in setting a DC Price.

It is also the case that significant pieces of infrastructure benefit the community as a whole. In addition, portions of most infrastructure deliver benefits to the community as a whole – either directly through use or indirectly through things such as existence values or option values.

At present Council appears to be attempting to adopt 2 positions. In terms of the distribution of benefits, Council are relying on a relatively simple approach whereby catchments are established around key pieces of new and existing infrastructure and the current household numbers, or Household Equivalents (HUEs) added up. Council then relies on the growth projection model to generate estimates of future HUEs within each catchment. Benefits for any single piece of

infrastructure is simply the proportional split between current HUEs and total future HUEs (set at 2060).

Assuming the catchments have been set appropriately, this approach is appropriate (with the potential exception, that some assets are liable to reach capacity ahead of 2060 and some will continue to provide services to the community well beyond 2060 (notably open space and reserves). The key issue arises when Council attempts to align growth that is occurring over the next 5 – 10 years with expenditures they may be required to make to cater for growth 20 – 30 years into the future.

It is not the case that far future costs are incurred due to loads placed on infrastructure by households that arrive within the next 10 years. They place no load on that infrastructure, nor do they receive benefits for its existence. As mentioned elsewhere, the average New Zealand household owns their home for less than 8 years. The majority of home-owners who build in the next 5-10 years will leave their properties never having utilised the future infrastructure. There is no causal nexus.

No clear link has been made between development that is anticipated over the next 10 years and benefits they receive over 30 years. Therefore, we recommend that Council steps back from the 30 year model and retains the 10 year model and continues its review every three years. This allows a direct causal link to be made between growth and the need for Council to spend money on infrastructure to meet the needs of that growth.

Land value uplift as benefit

In the advice provided to Auckland Council[5], the benefits of infrastructure investment are said to be embodied in the land value uplift following rezoning or the announcement of infrastructure investment. The advice states that future residents who actually use the infrastructure or facilities are best described as infrastructure users rather than beneficiaries.

On the face of it, this position sits at odds with the manner in which DCs have been constructed in the past where benefits are related to use or need. Yet identifying land value uplift (at least in part) as the accumulated set of benefits that infrastructure provides recognises that benefits are the key metric by which Development Contributions must be struck.

It flows from this position that causation (discussed in Section 4 above) is irrelevant and that benefits - their scale and distribution, spatially and over time - is the only appropriate driver of cost allocation.

Land has value based on the uses that the land can be put to. Those uses are based on the zoning that is applied and other characteristics such as location, geotechnical quality, aspect and relationship with other land and infrastructure. As infrastructure improves following rezoning or infrastructure investment announcements, land value increases because the land can be put to more uses, people

[5] *Equity of options for funding long term infrastructure investment*, (June 2022) Dr C. Murray, Dr T Helm

derive a greater set of benefits from owning that land. This highlights the link between infrastructure investment and land value uplift.

However, the scale of the value uplift is not solely attributed to the infrastructure investment. It is likely to be a trigger for the uplift but not solely responsible for it. An example is, the development of a train station may cause additional investment in higher density housing to co-locate with the station. This leads to retailers and other service providers seeking to co-locate with the station and the residential development to take advantage of the additional activity. The end result is that residential land and retail or commercial land increases in value – triggered by the presence of the train station, but not solely because of the train station. If the housing did not develop, then the retailers may not have sought to locate there or the other commercial activity seeking to take advantage of the amenity the density of development delivers. The infrastructure investment was a necessary, but not sufficient mechanism that led to the development of a retail centre at the station.

It follows then that land value uplift is the result of a number of inter-connected forces, triggered by infrastructure investment – but not solely because of it. As land values rise, so do the rates Council receives from that land. Given that Drury infrastructure is funded by a mix of DC's and rates, and a portion of the rates paid by the growth community is used to part fund the infrastructure developed in Drury (and elsewhere across the city), this amount needs to be identified and offset against development contributions in order to avoid double dipping. Council should not be in the position of collecting development contributions to fund infrastructure required to support growth needs and also charge them rates – a portion of which will be used for the same purpose, without offsetting the rates amount against the DC amount.

Impact on developers and the growth community

As it currently stands, the impact of including 30 year projects in the DC Policy for Drury will fall directly on current developers. These developers do not have the ability that future developers will have, to negotiate land prices such that the DC increases have little or no effect on house prices. This puts the current developers at a distinct disadvantage to the developers who follow.

This is inequitable, unfair and disproportionate, as well as unrelated to the benefits gained from the investment in infrastructure, regardless of how it is portrayed or captured (through usage rates, or land value uplift).

We recommend that the inclusion of 30 year projects is either halted, or is introduced over a longer timeframe that allows the market to adapt and respond to the changes in a price neutral manner.

Best Regards

[redacted]

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AUCKLAND COUNCIL
DEVELOPMENT CONTRIBUTIONS POLICY 2022 VARIATION A

SUBMISSION ON BEHALF OF KIWI PROPERTY GROUP LIMITED

7 NOVEMBER 2021

1. This submission on Auckland Council's proposed Development Contributions Policy 2022 Variation A ("**Contributions Policy**") is made on behalf of Kiwi Property Group Limited ("**Kiwi Property**"). The submission primarily concerns the approach taken in the Contributions Policy with regard to what are variously described in that document as the Drury East and Drury / Opaheke Funding Areas ("**the Drury / Opaheke Funding Areas**").

2. The Contributions Policy is an important source of funding for the infrastructure required to support growth in Auckland. Kiwi Property welcomes the recognition in the Contributions Policy of the need for significant infrastructure to be developed in the Drury / Opaheke Funding Areas and is supportive of a Contributions Policy that allocates costs fairly between the parties and communities who will benefit from infrastructure. Kiwi Property considers that this should include:

   (a) A fair and reasonable calculation of the likely costs of the works, including land costs where they will be incurred.

   (b) An equitable allocation of cost between users of the existing infrastructure who will benefit from an improved level of service (e.g.: as a consequence of improved pedestrian or cycle connectivity, road safety, amenity, or community services).

   (c) An equitable allocation of cost between different parts of the city (i.e.: a consistent approach to the extent of area over which costs are levied so that, for example, Drury landowners are not expected to fund Drury facilities in full while also contributing to the costs of similar facilities in other parts of the city).

   (d) An equitable allocation of costs between generations (e.g.: due recognition that a 2023 development will not benefit from an infrastructure improvement that will only be implemented 25 years in the future).

(e) A consistent approach throughout the city to the time period for implementing infrastructure to be funded by development contributions.

(f) An appropriate net present value calculation so that Council has sufficient funds to pay for works when they occur, rather than receiving both full contributions and compounding interest on those funds.

3. Kiwi Property makes this submission in an effort to ensure that the Contributions Policy exhibits those characteristics.

4. Kiwi Property's key concerns with the Contributions Policy are as follows:

(a) **Issue 1 – Lack of Transparency**: There is a lack of transparency regarding the process through which the development contributions required for the Drury / Opaheke Funding Areas have been calculated which arises because Council has to date failed to:

(i) Share their models in sufficient detail with either the public generally or Kiwi Property in particular.

(ii) Provide:

- Sufficient details of the scope of works for which contributions are required;
- Adequate plans showing the land required for those works; or
- Sufficiently detailed estimates of the land and construction costs which contribute to the estimate of $4.5 billion infrastructure works at Drury.
- Sufficient detail to justify the need for a number of projects, noting that the recently completed PC48 process concluded that some projects identified by Council are not required
- Sufficient details of the proposed projects to ensure that the Contributions Policy does not include projects that will either be completed by the Crown or by private developers at no cost to Council.

(iii) Incorporate into the documentation details of any works and contributions that Council considers will be required in respect of stormwater matters.

(iv) Specify the costs inputs and contingencies and escalations that have been used to calculate the development contributions.

(b) **Issue 2 – Inclusion of costs beyond 2032 in Drury:** Uniquely in the Auckland region, the Drury / Opaheke Funding Areas are expected and required to pay contributions towards the cost of infrastructure that is anticipated to be implemented after 2032. In that regard:

(i) If that approach is to be adopted for the Drury / Opaheke Funding Areas then it should also be adopted for all parts of the Region, so the Contributions Policy does not:

- Disincentivise development in Drury as a consequence of elevated contribution requirements; while
- Incentivising early development elsewhere in the city prior to the introduction of similar contribution regimes there.

(ii) To the limited extent that Kiwi Property has been able to interrogate the Contributions Policy, it appears that it does not fairly and equitably calculate the contributions required in respect of works that are to be carried out in the future and most notably beyond 2032 as it:

- Appears to have assumed extremely high land purchase and construction costs and / or to have applied multiple contingencies over time that collectively elevate the inputs to the models to an unrealistic extent.
- Appears to assume that Council will purchase land from developers such as Kiwi Property (e.g.: road reserves or parks) when in practice Council and its related entities (e.g.: Auckland Transport) are likely to require the land and infrastructure on it to be vested without charge or at a discount rate pursuant to the consent process in relation to development and subdivision, and hence will not incur these costs.

(c) **Issue 3 – Extent of the Drury / Opaheke Funding Areas**: The Drury / Opaheke Funding Areas have, as a generality, been defined too tightly and exclude areas (e.g.: Drury South and Paerata) that will also benefit significantly from the infrastructure in respect of which the Contributions Policy requires contributions only from the Drury / Opaheke Funding Areas. The physical extent of the Drury / Opaheke Funding Areas should be expanded to include the broader area that will benefit from the relevant infrastructure. Alternatively, the proportion of the benefit generated by the Drury / Opaheke works that will accrue to those other areas should be funded in its entirety by Council and not by the Drury / Opaheke Funding Areas.

(d) **Issue 4 – Equity across the Wider Region**: Whereas the Contributions Policy requires contributions from the Drury / Opaheke Funding Areas towards infrastructure that is located elsewhere in the region, it imposes contributions in respect of the infrastructure that is to be constructed within the Drury / Opaheke Funding Areas largely or solely on development within that Funding Area. A consistent and equitable approach should be adopted to the funding of infrastructure around the region.

(e) **Issue 5 – Social implications**: The Contributions Policy will generate adverse social implications (including with reference to resolution of the housing crisis) as a result of imposing:

(i) Relatively low development contributions in established and relatively wealthy central parts of the city, which already benefit from decades of historic council investment in infrastructure and where incoming residents are most able to afford the contributions (approximately $22,564 per lot); and

(ii) Far higher development contributions in the Drury / Opaheke Funding Areas, which have the ability to provide a significant proportion of future affordable housing for the region (approximately $99,298 per lot).

4.2 **Attachment 1** to this submission sets out further particulars of Kiwi Property's concerns.

4.3 **Attachment 2** to this submission is a memorandum dated 8 November 2022 prepared by Greg Akehurst of Market Economics Limited ("**the Akehurst Memorandum**")

recording his concerns regarding the Contributions Policy. Mr Akehurst has identified six key matters which reinforce Kiwi's concerns, being:

(a) The lack of transparency of the Contributions Policy process with particular reference to the supporting material made available to date by the Council.

(b) The inclusion of "*causation*" as a separate factor when allocating cost amongst beneficiaries of infrastructure.

(c) The piecemeal or staggered implementation (i.e.: only in Drury in the first instance) of that part of the Contributions Policy that incorporates costs of infrastructure beyond a 10year period and the lack of a comprehensive approach to the model.

(d) The consequences for developers (e.g.: in terms of profitability) and purchasers of finished development (e.g.: in terms of increased prices) of the inclusion of costs of infrastructure beyond a 10 year period and up to 30 years in the future.

(e) Equity issues including the treatment of inflation and the need for parties who fund works to benefit from them.

(f) The treatment of land value as a benefit.

5. The Contributions Policy incorporates significant changes to the development contribution regime which will in turn impact adversely on the affordability and attractiveness of urban development at Drury, which has been identified by central and local government as a key location for the accommodation of growth in Auckland. In the circumstances, Kiwi Property asks that the Council grant the following procedural and substantive relief.

6. Kiwi Property seeks the following <u>procedural</u> relief:

(a) That the Contributions Policy be put on hold until Council has provided all submitters and affected members of the public with:

(i) Full access to the models that have been relied upon by Council, and their component elements and inputs, so that the basis for the Contributions Policy can be fully understood.

(ii) Details of the scope of and rationale for works for which contributions are required, in sufficient detail to enable Kiwi Property to test the

accuracy of the costings and to satisfy itself as to the need for the works to be implemented;

(iii) Plans showing the land required for and that illustrate the proposed works;

(iv) Detailed estimates of the land and construction costs which contribute to the estimate of $4.5 billion infrastructure works at Drury;

(v) Detailed costs inputs, contingencies and escalations that have been used to calculate the development contributions required for the Drury / Opaheke Funding Areas;

(vi) Detailed breakdown of income that Council has received, has requested or is budgeting to receive from the Crown towards Drury projects (eg.: ATAP funding, NZUP or other Crown funding programmes), and

(vii) Details of the stormwater and other works that Council anticipates will ultimately be included in the Contributions Policy but with are currently omitted.

(b) That Council then provides submitters with sufficient time (e.g.: 40 working days) to review and interrogate the models, inputs and assumptions and to engage further with Council staff to ensure parties are fully informed before proceeding to hearing.

(c) That Council subsequently holds public hearings on the submissions on the Contributions Policy, at which submitters will be able to present additional detailed legal submissions and evidence in support of their submissions.

(d) That the hearing be held before a panel of independent commissioners with suitable qualifications and experience in planning, economics, land development and infrastructure planning, appointed by the Council to:

(i) Review the Contributions Policy, the submissions filed by parties, and the legal submissions and evidence presented at the hearing: and

(ii) Make changes to the Contributions Policy and / or recommendations to the Council in response to the submissions.

7. Kiwi Property seeks the following substantive relief:

(a) That Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032.

(b) That in any event, Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032 unless and until that methodology is also adopted simultaneously for all parts of the Region.

(c) That the Contributions Policy maps and Funding Areas be amended as sought in Part 6 of Attachment 1.

(d) That the Contributions Policy be amended to remove the geographical inequities identified in Part 7 of Attachment 1.

(e) That Council revisits the Contributions Policy to ensure that it takes account of social consequences and does not impose elevated development contributions in those parts of the city, such as Drury, that are most likely to be able to accommodate affordable housing while minimising contributions in the long established, high amenity and least affordable central areas.

(f) Any other or consequential changes to the Contributions Policy required to give effect to this submission.

Dated this 8 day of November 2022

[redacted]

Signed for and on behalf of Kiwi Property Group Limited

Attachment 1

Further Particulars of Submission

1. STRUCTURE

1.1 This submission comprises the following sections:

(a) Background.

(b) PC48 – Drury Centre.

(c) Issue 1 – Lack of Transparency.

(d) Issue 2 – Inclusion of costs beyond 2032 in Drury.

(e) Issue 3 – Appropriate extent of Drury / Opaheke funding areas.

(f) Issue 4 – Equity across the wider region.

(g) Issue 5 – Social Implications.

(h) Relief Sought.

2. BACKGROUND

The Submitter

2.1 Kiwi Property is one of New Zealand's' leading property development and investment companies. It is a publicly listed company and manages a significant real estate portfolio, comprising some of New Zealand's best mixed-use, retail and office buildings. Kiwi Property's investments in Auckland include:

(a) The Vero Centre and ASB North Wharf office buildings in the Auckland CBD;

(b) The Sylvia Park Centre, Mt Wellington, which forms the core of the Sylvia Park Metropolitan Centre; and

(c) The LynnMall Shopping Centre, New Lynn, which forms a key part of the New Lynn Metropolitan Centre.

2.2 Kiwi Property is the parent company of Kiwi Property Holdings No. 2 Limited, the applicant for Private Plan Change 48: Drury Centre Precinct ("**PC48**"), which will enable construction of a new Metropolitan Centre adjacent to the Drury Interchange

between SH1 and Great South Road, and the proposed new Drury Central railway station on the North Island Main Trunk Line. PC48 has been processed alongside two other private plan changes relating to adjacent land being Private Plan Change 49 (Fulton Hogan) and Private Plan Change 50 (Oyster Capital) (collectively, "**the Drury East Plan Changes**").

2.3 The Drury East Plan Changes were approved by Council's independent commissioners. Council (in its capacity as a submitter) and Auckland Transport (collectively, "**the Council Appellants**") then appealed the Drury East Plan Changes to the Environment Court. The appeals have since been resolved through extensive negotiations and mediation. Consent orders upholding the Drury East Plan Changes were issued by the Environment Court on 1 November 2022.

The Contributions Policy

2.4 The most significant departure in the Contributions Policy from the current policy is the incorporation into the contributions to be charged in the Drury / Opaheke Funding Areas of the costs of infrastructure works that are anticipated to occur beyond 2032. Those contributions include costs attributable to works that might be 20 or 30 years away from construction. In contrast, the contributions for the balance of the city are calculated with reference only to works that are to be undertaken within 10 years (i.e.: by 2032).

2.5 The consequence of the change is that, while average contributions per household equivalent throughout the city generally will be approximately $22,564, contributions in the Drury / Opaheke Funding Areas will be approximately $99,298 per household equivalent. Furthermore, Council advises that stormwater infrastructure is yet to be taken into account in calculating the Drury / Opaheke contributions.

2.6 The Drury / Opaheke Funding Areas for the majority of the contributions:

(a) Are limited for the purposes of the local transport contributions to the areas subject to the Drury East Plan Changes;

(b) Include in the case of community infrastructure and reserve acquisition the areas subject to the Drury East Plan Changes together with land at Drury west of SH1; but

(c) Exclude the Drury South and Paerata areas.

2.7 Kiwi Property understands that the Council proposes to introduce a similar approach for growth areas elsewhere in the city in the future but, for the time being, the effect of the Contributions Policy is to impose far greater costs on development at Drury than elsewhere. As a consequence, the Contributions Policy disincentivises development at Drury relative to the balance of the city.

2.8 Kiwi Property calculates that, pursuant to the Contributions Policy, the development at Drury anticipated by PC48 would incur development contributions in the order of $300 million. Land development is inherently risky commercially and, accordingly, these are costs that, contrary to the Council's assumptions, developers will have to pass on to incoming occupants and residents in order to justify their investment risk (as explained in the Akehurst Memorandum). That will:

(a) Increase prices for subdivided land and residential accommodation along with commercial rents;

(b) Incentivise larger and more expensive dwellings and developments that are better able to absorb the increased costs.

3. PC48 - DRURY CENTRE

Kiwi's expectations regarding growth at Drury

3.1 PC48 will enable the development of a Metropolitan Centre, which is the second level of centre in the hierarchy created by the Auckland Unitary Plan ("**Unitary Plan**"), below only the Auckland City Centre zone. There are currently 10 Metropolitan Centres in the Unitary Plan, including the Sylvia Park Metropolitan Centre and New Lynn (which includes Lynn Mall). PC48 enables an 11th Metropolitan Centre.

3.2 Kiwi Property is a substantial organisation with a history of constructing, maintaining and operating high quality and large-scale developments. Kiwi Property takes a long term and strategic approach to the development, maintenance and upgrading of assets. Examples of Kiwi's assets in Auckland include:

(a) Sylvia Park Metropolitan Centre, which Kiwi Property has owned for approximately 25 years and has developed from a cleared brownfield site. Kiwi Property is currently undertaking residential development within and on the edge of Sylvia Park.

(b) Lynn Mall, which is the retail core of the New Lynn Metropolitan Centre, which Kiwi Property has owned since 2010 and which has since been expanded and upgraded. Kiwi Property has obtained consents for high rise residential development above Lynn Mall (i.e.: within the Metropolitan Centre zone).

(c) The Vero Centre office building in Shortland Street, Central Auckland, which was constructed in 2000.

3.3 Kiwi Property anticipates that the urban development of the land subject to PC48 will occur in a staged fashion over a period of approximately 20 to 30 years:

(a) Kiwi's experience at Sylvia Park informs its expectations regarding the rate and staging of development at Drury and the manner in which development can be carried out in conjunction with transport infrastructure improvements. Notwithstanding its location within an existing urban area of the Auckland Isthmus, it has taken 20 years for Sylvia Park to develop to the point where it incorporates the full range of activities and services anticipated and enabled in a Metropolitan Centre.

(b) Whereas Sylvia Park is located in the middle of the Auckland urban area, Drury is at the southern end of that area with urban development only to its north (Papakura) and industrial land starting to be developed to the south. In the circumstances, Kiwi Property is realistic about the pace with which it will be able to develop the Drury Metropolitan Centre and anticipates that the urban development of the land will occur in a staged fashion over a period of approximately 20 to 30 years.

Mitigation of effects arising from PC48

3.4 Kiwi's development will contribute to the generation of more traffic in Drury, water supply and wastewater networks will need to be extended, stormwater from the development will need to be managed, and parks and recreational opportunities will need to be provided for the new residents to thrive. Kiwi Property acknowledges that the existing (largely rural) road network is in poor condition, that the existing stormwater network is a series of neglected farm drains that are highly degraded, and that there is an undersized culvert under the rail line / Great South Road that has historically been a blockage point in large rain events. These are existing issues that need to be resolved if Kiwi's land is to be developed as envisaged in PC48.

3.5 Kiwi Property will physically mitigate the effects of its Drury development, where it can do so on its land or is authorised by the Council Appellants to undertake works on public land and/or public infrastructure. By way of illustration:

(a) Kiwi Property is proposing to widen existing local and collector roads serving, passing through and adjacent to its PC48 land and will construct and vest local roads within its PC48 land.

(b) Kiwi Property is proposing to develop water supply and wastewater reticulation on its PC48 land that will integrate with Watercare Services Limited's trunk network. The PC48 development will incur the fees charged by Watercare in respect of its wider networks.

(c) Kiwi Property has proposed interim and long term methods for addressing stormwater issues on its PC48 land that will not exacerbate stormwater conditions upstream or downstream.

(d) PC48 involves the allocation of Open Space zoning to extensive areas of land. Kiwi Property anticipates vesting that land in Council for public parks and open spaces. During the first instance hearing of PC48, Council as submitter has stated that its Parks Department may not want to accept parkland because it does not want to maintain it. If that occurs Kiwi Property anticipates retaining ownership of the open space and maintaining it privately.

3.6 Kiwi Property is prepared to take financial responsibility for mitigating effects generated by its development where physical works will be undertaken by other parties (e.g.: works to be carried out by Council included in the Contributions Policy). In that regard:

(a) The bulk of post 2032 infrastructure works at Drury addressed in the Contributions Policy relate to traffic, transportation and open space matters.

(b) Through the PC48 process, Kiwi Property committed:

(i) To carry out and vest in the Council Appellants works that are to occur on its land and

(ii) That, together with the applicants for PC49 and 50, Kiwi Property will carry out improvements to the road network that are required as a consequence of the Plan Change and that can occur within the road reserve.

3.7 Those commitments should give Council comfort that the effects generated by PC48 have been considered by Kiwi Property and will be addressed through both physical works and development contributions. It is in that context that Kiwi Property makes the following comments on aspects of the Contributions Policy.

4. ISSUE 1 – LACK OF TRANSPARENCY

4.1 The approach taken to Drury in the Contributions Policy represents a major departure from the existing development contributions regime, particularly insofar as it affects Drury.

4.2 In order for the affected parties to reach an informed opinion on the reasonableness of the Contributions Policy it is necessary for them to have full access to the models used by Council and the inputs, assumptions and contingencies used. Absent that material, the Council's approach cannot be interrogated, tested or replicated.

Kiwi's Concerns

4.3 Council staff are currently expecting developers of the PC48 land to pay contributions in the order of $300 million without providing them with an opportunity to determine whether those sums are justified.

4.4 Kiwi Property has been endeavouring for approximately 2½ years to obtain from the Council and Auckland Transport details of and costings for the works that they say need to be funded by the Drury / Opaheke Funding Areas. That has involved a series of requests for information under the Local Government Official Information and Meetings Act and subsequent complaints to the Ombudsman. Kiwi Property had hoped that adequate information would be provided through the Contributions Policy process but that has not occurred to date.

4.5 The Akehurst Memorandum records concerns regarding the quantum and content of material has been provided to date and the consequential difficulty in carrying out an adequate and accurate assessment of the appropriateness and fairness of the Contributions Policy. The shortcomings in the information provided to date mean that developers and other interested and affected parties are unable to assess the equity of the Contributions Policy prior to the closing date for submissions.

4.6 By way of illustration of Kiwi's concern:

(a) Despite requests from Kiwi, Council has not provided Kiwi Property with sufficiently detailed specifications or costings for the transport projects that it says need to be provided for urban development at Drury to proceed.

(b) Council staff have provided Kiwi Property with PDF documents providing limited material on the projects that have apparently informed the Contributions Policy, but that information is not sufficient to enable an assessment of the validity of the models, the inputs used, or the outputs produced.

(c) Kiwi Property has requested the construction costs, land values and contingencies used in the models but that information has not been made available in sufficient detail to date.

(d) Kiwi Property understands from its discussions with Council staff regarding the Contributions Policy that the scope, location, extent, construction costs and land costs of the collector roads in the Drury / Opaheke Funding Areas for which development contributions of $300 million have been assessed have not been identified with certainty. Further to this, the $300 million is inflated in the models through:

(i) Excessive escalations on land and construction costs; and

(ii) Interest charges due to Council's inability to fund the proposed cost.

(e) Kiwi's understanding is that the calculations relied on to develop the Contributions Policy include the purchase of approximately 2 hectares of land for road widening in Drury East at approximately $2,500 - 3,000 per metre whereas market rate for rural land in Drury is currently in the order of $100-200 per metre. This concern cannot be allayed, because Council has not provided the relevant information.

(f) Kiwi Property has engaged Jones Lang LaSalle (International Property Valuers) to assess the value of the proposed Drury East - Notice of Requirement land areas. JLL has assessed the value at between $8-9 million (including a 50% Adjustment/Contingency factor), Kiwi Property understands that Council has made a provision in the proposed Contributions Policy of $90 million for the same land area. Kiwi Property understands that the $90 million is made up of land value plus contingency on contingency and that the value is then inflated by interest and land inflation of $54 million due to the proposed

payment timing delays. This equates to the value of the proposed land to be purchased escalating in value 27% annually until the new land is funded through the proposed new Development Contributions Policy.

4.7 The extension beyond 2032 of the time frame over which development contributions will be calculated means that the Policy is reliant upon increasingly uncertain and unreliable estimates of:

(a) The physical works that will be required and that will in fact be undertaken.

(b) The specifications of those works and the construction costs involved.

(c) The extent of land that will be required and the cost if any to purchase that land.

(d) Future interest and inflation rates.

As a consequence, the models are likely to be extremely unreliable when estimating contributions that are required in respect of the works that will occur after 2032.

4.8 Kiwi's understanding, based on the limited analysis that it has been able to undertake to date, given the lack of information made available by Council, is that the costs that have been used in the models and the contingencies applied are excessive and unrealistic, with the consequence that the development contributions sought are unreasonably high.

Information sought

4.9 Kiwi Property asks that the Council provide Kiwi Property and other affected members of the public with:

(a) Full access to the models that have been relied upon by Council, and their component elements and inputs, so that the basis for the Contributions Policy can be fully understood.

(b) Details of the scope of and rationale for works for which contributions are required, in sufficient detail to enable Kiwi Property to test the accuracy of the costings and to satisfy itself as to the need for the works to be implemented;

(c) Plans showing the land required for and that illustrate the proposed works;

(d) Detailed estimates of the land and construction costs which contribute to the estimate of $4.5 billion infrastructure works at Drury;

(e) Detailed costs inputs, contingencies and escalations that have been used to calculate the development contributions required for the Drury / Opaheke Funding Areas; and

(f) Details of the stormwater and other works that Council anticipates will ultimately be included in the Contributions Policy but which are currently omitted.

Alleged Commercial Sensitivity

4.10 Council officers have argued that the information sought regarding anticipated land prices cannot be disclosed because it is commercially sensitive. That is not accepted.

4.11 The details sought are the costs used by Council to estimate future contributions. It is understood that they do not represent an offer to landowners or contractors regarding land or construction costs and it is inconceivable that they would be treated as such.

4.12 Council expenditure is subject to statues and regulations (e.g.: the Public Works Act for land purchases) which will ensure that the Council does not pay excessive amounts when purchasing land or construction services. The cost estimates input to the models will be irrelevant to the assessment of actual cost in due course.

4.13 Kiwi Property is not seeking details of the cost estimates for the purchase of individual pieces of land. Rather, it needs to understand the average cost per square metre of land for each project, the assumptions informing construction costs and the escalations and contingencies that have then been applied to produce the development contribution figures. That information is needed for Kiwi Property to understand how realistic the figures used are. The current lack of transparency means that Kiwi Property cannot help to find solutions to funding issues on each of the works on which contributions are being levied. This is because the values that Council is currently using seem so different from the values that Kiwi Property understands have been and are currently being paid for land in the Drury area.

5. ISSUE 2 – INCLUSION OF COSTS BEYOND 2032 IN DRURY

5.1 Uniquely, the Drury / Opaheke Funding Areas are required to pay contributions towards the cost of infrastructure that is anticipated to be implemented after 2032.

5.2 The Akehurst Memorandum expresses concerns regarding the consequences of imposing contributions in Drury that incorporate costs of infrastructure that will not be implemented within a 10 year period:

(a) For developers in terms of reduced viability and profitability of developments; and

(b) For potential purchasers of finished development in terms of increased prices and consequential impacts on the attractiveness of Drury.

5.3 Kiwi's concerns with respect to this aspect of the Contributions Policy also include the following matters.

Implications for accuracy of estimated costs

5.4 The accuracy of predictions as to future behaviour and conditions reduces over time. Hence the accuracy of the Council's assumptions regarding the following matters will become increasingly unreliable and inaccurate over time:

(a) The physical works that will be required and that will in fact be undertaken;

(b) The specifications and costs of the physical infrastructure works that will be required;

(c) The specifications, costs and technologies used to implement such works that are undertaken by any given date;

(d) The extent of land that will be required for such works and the cost (if any) to purchase that land;

(e) Residential and commercial demand and uptake in the interim;

(f) Interest and inflation rates;

(g) Population growth and development contributions paid in the interim period; and

(h) Any contingencies and other escalating factors that are applied.

5.5 That issue will become particularly problematic for the time period beyond 2032, which the Contributions Policy is adopting only for the Drury area. As a consequence, the

models are likely to be increasingly unreliable when estimating contributions that are required in respect of works that will occur after 2032.

5.6 The proportion of development contributions attributable to contingencies and assumed escalations will increase over time and potentially will be the greater part of funds required. In those circumstances it is essential that the calculations be transparent, and parties are able to test assumptions; yet the extended period of time incorporated into the models for Drury will increasingly reduce their accuracy.

Use of Drury as Trial Area

5.7 It appears from the Contributions Policy that Council intends to replicate the Drury approach elsewhere in the city in the future. Given that Drury is to be the trial case, it is essential that the principles adopted be fully justified at this stage.

5.8 While Council may elect to use Drury as a test case for investigating internally the viability and implications of including infrastructure costs beyond 2032, that approach should only be incorporated into the Contributions Policy once it is also adopted for all parts of the Region.

5.9 Requiring development contributions for works beyond 2032 in Drury only, as is proposed in the Contributions Policy:

(a) Disincentivises development in Drury in comparison with the balance of the city during that interim period, as a consequence of the significantly higher development contributions required; and

(b) Incentivises early development in the other identified growth areas of the city so that properties can be sold before they incur the higher development contributions that have been foreshadowed.

5.10 That represents a market distortion for the duration of the time period during which development contributions are required for works beyond 2032 only in the Drury / Opaheke areas, as discussed in the Akehurst Memorandum.

Overstatement of costs in Drury

5.11 To the limited extent that Kiwi Property has been able to interrogate the Contributions Policy, it appears that it does not fairly and equitably calculate the contributions

required in respect of works that are to be carried out in Drury in the future and most notably beyond 2032:

(a) The Contributions Policy appears to have assumed extremely high land purchase and construction costs and/or to have applied multiple contingencies over time that collectively elevate the inputs to the models to an unrealistic extent.

(b) The Contributions Policy appears to assume that Council will purchase land at full price from developers such as Kiwi Property. In practice, Council and its related entities are likely to require the land and infrastructure on it to be vested without charge or at a discount through the consent process. In that case, they will not incur these costs.

(c) For the reasons discussed in the Akehurst Memorandum, the Contributions Policy wrongly includes "*causation*" as a factor when allocated contributions between parties, in addition to identifying the extent to which existing activities and future activities (growth) will benefit from infrastructure.

6. ISSUE 3 – APPROPRIATE EXTENT OF DRURY / OPAHEKE FUNDING AREAS

6.1 The Drury / Opaheke Funding Areas have, as a generality, been defined too tightly and in many cases exclude areas that will also benefit significantly from the infrastructure in respect of which the Contributions Policy requires contributions only from the Drury / Opaheke Funding Areas. The physical extent of the Drury / Opaheke Funding Areas should be expanded to include the broader area that will benefit from the relevant infrastructure.

6.2 The following paragraphs discuss each of the affected maps in order.

6.3 Map re Local Transport Contributions 2022 Policy 2022 Variation:

(a) This map identifies a "*Drury East Funding Area*", being land at Drury to the east of SH1 comprising largely the land subject to the Plan Changes but also including other properties in the vicinity.

(b) Roading and transport infrastructure forms the dominant component of the infrastructural works that are subject to the contributions required from Drury / Opaheke properties in the Contributions Policy.

(c) The roading and transport infrastructure that is to be developed at Drury will serve not only the incoming communities on the plan change sites but also:

(i) Other land on the eastern side of SH1 including the Opaheke Funding Area and Southern Growth Area 2 (Drury South) identified on the map;

(ii) Land at Drury to the west of SH1 including the Drury West 1 and Drury West 2 Funding Areas identified on the map, containing the urban zoned Auranga development, the land subject to Private Plan Changes 51 and 61, and other properties in the vicinity (collectively, "**the Drury West Area**"); and

(iii) The broader area that benefits from the Drury Metropolitan Centre, including Paerata and the balance of the Future Urban Zoned land north of Pukekohe.

(d) Kiwi Property asks that the Drury East Funding Area over which development contributions will be recovered for the roading and transport infrastructure community facilities to be developed at Drury is expanded to include:

(i) The Opaheke Funding Area;

(ii) The Southern Growth Area 2 Funding Area;

(iii) The Drury West 1 and 2 Funding Areas;

(iv) Paerata; and

(v) The balance of the Future Urban Zoned land north of Pukekohe

(collectively, "**the Wider Drury / Paerata Catchment**").

6.4 *Map re Local Community Infrastructure Contributions Policy 2021*:

(a) This map identifies a "*Drury / Opaheke Funding Area*" which comprises:

(i) Land at Drury to the east of SH1 comprising largely the land subject to the Plan Changes but also including other properties in the vicinity ("**the Drury East Area**"); and

(ii) The Drury West Area.

(b) The local community infrastructure that is to be developed at Drury will serve not only the incoming communities on the Drury East and Drury West areas but also the far wider area that will be within the catchment of the Drury Metropolitan Centre, including Drury South, Paerata and the balance of the Future Urban Zoned land north of Pukekohe.

(c) Kiwi Property asks that the Drury / Opaheke Funding Area over which development contributions will be recovered for local community infrastructure to be developed at Drury is expanded to encompass the Wider Drury / Paerata Catchment.

6.5 *Maps re Local and Sub-regional Reserve Acquisition Contributions Policy 2021*:

(a) The "*Drury / Opaheke Funding Area*" identified in these maps comprises the Drury East and Drury West Areas.

(b) The reserves that are to be developed at Drury will form part of a broader network serving the communities on the Drury East and Drury West areas and the wider area that will be within the catchment of the Drury Metropolitan Centre, including Drury South, Paerata and the balance of the Future Urban Zoned land north of Pukekohe.

(c) Kiwi Property asks that the Drury / Opaheke Funding Area over which development contributions will be recovered for sub-regional reserves acquisition to be developed at Drury is expanded to encompass the Wider Drury / Paerata Catchment.

7. ISSUE 4 – EQUITY BETWEEN PARTS OF THE WIDER REGION

7.1 Kiwi Property is concerned that the Contributions Policy is inequitable in that in many cases it requires contributions from the Drury / Opaheke Funding Areas towards infrastructure that is located elsewhere in the region but imposes contributions in respect of corresponding infrastructure within the Drury / Opaheke Funding Areas solely on development within that Funding Area.

7.2 Examples of this inequitable approach include the following:

(a) Under the proposed Development Contributions Policy Drury must fund new and improved cycle ways throughout the city, but Drury must fund 100% of proposed cycle ways in the Drury area.

(b) Under the proposed Development Contributions Policy Drury must fund parks and improvements throughout the city (e.g.: in the Wynyard Quarter), but Drury must fund 100% of parks and improvements in the Drury area.

7.3 Kiwi Property says that:

(a) A consistent and equitable approach should be adopted to the funding of infrastructure around the region.

(b) If the Council is intending to use the Contributions Policy as a method of disincentivising development at Drury in comparison with other parts of the Region, then it should state that policy position and the rationale for it in the Contributions Policy so that the affected landowners can assess the validity of the Council's approach.

7.4 Kiwi Property asks that Council adopt a consistent and equitable approach to the geographical allocation of funding responsibility for infrastructure by either:

(a) Expanding the Funding Areas over which contributions will be levied for the infrastructure to be developed within Drury East and Drury West; or

(b) Excluding Drury East and Drury West from the areas over which funding is to be levied for infrastructure to be developed in the balance of the Region.

8. ISSUE 5 – SOCIAL IMPLICATIONS

8.1 The approach adopted in the Contributions Policy has tended to load development contributions onto greenfields development areas, typically on the periphery of the city and particularly at Drury.

8.2 Council may be pursuing this approach on the basis that it promotes intensification of existing urban areas in preference to peripheral expansion of the city. It has, however, significant adverse social implications:

(a) Housing in the central, already urbanised areas of Auckland is typically more expensive than in peripheral locations, in part because:

(i) Central locations have easier access to major employment areas such as the CBD and to regionally attractive retail and entertainment areas such as Newmarket or Tamaki Drive;

(ii) Central areas have easier access to major parks and facilities that tend to be funded regionally (e.g.: the Domain, Cornwall Park, the Museum, the Zoo, Eden Park, Western Springs);

(iii) Many of those central residential areas have high amenity that has developed over time;

(iv) The peripheral locations lack those advantages and can currently require significant commutes to employment or regionally important locations or facilities.

(b) There is, however, greater capacity to develop a full range of housing types at affordable prices and with high amenity in the peripheral areas of the city because of the ability to design and develop areas comprehensively.

8.3 The Contributions Policy imposes relatively low development contributions in those established and relatively wealthy central parts of the city, which already benefit from decades of historic council investment in infrastructure and where incoming residents are most able to afford the contributions (in the order of $22,564 per lot). In contrast, far higher development contributions are being imposed in the Drury / Opaheke Funding Areas, which have the ability to provide a significant proportion of future affordable housing for the region but currently lack infrastructure and where incoming residents will be less able to afford the contributions (in the order of $99,298 per lot).

8.4 The consequence is that the Contributions Policy:

(a) Favours development in the established, wealthy suburbs and discourages it in peripheral locations such as Drury where more affordable housing is likely to occur.

(b) Imposes higher contributions on areas where purchasers of properties are less likely to have the capacity to fund such contributions.

(c) Is likely to slow down development in Drury and / or incentivise the construction of less affordable but more profitable housing typologies to ensure that profit margins are retained for developers.

Attachment 2

Memorandum dated 8 November 2022 by Greg Akehurst ("Akehurst Memorandum")

Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

Feedback must be received by 5.00pm **8 November 2022**

Auckland Council uses development contributions (DCs) to ensure that an appropriate share of our investment in infrastructure is recovered from those that create the need for, and benefit from, the investment.

Our Contributions Policy sets out the costs to be recovered and how these are translated into DC levels in different parts of the region. This is regularly updated to reflect new information, such as updated projections about growth or planned investment, or policy decisions made.

The current contributions policy was consulted on in late 2021 and became effective from 1 January 2022. We are now proposing a variation to this policy, to enable the inclusion of infrastructure for Drury beyond the ten period of the Long-term Plan 2021-2031.

We strongly encourage you to read the proposed approach and accompanying information before answering any of the following questions.

We encourage you to give feedback online at akhaveyoursay.nz, or you can:

Scan and Email your completed form to:

Contributions.PolicyTeam@aucklandcouncil.govt.nz

Post your completed form to:

Contributions Policy Team
Auckland Council
Private Bag 92300, Victoria Street West
Auckland, 1142

Your details

Your name and feedback will be included in public documents. All other personal details will be kept private.

First name: [redacted] Last name: [redacted]

Email address or postal address: [redacted]

Your local board: Papakura.

Is your feedback on behalf of an organisation or business? (If yes, this confirms you have authority to submit on the organisation's behalf)

☑ Yes ☐ No Name of organisation/business: Kiwi Property Group.

Your feedback

Our contributions policy ensures that the cost of infrastructure is shared between developers and ratepayers, based on who causes the need for and/or benefits from the infrastructure.

The first priority growth area we're focussing on is Drury-Ōpaheke– an area whose population is projected to grow from 4,000 to over 60,000 in the next thirty years and will require supporting investment of $2.869 billion. This investment will include a public and active transport led approach to transport infrastructure, parks and open spaces, and a new community facility that will include a local pool, leisure centre and library.

We estimate investment in this area will take around 30 years to deliver. Currently, the policy only requires developers to contribute to investments in infrastructure that will be delivered over the next 10 years. Without this funding from development contributions, the burden of providing infrastructure and risk of undesirable outcomes will fall on the remainder of the city's ratepayers and the future residents of Drury.

We are proposing that it is more appropriate to include the full amount of this investment required to support growth in the contributions policy. This would mean all developers in the area will contribute an average level of contribution in this area of around $83,251 per Household Unit Equivalent.

1. **Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?**

- ☐ Support
- ☑ Do not support
- ☐ Other
- ☐ I don't know

Tell us why

2. **Do you have any other feedback?**

R Lee Attn J.

Submission on Auckland Council Development Contributions Policy 2022 Variation A

To: Contribution Policy Team
Auckland Council
Private Bay 9230, Victoria Street West
Auckland 1142

By email: Contributions.PolicyTeam@aucklandcouncil.govt.nz

Name of Submitter: Beachlands South Limited Partnership (**BSLP** or **the Submitter**)

INTRODUCTION

1. This is a submission Auckland Council's Development Contributions Policy 2022 – Variation A (**the Policy**).

2. BSLP could not gain advantage in trade competition through this submission.

3. BSLP opposes the Policy, subject to the amendments being made for the reasons outlined in this submission.

BACKGROUND

4. BSLP comprises a partnership between the New Zealand Government Crown entity, the Guardians of New Zealand Superannuation Fund (**NZSF**), and parties associated with the Russell Property Group. The Russell Property Group has been appointed the manager for the landholding and its future re-zoning. The NZSF is charged with managing, administering, and growing the New Zealand Superannuation Fund for the future benefit of all New Zealanders. The Guardians of NZSF believe that environmental, social and governance factors are material to long-term returns.

5. BSLP owns and has full control over the three Auckland coastal properties at 110 Jack Lachlan Drive and 620 and 712 Whitford-Maraetai Road, which is a collective landholding of approximately 255 hectares. It is proposing to undertake a high quality and large-scale urban development project to extend the coastal town of Beachlands.

6. BSLP is seeking approval to rezone its land to establish the pattern of land use and its integration with the transport and services network. A private plan change application was lodged on 31 March 2022 with Auckland Council seeking to rezone approximately 307 hectares of Rural – Countryside Living zoned land (BSLP's land and some adjacent properties) to a variety of urban zones. The land shares a contiguous boundary to the existing coastal town of Beachlands. A key objective of the BSLP plan change is to develop a sustainable transit adjacent development with a low carbon footprint and a diversity of housing choice.

7. The development of the Policy and the outcomes are therefore of particular interest to BSLP.

SUMMARY OF SUBMISSION

8. BSLP welcomes the opportunity to provide feedback on the Policy. BSLP recognises the need for significant infrastructure to be developed in the Drury / Opaheke Funding Areas and is supportive of a Contributions Policy that allocates costs fairly between the parties and communities who will benefit from infrastructure.

9. BSLP strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

10. BSLP recommend the Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. This could allow the Council to use alternative funding mechanisms such as the Crown Infrastructure Partners Infrastructure Funding and Financing Act.

11. BSLP are concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland

REASONS FOR SUBMISSION

Issue 1: 30-year timeframe creates complexities with funding and financing

12. The previous Council was working towards introducing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

13. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. BSLP are concerned that the calculations become increasingly inaccurate and uncertain past 10 years when being used to calculate development contributions.

14. BSLP consider there are a number of things that add to the complexity of the modelling that create risks when it is being used to calculate development contributions and requires further consideration by Council, such as:
    - Impact of inflation on delivery of projects over time;
    - Benefits of paying upfront vs. delivery risks;

- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's intent to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

15. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, BSLP are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why BSLP support the 10-year funding and financing timeframe.

16. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. This particular funding tool is also being applied to BSLP's private plan change in Beachlands to contribute to funding the infrastructure required for the rezoning and subsequent urban development of the land. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

17. BSLP recommend the new Mayor and the Council <u>not</u> adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. BSLP consider the costs are overstated as discussed later in our submission.

18. Alternatively, BSLP are supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

Issue 2: Regional Consistency

19. The approach taken to Drury in the Contributions Policy represents a major departure from the existing development contributions regime.

20. Section 197AA LGA 2002 enables recovery of "fair, equitable and proportionate" contributions to the total cost of capital expenditure for growth infrastructure. By adopting a 30 year project and costing regime for Drury alone, Auckland Council is creating a new policy for a selected area which results in a major disparity in development contribution levels when compared with the rest of the region. If, which is not accepted, the 30 year horizon best gives effect to the

purpose and principles of LGA 2002, it should be applied evenly and contemporaneously across the region to avoid distortions of the kind created by the current policy proposal.

Issue 3: Lack of Transparency

21. In order for the affected parties to reach an informed opinion on the reasonableness of the Contributions Policy it is necessary for them to have full access to the models used by Council and the inputs, assumptions and contingencies used. Absent that material, the Council's approach cannot be interrogated, tested or replicated.

22. There is a lack of transparency regarding the process through which the development contributions required for the Drury / Opaheke Funding Areas have been calculated which arises because Council has to date failed to:

    (a) Share their models in sufficient detail with either the public generally.

    (b) Provide:
    - Sufficient details of the scope of works for which contributions are required;
    - Adequate plans showing the land required for those works; or
    - Sufficiently detailed estimates of the land and construction costs which contribute to the estimate of billion-dollar infrastructure works at Drury.
    - Sufficient detail to justify the need for a number of projects, noting that the recently completed PC48 process concluded that some projects identified by Council are not required
    - Sufficient details of the proposed projects to ensure that the Contributions Policy does not include projects that will either be completed by the Crown or by private developers at no cost to Council.
    - Incorporate into the documentation details of any works and contributions that Council considers will be required in respect of stormwater matters.
    - Specify the costs inputs and contingencies and escalations that have been used to calculate the development contributions.

23. Based on the limited analysis that it has been able to undertake to date, and given the lack of information made available by Council, it is that the costs that have been used in the models and the contingencies applied are excessive and unrealistic, with the consequence that the development contributions sought are unreasonably high.

Issue 4: Issues with Model

<u>Inclusion of Causation in Cost Allocation Model</u>

24. Auckland Council's DC model includes (as a driver of the distribution of costs between existing and growth households) an allowance for "Causation". The model references the Local Government Act (s101(3)(a)(iii)) as justification for including Causation as a valid driver of cost. However, the LGA contains no reference to the word causation, rather it refers to need and benefits as being the drivers by which councils are to distribute cost. Need relates to usage and

so does benefits (receive benefits in proportion to the amount of use you make of a facility or piece of infrastructure). On this basis, causation plays no part of the process under the LGA.

25. The manner in which 'causation' influences cost allocation in the Drury DC model is blunt and has the effect of loading costs onto developers and ultimately new households (in particular in the infrastructure categories of Reserve Acquisition, Reserve Development and Community Infrastructure).

26. BSLP are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

27. BSLP disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

<u>Prices may not affect actual costs and in some cases are introduced 'after the fact'</u>

28. BSLP are concerned that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do BSLP have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

29. BSLP are also concerned around 'double dipping'. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. BSLP strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

30. BSLP are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

Issue 5: Housing Affordability

31. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

    Increased DC fees will likely result in the following outcomes:

    - Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
    - Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

32. The Council economist has stated that it does not consider these increases will impact housing affordability. BSLP disagree. We note that Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

33. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of St Heliers. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

34. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing significant inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone. These increases must be factored into the DC policy.

35. Collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

36. BSLP have significant concerns towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs from around $23,000 to $83,000 average per household will have significant consequences and likely hinder unlocking Drury development altogether.

Issue 6: Piecemeal Implementation of Policy

37. Auckland Council are rolling out the DC policy in a piecemeal manner, in that this is starting with Drury then moving on to the North West and elsewhere. This is likely to have the effect of sending the wrong signals to the market because in most instances in Drury the development contribution change is large.

38. The effect of that is that growth households are likely to be dissuaded to a certain extent from choosing to locate at Drury – an area that has been specifically earmarked to cater for growth. Growth households will begin to make decisions to locate to other areas that may not have the infrastructure capacity to cater for growth or may be less than optimal. In effect, the imposition of a tax, will bring a distortion to the market such that decisions are not being made based on sound fundamentals – rather in response to minimising the effects of a tax.

39. In order to minimise the impacts of this distortion, BSLP recommend that the imposition of the Drury DC policy is delayed until such a time as the entire Auckland model is developed and fully specified. It is only then that household decisions can be made efficiently (from an economic perspective).

RELIEF SOUGHT

Procedural Relief

40. BSLP seeks the following procedural relief:

    (a) That the Contributions Policy be put on hold until Council has provided all submitters and affected members of the public with:

    - Full access to the models that have been relied upon by Council, and their component elements and inputs, so that the basis for the Contributions Policy can be fully understood.
    - Details of the scope of and rationale for works for which contributions are required, in sufficient detail to enable BSLP to test the accuracy of the costings and to satisfy itself as to the need for the works to be implemented.
    - That Council then provides submitters with sufficient time (e.g.: 40 working days) to review and interrogate the models, inputs and assumptions and to engage further with Council staff to ensure parties are fully informed before proceeding to hearing.
    - That Council subsequently holds public hearings on the submissions on the Contributions Policy, at which submitters will be able to present additional detailed legal submissions and evidence in support of their submissions.

Substantive Relief

41. BSLP seeks the following substantive relief:

    (a) That Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032;

    (b) That in any event, Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032 unless and until that methodology is also adopted simultaneously for all parts of the Region.

    (c) That Council revisits the Contributions Policy to ensure that it takes account of social consequences and does not impose elevated development contributions in those parts of the city that are most likely to be able to accommodate affordable housing while minimising contributions in the long established, high amenity and least affordable central areas.

    (d) Any other or consequential changes to the Contributions Policy required to give effect to this submission.

CONCLUSION

42. BSLP strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers

will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

43. BSLP wishes to be heard in support of this submission.

44. BSLP would consider presenting a joint case if others make similar submissions.

Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

Feedback must be received by 5.00pm **8 November 2022**

Auckland Council uses development contributions (DCs) to ensure that an appropriate share of our investment in infrastructure is recovered from those that create the need for, and benefit from, the investment.

Our Contributions Policy sets out the costs to be recovered and how these are translated into DC levels in different parts of the region. This is regularly updated to reflect new information, such as updated projections about growth or planned investment, or policy decisions made.

The current contributions policy was consulted on in late 2021 and became effective from 1 January 2022. We are now proposing a variation to this policy, to enable the inclusion of infrastructure for Drury beyond the ten period of the Long-term Plan 2021-2031.

We strongly encourage you to read the proposed approach and accompanying information before answering any of the following questions.

We encourage you to give feedback online at akhaveyoursay.nz, or you can:

Scan and Email your completed form to:

Contributions.PolicyTeam@aucklandcouncil.govt.nz

Post your completed form to:

Contributions Policy Team
Auckland Council
Private Bag 92300, Victoria Street West
Auckland, 1142

Your details

Your name and feedback will be included in public documents. All other personal details will be kept private.

First name: Last name:

Email address or postal address: [redacted]

Your local board: Franklin Local Board

Is your feedback on behalf of an organisation or business? (If yes, this confirms you have authority to submit on the organisation's behalf)

☐ Yes ☐ No Name of organisation/business: Beachlands South Limited Partnership

Your feedback

Our contributions policy ensures that the cost of infrastructure is shared between developers and ratepayers, based on who causes the need for and/or benefits from the infrastructure.

The first priority growth area we're focussing on is Drury-Ōpaheke– an area whose population is projected to grow from 4,000 to over 60,000 in the next thirty years and will require supporting investment of $2.869 billion. This investment will include a public and active transport led approach to transport infrastructure, parks and open spaces, and a new community facility that will include a local pool, leisure centre and library.

We estimate investment in this area will take around 30 years to deliver. Currently, the policy only requires developers to contribute to investments in infrastructure that will be delivered over the next 10 years. Without this funding from development contributions, the burden of providing infrastructure and risk of undesirable outcomes will fall on the remainder of the city's ratepayers and the future residents of Drury.

We are proposing that it is more appropriate to include the full amount of this investment required to support growth in the contributions policy. This would mean all developers in the area will contribute an average level of contribution in this area of around $83,251 per Household Unit Equivalent.

1. **Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?**

- ☐ Support
- ☐ Do not support
- ☐ Other
- ☐ I don't know

Tell us why

See attached submission

2. **Do you have any other feedback?**

See attached submission

Need more room? You can attach extra pages.

Submission on Auckland Council Development Contributions Policy 2022 Variation A

To: Contribution Policy Team
Auckland Council
Private Bay 9230, Victoria Street West
Auckland 1142

By email: Contributions.PolicyTeam@aucklandcouncil.govt.nz

Name of Submitter: Fisher & Paykel Healthcare (**FPH** or **the Submitter**)

INTRODUCTION

1. FPH makes this submission on Auckland Council's Development Contributions Policy 2022 – Variation A (**the Policy**) as follows.

2. FPH is concerned that the approach taken to the Policy Variation will have significant impacts, and could further prevent development from occurring in this location, given the substantial increase proposed in the Development Contributions from around $23,000 in Auckland to $83,000 in Drury (on average), per Household Unit Equivalent (**HuE**), with $55,855 proposed per HuE in Drury West 2.

3. FPH could not gain advantage in trade competition through this submission.

4. FPH opposes the Policy, subject to the amendments being made for the reasons outlined in this submission.

BACKGROUND

5. FPH is a leading designer, manufacturer and marketer of healthcare products and systems for use in acute and chronic respiratory care, surgery and the treatment of obstructive sleep apnea. FPH designs and manufactures medical devices and technologies which help clinicians deliver the best possible patient care. FPH's medical products enable patients to transition into less-acute care settings, recover more quickly, and avoid more serious conditions.

6. FPH currently operates a research & development and manufacturing campus in East Tamaki, Auckland, and is in the process of developing a second New Zealand medical and manufacturing campus (Campus Two).

7. FPH is currently in the process of securing a significant landholding of approximately 105 hectares of land south of Karaka Road and north of the North Island Main Trunk Railway Line, primarily located within the Drury-Opaheke Future Urban zoned area. By way of background, FPH plans to develop the site at 300-458 Karaka Road, Drury over the next 30-40 years, as their second medical and manufacturing campus.

8. The development of the Policy and the outcomes are therefore of particular interest to FPH.

SUMMARY OF SUBMISSION

9. FPH welcomes the opportunity to provide feedback on the Policy. It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers (business and residential).

10. FPH strongly opposes the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 on average per HuE in Drury, with $55,855 per HuE in Drury West 2. Increases of this magnitude would have a negative impact on the feasibility of development, and in turn will have a negative impact on the number of jobs that will be provided in the Drury-Opaheke future growth area. This would be a significant issue given the amount of residential development that has either been developed, consented, or is in the pipeline with rezoned land for residential purposes, and the number of people who will be living within this area in the future.

11. Furthermore, Auckland Council advises that stormwater infrastructure is yet to be taken into account in calculating the Drury-Opaheke contributions. This omission adds further to the uncertainty and lack of clarity of the Policy Variation, and could be a significant additional cost, that has not been considered in the calculations for Drury-Opaheke DCs.

12. The development of a second medical and manufacturing campus at the FPH site is anticipated to generate a significant number of jobs located within a walkable distance of the Drury West train station, which a notice of requirement has recently been notified for. To disincentivise development of business land in Drury will in turn result in the loss of potential generation of jobs in a location which is highly accessible and where significant housing growth in anticipated.

13. FPH recommend the new Mayor and Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act.

14. FPH is extremely concerned that if the Council approve Drury DCs to the magnitude proposed ($83,000 average DC fees per HuE), it will disincentivise development in this location, increase the cost of development, and in turn jobs will not be established in areas which are significantly in need of local job generation. This will in turn, increase pressures on Auckland's infrastructure as more people will be travelling greater distances to access jobs.

15. FPH is of the view that the Policy changes could undermine Central Government's commitment to funding and delivering transport infrastructure in Drury-Opaheke to support the future growth of the area as a priority development area. The Policy Variation proposed by Auckland Council will effectively disincentivise development in the Drury-Opaheke area from occurring,

making it less viable for developers to deliver job generating businesses and housing in this location.

REASONS FOR SUBMISSION

30-year timeframe creates complexities with funding and financing

16. The previous Council was working towards introducing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

17. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty; particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. FPH is concerned that the calculations become increasingly inaccurate and uncertain past 10 years.

18. FPH considers that there are a number of things that add to the complexity of the modelling and requires further consideration by Council, such as:

- Impact of inflation on delivery of projects over time;
- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's intent to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

19. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, FPH is concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why FPH supports the 10-year funding and financing timeframe.

20. FPH recommends the new Mayor and the Council not adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure) which could result in grossly overcharging through development contributions. FPH considers the costs are overstated as discussed later in our submission.

21. Alternatively, FPH is generally supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per HuE. This will help ensure fairer allocation, better transparency and intergenerational equity.

22. Given the issues raised throughout this submission, FPH is concerned that there are fundamental issues with the proposed DC policy.

23. Whilst it would be preferable to pause the Policy Variation and work through the matters raised above constructively, if Auckland Council are intent on proceeding now it is FPH's strong preference to adopt the Incrementing Price Option set out at page 36 of the 'Methodology for Calculation DCs for Drury'.

24. As partially acknowledged by Auckland Council at paragraph 147 of the aforementioned document the Fixed Price approach unfairly encumbers with costs including interest and an aggressive land inflation cost for projects that are projected to occur 20-30 years after the payment is made.

25. FPH is of the view that the Incremental Price is a much fairer approach to adopt, as it will also mean that the size of any overpayments being made in the early years whilst the real costs to mitigate development at Drury are being worked through are significantly less than the Fixed Price option. This means that parties would have more capital to develop sites and increase the level of growth, thus having an overall benefit to everyone wishing to develop and live in Drury as this will reduce the interest costs and limit the extent of land inflation included in the DC pricing.

26. The above would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per HuE in Drury. This will help ensure fairer allocation, better transparency and intergenerational equity.

27. Given the very conservative nature of the DC model, which appears to have been developed to act as deterrent to development occurring in Drury-Opaheke and given the inflated costs and excessive DC figures arrived at, there is no risk of early developers being charged a 'disproportionately lower share of growth infrastructure cost' as suggested could be the by Council at paragraph 147 of the Methodology report.

Growth Rates Adopted

28. FPH is of the view that the DC Growth model needs to be updated to reflect the growth that will be occurring in areas that have recently been live zoned through private plan changes earlier than currently modelled (2028) in the Policy. This will have the effect of reducing the predicted interest costs and land values for projects given the aggressive land inflation figures adopted by Council in the current model.

29. The Policy Variation requires the Drury-Opaheke Funding Areas to pay contributions towards the cost of infrastructure that is anticipated to be implemented after 2032. FPH is concerned that this will disincentivise development in Drury as a consequence of elevated contribution requirements, while incentivising early development elsewhere in the city prior to the introduction of similar contribution regimes there. This will effectively incentivise development in locations which are less proximate to public transport investment, and future jobs.

30. FPH is concerned that the Policy variation does not equitably calculate the contributions required in respect of works that are to be carried out in the future and most notably beyond 2032 as the Policy appears to have assumed extremely high land purchase and construction costs and / or to have applied multiple contingencies over time that collectively elevate the inputs to the models to an unrealistic extent.

Concerns with transparency of the process

31. Council released consultation documentation in the form of documents and 2 spreadsheets on or around 14 September.

32. Within the package, one small spreadsheet contained some detail around transport projects for the Drury area and the other was titled "Drury_DC_model_Released_12_Sept.xlsb". This is made up of a number of tabs that contained values set against projects and years that represented things such as DC Revenue forecasts, DC Interest estimates and DC Prices. The values in the tables appear to be the product of a number of calculations that pulled together information on; growth of HUEs, capacity at existing facilities, new facility cost and land costs to generate estimates of development contributions pertaining to Drury. The calculations (for the most part) are not included in the model spreadsheet.

33. Many of the calculations and decisions made about how much to spend, where to spend it, how to allocate cost between existing and growth and so on, occur in other models. The Drury DC Model (as released) contains references to excel macros1 that run processes and calculations – but the macros were not included with the model as released. Furthermore, a number of spreadsheets linked to the Drury DC Model were also not available in the consultation package. This is difficult to verify as the operation is driven by macro's that are not included in the model as released.

Issues with Model

[1] A macro is a piece of code that may run a number of calculations in a particular sequence and is used to automate calculation of formula that are repeated numerous times throughout a spreadsheet.

Inclusion of Causation in Cost Allocation Model

34. Auckland Council's DC model includes (as a driver of the distribution of costs between existing and growth households) an allowance for "Causation". The model references the Local Government Act (s101(3)(a)(iii)) as justification for including Causation as a valid driver of cost. However, the LGA contains no reference to the word causation, rather it refers to need and benefits as being the drivers by which councils are to distribute cost. Need relates to usage and so does benefits (receive benefits in proportion to the amount of use you make of a facility or piece of infrastructure). On this basis, causation plays no part of the process under the LGA.

35. The manner in which 'causation' influences cost allocation in the Drury DC model is blunt and has the effect of loading costs onto developers (in particular in the infrastructure categories of Reserve Acquisition, Reserve Development and Community Infrastructure).

36. FPH is concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living or working in Drury. This does not seem equitable or fair.

37. FPH disagrees with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

38. FPH is concerned that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do FPH have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

39. FPH is also concerned around 'double dipping'. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. FPH strongly recommends that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

40. FPH is particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

Piecemeal Implementation of Policy

41. Auckland Council are rolling out the DC policy in a piecemeal manner, in that this is starting with Drury then moving on to the North West and elsewhere. This is likely to have the effect of sending the wrong signals to the market because in most instances in Drury the development contribution change is large.

42. The effect of that is that development and business growth are likely to be dissuaded to a certain extent from choosing to locate at Drury – an area that has been specifically earmarked to cater for growth. Businesses and growth households will begin to make decisions to locate to other areas that may not have the infrastructure capacity to cater for growth or may be less than optimal. In effect, the imposition of a tax, will bring a distortion to the market such that decisions are not being made based on sound fundamentals – rather in response to minimising the effects of a tax.

43. In order to minimise the impacts of this distortion, FPH recommend that the imposition of the Drury DC policy is delayed until such a time as the entire Auckland model is developed and fully specified. It is only then that business and household decisions can be made efficiently (from an economic perspective).

RELIEF SOUGHT

44. FPH seeks the following relief on the DC Policy:

    a. that the Drury DC model be **corrected** through:
        i. **reviewing and updating** the growth figures which are significantly out of date, given a number of private plan change applications have recently been approved.
        ii. **reviewing and updating** the list of transport infrastructure projects included in the DC Policy (and the calculations) to only those transport projects that are required and exclude those projects being funded by others, including developers, from the calculation and DC Policy.
        iii. **reviewing and updating** the adopted land inflation figure of 7.2% p.a. and **reducing** this to something that is much more realistic and accurate.

    b. the **Incremental Price Option is adopted** rather than the Fixed Price Option, and that Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032.

    c. that Auckland Council prioritise undertaking active engagement with landowners to secure agreements for land required for reserves and other specified projects so as to reduce the costs of the same. Agreements can include delayed settlements and IFA's can be used to offset costs against DCs payable.

    d. that Auckland Council include details of the stormwater and other works that Council anticipates will ultimately be included in the Contributions Policy but which are currently omitted.

    e. that the **Policy Variation is put on hold** until all information is made available and the quality of that information has been accepted by all relevant experts and all matters above have been addressed.

CONCLUSION

45. FPH strongly opposes the Council's proposed 30-year timeframe and draft DC policy which would see the average HuE contribute over $83,000 in DCs. This will have negative effects to the Drury-Opaheke development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

46. FPH wishes to be heard in support of this submission.

47. FPH would consider presenting a joint case if others make similar submissions.

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SUBMISSION ON AUCKLAND COUNCIL'S VARIATION A TO THE DEVELOPMENT CONTRIBUTIONS POLICY 2022 BY RYMAN HEALTHCARE LIMITED

Introduction

1 This is a submission on Auckland Council's (*Council*) Variation A to the Development Contributions (*DC*) Policy 2022 (*DC Policy*) on behalf of Ryman Healthcare Limited (*Ryman*).[1]

2 Ryman lodged a written submission on the Council's draft DC Policy 2021 (*Draft Policy 2021*) on 17 October 2021. We also delivered oral submissions to the Finance and Performance Committee on 12 October 2021.

3 This submission addresses the Council's review process and new material released by the Council following last year's decision to delay the decision on whether to introduce long-term projects in the DC Policy for Drury.

4 Ryman supports in full the submission of the Retirement Villages Association of New Zealand Incorporated (*RVA*) on Variation A, which is supported by economic analysis undertaken by Market Economics.

5 The submission covers:

5.1 Ryman's scale in Auckland's retirement market;

5.2 Ryman's position on Variation A, including its implications on Ryman's planned village at Karaka; and

5.3 Ryman's position on Council's review process.

Ryman's scale in Auckland's retirement market

6 As noted last year, Ryman constructs a significant number of new dwellings in Auckland each year. It has 13 retirement villages currently operating or at some stage of design or construction in Auckland – located in Orewa, Saint Heliers,

[1] Ryman currently has 36 operational retirement villages throughout New Zealand providing homes for more than 11,000 elderly residents. Ryman is considered to be a pioneer in many aspects of the healthcare industry – including retirement village design, standards of care, and staff education. Ryman is not a developer. It is a resident-focused operator of retirement villages. Ryman is a recognised as a leader in the industry. It has a long term interest in its villages and its residents. It believes that a quality site, living environment, amenities and the best care maximises the quality of life for its residents.

Remuera, Howick, Birkenhead, Greenlane, Pukekohe, Takapuna, Kohimarama, Henderson, Hillsborough, Hobsonville and Narrowneck.

7 Ryman is also in the process of obtaining consents for a further village at 250 Hingaia Road, Karaka. Construction is estimated to commence in 2023. The proposed village will offer living options to suit everyone - from independent townhouses or apartments to assisted-living suites. This village will also offer a full range of care options, including rest home, hospital and specialist dementia care. The village will comprise around 205 new retirement units and 140 aged care units, and will house in the order of 408 residents.

Ryman's position on Variation A

8 Ryman adopts the RVA's submission on Variation A. In addition, Ryman wishes to note that Variation A will have a significant impact on Ryman and its plans to continue developing new villages in Auckland into the future to meet increasing demand.

9 By way of a current example, Ryman is particularly concerned with the potential implications of Council's intention to extend the time horizon of the DC Policy on its planned village in Karaka. Under Variation A, Ryman's site in Karaka is within the funding areas that would be impacted if the Council decides to adopt the '30 year' approach. Specifically, Ryman's site is within the new proposed sub-regional community infrastructure funding area ("Drury Pool/Leisure 10K") and Local Transport Southern Growth Area 1 funding area.

10 If adopted, the DCs for Ryman's village would increase significantly for retirement units and aged care rooms compared to the current DC Policy. Further, Ryman understands that stormwater infrastructure has not yet been included in the DC charges, but will be reviewed in 2023, which would likely add further material increases to DCs per household equivalent unit (HUE).

11 Ryman also understands that the Council intends to introduce changes to the units of demand next year. These further changes may lead to redistribution of charges and significantly impact the extent to which Variation A impacts parties. However, given that the Council has not yet released its proposed changes it is unclear what the impact will be. Ryman, and other parties, are therefore unable to fully understand and evaluate the implications of Variation A.

12 Ryman's concerns with Variation A and its implications on its sites are outlined in further detail below.

Implications of new funding areas/charges on Ryman's planned village in Karaka

13 As noted, Ryman's site is within the proposed 10K catchment for the Drury swimming pool and leisure centre and the Local Transport Southern Growth Area 1 funding area. Ryman was very surprised to see these new charges being included in the DC Policy as these were not included as part of Council's consultation last year.

14 Due to their age and frailty, Ryman's residents use Council pools and leisure centres (as well as other Council facilities, such as reserves, sports grounds, libraries and the like) substantially less than other age groups. Ryman residents are much less active and mobile than the 65+ population generally as well as the wider population. In addition, the provision of on-site amenities at our villages to cater for residents'

specific needs significantly reduces residents' need to travel to access entertainment, as well as care and other services.

15 Accordingly, the proposed Drury pool and leisure centre is likely to have no value for Ryman's residents. We also query how these works can be linked to residents, particularly those that purchase units in the early stages. Many of these residents will no longer be living in the village, given the Drury's community facilities will not be in place until 2050. The very low to no demand on community facilities generated by new retirement accommodation should be appropriately reflected in the unit of demands for retirement units and aged care rooms. This reinforces the need for Council to undertake a comprehensive review of the DC Policy and progress its review of the demand factors before adopting Variation A, as opposed to adopting a piecemeal approach. As noted, without this information, the extent of the implications of Variation A are uncertain.

16 Further, as the Council is aware, we operate in a very competitive housing market, and it would be very difficult for current landowners, such as Ryman, to pass on substantial new charges to future residents. As outlined in the RVA's submission, the proposal imposes a significant burden on current landowners.

Potential implications of new stormwater infrastructure charges

17 Prior to purchasing its site in Karaka, Ryman conducted a due diligence of the site, which looked into the site's infrastructure needs. The key infrastructure which was not complete related to three waters (water, wastewater and stormwater). Accordingly, as part of the planning process, Ryman has been monitoring the progress of Council infrastructure but has also included on-site solutions as part of its own development to provide the necessary capacity at the site. Ryman's proposed village will therefore not impact, or have a substantially reduced impact, on Council's network. As a result, there is a real risk of over-recovery of costs and 'double dipping'. This is a risk for any development that is already ready for development.

18 To provide the Council with further context, Ryman purchases land to develop and operate its villages taking into account the DC fees that apply at the time. However, due to the slow processes to obtain consent under the Resource Management Act 1991, it takes a number of years to be able to commence construction at the site. During that time, there is always a risk that DC fees may increase. To mitigate the risk Ryman generally purchases sites that already provide the necessary capacity to develop the proposed village, or which allow Ryman to provide on-site solutions. However, the substantial increases that the Council is proposing in Variation A and its wider plans to adopt the same approach across Auckland, are not able to be mitigated and will ultimately affect feasibility of our projects. Material changes to feasibility will require us to relook at our plans and potentially stall development.

Potential implications of adopting the '30 year approach' across Auckland

19 Ryman understands that Drury is just the first step and the Council may seek to adopt the same approach on the other investment priority areas - potentially impacting other Ryman sites in Auckland and Ryman's future plans.

20 The Council's proposal will be a substantial disincentive to continue increasing our proportion of Auckland's new build retirement villages. Given that Ryman builds a substantial portion of all new retirement village units in Auckland, 30 year charges will have a significant impact on the provision of housing and care for Auckland's

growing ageing population. There is a real risk that the proposed changes will delay necessary retirement and aged care accommodation in the region, and reduce housing affordability for a particularly vulnerable sector of Auckland's population.

Ryman's position on Council's review process

21 For the reasons outlined in the RVA's submission, Ryman is also disappointed with the process undertaken by the Council to extend the time horizon of the DC Policy.

22 Ryman considers that the review process has been inadequate given the major implications of the proposed changes. Following the significant concerns raised by many parties during last year's consultation, Ryman expected the Council would undertake a more transparent, open and evidence-based process.

Relief sought

23 Ryman seeks the relief sought by the RVA in its submission on Variation A.

Regards,

[redacted]
NZ Development Manager
Ryman Healthcare Limited
[redacted]

Copy correspondence to: [redacted]

THE NEIL GROUP

LAND AND PROPERTY DEVELOPER

8 November 2022
Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council

Auckland Council draft Development Contribution Policy for Drury

1. Summary

1.1. Neil Construction Limited welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy")..

1.2. We oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council reject the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a vision that is financed and forecasted in 10-year increments as per the current Long Term Planning process.

1.4. The issue of cost allocation for new infrastructure between existing ratepayers and new development can be subjective but can often be calculated, especially when it comes to roading projects.

1.5. A ten-year plan allows the immediate infrastructure required for new development to be identified and the costs of that infrastructure to be allocated more fairly between existing ratepayers and developer demand generated through growth.

1.6. Adopting a longer time frame of 30 years assumes that incremental development cannot occur without a long terms plan in place to pay for future infrastructure that is not immediately required. Clearly this is incorrect as the demand for infrastructure grows as an area develops and as more people reside and work in the locality.

1.7. In reality, adopting a 30-year time frame should have the effect of creating a third group to which cost should be attributed, and that is future ratepayers who are then added to the existing ratepayer pool when assessing future infrastructure spend of a long-term nature. On average the initial occupier of a new dwelling will move within 10 years, and it will be the subsequent occupiers that utilise the infrastructure being created in a new dwelling.

1.8. This model ties in well with the Crown Infrastructure approach which seeks to allocate cost more over the life of a project and not as a one-off penalty on each new dwelling.

1.9. The calculation for development contributions would then be more fairly assessed by utilising the additional rates income generated by new housing over the longer time frame.

1.10. In other words, some of the new project expenditure which is not required short term for incremental growth should be funded by the future income stream generated from new dwellings that are developed in that shorter term.

1.11. Exacting development contributions of the magnitude proposed at Drury rather than relying on a portion of the future rates income to fund such projects is inequitable for the current generation of new occupiers.

1.12. The split in the combination between growth related charges and those required from existing ratepayers is also based on best guess estimates of cost and no certainty as to what will be required in the long term when project timeframes are extended to 30 years.

1.13. The nature of projects required over the 30-year period is likely to change and the cost estimates for projects over a 10-year period cannot be assessed with any certainty as much of the design work has yet to be completed.

1.14. What infrastructure will be needed in the 30-year time frame is also of considerable doubt given the pace of new technology and work practices.

1.15. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year funding model and $83,000 average DC fees. We recommend:

- The new Mayor and the Council reject the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;
- The Council remove causation from their modelling; and

- The Council work closely with the residential developers to better understand the implications that DC increases have on house prices.

2. 30-year timeframe creates complexities with funding and financing

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. This is particularly so when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's intent to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

6.1. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, we are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframe with robust auditing and modelling of population growth effects.

6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

6.3. We recommend the new Mayor and the Council reject the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

6.4. Instead, we are supportive of financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

7. Problems with model

Causation

7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

7.3. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10-year forecast due to the uncertainty of pricing increasing.

7.4. We are also concerned around double dipping. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. We strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury

to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

7.5. We are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

8. Housing affordability

8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. For a new house in Drury with a $1 million sale price, approximately 25% of that new house price will comprise various taxes including GST, Watercare connection charges, Council processing fees, and Development Contributions (assuming the proposed new DC rates are adopted). It is no wonder that Auckland now has a housing affordability issue compared with the 1980s, given the introduction of all these taxes and increasing DCs, all of which have to be passed on to the new home buyer. GST alone accounts for $130,000 and is one of the reasons that local government should be looking to central government to fund the infrastructure required in order to house a growing population, whether that be in greenfield or brownfield locations.

8.3. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project. This was evidenced in Waipa District several years ago when one area of Cambridge in particular was penalised with very high DCs and was only subsequently developed when the DC regime changed.

8.4. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

8.5. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of St Heliers. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years. Up front higher development contributions will not reduce raw

land prices in the medium term which are kept artificially high due to a lack of appropriately zoned urban land. It will simply have the effect of deferring urban development projects until property inflation, driven by built up demand, creates a development margin.

8.1. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing huge inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone.[1] These increases must be factored into the DC policy.

8.6. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. We currently have development projects with a retail value of over $1 billion in the Auckland Region and the consequences for developers such as ourselves of this significant DC increase may be that we start to look for investment opportunities outside of the Auckland region.

Yours sincerely,
The Neil Group Limited

[redacted]

[redacted]
Chief Executive Officer

[1] Consumers set to pay, as builders have a supply chain reaction. Stuff NZ. 9 July 2021. Retrieved from https://www.stuff.co.nz/business/125690062/consumers-set-to-pay-as-builders-have-a-supply-chain-reaction

Feedback to Auckland Council

In the Matter	of the draft Development Draft Policy 2022 Variation A
On behalf of	**Oyster Capital**

Dated 8 November 2022

Introduction

1. This submission is lodged on behalf of Oyster Capital (**Oyster**) with respect to Auckland Council's (**Council**) Draft Development Draft Policy 2022 Variation A (**Draft Policy**).

2. Oyster is a land development company specialising in the development of land for residential and commercial land uses.

3. With projects throughout Auckland, Oyster supports a fair, equitable and successful draft Policy across the region. Oyster has a particular interest in the proposed development contribution approach to the area identified in the Draft Policy as the Drury East and Drury / Opaheke Funding Areas (collectively the **Drury / Opaheke Funding Areas**).

4. Oyster's interest in Drury relates to its land holdings immediately north of Waihoehoe Road and immediately east of the NIMT railway line, being land recently rezoned through Plan Change 50 (**PC50**). PC50 was pursued by Oyster working in concert with Kiwi Property (PC48) and Fulton Hogan Land Development (PC49) to develop an integrated vision and approach to urban development across Drury East.

Draft Policy – Fundamental Issue

5. To navigate the funding challenge, Council should follow a lodestar of equity, fairness, and reasonableness.

6. Oyster agrees that developers must pay an equitable share of fair and reasonable costs for future infrastructure and is supportive of a Draft Policy that fairly allocates costs between the parties and communities who will benefit from that infrastructure.

7. With respect to the Draft Policy currently being considered, Oyster is of the view that the policy as worded will result in Oyster (and others captured by the policy) paying a share of costs for future infrastructure which is not equitable, fair, or reasonable.

8. Because the Draft Policy as advanced will not result in Council recovering a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term, s 197AA of the Local Government Act 2002 (**LGA**) will not be complied with.

9. To be equitable, fair, and reasonable requires more than paving the road with good intentions.[1] The following is necessary:

    a. A fair and reasonable calculation of the likely costs of the works, including land costs where they will be incurred.

    b. Equitable allocation of cost between:

        i. Users of existing infrastructure.[2]

        ii. Different parts of the Auckland region.[3]

[1] The ubiquitous proverb tells us where that leads.
[2] Who will benefit from an improved level of service.
[3] Council needs to take a consistent approach to the extent of area over which costs are levied so that Drury landowners do not end up funding Drury facilities in full while simultaneously contributing to the costs of similar facilities in other parts of the city.

iii. Generations.[4]

c. A consistent Auckland-wide approach to the time period for implementing infrastructure to be funded by development contributions.[5]

d. An appropriate net present value calculation.[6]

Overview of Submission – Key Concerns

10. Oyster has cooperated with other developers and development sector interests in efforts to investigate and understand the inputs which have resulted in the Draft Policy. This has included engaging Greg Akehurst of Market Economics Ltd.

11. Arising from its own investigation, and efforts made on a joint basis, Oyster's key concerns with the Draft Policy include:

a. Lack of Transparency.

b. Inclusion of costs beyond 2032 in Drury.

c. Extent of the Drury / Opaheke Funding Areas.

d. Equity across the Wider Region.

e. Social implications.

Lack of Transparency

12. Nominally, Council has undertaken consultation with associated provision of information to enable the Draft Policy to be understood. However, the lived experience is that Oyster (and those parties with which it is cooperating) has been unable to obtain sufficient detailed information to meaningfully interrogate and understand the approach taken and assumptions made for

[4] Infrastructure improvements in 25 years time will not benefit 2023 development.
[5] Drury should not stand alone in that context.
[6] Council should have sufficient funds to pay for works as and when they occur. But it should not receive both full contributions and compounding interest on those funds.

the Drury / Opaheke Funding Areas.

13. Council has failed to:

    a. Provide sufficient details of:

        i. Their models to the public generally, to the known developers of the Drury East area, and to Oyster specifically;

        ii. The proposed projects to ensure that the Draft Policy does not include projects that will either be completed by the Crown or by private developers at no cost to Council;

        iii. The scope of works for which contributions are required, or adequate plans showing the land required for those works;

        iv. Estimates of the land and construction costs which contribute to the estimate of infrastructure works at Drury; and

        v. The justification for a number of projects, noting that the recently completed PC 48, 49 and 50 process concluded that some projects identified by Council are not required.

    b. Incorporate into the documentation details of any works and contributions that Council considers will be required in respect of stormwater matters. However, it is clearly anticipated that stormwater will be the subject of additional development contributions. Thus, the stormwater can has been kicked down the road, with the implication that no reliable view can be taken through this process of the overall reasonableness of any development contributions imposed.

    c. Specify the costs inputs and contingencies and escalations that have been used to calculate the development contributions.

Inclusion of costs beyond 2032 in Drury

14. Capital projects beyond 10 years (i.e. infrastructure that is anticipated to be implemented after 2032) are included for the Drury / Opaheke Funding Areas with immediate cost implications for present-day developers. Oyster's assessment is:

    a. To the (limited) extent that Oyster has been able to meaningfully interrogate the Draft Policy, it appears that it does not fairly and equitably calculate the contributions required in respect of works that are to be carried out in the future and most notably beyond 2032 as it:

        i. Appears to have assumed extremely high land purchase and construction costs and / or to have applied multiple contingencies over time that collectively elevate the inputs to the models to an unrealistic extent, with consequential implications for the outputs.

        ii. Appears to assume that Council will purchase land from developers such as Oyster (e.g. road reserves or parks) when in practice Council and its related entities (e.g. Auckland Transport) are likely to require the land and infrastructure on it to be vested without charge or at a discount rate pursuant to the consent process in relation to development and subdivision, and hence will not incur these costs.

    b. If that approach is to be adopted for the Drury / Opaheke Funding Areas, then it should also be adopted for all parts of the Region, so the Draft Policy does not:

        i. Disincentivise development in Drury as a consequence of elevated contribution requirements; while

        ii. Incentivising early development elsewhere in the city prior

to the introduction of similar contribution regimes there.

Extent of the Drury / Opaheke Funding Areas

15. The Drury / Opaheke Funding Areas have been defined too tightly.

16. There are other areas (e.g.: Drury South and Paerata) that will also benefit significantly from the infrastructure in respect of which the Draft Policy requires contributions only from the Drury / Opaheke Funding Areas.

17. The physical extent of the Drury / Opaheke Funding Areas should be expanded to include the broader area that will benefit from the relevant infrastructure.

18. Alternatively, the proportion of the benefit generated by the Drury works that will accrue to those other areas should be funded in its entirety by Council and not by the Drury / Opaheke Funding Areas.

Equity across the Wider Region

19. The Draft Policy requires contributions from the Drury / Opaheke Funding Areas towards infrastructure that is located elsewhere in the region. However, it imposes contributions in respect of the infrastructure that is to be constructed within the Drury / Opaheke Funding Areas largely or solely on development within that Funding Area. This approach is not replicated in other areas in the region, which is unbalanced and unjust.

20. A consistent and equitable approach should be adopted to the funding of infrastructure around the region.

Social implications

21. Oyster is of the view that the Draft Policy as currently proposed has the potential to generate adverse social implications (including implications on the resolution of the housing crisis) because:

    a. It will impose:

        i. Relatively low development contributions in established

and relatively wealthy central parts of the city, which already benefit from decades of historic council investment in infrastructure and where incoming residents are most able to afford the contributions (approximately $20,000 per lot); and

ii. Far higher development contributions in the Drury / Opaheke Funding Areas, which have the ability to provide a significant proportion of future affordable housing for the region (approximately $98,000 per lot).

b. It will require an economically rational response from landowners which, because land upon which development will occur in Drury has to a large degree already been purchased by developers (and therefore there is no opportunity for some or all of the cost of significantly increased development contributions to be taken account of in the purchase price of the land when it is bought from the original owner) will result in responses which include:

i. Land banking until the market price elevates over time such that development for a fair market return is feasible; or

ii. Attempts to change the housing product offered to elevate returns and reduce development costs, with the implication that the housing density, typology and price point desired will not be achieved.

Attachments

22. **Attachment 1** to this submission sets out further particulars of Oyster's concerns relating to the Draft Policy.

23. **Attachment 2** to this submission is a memorandum dated 8 prepared by Mr Greg Akehurst of Market Economics Limited (**Akehurst Memorandum**) regarding his concerns in relation to the Draft Policy.

24. Mr Akehurst has identified five key matters of concern which overlap with and/or inform the issues identified by Oyster.

Relief Sought

25. Oyster seeks both procedural and substantive relief.

26. The procedural relief is directly driven by the lack of transparency in the consultation process.

Procedural Relief

27. Oyster seeks:

a. That the Draft Policy be put on hold until Council has provided all submitters and affected members of the public with:

i. Full access to the models that have been relied upon by Council, and their component elements and inputs, so that the basis for the Draft Policy can be fully understood.

ii. Details of the scope of and rationale for works for which contributions are required, in sufficient detail to enable Oyster to test the accuracy of the costings and to satisfy itself as to the need for the works to be implemented;

iii. Plans showing the land required for and that illustrate the proposed works;

iv. Detailed estimates of the land and construction costs which contribute to the estimate of $4.5 billion infrastructure works at Drury;

v. Detailed costs inputs, contingencies and escalations that have been used to calculate the development contributions required for the Drury / Opaheke Funding Areas; and

vi. Details of the stormwater and other works that Council

anticipates will ultimately be included in the Draft Policy but which are currently omitted.

b. That Council then provides submitters with sufficient time (e.g.: 40 working days) to review and interrogate the models, inputs and assumptions and to engage further with Council staff to ensure parties are fully informed before proceeding to hearing.

c. That Council subsequently holds public hearings on the submissions on the Draft Policy, at which submitters will be able to present additional detailed legal submissions and evidence in support of their submissions.

d. That the hearing be held before a panel of independent commissioners with suitable qualifications and experience in planning, economics, land development and infrastructure planning, appointed by the Council to:

    i. Review the Draft Policy, the submissions filed by parties, and the legal submissions and evidence presented at the hearing; and

    ii. Make changes to the Draft Policy and / or recommendations to the Council in response to the submissions.

Substantive Relief

28. Oyster seeks:

a. That Council omits from the Draft Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032.

b. That the Draft Policy maps and Funding Areas be amended as detailed in Attachment 1 below.

c. That the Draft Policy be amended to remove geographical

inequities.

d. That Council revisits the Draft Policy to ensure that it takes account of social consequences and does not impose elevated development contributions in those parts of the city, such as Drury, that are most likely to be able to accommodate affordable housing while minimising contributions in the long established, high amenity and least affordable central areas.

e. Without prejudice to the above relief, if Council do proceed broadly with the Draft Policy as it currently stands, then:

    i. Adoption of the Incremental Price Option set out at page 36 of the 'Methodology for Calculation DCs for Drury', rather than the Fixed Price approach.

f. Any other or consequential changes to the Draft Policy required to give effect to this submission.



_____

[redacted]

Counsel for Oyster Capital
8 November 2022

Attachment 1 – Further Particulars of Oyster Submission

Introduction

1 This attachment adds where appropriate additional comments to those made in the primary submission above.

2 The primary submission introduces Oyster and explains its interest in the Draft Policy.

3 That introduction includes reference to the recent rezoning completed for land subject to PCs 48, 49 and 50 (**Drury East Plan Changes**).

4 The Drury East Plan Changes were approved by Council's independent hearing Commissioners, subsequently appealed to the Environment Court, and recently resolved through negotiations and mediation with a consent order by the Environment Court upholding the plan changes issuing on 1 November 2022.

5 Development is anticipated to commence in 2023 on the Oyster land.

Lack of Transparency

6 In addition to the primary points made above, Oyster makes the following observations.

Modelling and Information Provided

7 Oyster acknowledges that modelling of itself is necessary and will involve assumptions, estimates and uncertainty.

8 Development Draft Policy is necessarily evaluated on the basis of modelled rather than actual growth and infrastructure demand. This reflects the reality that there are limits to the level of certainty and precision in the context of a forward-looking development Draft Policy. However, the flipside of that coin is that to minimise the potential for unfair and inequitable outcomes consequent on uncertainty and inaccuracy, the Policy

underpinnings should be fully and freely open to public scrutiny as part of the feedback process.

9 There has not been detailed disclosure of the assumptions, costs, valuations and analysis which underpins the numbers proposed. Council staff have indicated provision of more detailed information does not align with previous policy and/or would involve disclosure of information which is asserted to be commercially sensitive.

10 Oyster disagrees that Council is unable to provide more information. In its absence, it has not been possible for Oyster to meaningfully interrogate the modelling exercise undertaken. Those parties who wish to play a full role in the consultation process and exercise their democratic right to understand and if necessary challenge the analysis undertaken by Council are effectively prevented from doing so.

11 To pick one example, the full list of transportation projects arrived at by SGA has never been justified as being required to mitigate the effects of development in Drury East and therefore there cannot be any confidence that the Transport component of the Draft Policy as it applies to Drury is accurate.

12 The Akehurst Memorandum explains[7] why the absence of data and access to spreadsheet macros inhibits or prevents meaningful analysis of the modelling undertaken (which modelling in turn is the justification for the quantum of DC contributions recommended).

13 The position with respect to stormwater is also unsatisfactory in that there is no information or clarity in the current Draft Policy and supporting information with respect to stormwater. That raises significant concern about what approach will be adopted and whether it will be equitable and fair taken in isolation.

[7] Under the sub-heading "Transparency of the process".

14 Nor can any decision be fairly made on the overall appropriateness of the contribution per household equivalent in the context of the Draft Policy before you when an unknown further sum relating to stormwater is yet to be proposed and assessed.

Alleged Commercial Sensitivity

15 Oyster understands that Council officers have argued that the information sought regarding anticipated land prices cannot be disclosed because it is commercially sensitive. That is not accepted.

16 The details sought are the costs used by Council to estimate future contributions. It is understood that they do not represent an offer to landowners or contractors regarding land or construction costs and it is inconceivable that they would be treated as such.

17 Council expenditure is subject to statues and regulations (e.g. the Public Works Act for land purchases) which will ensure that the Council does not pay excessive amounts when purchasing land or construction services. The cost estimates input to the models will be irrelevant to the assessment of actual cost in due course.

18 Oyster is not seeking details of the cost estimates for the purchase of individual pieces of land. Rather, it needs to understand the average cost per square metre of land for each project, the assumptions informing construction costs and the escalations and contingencies that have then been applied to produce the development contribution figures. That information is needed for Oyster to understand how realistic the figures used are.

'Double Dipping'

19 In addition, the inability to properly interrogate the assumptions and inputs also makes it difficult to establish whether the Draft Policy includes projects that will either be completed by the Crown or by private developers at no cost to Council. This raises the prospect of 'double dipping' – a concern

addressed in the submission to be lodged on behalf of Property Council New Zealand.

20 Oyster's development will contribute to the generation of more traffic in Drury, water supply and wastewater networks will need to be extended, stormwater from the development will need to be managed, and parks and recreational opportunities will need to be provided.

21 Oyster will physically mitigate the effects of its Drury development, where it can do so on its land or is authorised by the Council to undertake works on public land and/or public infrastructure. By way of example:

a. Oyster have committed to designing, constructing and vesting at its cost portions of arterial roads (Opaheke North-South and Waihoehoe Road) and will construct and vest local roads within its PC50 land.

b. Oyster is proposing to develop water supply and wastewater reticulation on its PC50 land that will integrate with Watercare Services Limited's (**WSL**) trunk network including developing and funding an interim wastewater pumpstation that will be transferred to WSL upon completion and commissioning.

c. Oyster has proposed interim and long term methods for addressing stormwater issues on its PC50 land that will not exacerbate stormwater conditions upstream or downstream.

22 In the above circumstances, Oyster should not face DC contributions for works it funds and delivers.

Inclusion of costs beyond 2032 in Drury

23 The incorporation into the contributions to be charged in the Drury / Opaheke Funding Areas of the costs of infrastructure works that are

anticipated to occur beyond 2032 is the most significant departure in the Draft Policy from the current policy.

24 Those contributions include costs attributable to works that might be 20 or 30 years away from construction. In contrast, the contributions for the balance of the city are calculated with reference only to works that are to be undertaken within 10 years (i.e. by 2032).

25 The extension beyond 2032 of the time frame over which development contributions will be calculated means that the Policy is reliant upon increasingly uncertain and unreliable estimates of:

a. The physical works that will be required and that will in fact be undertaken.

b. The specifications of those works and the construction costs involved.

c. The extent of land that will be required and the cost if any to purchase that land.

d. Future interest and inflation rates.

26 As a consequence, the models are likely to be extremely unreliable when estimating contributions that are required in respect of the works that will occur after 2032.

27 Given the limits to the level of certainty and precision achievable in the context of a forward-looking development Draft Policy, and the need to minimise the potential for unfair and inequitable outcomes consequent on uncertainty and inaccuracy, Oyster says attempts to project costs for unconfirmed projects 20 to 30 years in the future with immediate cost implications for present-day developers should be avoided, with the Draft Policy sticking to a 10 year timeframe for capital projects.

28 The financial implications of the change are frankly massive. Average contributions per household equivalent throughout the city are approximately $22,000, while contributions in the Drury / Opaheke Funding

Areas will be approximately $98,000 per household equivalent. Furthermore, as noted above Council advises that stormwater infrastructure is yet to be taken into account in calculating the Drury / Opaheke contributions.

29 The Drury / Opaheke Funding Areas for the majority of the contributions:

a. Are limited for the purposes of the local transport contributions to the areas subject to the Drury East Plan Changes;

b. Include in the case of community infrastructure and reserve acquisition the areas subject to the Drury East Plan Changes together with land at Drury west of SH1; but

c. Exclude the Drury South and Paerata areas.

30 Oyster understands that the Council proposes to introduce a similar approach for growth areas elsewhere in the city in the future but, for the time being, the effect of the Draft Policy is to impose far greater costs on development at Drury than elsewhere. As a consequence, the Draft Policy disincentivises development at Drury relative to the balance of the city.

31 Oyster calculates that, pursuant to the Draft Policy, the development at Drury anticipated by PC50 would incur development contributions in the order of $98 million. Land development is inherently risky commercially and, accordingly, these are costs that, contrary to the Council's assumptions, developers will have to pass on to incoming occupants and residents in order to justify their investment risk (as explained in the Akehurst Memorandum). That will:

a. Increase prices for subdivided land and residential accommodation along with commercial rents;

b. Incentivise larger and more expensive dwellings and developments that are better able to absorb the increased costs.

Causation

32 Although not limited to costs beyond 2032, the Akehurst Memorandum also identifies that the adoption of 'causation' has the effect of inflating the contributions assigned per new household unit. Oyster supports and adopts the assessment of Mr Akehurst in this regard and the associated analysis of this issue in the Property Council New Zealand submission.

Land Price Inflation

33 In a similar vein, although not limited to costs beyond 2032, the Akehurst Memorandum identifies the assumptions adopted for land price inflation are problematic. These issues are exacerbated over time and therefore the 30 year horizon worsens the unrealistic assumptions adopted. Oyster supports and adopts the assessment of Mr Akehurst in this regard.

Appropriate Extent of Drury/Opaheke Funding Areas

34 Oyster supports the Kiwi Property submission that the Drury / Opaheke Funding Areas have, as a generality, been defined too tightly and in many cases exclude areas that will also benefit significantly from the infrastructure in respect of which the Draft Policy requires contributions only from the Drury / Opaheke Funding Areas.

35 The physical extent of the Drury / Opaheke Funding Areas should be expanded to include the broader area that will benefit from the relevant infrastructure.

Map re Local Transport Contributions 2022 Policy 2022 Variation:

36 Oyster says with respect to this map:

a. It identifies a "Drury East Funding Area", being land at Drury to the east of SH1 comprising largely the land subject to the Plan Changes but also including other properties in the vicinity.

b. Roading and transport infrastructure forms the dominant component of the infrastructural works that are subject to the contributions required from Drury / Opaheke properties in the Draft Policy.

c. The roading and transport infrastructure that is to be developed at Drury will serve not only the incoming communities on the plan change sites but also:

    i. Other land on the eastern side of SH1 including the Opaheke Funding Area and Southern Growth Area 2 (Drury South) identified on the map;

    ii. Land at Drury to the west of SH1 including the Drury West 1 and Drury West 2 Funding Areas identified on the map, containing the urban zoned Auranga development, the land subject to Private Plan Changes 51 and 61, and other properties in the vicinity (collectively, "the Drury West Area"); and

    iii. The broader area that benefits from the Drury Metropolitan Centre, including Paerata and the balance of the Future Urban Zoned land north of Pukekohe.

d. Oyster seeks that the Drury East Funding Area over which development contributions will be recovered for the roading and transport infrastructure community facilities to be developed at Drury is expanded to include:

    i. The Opaheke Funding Area;

    ii. The Southern Growth Area 2 Funding Area;

    iii. The Drury West 1 and 2 Funding Areas;

    iv. Paerata; and

    v. The balance of the Future Urban Zoned land north of

Pukekohe.

Map re Local Community Infrastructure Draft Policy 2021:

37 Oyster says with respect to this map:

a. This map identifies a "Drury / Opaheke Funding Area" which comprises:

   i. Land at Drury to the east of SH1 comprising largely the land subject to the Plan Changes but also including other properties in the vicinity ("the Drury East Area"); and

   ii. The Drury West Area.

b. The local community infrastructure that is to be developed at Drury will serve not only the incoming communities on the Drury East and Drury West areas but also the far wider area that will be within the catchment of the Drury Metropolitan Centre, including Drury South, Paerata and the balance of the Future Urban Zoned land north of Pukekohe.

c. Oyster seeks that the Drury / Opaheke Funding Area over which development contributions will be recovered for local community infrastructure to be developed at Drury is expanded to encompass the Wider Drury / Paerata Catchment.

Maps re Local and Sub-regional Reserve Acquisition Draft Policy 2021:

38 Oyster says with respect to this map:

a. The "Drury / Opaheke Funding Area" identified in these maps comprises the Drury East and Drury West Areas.

b. The reserves that are to be developed at Drury will form part of a broader network serving the communities on the Drury East and Drury West areas and the wider area that will be within the catchment of the Drury Metropolitan Centre, including Drury South, Paerata and the balance of the Future Urban Zoned land north of Pukekohe.

c. Oyster seeks that the Drury / Opaheke Funding Area over which development contributions will be recovered for sub-regional reserves acquisition to be developed at Drury is expanded to encompass the Wider Drury / Paerata Catchment.

Relief Sought

39 The alternative substantive relief sought, if Council do proceed broadly with the Draft Policy as it currently stands, is the adoption of the Incremental Price Option set out at page 36 of the 'Methodology for Calculating DCs for Drury', rather than the Fixed Price approach.

40 The basis for the above alternative relief is:

a. As partially acknowledged by Council at paragraph 147 of the 'Methodology for Calculating DCs for Drury' the Fixed Price approach unfairly encumbers early payers with costs including interest and an aggressive land inflation cost for projects that are projected to occur 20-30 years after the payment is made.

b. The Incremental Price is a much fairer approach to adopt and will also mean that the size of any overpayments being made in the early years (whilst the real costs to mitigate development at Drury are being worked through) are significantly less than the Fixed Price option. This means that developers will have more capital to develop sites and thus increase the level of growth – generating an overall benefit to everyone wishing to develop and live in Drury as this will reduce the interest costs and limit the extent of land inflation included in the DC pricing.

c. Given the very conservative nature of the DC model, there is no risk of early developers being charged a 'disproportionately lower share of growth infrastructure costs' as suggested could occur at paragraph 147 of the Methodology report.

Attachment 2 – Market Economics Memorandum

Memo

To: [redacted], Oyster Capital Ltd

From: [redacted], Director Market Economic

Date: 8 November 2022

Re: Drury Development Contributions Policy 2022 – Variation A

Introduction

The purpose of this memo is to provide an outline of Market Economics' ("M.E") analysis and findings from Auckland Council's proposed Variation A to the Drury Development Contributions Policy 2022. The aim is to provide Drury land-owners with an view on the approaches, assumptions and implications of the soon to be adopted Variation A to the Development Contributions Policy that Auckland Council is currently consulting with the community on.

Based on our assessment of the consultation material (documents and spreadsheet models) a number of concerns have been identified. They cover the consultation process, the assumptions applied in the modelling, the nature of the modelling and some of the theoretical underpinning of the approach.

Key Areas of Concern

At present we have 5 key areas of concern;

1. Inclusion of Causation in cost allocation process.
2. The lack of comprehensive DC Model development – The Council is looking to implement Variation A to the Drury model in isolation.
3. Impact of inclusion of 30 year projects on developers today on housing affordability.
4. Equity issues – impacts of land inflation modelling, impacts on developers and causal nexus
5. Land value uplift as benefit

I cover the issues and key findings for each separately below, and initially discuss the issue of transparency of process, with respect to the consultation data.

Transparency of the Process

Council released consultation documentation in the form of documents and 2 spreadsheets on or around 14 September. The consultation period is set down to run for 8 weeks, through to November 8th.

Within the package, one small spreadsheet contained some detail around transport projects for the Drury area and the other was titled "*Drury_DC_model_Released_12_Sept.xlsb*". This is made up of a number of tabs that contain values set against projects and years that represent things such as DC

Revenue forecasts, DC Interest estimates and DC Prices. The values in the tables were the product of calculations that pulled together information on: growth of HUEs, capacity at existing facilities, new facility costs and land costs to generate estimates of development contributions pertaining to Drury. The calculations (for the most part) are not included in the model spreadsheet and are likely to reside within Asset Management Plans held by the different departments.

In addition, many of the calculations and decisions made about how much to spend, where to spend it, how to allocate cost between existing and growth and so on, occur in other models. The Drury DC Model (as released) contains references to Excel macros[1] that run processes and calculations – but the macros were not included with the model as released[2]. Furthermore, a number of spreadsheets linked to the Drury DC Model were also not available in the consultation package. Auckland Council has subsequently informed me that the references were not material to the model's operation rather they referred to column hand row titles and headings across the model..

Following requests by third parties (RVA and Ryman Healthcare), additional information was released on October 12th. This included links to other spreadsheets linked to the Drury DC Model and explanation of the cells that are connected between the models. In the letter released on the 12th, there was mention of a further release of information on October 20th (Growth_and_HUE_forecast model, and a detailed transport project cost estimate spreadsheet). In addition, it was mentioned that a key piece of input information (demand factors and distribution of benefits for key areas of cost) was not going to be available until 23 March 2023. This appears to be a significant omission from the policy formation dataset given that the key driver of development contributions should be how much demand is created by growth and how are the benefits of key infrastructure distributed between users.

Given that the consultation period ends 8th November 2022, and some key data not available until 2023, there is limited ability for developers or other interested and impacted parties to assess fully, how the distribution of benefits influence, or how demand drives, infrastructure costs and therefore development contributions.

Inclusion of Causation in Cost Allocation Model

Auckland Council's DC model includes (as a driver of the distribution of costs between existing and growth households) an allowance for "causation". The model references the Local Government Act (s101(3)(a)(iii)) as justification for including "causation" as a valid driver of cost. However, the LGA contains no reference to the word causation, rather it refers to "need" and "benefits" as being the drivers by which councils are to distribute cost. "Need" relates to usage and so does "benefits" (i.e.:

[1] A macro is a piece of code that may run a number of calculations in a particular sequence and is used to automate calculation of formula that are repeated numerous times throughout a spreadsheet.
[2] The macro's were explained to me at a meeting with the Auckland Council DC team on October 26th. They simply run goal seek operations on each project in isolation to arrive at a DC price that clears debt by 2060.

members of the public receive benefits in proportion to the amount of use they make of a facility or piece of infrastructure). "Causation" plays no part of the process under the LGA.

The manner in which "causation" influences cost allocation in the Drury DC model is blunt and has the effect of loading costs onto developers and ultimately new households (in particular in the infrastructure categories of Reserve Acquisition, Reserve Development and Community Infrastructure). As outlined in Figure 1, the effect of "causation" on the proportion paid for by developers is clear. Within the Drury Pool/Leisure Centre 10km line, an assessment has obviously been carried out on who benefits from the development of the pool. This is presumably based on who will most likely use the pool/leisure centre. It found that some 58.64% of the benefits fall to growth households – presumably because growth households generate 58.64% future demand pressure for the facility. This demand requires Council to spend money to develop a pool/leisure centre facility.

Figure 1: Drury DC Model Extract from Project_and_capex_costs tab.

Funding area description	Growth %	Level of Service %	Renewal %	Benefit considerations % benefit to growth s101(3)(a)(ii)	Cause considerations % caused by growth s101(3)(a)(iv)	DC growth % (O12+P12)/2
Reserve Acquisition - Opaheke / Drury				100.00%	100.00%	100.00%
Reserve Acquisition - Opaheke / Drury				99.03%	100.00%	99.51%
Reserve Development - Opaheke / Drury	100	0	0	100%	100%	100.00%
Reserve Development - Opaheke / Drury	100	0	0	99%	100%	99.50%
Community infrastructure - Drury IPA		0	0	81.87%	100%	90.94%
Community infrastructure - Drury Pool/Leisure centre 10km				58.64%	100%	79.32%
Community infrastructure - Drury Pool/Leisure centre 10km				58.64%	100%	79.32%
Community infrastructure - Auckland wide	100	0	0	34.24%	100%	67.12%

This means that existing residential households are expected to generate 41.36% of future demand for the pool/leisure centre facility and are likely to receive 41.36% of the benefits. Fairness and equity would indicate that growth households pay 58.64% of the cost while existing households pay 41.36%. However, because Council have added in a "causation" driver of cost, which has been set to 100% to growth households, the proportion of costs they bear increase to 79.32%.

The methodology is crude – Council simply adds the two drivers together (58.64% + 100%) and divides by 2 = 79.32%. There is no theoretical justification behind this process, it seems to be simply a way to

load additional costs onto growth households that is completely unrelated to the amount of load they place on council services. By doing so Council add a further $44m onto growth households, or approximately 8.9% across these categories listed in Figure 1.

It is clear from Council's analysis that, with the growth households in place there is a rationale for providing a new service that will serve the wider community. That generates a benefit for the existing dwellings and residents as well as incoming residents (as the existing residents will have access to a facility that cannot currently be justified for the existing smaller community). It is, therefore, equitable for the costs of that facility to be shared between all the parties who will have access to and the ability to benefit from it. In contrast, the "causation" approach wrongly suggests that provision of the new service is an infrastructural cost that will bring no benefit to the existing community and hence should be borne entirely by the incoming activity.

Piecemeal Implementation of Policy

Auckland Council is rolling out Variation A to the DC policy in a piecemeal manner, in that it is starting with Drury then moving on to the North West and elsewhere in the region. This is likely to have the effect of sending the wrong signals to the market. Because in most instances in Drury the development contribution price change is large (up to an additional $70,000 per section), house prices will increase (discussed in the next section).

The effect of that is that growth households are likely to be dissuaded to a certain extent from choosing to locate at Drury – an area that has been specifically earmarked to cater for growth. Growth households will begin to make decisions to locate to other areas that may not have the infrastructure capacity to cater for growth or may be less than optimal. In effect, the DC policy equates to imposition of a tax on Drury development, which will bring a distortion to the market such that decisions are not being made based on sound fundamentals but will instead be made in response to minimising the effects of a tax.

In order to minimise the impacts of this distortion, we recommend that the imposition of the Drury DC policy is delayed until such a time as the entire Auckland model is developed and fully specified; and the same approach is applied simultaneously throughout the city. It is only then that household decisions can be made efficiently (from an economic perspective).

Impact of inclusion of 30 year projects

Auckland Council does not believe that an increase in development contributions at Drury will have any effect on house prices. This is because Council has assumed that the residual land value model holds sway. Council's model splits the cost of housing up into its components for a developer and given a market driven price (that an individual developer can not influence) shows how much they are able to pay for developable land. Effectively the purchase price for land is the final sale price, minus all build costs, marketing costs, profit margins and council fees. This means that if council fees go up,

the developer will offer and pay less for the developable land and final market prices for housing will not be impacted.

However, because the DC policy is being imposed in a single hit and the developers that it is being imposed upon have already secured the raw land required to develop the Drury FUZ, the amount they pay for land can not be adjusted. There is no ability to go back to the farmers (and others) and re-negotiate the land purchase simply because Council has changed its policy.

This means that including the long term projects in the model (which have caused a large increase in DC's) will impact house prices. This will happen in one of the following ways.

1. Given all the developers in Drury are impacted and that they are all faced with similar increases in costs, they may choose to put up their prices in order to ensure margins are protected and they remain viable. This is demonstrated in Figure 2, below. The effect of localised house price increases is that house buyers will seek alternatives in locations with lower prices, potentially taking advantage of the fact that Council are rolling the DC policy out in a piecemeal manner, rather than as a spatially comprehensive policy that covers all of Auckland. Households will maximise their utility, and this means they trade off the higher house prices at Drury against other locations that may not be as suitable, but are more affordable. This change would be solely driven by the additional DC charge rather than by economic and social fundamentals, leading to a less efficient outcome..
2. Some developers may simply not be able to complete their developments in the short term and or go out of business, given the squeeze on margins the increased DC charge imposes (as outlined in Figure 3). This will cause a reduction in the volume of housing stock coming to market causing prices to rise. In this scenario, developers are operating in a fully competitive market where no localised advantages exist and house buyers are indifferent between Drury and elsewhere. The effect of the DC is to reduce developers' margins significantly. In the example shown in Figure 3 below, developer margins reduce from a normal 20% in the before DC side to 11% following the imposition of the tax. This is below the point where most banks are able to lend money as the risks become too high. Therefore, a portion of developers who cannot proceed due to unavailability of finance will go out of business. This reduces the volume of new housing stock that comes to market in the short to medium term driving prices up.
3. Some developers may choose to develop larger and less affordable, but more profitable, housing typologies that attract purchasers who are better placed to fund the increased prices caused by the high contributions and which hence ensure that profit margins are retained.
4. Finally, some developers may choose to delay residential development until the market prices adjust up to the point where delaying is no longer the economically rational thing to do. In most instances, that will be the point where prices increase such that a 20% developer margin is restored, and the banks will comfortably loan money to fund development works. While some developers may be able to develop at significantly lower margins than 20%, the finance

sector requires developers to be on a sound footing to provide them security to lend. This only occurs when profitability is maintained. This is particularly important in the current economic climate with interest rates rising along with construction sector costs and house prices falling. It is likely to be the case that banks and other financial institutions will require higher profit margins to reflect the increased risks involved in residential development.

In the long run, the market forces Council are relying on to justify the short term position, will come into force and the price paid for land will decrease relative to the total cost. In the short term house prices will rise – reducing housing affordability.

On the basis that Variation A – if adopted - will adversely impact housing affordability by driving up house prices through the actions of developers responding in a predicable and economically rational way to the increase in fees is a significant economic cost on Auckland.

Central government recognised that development contributions have not been a particularly successful way to fund infrastructure and have enacted the Infrastructure Funding and Financing Act 2020 (IFF Act). I understand Auckland Council have chosen not to take advantage of this facility.

Figure 2: Example of how an increase in the DC price increases house prices



Figure 3: Profit reduction effect – margin drops from 20% to 11%



M.E recommend that Variation A be amended to either remove the 30 year projects and revert to a rolling 10 year cycle of contribution fees, or, at the least, bring the policy in over time, such that the effects are price neutral.

One scenario of change is to roll Variation A in over time, so that it has a minimal impact on developer feasibility and/or housing affordability. If the time period over which Council collects DC's is extended every time the policy is reviewed, by 3-5 years. Then over a 12 - 20 year time period, the DC policy would cover 30 years and the impact would be minimal. Obviously, this would need to be assessed appropriately to settle on extension periods and the number of reviews, but it would ensure that any adverse impacts on housing affordability are minimised.

Equity issues, inflation and the causal nexus

The purpose of the development contributions provisions in the LGA is to enable local authorities to recover from those persons undertaking development a fair equitable and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term (s197AA of the LGA 2002)

It is therefore important that the DC price struck is fair, equitable and proportionate and (according to s197AB) based on the benefits received or the need for the assets. This clearly creates a link between benefits and cost allocation, meaning that Council must clearly show the link between growth and the assets required to meet the needs of that growth, in order for the purpose of the Act

to be met. Historically, in the New Zealand context, development contributions are aligned with the 10 year planning horizon as this not only provides a high degree of certainty over assets actually to be built, but it also aligns closely with the average length of time New Zealanders own homes[3].

It is not clear from the documentation provided by Council as part of the consultation pack why selecting a 30 year time horizon results in a more robust outcome than a 10 year horizon – especially given Council are able to re-evaluate their development contributions policy every 3 years and adjust it to incorporate new projects. The advice Council has received states that benefits are best identified as land value uplift from the full planning process[4]. This advice goes on to state that "*In practice, identifying and isolating the benefit of specific infrastructure spending funded by DCs is difficult, perhaps impossible*" (Page 8). This statement is not valid and not correct. Council's asset managers will have identified via robust processes, within their Asset Management Plans, additional infrastructure requirements across the city presumably based on a clear understanding of who uses the infrastructure and therefore what catchments the infrastructure serves.

It is based on this understanding about who uses the infrastructure and what catchments the infrastructure serves that decisions are made to develop future infrastructure. Council uses detailed modelling of current use and consumption of infrastructure to make the decision on how much and where new assets are to be built. It cannot then claim that identifying who benefits from that infrastructure is impossible to determine.

The benefits of infrastructure relate to its use – not the impact the provision of infrastructure has on house prices or land prices. Under the LGA (Section 101 (3)(a) and Section 197AB (1)(a) and (c)), benefits are discussed as they relate to the consumption of infrastructure through use and need rather than through the effect that provision of infrastructure has on land values and therefore developer margins.

Figure 4 outlines when the development infrastructure is to be provided. In total, approximately $1.4bn of additional projects have been added into the DC process, that are to be delivered post 2031. Of this approximately 1/3rd are to be delivered post 2043. However, 88% of the Community Infrastructure is to be delivered post 2043 and almost 75% of the reserve development occurs post 2043.

[3] CoreLogic estimate the average ownership length was 7.4 years in 2019. This is down from a peak of 8.2 years in 2016.

[4] R5 -*Equity of Options for funding long-term infrastructure investment*, Dr Cameron Murray, Dr Tim Helm, June 2022

Figure 4: Drury DC totals by decade, ($m) 2033 - 2052

	2021 - 2031	2032 - 2041	2042 - 2051	TOTAL DC
Reserve Acquisition	0.0	205.4	16.4	221.8
Reserve Development	0.0	47.2	132.1	179.3
Community infrastructure	0.0	17.0	125.0	142.1
Transport	0.0	681.0	197.3	878.3
Total	**0**	**951**	**471**	**1,422**

Source: Drury_DC_model_Released_12_Sept.xlsx, Auckland Council

This means that households who have had to pay significantly more for their sections/houses have to wait over 20 years before they receive any of the benefits from the vast majority of community infrastructure to be provided or the reserves that are to be developed.

In the interim, they are receiving a lower level of service from the existing Council infrastructure due to its location relative to the development and the fact that Council is relying on the delivery of these future projects to meet the community infrastructure and reserve needs of the Drury growth community. In reality, the residents who purchase over the next 10 years, may receive no benefit from the proposed future infrastructure spend, given the average time New Zealand households own their homes, before they move on.

In the alternative, under a 10 year DC regime, reviewed every three years, households who receive the actual benefits of this infrastructure spend are far more likely to receive the benefits of what they actually pay for though DCs

Inflation Projections

Notwithstanding the mismatch between the arrival of households over the next 10 years and the delivery of projects up to 20 years later, the effects of Council's inflation assumptions is to load cost onto today's developers in an inequitable manner, or in a manner that is disconnected from the delivery of benefits. This is because Council do not carry out any discounting of future delivered benefits into today's terms. They apply growth to construction costs at 2.5% per annum and to land at 7.2% per annum as well as interest at 4.46% annually into the future and estimate DC prices today based on the nominal future cost of delivering those assets in future dollar terms.

The reason they do this is that they believe that because the benefits fall to the developers of the land today and that households will not bear any of the costs (given Council's position that prices will not change as a result of imposing additional DC charges), they do not need to discount future benefits.

This is flawed, and it appears as though Council is trying to 'have its cake and eat it too'. The effect of this is stark. By inflating reserve acquisition costs for Suburban Park land at Drury, Council will spend (in nominal terms) almost $65m between 2032 to 2042. Variation A to the development contributions policy, simply divides that number by total households anticipated in the catchments out to 2060 and

allocated it to today's DC price. In other words, they take the $64.6m of capital expenditure and divide it by the 18,932 growth households expected in the suburban park catchment to 2060 resulting in a DC price of $3,448 per HUE (once interest costs are accounted for).

Figure 5: Inflated future expenditures and their values in current terms, ($m) (2022)

	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	Total Cost
Suburb Park Land Acquisition - Drury	$ 6.57	$ 4.56	$ 3.42	$ 3.14	$ 3.37	$ 3.61	$ 3.87	$ 9.04	$ 11.44	$ 12.27	$ 3.29	$ 64.6
Suburb Park Land cost, current terms	$ 4.07	$ 2.62	$ 1.82	$ 1.55	$ 1.55	$ 1.54	$ 1.53	$ 3.32	$ 3.90	$ 3.88	$ 0.96	$ 26.7

However, by removing the effects of the excessive land inflation, the total cost would only be some $26.7m in current terms – or around 40% of the figure used to establish the DC price. By adhering to the dollar of the day values when striking a DC price for today, Council are loading significant costs onto the development community that is not fair, equitable or proportionate – and unrelated to the benefits received.

At the very least, the future expected expenditures should be discounted back to current terms using an expected CPI inflation rate. Doing so would result in a current value of benefits of approximately 64% of the nominal total ($41m compared with $65m). A more appropriate approach would be to adopt a land inflation rate that is inline with citywide growth rather than the land value uplift over recent years. This is because in the long run, growth in land value is likely to be far more closely aligned with overall citywide growth than the extremely low interest, low land tax regime of the past 20 -30 years.

Causal nexus

It is important that in setting a development contribution price, Council are clear about the relationship between growth and the need to invest in new or additional capacity in infrastructure to meet the needs of that growth. Council should not be able to load significant costs onto the growth community for infrastructure that the growth community are not going to benefit from. Infrastructure that is developed in a location and plays no role in meeting growth needs elsewhere, or infrastructure that is developed so far into the future that it delivers no benefits to growth that occurs in the next 5-10 years should not be included in setting a DC Price.

It is also the case that significant pieces of infrastructure benefit the community as a whole. In addition, portions of most infrastructure deliver benefits to the community as a whole – either directly through use or indirectly through things such as existence values or option values.

At present Council appears to be attempting to adopt 2 positions. In terms of the distribution of benefits, Council are relying on a relatively simple approach whereby catchments are established around key pieces of new and existing infrastructure and the current household numbers, or Household Equivalents (HUEs) added up. Council then relies on the growth projection model to generate estimates of future HUEs within each catchment. Benefits for any single piece of

infrastructure is simply the proportional split between current HUEs and total future HUEs (set at 2060).

Assuming the catchments have been set appropriately, this approach is appropriate (with the potential exception, that some assets are liable to reach capacity ahead of 2060 and some will continue to provide services to the community well beyond 2060 (notably open space and reserves). The key issue arises when Council attempts to align growth that is occurring over the next 5 – 10 years with expenditures they may be required to make to cater for growth 20 – 30 years into the future.

It is not the case that far future costs are incurred due to loads placed on infrastructure by households that arrive within the next 10 years. They place no load on that infrastructure, nor do they receive benefits for its existence. As mentioned elsewhere, the average New Zealand household owns their home for less than 8 years. The majority of home-owners who build in the next 5-10 years will leave their properties never having utilised the future infrastructure. There is no causal nexus.

No clear link has been made between development that is anticipated over the next 10 years and benefits they receive over 30 years. Therefore, we recommend that Council steps back from the 30 year model and retains the 10 year model and continues its review every three years. This allows a direct causal link to be made between growth and the need for Council to spend money on infrastructure to meet the needs of that growth.

Land value uplift as benefit

In the advice provided to Auckland Council[5], the benefits of infrastructure investment are said to be embodied in the land value uplift following rezoning or the announcement of infrastructure investment. The advice states that future residents who actually use the infrastructure or facilities are best described as infrastructure users rather than beneficiaries.

On the face of it, this position sits at odds with the manner in which DCs have been constructed in the past where benefits are related to use or need. Yet identifying land value uplift (at least in part) as the accumulated set of benefits that infrastructure provides recognises that benefits are the key metric by which Development Contributions must be struck.

It flows from this position that causation (discussed in Section 4 above) is irrelevant and that benefits - their scale and distribution, spatially and over time - is the only appropriate driver of cost allocation.

Land has value based on the uses that the land can be put to. Those uses are based on the zoning that is applied and other characteristics such as location, geotechnical quality, aspect and relationship with other land and infrastructure. As infrastructure improves following rezoning or infrastructure investment announcements, land value increases because the land can be put to more uses, people

[5] *Equity of options for funding long term infrastructure investment*, (June 2022) Dr C. Murray, Dr T Helm

derive a greater set of benefits from owning that land. This highlights the link between infrastructure investment and land value uplift.

However, the scale of the value uplift is not solely attributed to the infrastructure investment. It is likely to be a trigger for the uplift but not solely responsible for it. An example is, the development of a train station may cause additional investment in higher density housing to co-locate with the station. This leads to retailers and other service providers seeking to co-locate with the station and the residential development to take advantage of the additional activity. The end result is that residential land and retail or commercial land increases in value – triggered by the presence of the train station, but not solely because of the train station. If the housing did not develop, then the retailers may not have sought to locate there or the other commercial activity seeking to take advantage of the amenity the density of development delivers. The infrastructure investment was a necessary, but not sufficient mechanism that led to the development of a retail centre at the station.

It follows then that land value uplift is the result of a number of inter-connected forces, triggered by infrastructure investment – but not solely because of it. As land values rise, so do the rates Council receives from that land. Given that Drury infrastructure is funded by a mix of DC's and rates, and a portion of the rates paid by the growth community is used to part fund the infrastructure developed in Drury (and elsewhere across the city), this amount needs to be identified and offset against development contributions in order to avoid double dipping. Council should not be in the position of collecting development contributions to fund infrastructure required to support growth needs and also charge them rates – a portion of which will be used for the same purpose, without offsetting the rates amount against the DC amount.

Impact on developers and the growth community

As it currently stands, the impact of including 30 year projects in the DC Policy for Drury will fall directly on current developers. These developers do not have the ability that future developers will have, to negotiate land prices such that the DC increases have little or no effect on house prices. This puts the current developers at a distinct disadvantage to the developers who follow.

This is inequitable, unfair and disproportionate, as well as unrelated to the benefits gained from the investment in infrastructure, regardless of how it is portrayed or captured (through usage rates, or land value uplift).

We recommend that the inclusion of 30 year projects is either halted, or is introduced over a longer timeframe that allows the market to adapt and respond to the changes in a price neutral manner.

Best Regards

[redacted]

Director

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Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

Feedback must be received by 5.00pm **8 November 2022**

Auckland Council uses development contributions (DCs) to ensure that an appropriate share of our investment in infrastructure is recovered from those that create the need for, and benefit from, the investment.

Our Contributions Policy sets out the costs to be recovered and how these are translated into DC levels in different parts of the region. This is regularly updated to reflect new information, such as updated projections about growth or planned investment, or policy decisions made.

The current contributions policy was consulted on in late 2021 and became effective from 1 January 2022. We are now proposing a variation to this policy, to enable the inclusion of infrastructure for Drury beyond the ten period of the Long-term Plan 2021-2031.

We strongly encourage you to read the proposed approach and accompanying information before answering any of the following questions.

We encourage you to give feedback online at akhaveyoursay.nz, or you can:

Scan and Email your completed form to:

Contributions.PolicyTeam@aucklandcouncil.govt.nz

Post your completed form to:

Contributions Policy Team
Auckland Council
Private Bag 92300, Victoria Street West
Auckland, 1142

Your details

Your name and feedback will be included in public documents. All other personal details will be kept private.

First name: [redacted] Last name: [redacted]

Email address or postal address: [redacted]

Your local board:

Is your feedback on behalf of an organisation or business? (If yes, this confirms you have authority to submit on the organisation's behalf)

☑ Yes ☐ No Name of organisation/business: Oyster Capital Limited

Your feedback

Our contributions policy ensures that the cost of infrastructure is shared between developers and ratepayers, based on who causes the need for and/or benefits from the infrastructure.

The first priority growth area we're focussing on is Drury-Ōpaheke– an area whose population is projected to grow from 4,000 to over 60,000 in the next thirty years and will require supporting investment of $2.869 billion. This investment will include a public and active transport led approach to transport infrastructure, parks and open spaces, and a new community facility that will include a local pool, leisure centre and library.

We estimate investment in this area will take around 30 years to deliver. Currently, the policy only requires developers to contribute to investments in infrastructure that will be delivered over the next 10 years. Without this funding from development contributions, the burden of providing infrastructure and risk of undesirable outcomes will fall on the remainder of the city's ratepayers and the future residents of Drury.

We are proposing that it is more appropriate to include the full amount of this investment required to support growth in the contributions policy. This would mean all developers in the area will contribute an average level of contribution in this area of around $83,251 per Household Unit Equivalent.

1. **Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?**

- [ ] Support
- [x] Do not support
- [ ] Other
- [ ] I don't know

Tell us why

Refer Attached

2. **Do you have any other feedback?**

Refer Attached

Fletcher Living
Love your new home

8 November 2022

Auckland Council Development Contributions Policy 2022 Variation A

Fletcher Residential Limited ("**FRL"**) make the following submission on Auckland Council's proposed Development Contributions Policy 2022 Variation A ("**Contributions Policy**")

Introduction

FRL is one of the largest developers of new residential communities in New Zealand, having built and sold thousands of homes in the last 5 years. We are an experienced developer, master planner, designer and builder of quality homes that are developed to meet the community needs, whether that be social, affordable or open market product. Our developments provide livable communities with high quality housing, providing healthy homes that are suited to today's owners, as well as future owners. Fletcher Living has 17 developments in Auckland currently, and a pipeline in excess of 5,000 dwellings.

Fletcher Living is Oyster Capital's development partner for the land within Plan Change 50 (PC50) at Drury. PC50 is a private plan change that seeks to rezone 49 hectares of land for medium density housing.

Key Issues

FRL welcomes the recognition in the Contributions Policy of the need for significant infrastructure to be developed in the Drury / Opaheke Funding Areas. Development Contributions ("**DC's**") are an important part of the way infrastructure is funded, and FRL agrees that the private sector should pay its fair share of infrastructure required for growth on an equitable basis, and therefore is supportive of a Contributions Policy that allocates costs fairly between the parties and communities who will benefit from infrastructure.

However there are material issues with Auckland Council's ("**Council**'s") proposed policy which we believe does not achieve that stated goal. We believe the Contributions Policy will cause significant implications throughout the industry that have not been given reasonable consideration.

This response focuses on the policy in general and the specific example of Drury. However we note for clarity that our responses should be read in the context of all of Auckland, noting that it is Council's intent to implement these changes throughout Auckland.

This submission focuses on the key issues as follows:

1. Inclusion of costs beyond 2032
2. Transparency
3. Assumptions within the Contribution Policy model
4. Extent of the Drury Opaheke Funding Areas
5. Geographical Specificity of Infrastructure Funding
6. Social implications

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FLETCHER RESIDENTIAL LIMITED

Fletcher Living

1. Inclusion of costs beyond 2032

The Contributions policy requires the Drury-Opaheke Funding Areas to pay contributions towards the cost of infrastructure that is anticipated to be implemented after 2032. This is the first time such long dated infrastructure funding is being imposed on developers within the greater Auckland region. By incorporating costs of infrastructure that will not be implemented within the first 10-year period, the resultant DC increase will impact developers in terms of reduced viability and profitability of developments. Increasing DC's from $18,300 per HUE to $99,298 per HUE is so significant that it will l likely slow if not cease development of these areas. It will also impact potential purchasers of homes as if development proceeds (once prices appreciate to take into account these increased costs of development) any such increases in DC's will inevitably find their way to increased house prices and consequential impacts on the attractiveness of Drury.

We are also concerned with regard to the accuracy of predictions over a 30 year period. As the modelling extends further into the future, the accuracy of the inputs decreases exponentially due to unknown changes in key factors such as cost escalations, interest rates, scope of required works, extent of land, etc. This lack of accuracy could result in severely unfair premiums being paid by developers who progress project in the early years of this 30 year timeline.

Most importantly, FRL does not believe it is equitable that a developer must pay the same amount of DC's in 2023 with limited to no benefit derived from the infrastructure proposed, as another developer would in 2051 who benefits from 29 years of infrastructure being in place. From a fairness and equity perspective, Council is proposing to apportion the same costs to developers today for Council projects that are not going to be built now, but over the next 3 decades. DC's are funding infrastructure arising from growth, so that infrastructure should be delivered in a timely manner, rather than 20 + years after the need has been established.

Simplistically this puts developers who develop first in Drury at a severe disadvantage, and will lead to perverse outcomes whereby land banking is incentivized and developers will instead focus on other areas of Auckland.

The new policy also encourages Council to design projects that are "gold plated" and have higher initial capital expenditure because they do not have any skin in the game and any negative impact from over charging. Far greater rigor is required in the design and costing of these projects, and Council should be able to demonstrate that an efficient, effective and value for money approach has been adopted. .

2. Consultation Process & Transparency

To date, developers and other interested parties in the public have not been given a reasonable opportunity to review the financial models and inputs into these. As DC's needs to be transparent, understandable and defensible, they need to be supported by publicly accessible information. While Council released information in the form of documents and several spreadsheets in mid-September, both the form and the substance of them is inadequate.The timeframe (less than 2 months) is also insufficient for interested and affected parties to complete appropriate reviews. Additionally, within this package of information, many of the fundamental inputs were not included, for example:

- The spreadsheet included a number of tabs that contained values set against projects over time, however the assumptions and calculations which drive these values were not provided;
- the calculations referenced excel macros that run processes and calculations to inform the model, but these were not included; and
- there was limited references to how decisions were made as to what infrastructure was required, at what time and to what scale

To reach an informed opinion on such a significant departure from the existing development contributions policy, we believe it is necessary to have full information provided in a timely manner, so a thorough review be completed. To date, despite repeated requests of Council over several months to share more information and engage more fully, Council has been unwilling to do so.

We believe the Council have failed to provide:

- Specific information on the costs inputs, contingencies and escalations that have been used to calculate the development contributions;
- Sufficient details of the scope of works for which contributions are required;
- Adequate plans showing the land required for those works;
- Sufficiently detailed estimates of the land and construction costs which contribute to the estimate of $4.5 billion infrastructure works at Drury;
- Sufficient detail to justify the need for a number of projects, noting that the recently completed PC48 process concluded that some projects identified by Council are not required; or
- Sufficient details of the proposed projects to ensure that the Contributions Policy does not include projects that will either be completed by the Crown or by private developers at no cost to Council.

The shortcomings and delays in the information provided to date mean that developers and other interested and affected parties are unable to assess the equity of the Contributions Policy prior to the closing date for submissions.

To provide a reasonable opportunity for a full review of the Contributions Policy, FRL requests that Council provides:

- Full access to the models used by Council, including their component inputs being assumptions, escalations and contingencies;
- Full details of the works proposed including the methodology for how costs were calculated;
- Plans which shows the land required for the proposed works;
- Detailed estimates of the land and construction costs; and
- Details of the stormwater and other works that Council anticipates will ultimately be included in the Contributions Policy but which are currently omitted

3. Assumptions with the Contribution Policy model

Noting the above shortcomings in the information provided, with what has been able to be assessed, FRL believes there are several issues with the methodology used in the Contributions Policy modelling work.

These include but are not limited to:

- the Contributions Policy appears to have assumed high land purchase, escalation and construction costs and/or have applied multiple contingencies that collectively increase the costs to an unrealistic value that is then charged to developers;

- the net present value calculation should be amended so that Council has sufficient funds to pay for works when they occur, rather than receiving both full contributions and compounding interest on those funds;

- the Contributions Policy does not include development occurring within the Plan Change 48,49 or 50 area until after 2028, which is not realistic considering that a consent order has been given by the Environment Court and live zoning will be applied to these 3 areas. This will impact the DC calculations by reducing interest costs and land values, given the aggressive land inflation figures adopted by Council in the current model; and

- The contributions policy model appears to include a number of transport projects which are being delivered by developers (for example the interim upgrade to Waihoehoe Road). We are only privy to a small number of transport projects in the area and have noticed this in the model – therefore we are concerned there are other errors contributing to the assumed infrastructure costs that have not been picked up

4. Geographical Specificity of Infrastructure Funding

FRL is concerned that the geographical allocation of infrastructure funding responsibility will have inequitable consequences for landowners and developers within the Auckland region. By only applying the Development Policy to Drury, it puts the developers in this area as a significant disadvantage to their equals in other parts of the region.

It could be perceived that Council is disincentivizing development at Drury to intentionally funnel development activity to other parts of Auckland. If this is the intent, FRL requests that Council clearly states this so that it can be assessed in the appropriate public forums.

In addition to the above, the Contributions Policy appears to inequitably charge parties within Drury who must entirely fund infrastructure within the Drury area, while still contributing the infrastructure within the greater Auckland. An example of this is cycle ways, with Drury funding 100% of these in the area while also contributing to the cycle ways in greater Auckland.

5. Unintended social consequences

It appears that Council is choosing to adopt a Contributions Policy that targets greenfield development with significantly higher contributions while maintaining a small to negligible increase within existing urban areas. The existing urban areas will also use and benefit from these services. This perception is based on the massive increases proposed for Drury, the other locations proposed to be targeted after Drury, and the minimal contribution increases received in other parts of the

region. This approach could lead to unintended outcomes including the following:

- Removing affordable housing from the market
    - House prices in greenfield areas are generally far cheaper than those in urban areas.
    - If developers are incentivized to developed only within the existing urban areas, this affordable offering will reduce - leading to increases in average and median house prices in Auckland
- Reducing the ability to provide comprehensively designed master planned communities.
    - There is greater capacity to develop a full range of housing types at affordable prices and with high amenity in the peripheral areas of the city
    - With greater scale there is the ability to provide significant amenity and contribute, mange or even construct infrastructure that benefits the locality
- Encouraging small scale infill development that does not provide any meaningful amenity or infrastructure upgrades.

Conclusion

In principle, we support the Council's efforts to plan for the significant infrastructure that will be required to support the growth of the city, including in Drury.

However we strongly oppose the currently proposed Contributions Policy for the reasons aforementioned in the submission above.

Therefore, we request the following changes to be made:

1. That the Contributions Policy be put on hold until Council has provided all submitters and affected members of the public with:
    a. full access to the models that have been relied upon by Council, including their component elements and detailed costs inputs, contingencies and escalations
    b. details of the scope of and rationale for works for which contributions are required, in sufficient detail to enable the accuracy of the costings to be assessed – including any land required.
    c. details of the stormwater and other works that Council anticipates will ultimately be included in the Contributions Policy but with are currently omitted.
2. The Council provides submitters with appropriate time to review this information
3. That Council holds public hearings on the submissions and the Contributions Policy
4. That Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032
5. That in any event, Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032 unless and until that methodology is also adopted simultaneously for all parts of the Region
6. That the Contributions Policy is amended to remove geographical inequities

We respectfully offer to and request that Council engage with parties such as ourselves and other industry participants to achieve a much fairer approach that would provide the necessary funding in an equitable manner over a reasonable time period, while also permitting the delivery of much needed housing in Drury.

Auckland Council Contributions Policy 2022 – Variation A

Submission by the Retirement Villages Association of New Zealand

8 November 2022

SUBMISSION ON AUCKLAND COUNCIL'S VARIATION A TO THE CONTRIBUTIONS POLICY 2022 BY THE RETIREMENT VILLAGES ASSOCIATION OF NEW ZEALAND

To: Auckland Council

Name of submitter: Retirement Villages Association of New Zealand Incorporated (*RVA*)

1 This is a submission on Auckland Council's (*Council*) proposed Variation A (*Variation A*) to the Development Contributions (*DC*) Policy 2022 (*DC Policy 2022*) on behalf of the RVA.[1] Variation A proposes to modify DC Policy 2022 to enable funding of infrastructure for Drury beyond the current 10-year period.

2 The RVA lodged a written submission on the Council's draft DC Policy 2021 (*Draft Policy 2021*) on 17 October 2021. We delivered oral submissions to the Finance and Performance Committee on 12 October 2021. The RVA's submission was supported by advice from independent economist, Greg Akehurst, Director at Market Economics.

3 This submission builds on the earlier work, addressing new material from Council, and is supported by further analysis undertaken by Market Economics in relation to Variation A (**Appendix A**).

EXECUTIVE SUMMARY

4 The RVA and its members are very concerned about adopting Variation A, particularly the proposal to extend the time horizon for its DC Policy out to 30 years in Drury. We are also very concerned that this approach may be rolled out in other investment priority areas in Auckland.

5 The proposal is unprecedented in Auckland. It will have far reaching implications for Auckland's growth aspirations. This is at a time when Auckland is in desperate need of more homes. Housing affordability is already a major issue. The RVA's members are experiencing huge pressures to deliver appropriate housing in Auckland to accommodate the rapidly increasing ageing population. Regulatory costs, such as DC charges, materially affect the viability of new villages and therefore will further exacerbate the current retirement living crisis. The Council should be encouraging housing rather than adding new barriers.

6 The price increases proposed are staggering. Council's intention to fund Council infrastructure and services over a 30 year period adds some $1.4bn of additional fees collectively onto the growth community immediately, with no ability for developers to adjust payments for land. And, it would introduce increases of an order of magnitude – around 660% in some cases. Stormwater DC costs are yet to be added, meaning the overall increases are likely to be much larger. While acknowledging the Council's financing and funding constraints, it is counterproductive and unfair to pass on these substantial costs to home builders, which will stall development, put up house prices and make some development activities unviable.

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[1] Today, the RVA has 407 member villages throughout New Zealand, with approximately 38,520 units that are home to around 50,000 older New Zealanders. This figure is 96% of the registered retirement village units in New Zealand (there are also almost 6,000 Occupation Right Agreements for care suites as part of the aged care system). The RVA's members include all five publicly-listed companies (Ryman Healthcare, Summerset Group, Arvida Group, Oceania Healthcare, and Radius Residential Care Ltd), other corporate groups (such as Metlifecare and Bupa Healthcare) independent operators, and not-for profit operators (such as community trusts, and religious and welfare organisations).

7 The Council should have, but has not, taken up available alternative funding tools such as Infrastructure Funding and Financing Act 2020 funding from central government, despite other councils seizing this opportunity. It remains unclear why this option – which was set up specifically for projects such as Drury - has been left out of the current funding mix.

8 Other funding sources, such as the New Zealand Upgrade Programme (*NZUP*), may also reduce the need for DCs. The RVA understands from Council officers that decisions on that funding are imminent, making the current proposal premature.

9 The RVA is also very disappointed, once again, with the Council's consultation process. Despite promises made by Council in 2021 to properly engage on the Drury proposal, the process has not been open or transparent. The RVA made several attempts to engage with the Council in its review process prior to the formal consultation, without success. The Council has also been unwilling to share all the relevant information the RVA and other parties have requested and it has only been released through persistent official information requests. Material questions remain outstanding. The RVA considers significant natural justice breaches have occurred.

10 As Mr Akehurst outlines, the Council's assessment work to support Variation A is also unreliable. It assumes the outcome will be 'cost neutral', but fails to acknowledge the significant financial impacts on developers who have already purchased land. Further, the ability to fairly levy charges over such a long period has a range of fundamental flaws, including the lack of a causal nexus between development and infrastructure benefits. The models used to assess the new charges and the technical assumptions are also materially flawed, meaning likely over-recovery of costs and 'double dipping'.

11 Council has also in essence sought to impose a 'value capture' regime on developers by taxing the uplift in land value from rezoning, rather than focussing on the use and benefit of the planned infrastructure.

12 Many of these issues offend against Local Government Act 2002 (*LGA*) requirements and case law principles (as further outlined in the RVA's earlier submission). Any decision on the Variation will therefore be susceptible to legal challenge.

13 The RVA also notes that Council's proposal is placing a significant strain on the relationship between the Council and the development industry at a time when collaboration is crucial to address Auckland's critical growth needs. As a result, other regions across New Zealand may become more attractive investment areas – further precluding and/or slowing growth in Auckland.

RECOMMENDATIONS

14 The RVA seeks that the Council:

14.1 reject the proposal to charge DCs for investments in infrastructure after 2031 in Drury-Ōpaheke;

14.2 reject any similar proposals for other growth areas in Auckland; and

14.3 return to the usual DC funding approach covering a 10 year period (which more fairly aligns developer payments with the actual benefits they will receive from infrastructure provision).

15 The RVA also encourages the Council to continue considering and exploring alternative sources of funding and settling DCs once it has exhausted these other avenues.

16 In any case, it would be erroneous for the Council to rely on the current information being presented in the consultation material. Significant further work is required to justify the change in approach and the charges themselves, albeit the RVA does not consider further work will fix the fundamental problems with the 30 year approach.

THE RVA'S CONCERNS WITH VARIATION A IMPACTS

17 The RVA is very concerned that Variation A fails to ensure a "*fair, equitable and proportionate*" DC regime. It strongly opposes the Council's proposal to include capital projects beyond 10 years in Drury (and across Auckland) given the major impacts on the well-being of people and communities. Key issues are:

17.1 significant impacts on housing supply and housing affordability;

17.2 undue burden and inequity for current landowners;

17.3 unfairness and inequity to early home owners; and

17.4 alternative funding sources should be pursued.

Significant impacts on housing supply and affordability

18 According to the Council's consultation document, its proposed approach would raise the DC price for Drury by an average of an additional $60,687, per household equivalent unit (*HUE*), to a total of an average of $83,251 per HUE (and some developers may be required to pay over $100,000 per HUE).[2] Moreover, as noted, the RVA understands that DC prices may ultimately be even higher once stormwater requirements are identified and added to the DC Policy.

19 As acknowledged by the Council, the proposal represents "*a major price increase*".[3] Notwithstanding the Council's additional review on the proposal following last year's consultation, the RVA's members remain very concerned with the significant consequences of the proposed "*major price increase*" on housing supply, including retirement and aged care accommodation, and housing affordability.

20 The RVA notes that the Council has sought independent economic advice from Dr Helm and Dr Murray on the likely impact of increased DCs on housing markets.[4] Their view is that the proposed increases to the DCs in Drury "*are not large enough to render housing development unviable*", the "*proposal is expected to have no impact on the pace of development across Auckland as a whole*", and changes in DCs do not impact house prices.[5]

21 With respect, the RVA disagrees with Dr Helm's and Dr Murray's findings. Market Economics has reviewed Dr Helm's and Dr Murray's reports, as well as the other documentation released as part of the consultation process. In Mr Akehurst's view,

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[2] Auckland Council, Consultation Document "Sharing the cost of Drury's growth", Contributions Policy 2022 Variation A, 25 August 2022, at [10] and [58]. Dr Cameron K Murray and Dr Tim Helm, "Equity of options for funding long-term infrastructure investment" and "Economic incidence of developer contributions", 10 June 2022, page 3.

[3] Auckland Council, Consultation Document "Sharing the cost of Drury's growth", Contributions Policy 2022 Variation A, 25 August 2022, at [11].

[4] Dr Cameron K. Murray and Dr Tim Helm, "Economic incidence of developer contributions", 10 June 2022.

[5] Dr Cameron K Murray and Dr Tim Helm, "Economic incidence of developer contributions", 10 June 2022, page 1.

inclusion of 30 year projects will impact house prices and reduce housing affordability.[6] According to Market Economics, this will happen in one of the following ways:[7]

21.1 Given all developers in Drury would be impacted, they may choose to increase house prices in order to ensure margins are protected and their developments remain viable;

21.2 Some developers may not be able to complete their developments and go out of business. This potential dire consequence on some developers was also recognised by the Council during last year's consultation.[8] This will lead to a reduced volume of housing stock causing prices to rise; and

21.3 Some developers may choose to delay development until the market prices adjust up to the point where delaying is no longer the economically rational thing to do, reducing supply and pushing up costs.

22 The negative impacts on housing affordability is particularly worrying given that Auckland's house prices have skyrocketed in the last decade, despite prices retreating lately. If the Council adopts Variation A, it will be responsible for another significant price hike.

23 The Council's proposal will also be a strong disincentive to development, which is critically needed to address the acute housing shortage, including the retirement and aged care living crisis. As previously indicated to the Council, the RVA's members are already experiencing huge pressure to deliver appropriate housing in Auckland to accommodate the rapidly increasing ageing population and provide adequate care.

24 The retirement and aged care industry is currently under significant pressure due to chronic staff shortages. As recently reported, staff shortages in the aged care sector have reached "a crisis point".[9] Reducing housing affordability will be a further disincentive for necessary health workers to live and work in Auckland (and other essential workers).

25 Further, the industry continues to suffer the impacts of the COVID-19 pandemic, as well as increasing construction and labour costs, infrastructure growth costs and consenting costs. Substantial increases to DC charges, will materially affect the viability of new villages and further exacerbate the current retirement village and aged care crisis.

26 Housing supply and housing affordability are a key priority for central government as well as Auckland. As indicated last year, the Council's proposal will constitute a significant hurdle to realising the government's vision of ensuring more affordable homes are built and ensuring houses meet the needs of everyone in Aotearoa New Zealand.[10] The proposal is also inconsistent with the National Policy Statement on

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6 Appendix A, sections 1.4 and 2.

7 Ibid, section 2.

8 The Finance and Performance Committee Agenda, dated 16 September 2021, stated that "[s]*ome developers may fail*" and "[s]*ome developers may struggle, exacerbating the delay, however, if any fail their developments will eventually be taken over by replacements*" (Auckland Council, Finance and Performance Committee, agenda for Thursday, 16 September 2021, at [8] and [50]).

9 Newshub, "Staff shortages in Aged Care sector at crisis point", 22 July 2022, accessible at https://www.newshub.co.nz/home/new-zealand/2022/07/staff-shortages-in-aged-care-sector-at-crisis-point.html

10 See the Government Policy Statement on Housing and Urban Development (*GPS-HUD*), 28 September 2021. The GPS-HUD also recognises the ageing population as one of the key housing and urban

Urban Development 2020 (*NPSUD*), which identifies Auckland as a Tier 1 urban environment and makes the Council responsible for ensuring more homes can be built in response to demand.

27 Further, directions 2 and 3 of Auckland Plan 2050's 'Homes and Places' outcome is to "*accelerate the construction of quality homes that meet Aucklanders' changing needs and preferences*", and "*shift to a housing system that ensures secure and affordable homes for all*". As acknowledged by the Council: "*Auckland is experiencing a housing affordability crisis.*"[11] And, "*Auckland must make a significant change in its ability to meet housing demand*" as it, "*will require significantly more dwellings to be built by 2050*", including "*homes and developments that are accessible for older people*".[12]

28 The Council's proposal to extend the DC Policy horizon to 30 years will not only have significant impacts on housing supply and affordability in Drury – but across Auckland. If the same approach is adopted in other areas, as currently intended by the Council, it will ultimately slow growth in the region. In the current climate, delaying and/or inhibiting the release of housing and ensuring housing is affordable is, in the RVA's view, simply not a reasonable policy decision. This approach goes against the central and local governments' direction to deliver more housing and more affordable homes.

Undue burden on current landowners

29 Ironically, the Council's consultation document is titled "Sharing the cost of Drury's growth" – but the Council's intention is to essentially place most of the burden on current landowners. The RVA remains of the view that it is counterproductive and unfair to pass on substantial costs to current landowners and home builders.

30 The RVA acknowledges that the Council has sought independent economic advice on the equity of charging the developers of today for investments that will not be delivered until later in time. The Council notes that this advice confirms its previous analysis that while the physical infrastructure would not be delivered until later, current landowners still benefit from the commitment to deliver in terms of high land values.[13]

31 With respect, the RVA considers the Council's analysis and economic advice is flawed. Market Economics has reviewed Dr Helm's and Dr Murray's findings, and is of the view that the impact of including 30 year projects will fall directly on current developers. As noted by Mr Akehurst, "[*t]hese developers do not have the ability that future developers will have, to negotiate land prices such that the DC increases have little or no effect on house prices. This puts the current developers at a distinct disadvantage to the developers who follow*."[14]

32 The consequences of adopting the proposal will play out quickly – in Drury and beyond – driving prices of land down and forcing current developers to hold off on development, or outright fail.

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development challenges facing New Zealand, recording that "[*s*]*ecure, functional housing choices for older people will be increasingly fundamental to wellbeing*" (at page 10).

11 https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-plans-strategies/auckland-plan/homes-places/Pages/direction-shift-housing-system-ensures-secure-affordable-homes.aspx

12 https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-plans-strategies/auckland-plan/homes-places/Pages/direction-accelerate-construction-homes-meet-aucklanders-needs.aspx

13 Auckland Council, Consultation Document "Sharing the cost of Drury's growth", Contributions Policy 2022 Variation A, 25 August 2022, at [16].

14 Appendix A, section 3.2.

Unfairness to early home buyers

33 The proposal to charge the developers of today with the cost of infrastructure to be delivered in 30-years' time (particularly community infrastructure) raises significant fairness and equity concerns for early home buyers. As suggested by participants at the Have Your Say Event on 2 November 2022, there is a distinct contrast between the benefit received by those that pay well before the infrastructure is delivered (lower benefit) and those that pay closer to the time of delivery (higher benefit).

34 The turnover of home-ownership in New Zealand is on average 7.4 years. Auckland has shorter 'hold periods' than the rest of New Zealand.[15] In this context, home buyers are not generally considering the benefits of buying a property in the long-term, but on the short to midterm. As noted by Mr Akehurst, "*[t]he majority of home-owners who build in the next 5-10 years will leave their properties never having utilised the future infrastructure*".[16] It will therefore be extremely difficult for developers to be able to recover all the added cost from increased DC prices.

Alternative funding sources should be pursued

35 The RVA does not contest the Council's ability to use DCs as a source of funding. However, the RVA is concerned that the Council has not clearly and/or sufficiently explained its choice of funding as required by section 106(2)(c) of the LGA.

36 In particular, it remains unclear why Council cannot take advantage of alternative funding tools from central government, as other councils are. As noted, the consultation documentation suggests that the Council may receive some central government infrastructure grants for Drury through NZUP.[17] However other tools, such as the Infrastructure Funding and Financing Act 2020 are available and should be pursued in the first instance. The officer responses to these questions with respect suggest they think accessing the funding is 'too hard', which is simply not good enough.

37 To ensure that DCs are being used to fund types of infrastructure which may not be better funded from other revenue sources, and for the purposes of transparency, the RVA considers it is vital for the Council to thoroughly consider the full range of funding and financing options available to fund infrastructure and share its findings with the community.[18] This approach is consistent with the requirements set out in the LGA, which require the Council to identify all reasonably practicable options to achieve its objective and assess the options in terms of their advantages and disadvantages (LGA, s77).

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[15] CoreLogic, "How long do owners hold their properties for?", 20 March 2019, accessible at <https://www.corelogic.co.nz/news-research/news/archive/how-long-do-owners-hold-their-properties>. See also: A Laxon, "Home truths: Housing turnover highest in Auckland", NZHerald, 30 April 2016, accessible at <https://www.nzherald.co.nz/business/home-truths-housing-turnover-highest-in-auckland/N52RQV3XF3PCWILEOGE6ETBZXM/>, which indicated that almost one in 10 houses in Auckland change hands within a year, a much higher turnover rate than the rest of New Zealand.

[16] Appendix A, section 3.3.

[17] Auckland Council, "Methodology for Calculating DCs for Drury", 25 August 2022, at [71]-[73].

[18] As explained in the LGA Amendment Bill (No 3), 14 November 2013, Explanatory Note (page 3), the 2013 government review of DCs identified difficulties associated with the previous legislative framework and how it was being implemented by councils, including how DCs were being used to fund types of infrastructure that may be better funded from general revenue sources. The review also identified that the degree of transparency in the apportionment of the costs and benefits of infrastructure was variable.

THE RVA'S CONCERNS ABOUT THE PROCESS

38 The RVA is once again concerned and very disappointed with the process undertaken by the Council to introduce the material changes proposed in Variation A. The history of poor processes does appear to be repeating. Critical modelling information that the RVA has been seeking for over a year, was not provided until 12 October 2022 – half way through the current consultation period. The time to properly review extensive consultation material has been inadequate. It is evident from Mr Akehurst's work and the RVA's discussions with affected landowners in Drury that there are still significant uncertainties and errors in the modelling information. There are also several missing aspects of the work, which are needed to properly understand the proposal's implications, making the consultation premature.

39 In light of the significant implications of the proposal and the potential precedent for all growth areas in Auckland and beyond, the RVA considers it is mandatory for the Council to take the necessary time to ensure the DC regime is fair, equitable and proportionate, and reasonably based on accurate and credible information.

40 As it stands, the RVA considers that the process issues identified have materially impacted its ability to properly respond to the proposal creating natural justice issues.

41 That said, the fundamental problems with a 30 year approach will remain and therefore the RVA remains of the view that the approach should be abandoned and the usual 10 year approach continued.

Consultation requirements

42 Community consultation is a fundamental pillar of the LGA. While the Act provides councils with flexibility as to the activities they undertake, that flexibility must be balanced against the requirements to ensure transparency and accountability and openness in decision-making processes.[19] The principles guiding consultation processes set out in the LGA (s 82) are designed to ensure that affected parties have access to relevant and clear information and are provided with a reasonable opportunity to present their views.

43 Despite the Council's statutory requirements, the RVA considers that the Council has once again failed to undertake a transparent and open process. Specifically, and for the reasons outlined in further detail below, the RVA considers that the Council's process:

43.1 has not been undertaken in accordance with section 14(a)(i) of the LGA, "*in an open, transparent, and democratically accountable manner*"; and

43.2 will not meet the consultation requirements of section 82 of the LGA. Parties have not, "*been given reasonable access to relevant information in a manner and format that is appropriate to the preferences and needs of those persons*".

Unreasonable and unfair consultation process - natural justice breaches

44 Council allowed itself 10 months to prepare the Variation, but provided only 4 full weeks for consultation once all information requested by the RVA was provided.

45 Following feedback from the community, the Council decided in December 2021 to delay the decision on including Drury projects beyond 2031 in the DC Policy. This time

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[19] *Reid v Tararua District Council* HC Wellington CIV 2003-454-615, 8 November 2005 at [142], and see *Neil Construction Ltd v North Shore City Council* [2008] NZRMA 275 (HC) at [19]-[20].

was used by the Council to undertake additional work and prepare additional information to support its proposal. The target date for further consideration was originally June 2022. However, delays occurred. The Council advised affected parties that, "*We have been working through the process of compiling this further information. This work has taken longer than expected because of the need to ensure it is sufficiently comprehensive, robust and that it adequately addresses the issues raised in submissions*."

46 Earlier this year, and prior to the formal consultation and submission stage, the RVA sought to directly engage with Council officers to discuss the work undertaken by the Council. The Council officers refused to engage.[20]

47 The RVA also specifically advised that its economic experts would need at least 3 months from receipt of relevant information to properly analyse the data and modelling.[21]

48 However, this advice was ignored and despite taking over 10 months to compile its own information, the Council opened consultation on 13 September, for a limited period of 8 weeks. The additional information provided was substantial, but also incomplete. In response to an official information request, the Council finally released the models requested by the RVA in its 2021 submissions on 12 October 2022. The Council also released further relevant modelling information on 20 October 2022.

49 Rather than providing the parties with sufficient time to review that new material by extending the consultation date, the Council simply assumed extra time was not necessary stating, "*As we do not consider that the further information that we will make available on the consultation webpage is necessary to fully comprehend the variation to the Policy and make an informed submission, we will not be extending the consultation time frame as a result of releasing this information in response to your request*." With respect, this statement is not consistent with the requirements of the LGA, that reasonable access to relevant information be in a manner and format that is appropriate to the preferences and needs of those persons. The RVA has been prejudiced by this very poor process, as Mr Akehurst also confirms.

50 Further, additional information requested has still not been made available.

The process is premature

51 There are several major policy and funding initiatives in train that could materially impact Variation A, meaning the present process is premature. Errors and flaws in the modelling would also need to be rectified to enable a proper consultation process and a robust Council decision, albeit fundamental issues would remain.

Unit of demand review not completed

52 The RVA understands that the Council's review of the unit of demand factors started in 2019 but was interrupted by the COVID-19 pandemic. The Council has now indicated

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[20] By letter, dated 20 July 2022, the RVA and Ryman sought by way of a Local Government Official Information and Meetings Act request further information to allow the parties undertake a thorough assessment and be able to fully engage with the Council's proposal. However, the Council refused that request on 16 August 2022. Further, by letter on 6 September 2022, the RVA, Ryman, Property Council New Zealand (*PCNZ*) and Kiwi Property expressed their significant concerns with the review process and the Council's position on not releasing public information.

[21] See letter to A Duncan and D Simpson, from the RVA, Ryman, PCNZ, and Kiwi Property, dated 6 September 2022.

that it expects to propose further changes to the DC Policy around March 2023 to address the unit of demand factors.[22]

53 The Council's proposed changes to the demand factors are expected to be released only 5 months after the current consultation. It is therefore unclear why the Council has decided to consult on Variation A at this stage instead of undertaking a more comprehensive consultation next year.

54 As noted in the RVA's submission on the Draft Policy 2021, the demand factors review may lead to redistribution of charges between different activities and may significantly impact the extent to which the current proposal affects parties. And notably, the Council has not undertaken a comprehensive and evidence-based unit of demand review at all since the 2009 local authority amalgamation, meaning the current demand assumptions are likely to be materially inaccurate.

55 In this context, and as submitted last year, it is premature to propose significant new charges without knowing if the current demand factors are fair, equitable and proportionate. The full extent of the implications of Variation A on affected parties cannot be confirmed. Without this information, the Council is also unable to consider the overall impact of the "*allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community*", as required by sections 101(3) and 103(3) of the LGA.

Stormwater charges not set

56 The Council's consultation material acknowledges that stormwater infrastructure has not yet been included in the DC charges, but will be added to the DC Policy once information becomes available on the location and form of development.[23] Given the likelihood that such charges will add further material increases to DCs per HUE, it is important that this information is provided at the same time, so the full impact of the proposal can be considered.

Other funding decisions not yet confirmed

57 The RVA is aware that further funding decisions relating to the NZUP are imminent. The Council's consultation documents indicate that the Council:[24]

> …expect[s] central government to clarify details of the infrastructure grants for Drury through its New Zealand Upgrade Programme (NZUP) in the coming months. The projects to be funded are currently unknown. Any infrastructure project or part project included in this proposal that is granted NZUP funding will be removed from the final Contributions Policy proposal…

58 It is unclear to what extent any NZUP funding may mitigate the currently proposed increased DC prices and associated consequences. The RVA considers that further clarity on which projects will receive NZUP funding would assist affected parties to better understand the potential implications of Variation A. In fact, it is entirely sensible to await that information before confirming the DC charges. Otherwise there is a real risk that the current charges will seek to over or under recover.

Approach to other Auckland growth areas not confirmed

59 The Council acknowledges that other Auckland growth areas may incur increased DC charges if a 30 year approach is adopted elsewhere. Mr Akehurst has significant

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[22] Letter from P Gudsell to Chapman Tripp, dated 12 October 2022, at [12].

[23] Auckland Council, Consultation Document "Sharing the cost of Drury's growth", Contributions Policy 2022 Variation A, 25 August 2022, at [9].

[24] Auckland Council, "Methodology for Calculating DCs for Drury", 25 August 2022, at[71]-[73].

concerns that rolling out charges in this piecemeal fashion will create adverse market distortions.

Enabling Housing Plan changes not completed

60 The Council has commenced its process to give effect to the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021 and the NPSUD (primarily through Plan Change 78). This plan change will enable significantly greater densities in many parts of Auckland, fundamentally changing the need for, the interrelationships between, and the beneficiaries of, infrastructure provision across the city. The outcome of that process therefore may significantly impact the assumptions used for Drury.

Material flaws and other issues in modelling work need to be addressed

61 There are material flaws and other issues in the Council's financial models and supporting information that make them unreliable, as outlined in detail by Mr Akehurst. Some key issues are emphasised below.

Value capture taxation invalid

62 One key issue relates to Council accounting for land value increases as a relevant benefit when apportioning DC charges. The Council's documentation indicates that when assessing the "benefit" of the Council's provision of infrastructure, it has based its analysis on the benefit acquired by owners of land from "*appreciating land prices*"[25] until 2060 – as opposed to the "*usage benefit*", which the Council has indicated is "*typically funded through general rates*".[26]

63 In effect, this approach amounts to a 'value capture' taxation method and has nothing to do with the need for and use of the infrastructure being built. Mr Akehurst has significant concerns about this approach.

64 The approach is also legally invalid. DCs are not a form of revenue tax, as is wrongly assumed by Council's consultation material. The leading High Court case on DCs confirms that they:[27]

> *...are more in the nature of a charge, tied to the expenditure required of a council for capital works to support infrastructure incurred by a development or developments, although they fall short of specific cost recovery as in the case of user charges.*
>
> and
>
> *…Development contributions can only be imposed pursuant to clear and express words contained in a statute, and in accordance with the statutory powers and requirements.*

65 The LGA does not specify anywhere that DCs can be charged based on land value increases that may accrue from access to infrastructure. In any case, as Mr Akehurst outlines, the Council's assumptions regarding land value increases from access to infrastructure are overly simplistic. Land value increases arise from a wide variety of factors.

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[25] Auckland Council, "Methodology for Calculating DCs for Drury", 25 August 2022, at [75].

[26] Ibid.

[27] *Neil Construction Ltd v North Shore City Council* [2008] NZRMA 275 (HC) at [46]-[48].

Causation versus benefit weighting invalid

66 A related issue is Council's invalid 'causation versus benefit' approach. Section 101(3) of the LGA is a "*critical filter*" in a council's determination of the appropriate sources required to meet funding needs.[28] All of the factors contained in section 101(3)(a) must be weighed and factored in relation to each activity that requires funding.[29] However, as Mr Akehurst points out, Council's causation weighting is overly simplistic and artificially increases the apportionment of benefit to developers. The proper approach is to consider "need and benefits". The RVA considers that the Council's approach is essentially a hybrid form of the 'exacerbator-pays' approach that was found to be legally invalid in *Neil.*[30]

Causal nexus not established for some projects

67 The LGA explicitly provides that "*[d]evelopment contributions may be required in relation to developments <u>if the effect of the developments is to require new or additional assets or assets of increased capacity</u>, and, as a consequence, the territorial authority incurs capital*".[31] Further, caselaw has established that for a development to warrant DCs due to a generation of demand for infrastructure, there must be a "*<u>direct causal nexus</u>*" between the development and the demand for infrastructure it, either alone or jointly with another development, generates.[32]

68 In response to submissions made in 2021, Dr Helm and Dr Murray were commissioned by the Council to look into the equity of the proposal, including submitters' general objection about the lack of causal nexus in apportionment. Dr Helm's and Dr Murray's view is that they "*see no equity issue relating to weak causal nexus either in current policy or over an extended investment horizon*", and further note that "*[t]he current horizon says little about causal nexus*". [33]

69 Mr Akehurst has undertaken an initial review of the documentation released by the Council and considers that "*no clear link has been made between development that is anticipated over the next 10 years and benefits they receive over 30 years*".[34] As noted, the average New Zealand household owns their home for less than 8 years. Therefore, in Mr Akehurst's view, the majority of home-owners who build in the next 5-10 years will leave their properties never having utilised the future infrastructure. There is no causal nexus.[35]

Risk of over-recovery of costs

70 The RVA acknowledges that the Council's intention is to review the DC Policy on a three-yearly basis to base the charges on the most up to date information. However, the RVA remains concerned that there is a real risk that the Council will not comply with its LGA obligation to avoid the over-recovery of actual costs.[36]

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28 *Neil Construction Ltd v North Shore City Council* [2008] NZRMA 275 (HC) at [214].

29 Ibid at [217].

30 Ibid at [219].

31 LGA, section 199(1).

32 *Neil Construction Ltd v North Shore City Council* [2008] NZRMA 275 (HC) at [120].

33 Dr Cameron K Murray and Dr Tim Helm, "Equity of options for funding long-term infrastructure investment", 10 June 2022, page 23.

34 Appendix A, section 3.3.

35 Ibid.

36 LGA, section 197AB.

71 Including infrastructure required to support growth over 30 years is likely to result in a significant margin of error and uncertainty in the calculations of DC fees. As Mr Akehurst points out, the assumptions used for interest costs, construction sector inflation, land value inflation, population, and rates all have a significant influence on the actual charges levied and are subject to significant uncertainties.

Other modelling issues

72 A number of other material issues have been raised by the RVA and other property industry members. For example, the RVA understands that the model includes invalid assumptions concerning developer funded mitigation works and DC funded works. Such errors are likely to lead to double dipping and over-recovery.

Councils response unclear

73 In the discussions attended by the RVA to date, Council officers have not refuted many of the key issues identified by the RVA and other property industry members with the modelling and underlying work. Had the Council allowed affected parties to engage throughout its review in a more collaborative and open manner, the risk of potential flaws in the modelling would have been significantly reduced. However, they did not take up the many offers. The Council is now faced with making a decision on the Drury DCs relying on highly inaccurate information, which is likely to lead to legal errors.

CONCLUSION

74 For the reasons outlined above, the RVA submits that Council's proposal is unfair, inequitable, and disproportionate and should be abandoned for Drury as well as other areas in Auckland.

75 The RVA appreciates the opportunity to submit on Variation A. The RVA looks forward to engaging with the Council in relation to Variation A and the Council's future review of the demand factors to ensure it is fair, equitable and proportionate and fit for purpose for all retirement village types.

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Economic Assessment

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m.e consulting

Drury Development Contributions

Economic Assessment

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Executive Summary

Auckland Council is seeking to amend its current development contributions policy to add longer-term investment projects for Drury through Variation A to the Development Contributions Policy 2022.

This includes adopting a 30 year time horizon for the Development Contributions Policy for Drury which represents a significant shift away from the current DC paradigm that has been in place for the past decade or more. Drury developers have made land purchase decisions based on an understanding of the existing paradigm in order to provide significant residential and employment capacity to cater for Auckland's future growth.

Auckland Council has decided that it is not collecting sufficient development contributions from developers to fund future investments and is concerned that it is not able to borrow sufficient funds to provide the infrastructure that will allow the city to grow appropriately. Instead of exploring options such as the recently enabled Infrastructure Funding and Finance Act 2020 which would see a portion of cost covered by central government, Council has chosen to extend the period of time over which it can include projects and charge near future growth development contributions for. This includes projects that are planned for well beyond the 10 years horizon (out to 30 years currently).

Including these far future projects has added some $1.4bn of additional fees collectively onto the growth community immediately, with no ability for developers to adjust payments for land (the key mechanism Council believe will minimise impacts on prices), meaning house prices will rise. In some cases development contribution fees have increased over 660%.

There are a number of conceptual and implementational errors with the Drury development contributions policy that lead to unfair and inequitable outcomes. They include:

1. Errors in the way benefits that flow from these additional projects are accounted for - including a failure to discount the benefits back to current terms,
2. Inclusion of causation in the cost allocation process which leads to unfair loading of costs onto the growth community, out of step with the load they place on council infrastructure and the need to spend money to accommodate it.
3. The failure to offset rates funding for the development community means that Council is in effect both double dipping and over collecting to fund growth infrastructure.
4. These impacts are compounded by the use of extremely high land inflation rates based on a flawed assumption that the low interest and constrained land markets of the past 20 – 30 years will be the same for the next 30 – 40 years. This ignores the reality of interest rate rises and the impact that central and local government policies that seek to increase intensification and reduce the cost of housing will have on land values.
5. Lack of a causal nexus between growth occurring over the next 5-10 years with expenditure that may not occur until 20 years after they arrive. Given the average household is owned for approximately 8 years there could be 3 or more turnovers of home ownership before some infrastructure is delivered.

6. The Drury DC policy through the inclusion of Variation A, is partially formed. Stormwater is to be added, therefore developers are uncertain as to the actual contribution price. More importantly, the policy only covers the Drury future urban zone. This means that households will make decisions to purchase there or not based on council fee levels rather than locational fundamentals, given they can choose elsewhere with no 30 year projects included in DC's. This is economically inefficient and will lead to sub-optimal urban outcomes.
7. Council appears to be relying on value capture as the key measure of benefit for infrastructure, rather than need or use. In effect, Council are taxing the uplift in land value that will come about through the re-zoning process.

These issues with Variation A, along with issues around not having a full grasp of the distribution of benefits and use (in particular of community infrastructure due in March 2023), has the potential to lead to unintended and adverse market responses.

Based on the analysis carried out on Variation A and its potential impacts on Auckland growth community, we strongly recommend that Variation A is abandoned or at least delayed until it can be fully evaluated, is spatially comprehensive and contains all infrastructure categories. In addition, we strongly recommend that Council seek to engage with Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act by separating the Drury infrastructure plan into three 10 years blocks that will provide certainty of investment allowing the average DC charge to be reduced from the average of over $83,000 (before stormwater is added), to a level that has minimal impact on housing affordability and ensures Drury can develop to accommodate a significant portion of Auckland future growth.

1 Introduction

Auckland Council is seeking to amend its current development contributions policy to add longer-term investment projects for Drury through Variation A to the Development Contributions Policy 2022.

Charging development contributions to the growth community allows Council to recoup some of the costs of growth directly from developers, often well in advance of when that funding is required to develop the infrastructure. Currently the Council has struck a development contribution price that covers infrastructure investment over the next 10 years (to 2031). This is in line with common practice and aligns with the long term plan and the provisions under the Local Government Act 2002. Council is now seeking a variation to that policy to allow it to charge development contributions in Drury covering investments beyond 2031, out to 30 years into the future. As a next step, the Council is considering adding the longer-term investment projects for the remaining investment priority areas.

This report outlines a number of key issues with that approach and some other key areas of concern with Council's development contributions approach and mechanisms.

1.1 Background

Following the release of Variation A to the Development Contributions Policy 2022, Market Economics were tasked by Ryman Healthcare Limited ("Ryman") and the Retirement Villages Association of New Zealand Incorporated ("RVA") to provide advice on the veracity of Council adopting a 30 year approach to development contributions as well as advice on the model itself and its operation.

1.2 Project Involvement

M.E were retained to provide advice to the RVA in October 2021 on the review process Auckland Council was engaged in with respect to its Development Contributions Policy that was to be released in January 2022. The key findings of that review were that:

- There was a lack of ability to assess the decisions Council had made with respect to splitting infrastructure costs between renewal, growth and level of service (at the time) because the development contributions Cost Allocation Model (ACDCCAM) and assumptions are not available.
- There was no evidence of any work carried out by Council to determine demand factors or the distribution of benefits for some key areas of cost – notably Community Infrastructure.

- The documentation created uncertainty about how Council determined what is needed and how costs are to be split. In particular, how costs associated with infrastructure that could potentially be built up to 30 years into the future, should or could be sheeted home to development that occurs today.
- We identified some material issues with the three models that combine to calculate development contribution charges – the growth model, the cost allocation model and the funding model. These related to discrepancies between the base growth models used and published data from Statistics New Zealand (around employment numbers in particular).
- The inclusion of cost over-runs and re-evaluations in the DC policy that lead to intergenerational equity issues.
- We had at the time, concerns that the impact of proposed development contribution charges on developer businesses would lead to issues around housing supply and prices/affordability.

Council made the decision not to adopt the policy in December 2021 and have subsequently carried out more analysis and modelling to addess some of the identified issues.

1.3 Summary of Approach

Council released consultation documentation in support of Variation A, in the form of documents and 2 spreadsheets on or around 13th September. The consultation period was set down to run for 8 weeks, through to November 8th. Since the model[37] was released along with documentation, ME have attempted to replicate the outcomes that the Council's DC model produced. In order to understand the implications of assumptions used and other policy decisions made by Council in striking a DC price, it is important to replicate the workings of the model.

ME have assessed the effect of alternative land and construction cost inflation rates on DC prices and have analysed the effect of including projects to be built up to 30 years into the future on DC prices.

1.4 Key findings

There are issues with Variation A as currently proposed, that must be addressed before it is adopted, and potentially rolled out across the rest of Auckland. These can be categorised as follows;

1. Impacts on housing affordability: Inclusion of 30 year projects will have negative impacts on housing affordability.
2. Equity issues relating to the inclusion of 30 year projects on developers and households today: The impact of including 30 year projects in the Drury DC policy will fall on current developers disproportionately.

[37] In the form of an excel spreadsheet titled "*Drury_DC_model_Released_12_Sept.xlsb*"

3. Lack of causal nexus as to benefit of future infrastructure for current developments: No clear link has been made between development that is anticipated over the next 10 years and benefits they receive over 30 years.
4. Inclusion of Causation in cost allocation process: causation as a driver of cost allocation overloads costs to development HUEs and is not well founded in theory or law.
5. The lack of a comprehensive DC Model development: The Council is looking to implement the Drury model in isolation, or ahead of making similar changes to the DC policy in other locations around Auckland which has the potential to skew growth outcomes.
6. Invalid accounting for land value increase as a key component of benefit delivered by infrastructure: Benefits of infrastructure are aligned with need and use, not land value uplift.
7. Issues relating to assumptions around interest costs, construction sector inflation, land value inflation, population in particular effects of intensification, rates and exclusion of rates offsets.

1.5 Transparency of Process

Council released consultation documentation in the form of documents and 2 spreadsheets on or around 12th September. The consultation period was set down to run for 8 weeks, through to November 8th.

Within the package, one small spreadsheet contained some detail around transport projects for the Drury area and the other was titled "*Drury_DC_model_Released_12_Sept.xlsb*". This is made up of a number of tabs that contained values set against projects and years that represented things such as DC Revenue forecasts, DC Interest estimates and DC Prices. The values in the tables were obviously the product of a number of calculations that pulled together information on; growth of HUEs, capacity at existing facilities, new facility cost and land costs to generate estimates of development contributions pertaining to Drury. The calculations that result in the estimates for how much is to be spent on future infrastructure and the splits between existing households and growth, are not included in the model spreadsheet, they are contained in other models and spreadsheets held by asset managers and others.

Many of the calculations and decisions made about how much to spend, where to spend it, how to allocate cost between existing and growth and so on, occur in these and other models. The Drury DC Model (as released) contains references to excel macros[38] that run processes and calculations – but the macros were not included with the model as released[39]. Furthermore, a number of spreadsheets linked to the Drury DC Model were also not available in the consultation package. Auckland Council has subsequently informed M.E that the references were not material to the models' operation, they referenced column titles and headings. This was difficult to assess at the time because major decisions about how cost was to be split between growth and existing and asset investment scale and scope calculations were also calculated elsewhere.

Following further information requests to the Council by the RVA and Ryman, additional information was released on October 12th. This included links to other spreadsheets linked to the Drury DC Model and

[38] A macro is a piece of code that may run a number of calculations in a particular sequence and is used to automate calculation of formula that are repeated numerous times throughout a spreadsheet.

[39] These macros were explained to M.E at a meeting held 26th October 2022 at Auckland Council.

explanation as to the cells that are connected between the models. In the letter released on the 12th, there was mention of a further release of information on October 20th (Growth_and_HUE_forecast model, and a detailed transport project cost estimate spreadsheet).

In addition, the October 12th letter stated that Council is expecting to propose changes for consultation around March 2023 in relation to work carried out by the Council on the unit of demand factors. As such, these changes and associated work has not been made available to the public yet. This appears to be a significant omission from the policy formation dataset given that the key driver of development contributions should be how much demand is created by growth and how the benefits of key infrastructure are distributed between users and therefore how costs should be allocated.

Given that the consultation period ends 8th November 2022, there appears to be limited ability for M.E to assess how the findings of that work impact on development contributions in terms of the distribution of benefits, or how demand drives infrastructure costs and therefore development contributions.

1.6 Report structure

Each of the key issues identified above, is discussed in the following sections before conclusions are reached in Section 8.

2 Impacts on housing affordability

Auckland Council, in setting any charges, taxes or rates may cause adverse effects on housing affordability. Advice provided to Auckland Council based on a review of international literature states that imposing development contributions covering infrastructure to be delivered post 2031 would not impact housing affordability. This is said to be because, in the long run, additional council fees have the effect of lowering the price developers can bid for raw land to develop.

However, this advice and therefore the Drury DC policy, is based on a flawed assumption that developers are currently in the market bidding for land to develop over the next 10 – 20 years in and around Drury. The fact that all land to be developed for residential purposes covering the vast majority of the Drury FUZ has already been purchased, means that land prices will not fall, and the effect of significantly higher DC charges will most likely cause prices to increase.

Auckland Council does not consider that the effect of an increase in development contributions will have any effect on house prices. This is because it has been advised that a 'residual land value model' holds sway in terms of how developers purchase land. This model splits the cost of housing up into its components for a developer and given a market driven price (that an individual developer cannot influence) it shows how much they are able to pay for developable land as all of the other costs are fixed for the developer. Effectively it is the final sale price (set by the market), minus all build costs, marketing costs, profit margins and council fees. This means that if council fees go up, the developer can only offer less for the developable land and final market prices will not be impacted. This will occur at a point in time ahead of the developer negotiating a price for the land.

2.1 Effects of DC increases in Drury

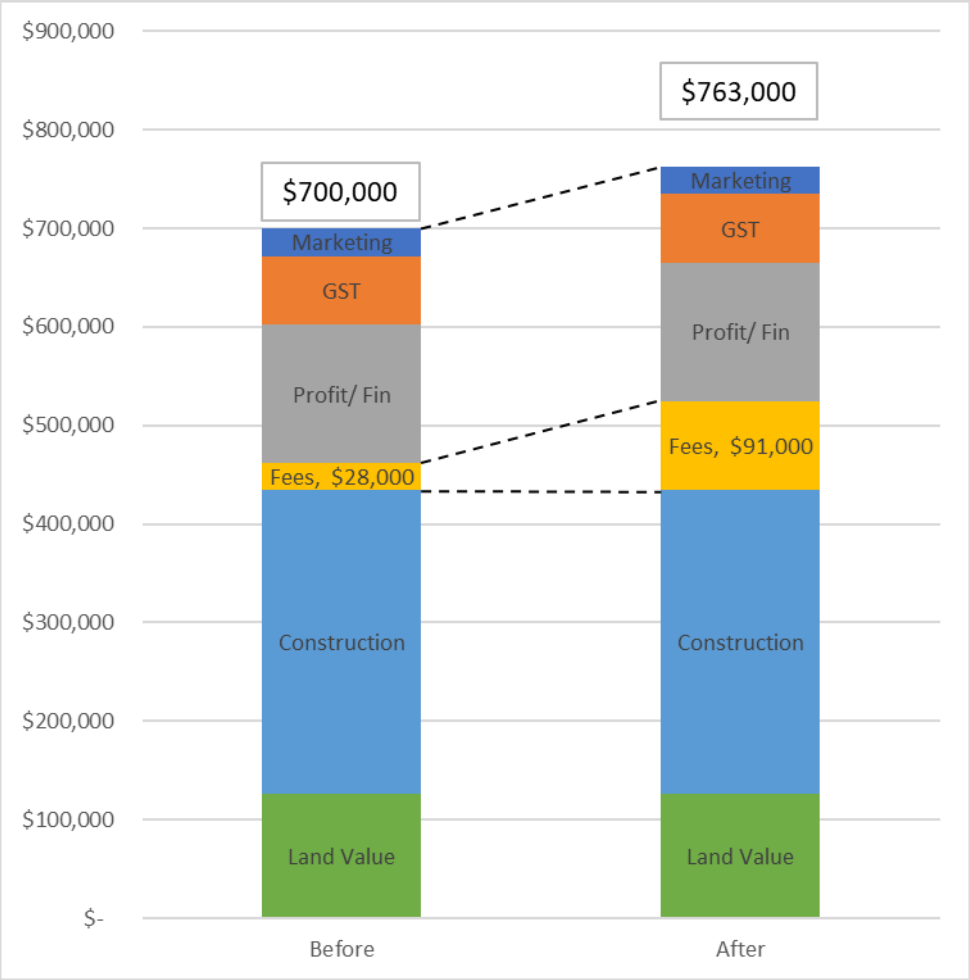
In the Drury FUZ situation the vast majority of the land is already purchased by developer groups (e.g. Fulton Hogan, Oyster Capital, MADE and others). This means that, because the policy is being imposed in a single hit, the amount they pay for raw land cannot be adjusted. There is no ability to go back to the farmers (and others) and re-negotiate the land sale simply because Council has changed their policy.

This means that the effects of including the long-term infrastructure projects, on top of the normal 10 year projects (resulting in a large increase in DC's) will impact house prices and reduce affordability. This will happen in one of the following ways.

1. Given all the developers in Drury are impacted and that they are all faced with similar increases in costs, they may choose to put up their prices in order to ensure margins are protected and they remain viable. This is demonstrated in Figure 2.1. The effect of localised house price increases are that house buyers will seek alternatives in locations with lower prices, potentially taking

advantage of the fact that Council are rolling the DC policy out in a piecemeal manner, rather than as a spatially comprehensive policy that covers all of Auckland. Households will maximise their utility, and this means they trade off the higher house prices at Drury against other locations that may not be as suitable, but are more affordable. This change would be solely driven by the additional DC charge rather than by economic and social fundamentals, leading to a less efficient outcome.

Figure 2.1: Example of how an increase in the DC Price increases house prices



2. Some developers may simply not be able to complete their developments in the short term and or go out of business, given the squeeze on margins the increased DC charge imposes (as outlined in Figure 2.2). This will cause a reduction in the volume of housing stock coming to market causing prices to rise. In this scenario, developers are operating in a fully competitive market where no localised advantages exist and house buyers are indifferent between Drury and elsewhere. The effect of the DC is to reduce developers' margins significantly. In the example shown in Figure 2.2 below, developer margins reduce from a normal 20% in the before DC side to 11% following the imposition of the tax. This is below the point where most banks are able to lend money as the risks become too high. Therefore, a portion of developers who cannot proceed due to unavailability of

finance will go out of business. This reduces the volume of new housing stock that comes to market in the short to medium term driving prices up.

3. Finally, some developers may choose to delay residential development until the market prices adjust up to the point where delaying is no longer the economically rational thing to do. In most instances, that will be the point where prices increase such that a 20% developer margin is restored and the banks will comfortably loan money to fund development works. While some developers may be able to develop at significantly lower margins than 20%, the finance sector requires developers to be on a sound footing to provide them security to lend. This only occurs when profitability is maintained. This is particularly important in the current economic climate with interest rates rising along with construction sector costs and house prices falling. It is likely to be the case that banks and other financial institutions will require higher profit margins to reflect the increased risks involved in residential development.

Figure 2.2: Profit Reduction effect



carried out for or by Councils in the Housing and Business Development Capacity Assessments (HBAs) under the NPS-UD, set the developer margin at 20% as the point when development becomes feasible. Therefore, the development contributions policy as currently drafted sits in direct opposition to this NPS-UD supporting assessment. In effect the Drury DC policy is recommending that the Drury developers hold prices constant, absorb all of the development contribution increases, and reduce their margin to well below a profitable level. This assumes they have already purchased the land to be developed (which they have) and have no ability to renegotiate the price down. By holding the land and delaying development, the local supply of housing reduces causing local prices to increase until such a time as the margin moves to restore developer margins.

2.2 Long run

In the long run, the market forces Council are relying on to justify the short term position, will come into force and the price paid for land will decrease relative to the total cost. In the short term house prices will rise – reducing housing affordability.

On the basis that Variation A – if adopted - will adversely impact housing affordability by driving up house prices through the actions of developers responding in a predicable and economically rational way to the increase in fees is a significant economic cost on Auckland.

Central government recognised that development contributions have not been a particularly successful way to fund infrastructure and have enacted the Infrastructure Funding and Financing Act 2020 (IFF Act). I understand Auckland Council has chosen not to take advantage of this facility to date.

2.3 Recommendation

M.E recommend that Variation A be amended to either remove the 30 year projects and revert to a rolling 10 year cycle of contribution fees, or, at the least, bring the policy in over time such that the effects are price neutral.

One scenario of change is to roll Variation A in over time, so that it has a minimal impact on developer feasibility and/or housing affordability. If the time period over which Council collects DC's is extended every time the policy is reviewed, by 3-5 years. Then over a 12 - 20 year time period, the DC policy would cover 30 years and the impact would be minimal. Obviously this would need to be assessed appropriately to settle on extension periods and the number of reviews, but it would ensure that any adverse impacts on housing affordability are minimised.

3 Equity issues

The Local Government Act 2002 states that:

"The purpose of the development contributions provisions in the [Local Government] Act is to enable territorial authorities to recover from those persons undertaking development a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term." (s197AA).

Therefore, it is important that any DC price struck by Council is "fair, equitable and proportionate". The development contributions principles listed in Section 197AB of the Act state that "*cost allocations used to establish development contributions should be determined according to, and be 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"* (s197AB (1)(c)).

This principle clearly requires a link between benefits and cost allocation, meaning that Council must clearly show the link between growth and the assets required to meet the needs of that growth, in order for the purpose of the Act to be met – that is a fair, equitable and proportionate distribution of costs. Historically, in the New Zealand context, development contributions are aligned with the 10 year planning horizon as this not only provides a high degree of certainty over assets actually to be built, but it also aligns closely with the average length of time New Zealanders own homes[40].

It is not clear from the documentation provided by Council as part of the consultation pack why selecting a 30 year time horizon results in a more robust outcome than a 10 year horizon – especially given Council are able to re-evaluate their development contributions policy every 3 years and adjust it to incorporate new projects. The advice Council has received states that benefits are best identified as land value uplift from the full planning process[41]. This advice goes on to state that "*In practice, identifying and isolating the benefit of specific infrastructure spending funded by DCs is difficult, perhaps impossible*" (Page 8). This statement is not valid and not correct. Council's asset managers will have identified via robust processes, within their Asset Management Plans, additional infrastructure requirements across the city presumably based on a clear understanding of who uses the infrastructure and therefore what catchments the infrastructure serves.

It is based on this understanding about who uses the infrastructure and what catchments the infrastructure serves that decisions are made to develop future infrastructure. Council uses detailed modelling of current

[40] CoreLogic estimate the average ownership length was 7.4 years in 2019. This is down from a peak of 8.2 years in 2016.

[41] R5 -*Equity of Options for funding long-term infrastructure investment*, Dr Cameron Murray, Dr Tim Helm, June 2022

use and consumption of infrastructure to make the decision on how much and where new assets are to be built. It cannot then claim that identifying who benefits from that infrastructure is impossible to determine.

The benefits of infrastructure relate to its use – not the impact the provision of infrastructure has on house prices or land prices. Under the LGA (Section 101 (3)(a) and Section 197AB (1)(a) and (c)), benefits are discussed as they relate to the consumption of infrastructure through use and need rather than through the effect that provision of infrastructure has on land values and therefore developer margins.

Figure 3.1 outlines when the development infrastructure is to be provided. In total, approximately $1.4bn of additional projects have been added into the DC process, that are to be delivered post 2031. Of this approximately 1/3rd are to be delivered post 2043. However, 88% of the Community Infrastructure is to be delivered post 2043 and almost 75% of the reserve development occurs post 2043.

	2021 - 2031	2032 - 2041	2042 - 2051	TOTAL DC
Reserve Acquisition	0.0	205.4	16.4	221.8
Reserve Development	0.0	47.2	132.1	179.3
Community infrastructure	0.0	17.0	125.0	142.1
Transport	0.0	681.0	197.3	878.3
Total	**0**	**951**	**471**	**1,422**

Source: Drury_DC_model_Released_12_Sept.xlsx, Auckland Council

This means that households who have had to pay significantly more for their sections/houses have to wait over 20 years before they receive any of the benefits from the vast majority of community infrastructure to be provided or the reserves that are to be developed.

In the interim, they are receiving a lower level of service from the existing Council infrastructure due to its location relative to the development and the fact that Council is relying on the delivery of these future projects to meet the community infrastructure and reserve needs of the Drury growth community. In reality, the residents who purchase over the next 10 years, may receive no benefit from the proposed future infrastructure spend, given the average time New Zealand households own their homes, before they move on.

In the alternative, under a 10 year DC regime, reviewed every three years, households who receive the actual benefits of this infrastructure spend are far more likely to receive the benefits of what they actually pay for though DCs

3.1 Impacts of projected inflation

Notwithstanding the mismatch between the arrival of households over the next 10 years and the delivery of projects up to 20 years later, the effects of Council's inflation assumptions is to load cost onto today's developers in an inequitable manner, or in a manner that is disconnected from the delivery of benefits. This is because Council do not carry out any discounting of future delivered benefits into today's terms.

They apply growth to construction costs at 2.5% per annum and to land at 7.2% per annum as well as interest at 4.46% annually into the future and estimate DC prices today based on the nominal future cost of delivering those assets in future dollar terms.

The reason they do this is that they believe that because the benefits fall to the developers of the land today and that households will not bear any of the costs (given Council's position that prices will not change as a result of imposing additional DC charges), they do not need to discount future benefits.

Figure 3.2: Inflated future expenditures and their values in current terms, ($m) (2022)

	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	Total Cost
Suburb Park Land Acquisition - Drury	$ 6.57	$ 4.56	$ 3.42	$ 3.14	$ 3.37	$ 3.61	$ 3.87	$ 9.04	$ 11.44	$ 12.27	$ 3.29	$ 64.6
Suburb Park Land cost, current terms	$ 4.07	$ 2.62	$ 1.82	$ 1.55	$ 1.55	$ 1.54	$ 1.53	$ 3.32	$ 3.90	$ 3.88	$ 0.96	$ 26.7

However, by removing the effects of the excessive land inflation (discussed below), the total cost would only be some $26.7m in current terms – or around 40% of the figure used to establish the DC price. By adhering to the dollar of the day values when striking a DC price for today, Council are loading significant costs onto the development community that is not fair, equitable or proportionate – and unrelated to the benefits received.

At the very least, the future expected expenditures should be discounted back to current terms using an expected CPI inflation rate. Doing so would result in a current value of benefits of approximately 64% of the nominal total ($41m compared with $65m). A more appropriate approach would be to adopt a land inflation rate that is inline with citywide growth rather than the land value uplift over recent years. This is because in the long run, growth in land value is likely to be far more closely aligned with overall citywide growth than the extremely low interest, low land tax regime of the past 20 -30 years.

3.2 Impact on developers

As it currently stands, the impact of including 30 year projects in the DC Policy for Drury will fall directly on current developers. These developers do not have the ability that future developers will have, to negotiate land prices such that the DC increases have little or no effect on house prices. This puts the current developers at a distinct disadvantage to the developers who follow.

This is inequitable, unfair and disproportionate, as well as unrelated to the benefits gained from the investment in infrastructure, regardless of how it is portrayed or captured (through usage rates, or land value uplift).

We recommend that the inclusion of 30 year projects is either halted, or is introduced over a longer timeframe that allows the market to adapt and respond to the changes in a price neutral manner. I have outlined in 2.3 above a possible alternative approach.

3.3 Causal nexus

It is important that in setting a development contribution price, that Council are clear about the relationship between the growth and the need to invest in new or additional capacity in infrastructure to meet the needs of that growth. Council should not be able to load significant costs onto the growth community for infrastructure that the growth community are not going to benefit from. Infrastructure that is developed in a location and plays no role in meeting growth needs elsewhere, or infrastructure that is developed so far into the future that it delivers no benefits to growth that occurs in the next 5-10 years should not be included in setting a DC Price.

It is also the case that significant pieces of infrastructure benefit the community as a whole. In addition, portions of most infrastructure deliver benefits to the community as a whole – either directly through use or indirectly through things such as existence values or option values.

At present Council appears to be attempting to adopt 2 positions. In terms of the distribution of benefits, Council are relying on a relatively simple approach whereby catchments are established around key pieces of new and existing infrastructure and the current household numbers, or Household Equivalents (HUEs) added up. Council then relies on the growth projection model to generate estimates of future HUEs within each catchment. Benefits for any single piece of infrastructure is simply the proportional split between current HUEs and total future HUEs (set at 2060).

Assuming the catchments have been set appropriately, this approach is appropriate (with the potential exception, that some assets are liable to reach capacity ahead of 2060 and some will continue to provide services to the community well beyond 2060 (notably open space and reserves). The key issue arises when Council attempts to align growth that is occurring over the next 5 – 10 years with expenditures they may be required to make to cater for growth 20 – 30 years into the future.

It is not the case that far future costs are incurred due to loads placed on infrastructure by households that arrive within the next 10 years. They place no load on that infrastructure, nor do they receive benefits for its existence. As mentioned elsewhere, the average New Zealand household owns their home for less than 8 years. The majority of home-owners who build in the next 5-10 years will leave their properties never having utilised the future infrastructure. There is no causal nexus.

No clear link has been made between development that is anticipated over the next 10 years and benefits they receive over 30 years. Therefore, we recommend that Council steps back from the 30 year model and retains the 10 year model and continues its review every three years. This allows a direct causal link to be made between growth and the need for Council to spend money on infrastructure to meet the needs of that growth.

4 Inclusion of causation in cost allocation

Variation A allocates costs between existing households and future growth using two key drivers – benefits and causation. The simplistic manner in which it does this allocates a significantly higher share of infrastructure costs onto growth than is justified based on the amount of use, need and therefore benefit growth receives from that investment.

Auckland Council's DC model includes (as a driver of the distribution of costs between existing and growth households) an allowance for "Causation". The model references the Local Government Act (s101(3)(a)(iii)) as justification for including Causation as a valid driver of cost. However, the LGA contains no reference to the word causation, rather it refers to need and benefits as being the drivers by which councils are to distribute cost. Need relates to usage and so does benefits (households receive benefits in proportion to the amount of use made of a facility or a piece of infrastructure). Causation plays no part of the process under the LGA.

The manner in which 'causation' influences cost allocation in the Drury DC model is blunt and has the effect of loading costs onto developers and ultimately new households (in particular in the infrastructure categories of Reserve Acquisition, Reserve Development and Community Infrastructure). As outlined in Figure 4.1, the effect of 'causation' on the proportion paid for by developers is clear.

In the Drury Pool/Leisure centre 10km line, an assessment has apparently been carried out on who benefits from the development of the pool. This is presumably based on who will most likely use the pool/leisure centre. It found that some 58.64% of the benefits fall to growth households – presumably because growth households generate 58.64% future demand pressure for the facility This demand requires Council to spend money to develop a pool/leisure centre facility.

This means that existing resident households generate 41.36% of future demand for the pool/leisure centre facility as they are likely to receive 41.36% of the benefits. Fairness and equity would indicate that growth households pay 58.64% of the cost while exiting households pay 41.36%. However, because Council have added in a 'causation' driver of cost, which has been set to 100% to growth households, the proportion of costs they bear increase to 79.32%.

Figure 4.1: Drury DC Model Extract from Project_and_capex_costs tab.

Funding area description	Growth %	Level of Service %	Renewal %	Benefit considerations % benefit to growth s101(3)(a)(ii)	Cause considerations % caused by growth s101(3)(a)(iv)	DC growth % *(O12+P12)/2*
Reserve Acquisition - Opaheke / Drury				100.00%	100.00%	100.00%
Reserve Acquisition - Opaheke / Drury				99.03%	100.00%	99.51%
Reserve Development - Opaheke / Drury	100	0	0	100%	100%	100.00%
Reserve Development - Opaheke / Drury	100	0	0	99%	100%	99.50%
Community infrastructure - Drury IPA		0	0	81.87%	100%	90.94%
Community infrastructure - Drury Pool/Leisure centre 10km				58.64%	100%	79.32%
Community infrastructure - Drury Pool/Leisure centre 10km				58.64%	100%	79.32%
Community infrastructure - Auckland wide	100	0	0	34.24%	100%	67.12%

The methodology adopted to do this is crude – Council simply adds the two drivers together (58.64% + 100%) and divide by 2 = 79.32%. There is no theoretical justification behind this decision, it affords equal weight to the benefits received from infrastructure to some notion of cause.

It seems to be simply a way to load additional costs onto growth households that is completely unrelated to the amount of load they place on council services. Existing households free ride off the money paid by the development community equivalent to more than 20% of the cost of this facility.

Aggregating the difference across all the facilities in Figure 4.1, results in Council adding a further $44.4m onto growth households, or approximately 8.9% across these categories. It is not possible to carry this assessment out across the transport projects as the drivers for growth are not listed in this spreadsheet.

5 Partial DC model development

Auckland Council are looking to implement the Drury 30-year approach to Development Contributions model in isolation to the other investment priority areas, because it says that growth and infrastructure needs in Drury are well known and there is a higher degree of certainty about both compared to other areas. However, adopting a policy such as this in isolation is likely to generate a range of unintended consequences as households make locational choices that may now exclude Drury due to dwelling price increases.

Auckland Council are considering adding long-term investment projects to the 2022 development contribution policy in a piecemeal manner, in that they are starting with Drury then moving on to the North West and the remaining investment priority areas as resources become available and growth and infrastructure needs become more known. Part of the issue is likely to be that Council now has to generate robust estimates of infrastructure requirements over the next 30 years to feed into the policy across Auckland, whereas previously only 10 years worth of development needed to be understood at this level of detail.

Implementing the long-term investment projects in a piecemeal manner is likely to have the effect of sending the wrong signals to the housing market. Because in most instances in Drury the development contribution change is large (up to an additional $70,000 per section), house prices will increase (discussed in Section 2, above).

The effect of that is that growth households are likely to be dissuaded to a certain extent from choosing to locate at Drury – an area that has been specifically earmarked to cater for growth. Growth households will begin to make decisions to locate to other areas that may not have the infrastructure capacity to cater for growth or may be less than optimal. In effect, the imposition of a tax, will bring a distortion to the market such that decisions are not being made based on sound fundamentals – rather in response to minimising the effects of a tax.

In order to minimise the impacts of this distortion, and in the event that the Council decides to adopt the 30-year approach, we recommend that the imposition of the Drury DC model is delayed until such a time as the entire model for the other investment priority areas is developed and fully specified. It is only then that household decisions can be made efficiently (from an economic perspective).

6 Land value uplift as benefit

In the advice provided by Dr Cameron Murray and Dr Tim Helm to Auckland Council, the benefits of infrastructure investment are said to be embodied in the land value uplift following rezoning or the announcement of infrastructure investment. The advice states that future residents who actually use the infrastructure or facilities are best described as infrastructure users rather than beneficiaries.

On the face of it, this position sits at odds with the manner in which DCs have been constructed in the past where benefits are related to use or need. Yet identifying land value uplift (at least in part) as the accumulated set of benefits that infrastructure provides recognises that benefits are the key metric by which Development Contributions must be struck.

It flows from this position that causation (discussed in Section 4 above) is irrelevant and that benefits - their scale and distribution, spatially and over time - is the only appropriate driver of cost allocation.

6.1 Land value

Land has value based on the uses that the land can be put to. Those uses are based on the zoning that is applied and other characteristics such as location, geotechnical quality, aspect and relationship with other land and infrastructure. As infrastructure improves following rezoning or infrastructure investment announcements, land value increases because the land can be put to more uses, people derive a greater set of benefits from owning that land. This highlights the link between infrastructure investment and land value uplift.

However, the scale of the value uplift is not solely attributed to the infrastructure investment. It is likely to be a trigger for the uplift but not solely responsible for it. An example is, the development of a train station may cause additional investment in higher density housing to co-locate with the station. This leads to retailers and other service providers seeking to co-locate with the station and the residential development to take advantage of the additional activity. The end result is that residential land and retail or commercial land increases in value – triggered by the presence of the train station, but not solely because of the train station. If the housing did not develop, then the retailers may not have sought to locate there or the other commercial activity seeking to take advantage of the amenity the density of development delivers. The infrastructure investment was a necessary, but not sufficient mechanism that led to the development of a retail centre at the station.

It follows then that land value uplift is the result of a number of inter-connected forces, triggered by infrastructure investment – but not solely because of it.

6.2 Rates offset

Drury's infrastructure is not only funded by development contributions, it is also funded by rates. As land values increase then the amount of rates taken in Drury increases. A portion of the rates paid by the growth community is then used to part fund the infrastructure developed in Drury (and elsewhere across the city). This amount needs to be identified and offset against development contributions in order to avoid double dipping. Council should not be in the position of collecting development contributions to fund infrastructure required to support growth needs and also charge them rates – a portion of which will be used for the same purpose, without offsetting the rates amount against the DC amount.

That is unfair and inequitable.

7 Other assumptions

The Drury DC model approach is based on a range of assumptions about how people will use infrastructure provided, how growth will occur – both in terms of location and scale, and assumptions about how prices and interest rates will change over time. The combined effect of these assumptions has a very large impact on the final DC Price that is struck, so it is important that Council have assessed the effect of these assumptions in isolation and in combination to avoid unintended consequences occurring.

Land Price Inflation: As discussed in Section 3.1, the Council's model makes a number of assumptions about price increases that feed through to all cost estimates (interest rates or the cost of money, construction costs and land costs). The land cost increases are based on analysis of the past 20 or so years of estimated price rises in the estimated land value component of the median house price within Auckland. This results in a land inflation cost of 7.2% annually. This is then applied to all land at Drury regardless of where it sits within the development cycle. There are a number of issues with this approach:

1. The past 20 years or so have seen significant increases in residential land costs due to significantly low interest rates. The effect of low interest rates, in particular in the New Zealand context with no or limited capital gains taxes, is that money that might have been invested in banks or other financial instruments, gets diverted to property looking for higher, tax free returns. This drives prices up, increasing returns relative to banks thereby attracting more money and so on. Interest rates are now very much higher than they have been over recent years and they are liable to remain higher for a significant period of time. This means that housing is no longer as attractive as an investment and the heat has gone out of the housing market. It is highly unlikely that residential land prices will increase by the compounding 7.2% over the next 30 years as relied upon in the Council's modelling.
2. Land prices have also risen due to perceived capacity constraints. This is an issue that central government have also identified and have developed a number of policies that specifically seek to reduce the cost of residential land into the future (i.e. NPS-UD, the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021 and other intensification measures). The net effect of all of these mechanisms will be an increase in residential capacity and a resulting reduction in the rate of growth of residential land prices. In summary the future will not simply be a projection of the past 20 years (or so), a more reasonable view of the future is that land price inflation will be lower than it has been in recent years.
3. The way in which Council have applied both the land price inflation rate and the step change as land moves through its various stages (FUZ, Urban zoned, infrastructure installed, Superlot ready and finally compact lot ready). Council can not apply both to determine future cost of open space or other land to be purchased. This is because land that begins as FUZ land and steps through the stages does not increase at 7.2% annually. In reality it should only increase at approximately the rate of population or economic growth of the city. It is only once it has been through the step change stages and become housing, would it increase in the manner in which housing increases. Council should not apply both as this overstates the amount it will need to pay in future and

overstates the DC Price – especially as Council calculates the price in future dollars, it does not discount the price back to current terms.

The 7.2% annual increase in land prices will significantly overstate the actual increase and cause over charging for infrastructure, such as open spaces, sports facilities and roads.

The effect is stark. By reducing the inflation rate to 5% over the study timeline reduces the amount required for Reserve Acquisition alone, by over $55million (25%). If the long run inflation cost sits closer to Auckland's growth rate – say 3.5% annually, then the amount required for reserve acquisition reduces by almost $85million (or by 38%).

This shows that the values that feed into the final DC Price are heavily impacted by some simplistic assumptions and are currently far more extreme than they need to be.

Uncertainties: There are likely to be other issues within the model and the justifications that sit behind it that we have not been able to assess. At the moment it is difficult to fully assess the implications of decisions made within the full decision process (Asset management planning through to final DC price setting) as the full suite of models and processes are not fully available. However, I believe there are enough issues identified above, to at least cause Council to pause its implementation of Variation A until such a time as these can be addressed.

8 Conclusion

Adopting a 30 year time horizon for the Development Contributions Policy for Drury represents a significant shift away from the current DC paradigm that has been in place for the past decade or more. Drury developers have made land purchase decisions based on an understanding of the existing paradigm and have priced their offers to raw land-owners in accordance with their circumstances as outlined in the residual land value model process.

Council, having decided that it is not collecting sufficient development contributions from developers to fund future investments and being concerned that it is not able to borrow sufficient funds to allow the city to grow appropriately has chosen to include projects that are planned for well beyond the 10 years horizon (out to 30 years currently). To date, Council has chosen not to take advantage of other sources of funding, such as the recently enabled Infrastructure Funding and Finance Act 2020 which would see a portion of cost covered by central government.

Including the far future projects has added some $1.4bn of additional fees collectively onto the growth community immediately. Errors in the way benefits that flow from these additional projects including a failure to discount the benefits back to current terms and the failure to offset rates funding for the development community means that Council is in effect both double dipping and over collecting to fund growth infrastructure.

These impacts are compounded by the use of extremely high land inflation rates based on a flawed assumption that the low interest and constrained land markets of the past 20 – 30 years will be the same for the next 30 – 40 years. This ignores the reality of interest rate rises and the impact that central and local government policies that seek to increase intensification and reduce the cost of housing will have on land values.

These issues with Variation A, along with issues around the roll out of the policy happening in a spatially piecemeal manner and being incomplete with respect to key infrastructure categories (stormwater) as well as not having a full grasp of the distribution of benefits and use (in particular of community infrastructure), has the potential to lead to unintended market responses. Growth will divert to avoid price increases to potentially sub-optimal locations purely based on a DC charge that is overstated for Drury.

Based on the analysis carried out on Variation A and its potential impacts on Auckland growth community, we strongly recommend that Variation A is abandoned or at least delayed until it can be fully evaluated, is spatially comprehensive and contains all infrastructure categories. In addition, we strongly recommend that Council seek to engage with Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act by separating the Drury infrastructure plan into three 10 years blocks that will provide certainty of investment allowing the average DC charge to be reduced from the average of over $83,000 (before stormwater is added), to a level that has minimal impact on housing affordability and ensures Drury can develop to accommodate a significant portion of Auckland future growth.

8 November 2022
Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council
Freepost Authority 182382
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Auckland Council draft Development Contribution Policy

1. Summary

1.1. Tack Group Limited welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year funding model and $83,000 average DC fees. We recommend:

- The new Mayor and the Council not adopt the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;

- The Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent (very much a minimum reduction we are seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
- The Council work closely with the residential developers to better understand the implications that DC increases have on house prices.

2. 30-year timeframe creates complexities with funding and financing

2.1 The previous Council was working towards introducing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's intent to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

6.1. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, we are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframe.

6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

6.3. We recommend the new Mayor and the Council not adopt the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

6.4. Instead, we are supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

7. Problems with model

Causation

7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

7.3. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

7.4. We are also concerned around double dipping. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. We strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

7.5. We are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

8. Housing affordability

8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

8.3. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

8.4. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of St Heliers. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

8.1. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing huge inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone.[1] These increases must be factored into the DC policy.

8.5. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

8.6. We have serious reservations towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs from around $23,000 to $83,000 average per household will have significant consequences and likely hinder unlocking Drury development altogether.

9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

Yours sincerely,



Tack Group Limited

[1] Consumers set to pay, as builders have a supply chain reaction. Stuff NZ. 9 July 2021. Retrieved from https://www.stuff.co.nz/business/125690062/consumers-set-to-pay-as-builders-have-a-supply-chain-reaction

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Submission on Auckland Council Development Contributions Policy 2022 Variation A

To: Contribution Policy Team
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Private Bay 9230, Victoria Street West
Auckland 1142

By email: Contributions.PolicyTeam@aucklandcouncil.govt.nz

Name of Submitter: Metlifecare Limited (**MLC** or **the Submitter**)

INTRODUCTION

1. This is a submission on Auckland Council's Development Contributions Policy 2022 – Variation A (**the Policy**).

2. MLC opposes the Policy for the reasons outlined in this submission.

3. MLC supports the submissions made by the Retirement Villages Association (RVA) and Property Council New Zealand on the Policy.

BACKGROUND OF METLIFECARE

4. MLC is a leading New Zealand owner and operator of retirement villages, providing rewarding lifestyles and outstanding care to more than 6,500 New Zealanders in 36 unique villages and 17 care homes. Within Auckland, MLC has 19 existing retirement villages located across urban and suburban locations in addition to several development sites in greenfield and brownfield locations. MLC delivers a full range of living and care options for independent and assisted living and care homes. MLC villages include a range of home layouts which range from spacious apartments and townhouses through to large villas. In almost all locations MLC provide for on-site amenity for residents including facilities such as libraries, pools, gyms, restaurants and activities rooms.

5. MLC own two existing sites within the Southern Growth DC Policy area, being Longford Park Village in Takanini and Papakura Oaks in Papakura. In addition, MLC owns one future development site, located on Jellicoe Road in Pukekohe. All three sites were strategically selected by MLC in established urban environments, with existing facilities, rather than in greenfield future urban

environments where the facilities are acknowledged to be required as development progresses.

6. The development of the Policy and the outcomes are therefore of particular interest to MLC.

MLC SUBMISSION

Retirement Villages

7. MLC welcomes the opportunity to provide feedback on the Policy. It is critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

8. MLC strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury, and also including surrounding areas in the astronomical rise. Increases of this magnitude would have a negative impact on the number of care homes and retirement villages constructed, the facilities provided on-site in retirement villages, and in turn, the affordability of dwellings within these retirement villages.

9. MLC develop unique retirement villages that are centred around amenities and facilities to support the best retirement experience and environment, all on-site. The amenities and facilities that are provided at MLC villages are similar to a number of the community facilities listed in the DC Policy that are required in future urban areas that have not yet been developed and that the additional funding would be allocated to. MLC already strive to provide state of the art facilities for their residents, and the requirement to also contribute significant funding to additional facilities that are unlikely to be used by MLC's residents is not equitable nor has it been given fair consideration.

10. The Southern Growth Areas identified in the Drury DC's states that the additional charge is for "43 new parks and open spaces, and a new community facility including a community centre, a leisure centre, a library, and a local pool". However, areas identified such as Pukekohe and Papakura have existing public facilities. Further, these facilities generally go unused by residents from retirement villages as there is generally more convenient facilities located on site.

11. MLC recommends that the new Mayor and Council not adopt the 30-year funding and financing plan decision that the previous Council was working towards and replace it with a 30-year strategic vision that is financed and forecasted in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, this would decrease the blunt funding tool of charging $83,000 on average per HUE for DCs in Drury.

12. MLC are concerned that if the Council approves Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess project feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would inevitably lead to a large increase in house prices.

30-year timeframe creates complexities with funding and financing

13. The previous Council was working towards introducing a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

14. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. This isparticularly so when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. MLC are concerned that the calculations have become increasingly inaccurate and uncertain in the past 10 years.

15. Alternatively, MLC are supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments, with retirement villages treated separately to all other households. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms

through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation based on the type of development, better transparency and intergenerational equity.

Concerns with transparency of the process

16. Council released consultation documentation in the form of documents and 2 spreadsheets on or around 14 September.

17. Within the package, one small spreadsheet contained some detail around transport projects for the Drury area and the other was titled "*Drury_DC_model_Released_12_Sept.xlsb*". This is made up of a number of tabs that contained values set against projects and years that represented things such as DC Revenue forecasts, DC Interest estimates and DC Prices. The values in the tables appear to be the product of a number of calculations that pulled together information ons growth of HUEs, capacity at existing facilities, new facility costs and land costs to generate estimates of development contributions pertaining to Drury. The calculations (for the most part) are not included in the model spreadsheet.

18. Many of the calculations and decisions made about how much to spend, where to spend it, how to allocate cost between existing and growth and so on, occur in other models. The Drury DC Model (as released) contains references to excel macros[1] that run processes and calculations – but the macros were not included with the model as released. Furthermore, a number of spreadsheets linked to the Drury DC Model were also not available in the consultation package. This is difficult to verify as the operation is driven by macro's that are not included in the model as released.

19. MLC considers there is limited ability for developers or other interested and impacted parties to assess how the distribution of benefits influence, or how demand drives infrastructure costs and therefore development contributions.

[1] A macro is a piece of code that may run a number of calculations in a particular sequence and is used to automate calculation of formula that are repeated numerous times throughout a spreadsheet.

Issues with Model

Inclusion of Causation in Cost Allocation Model

20. Auckland Council's DC model includes (as a driver of the distribution of costs between existing and growth households) an allowance for "Causation". The model references the Local Government Act (s101(3)(a)(iii)) as justification for including Causation as a valid driver of cost. However, the LGA contains no reference to the word causation, rather it refers to need and benefits as being the drivers by which councils are to distribute cost. Need relates to usage and so does benefits (receive benefits in proportion to the amount of use you make of a facility or piece of infrastructure). On this basis, causation plays no part of the process under the LGA.

21. The manner in which 'causation' influences cost allocation in the Drury DC model is blunt and has the effect of loading costs onto developers and ultimately new households (in particular in the infrastructure categories of Reserve Acquisition, Reserve Development and Community Infrastructure).

22. MLC are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

23. MLC disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

24. MLC are concerned that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do MLC have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

25. MLC are also concerned around 'double dipping'. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development

contributions. MLC strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

26. MLC are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

Piecemeal Implementation of Policy

27. Auckland Council are rolling out the DC policy in a piecemeal manner, in that this is starting with Drury then moving on to the North West and elsewhere. This is likely to have the effect of sending the wrong signals to the market because in most instances in Drury the development contribution change is large. It also negates the ability to plan long term larger scale developments due to the uncertainty of cost.

28. In order to minimise the impacts of this distortion, MLC recommend that the imposition of the Drury DC policy is delayed until such a time as the entire Auckland model is developed and fully specified. It is only then that household decisions can be made efficiently (from an economic perspective).

RELIEF SOUGHT

29. MLC seeks the following relief on the DC Policy:

    a. that the usual DC funding approach covering a 10 year period is returned to, or, the **Incremental Price Option is adopted** rather than the Fixed Price Option, and that Council omits from the Contributions Policy the provisions imposing development contributions on Drury in respect of infrastructure costs for works beyond 2032.

    b. that the Drury DC model be **corrected** through:
        i. **reviewing and updating** the growth figures which are significantly out of date, given a number of private plan change applications have recently been approved.
        ii. **reviewing and updating** the list of transport infrastructure projects included in the DC Policy (and the calculations) to only those transport projects that are required and exclude those

projects being funded by others, including developers, from the calculation and DC Policy.

iii. **reviewing and updating** the adopted land inflation figure of 7.2% p.a. and **reducing** this to something that is much more realistic and accurate.

c. that any similar proposals for changes to Development Contribution Policies for other growth areas in Auckland are **rejected**.

d. that the **Policy Variation is put on hold** until all information is made available and the quality of that information has been accepted by all relevant experts and all matters above have been addressed.

CONCLUSION

30. MLC strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average HUE rise to $83,000 in DCs. Additionally, funding is taken from neighbouring areas (Pukekohe and Papakura) to fund the Drury area.

31. MLC are concerned that the Policy will set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

32. MLC wishes to be heard in support of this submission.

33. MLC would consider presenting a joint case if others make similar submissions.

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Tuesday 8 November 2022

Infrastructure New Zealand Submission to Auckland Council

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1. Introduction

1.1 Infrastructure New Zealand (INZ) welcomes this opportunity to make a submission on '*Sharing the cost of Drury's growth – Contributions Policy 2022 variation A*'.

1.2 INZ is New Zealand's membership organisation for the infrastructure sector. We promote best practice in national infrastructure development through research, advocacy and public and private sector collaboration. Our members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

2. General Remarks

2.1 We welcome Auckland Councils consultation document, the supporting material provided and the ability to submit on this issue. We note that Auckland Council decided to delay the decision in late 2021 due to public feedback and has since undertaken extensive research and analysis. We appreciate the level of detailed analysis provided as part of the consultation pack.

2.2 As we all know, infrastructure doesn't fund itself. With Auckland City growing (while noting that Auckland's published population for 2021 has been revised downwards to 11,500 lower as we see the flow on effects of COVID-19 [1]), the city needs greater investment. INZ is focused on the

[1] https://www.infometrics.co.nz/article/2022-10-population-growth-slows-nearly-everywhere-in-2022

sustainable pipeline of world class infrastructure, delivered by both the public and private sector, for the benefit of all New Zealand communities. This includes ensuring the sustainability of funding and financing for this provision.

2.3 INZ therefore supports the move towards a longer-term view of the infrastructure needed for growth as a positive one. As noted in the consultation material, investment in Drury will take thirty years to deliver and the proposal looks to start funding a share of the Council's investment over this whole period. We see this as a positive step towards a long-term view of Auckland's infrastructure needs.

2.4 We also want to acknowledge that Auckland Council is in a difficult position given their current debt constraints and limited availability of funding tools.

2.5 However, we do have concerns about the impact this proposal will have on the developer in Drury, and the overarching development itself. These new charges have the potential to drastically change the development, and the phasing of it, that takes place across Auckland City. We also note that Auckland Council could additionally explore different funding and financing options.

3. Discussion Points

3.1 As mentioned above, INZ supports the move towards a long-term approach for infrastructure investment to provide certainty through a sustainable pipeline. As a country, we need to plan for infrastructure networks before they're needed.

3.2 That is why INZ sees this proposal as a positive move forward and agrees with the need to take a long-term view for development contributions, given that development will take longer than ten years. This includes ensuring that costs of this investment are fairly shared between developing landowners and ratepayers.

Impacts on development

3.3 That said, INZ do want to note some concerns about the broader impact of the proposal, in particular:

3.3.1 the cost impact on developers

3.3.2 the impact of a 'staged approach' on Drury development

3.3.3 lack of integrated planning.

Cost impact on developers

3.4 Under the proposed change, the average level of contribution in the area will be $83,251 per. In some areas, such as Drury East, that is an increase of over $70,000 for transport infrastructure alone. This excludes stormwater requirements for Drury beyond 2031, which we understand will be identified and added to the contributions policy at a later stage.

3.5 We also note that transport is a significant aspect of these costs. In Ōpaheke, most of the total proposed total transport contribution charge of $66,782 relates to the N-S Ōpaheke Arterial.

The N-S Ōpaheke Arterial also accounts for 50 per cent of the contributions funded transport investment in the Drury East funding.

3.6 While we note the supporting paper, '*Economic incidence of developer contributions*' which discusses the broader impacts and disputes the absorption of cost concerns. We still consider that the impact on developers will be significant and the ability for developers to absorb these costs is likely limited – especially in current times where we are also seeing significant supply chain shortages.

3.7 INZ consider this particularly relevant in the current market. In October 2022 the REINZ House Price Index in Auckland was down 11.2% and the price of homes sold dropped significantly. For example; homes sold by Barefoot & Thompson dropped on average by $47,000 from August to September but by $180,000 since last November. Supply chain constraints and inflationary pressure on developers mean are creating an already tight market. Many of these developers will either need to pass these costs onto homeowners or re-evaluate their developments in light of the current market.

The 'staged approach' on Drury

3.8 INZ understands the need for a staged approach to implementing the longer-term investment projects and for Drury projects to be added to the policy first. We also note the intent to add the longer-term investment projects for the remaining investment priority area.

3.9 However, there is a need to be cognisant of the broader impacts on development across Auckland. This proposal will indiscriminately impact Drury developers and development, making other areas more attractive. This has the potential to send market signals that shift growth out of Drury and into other areas of Auckland. Homeowners are likely to be attracted to other development areas with lower DCs.

3.10 INZ recommends that Auckland Council expand the use of this policy to other priority areas as soon as possible and communicate the staged approach to provide certainty to developers and development areas.

3.11 INZ also considers that there is the potential for Auckland Council to explore the potential for the DCs to be applied to a shorter timeframe as an intermediary step, such as 20 years rather than 30 years as mitigation.

Integrated planning

3.12 Drury is a classic example of the disconnect between spatial planning, structural planning, and infrastructure provision. Earlier this year over 330 hectares of land in Drury was rezoned through a private plan change. Developers first applied for this plan change in July 2020 however there was always uncertainty of infrastructure provision. Put simply, the planning and infrastructure were not integrated.

3.13 The ability to designate and funding mechanisms to purchase the required land early for significant infrastructure for the Drury development, such as the arterial roads would positively impact the overall costs. This would also reduce the resulting DCs to be levied. However, INZ does note that it is difficult for the Council to raise the capital for the early land acquisition for this infrastructure now rather than waiting until the land is further subdivided and its value has

massively increased. There are limitations too with the current designation sunset clause under the Resource Management Act.

3.14 That said, we note that the future Resource Management Reforms will go some way to address this. The National Planning Framework will establish the high-level policy and rule framework for infrastructure and for the first time will have its own Infrastructure chapter under the Natural & Built Environments Act (NBA). This will guide decisions made at regional level in the development of each Reginal Spatial Strategies. Designations are

Other tools

3.15 Given the significance of the impacts outlined above, there is a need to ensure all other funding and financing avenues have been explored and exhausted. As such, INZ recommends that Auckland Council consider the use of other funding and financing tools – such as targeted rates, congestion charging, Special Purpose Vehicles through the Funding and Financing Act and Specified Development Areas through the Urban Development Act – alongside DCs.

3.16 Auckland Council decision not to pursue an alternative solution also means that Council has to fund this through borrowings until the DCs can be charged, which are typically when title for lots is issued.

3.17 An Infrastructure Funding and Finance solution would not be able to fund all of the infrastructure but could still be used in conjunction with DCs. It would also have the advantage of being able to charge differentiated levies to a wider pool of beneficiaries than just the greenfield lots. The infrastructure costs could be spread to a wider group and and over a much longer period.

3.18 We note for example that the N-S Ōpaheke Arterial discussed above, will benefit the wider Auckland, and South Auckland in particular. This cost should be shared with all road users of this piece of infrastructure. Therefore, even though we note that half of the costs will be paid for by Waka Kōtahi, Auckland Council should explore other transport charging options that allow for a broader set of beneficiaries.

Broader policy implications

3.19 INZ considers that the potential impacts from this policy change highlight broader policy implications for local and central government in how infrastructure for priority areas is delivered. The policy demonstrates the true costs of a 'beneficiary pays approach' and the cost that is placed on developers. The significant impact on developers and the development shows the need for local and central government to agree to a fair basis for funding priority project areas.

3.20 This is in line with the recently released, *Future of Local Government Review Draft Report* which states that, 'the absence of a sustainable and equitable co-investment model is undermining the potential for central and local government and iwi to partner for better community outcomes'[2]. INZ agrees with this sentiment and considers co-invest as essential in these priority areas.

[2] Draft report – He mata whāriki, he matawhānui (futureforlocalgovernment.govt.nz)

3.21 Further, INZ considers that this also highlights a recommendation outlined by the Productivity Commission in their 2019 report on Infrastructure Funding and Financing. The Productivity Commission noted that DCs are understandably not popular because they add to development costs, including the prices of residential sections. The Commission recommended that the Government, Local Government New Zealand and the New Zealand Society of Local Government Managers work together to develop templates to standardise the structure and format (but not the content) of:

3.21.1 councils' development contribution (DC) policies

3.21.2 council assessments of DC charges for individual property developments.

3.22 INZ considers that there is still promise in this recommendation, especially as a longer-term approach is taken across Auckland, and potentially other councils.

4 Conclusion and recommendations

4.1 Given the above points, INZ recommends that Auckland Council:

4.1.1 **better considers the use of alternative funding tools**, including transport charging options for major road infrastructure projects, the Infrastructure Funding and Financing Act and the Urban Development Act.

4.1.2 **expand the use of the policy to other priority areas as soon as possible** and communicate the staged approach to provide certainty to developers.

4.2 INZ thanks Auckland Council for this opportunity to make a submission on 'Sharing the cost of Drury's growth – Contributions Policy 2022 variation A' and are happy to discuss any points made in this submission.





Policy Director
Infrastructure New Zealand

Sharing the cost of Drury's growth – Contributions Policy 2022 Variation A

Feedback must be received by 5.00pm **8 November 2022**

Auckland Council uses development contributions (DCs) to ensure that an appropriate share of our investment in infrastructure is recovered from those that create the need for, and benefit from, the investment.

Our Contributions Policy sets out the costs to be recovered and how these are translated into DC levels in different parts of the region. This is regularly updated to reflect new information, such as updated projections about growth or planned investment, or policy decisions made.

The current contributions policy was consulted on in late 2021 and became effective from 1 January 2022. We are now proposing a variation to this policy, to enable the inclusion of infrastructure for Drury beyond the ten period of the Long-term Plan 2021-2031.

We strongly encourage you to read the proposed approach and accompanying information before answering any of the following questions.

We encourage you to give feedback online at akhaveyoursay.nz, or you can:

Scan and Email your completed form to:

Contributions.PolicyTeam@aucklandcouncil.govt.nz

Post your completed form to:

Contributions Policy Team
Auckland Council
Private Bag 92300, Victoria Street West
Auckland, 1142

Your details

Your name and feedback will be included in public documents. All other personal details will be kept private.

First name: Last name:

Email address or postal address:

Your local board:

Is your feedback on behalf of an organisation or business? (If yes, this confirms you have authority to submit on the organisation's behalf)

☐ Yes ☐ No Name of organisation/business:

Your feedback

Our contributions policy ensures that the cost of infrastructure is shared between developers and ratepayers, based on who causes the need for and/or benefits from the infrastructure.

The first priority growth area we're focussing on is Drury-Ōpaheke– an area whose population is projected to grow from 4,000 to over 60,000 in the next thirty years and will require supporting investment of $2.869 billion. This investment will include a public and active transport led approach to transport infrastructure, parks and open spaces, and a new community facility that will include a local pool, leisure centre and library.

We estimate investment in this area will take around 30 years to deliver. Currently, the policy only requires developers to contribute to investments in infrastructure that will be delivered over the next 10 years. Without this funding from development contributions, the burden of providing infrastructure and risk of undesirable outcomes will fall on the remainder of the city's ratepayers and the future residents of Drury.

We are proposing that it is more appropriate to include the full amount of this investment required to support growth in the contributions policy. This would mean all developers in the area will contribute an average level of contribution in this area of around $83,251 per Household Unit Equivalent.

1. **Do you think the charges under our contributions policy should be based on investments in infrastructure both before and after 2031 required to support growth in Drury-Ōpaheke and allocate this across all relevant developments as proposed?**

- ☐ Support
- ☐ Do not support
- ☐ Other
- ☐ I don't know

Tell us why

2. **Do you have any other feedback?**

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8 November 2022

AK Have Your Say
Auckland Council
Freepost authority 182382
Private bag 92 300
Auckland 1142

Dear Sir/Madam

Waka Kotahi NZ Transport Agency Submission on the Auckland Council Development Contribution Policy – Variation A

Thank you for the opportunity to submit on Variation A to Auckland Council Developer Contribution Policy.

Waka Kotahi, the NZ Transport Agency (Waka Kotahi), is a Crown Entity required by the Land Transport Management Act 2003 to undertake its functions in a way that contributes to an effective, efficient, and safe land transport system in the public interest. Waka Kotahi's functions include:

- to manage the State Highway system, including planning, funding, design, construction, maintenance and operation.
- to assist, advise, and co-operate with approved organisations; and
- to manage funding of the land transport system.

Waka Kotahi is also required to give effect to the Government Policy Statement (GPS) on Land Transport. The 2021 GPS identifies four strategic priorities:

- Better travel options
- Safety
- Climate change
- Improving freight connections

In addition, the Auckland Transport Alignment Project (ATAP) is recognised as a specific Government Commitment in the GPS. Waka Kotahi is also committed to other established partnerships such as the Auckland Housing and Urban Growth Joint Programme and Te Tupu Ngātahi / Supporting Growth. These commitments respectively enable collaboration with central government and Council on spatial planning initiatives, in Auckland and planning and developing networks to support Auckland's future urban growth areas over the next 30 years.

Waka Kotahi highly values its role, alongside Council, as a co-investor in a multi modal transport system for Auckland. As Council will be aware, Waka Kotahi continues to work closely with Council, Auckland Transport and key stakeholders on a range of initiatives to improve transport in Auckland and to ensure that transport is integrated with land use.

Waka Kotahi supports the variation to the development contributions policy. Variation A will help provide additional funding to support growth in Drury, complementing significant government investment in the area. In our previous submission to Council's Long-term Plan and feedback to the Development Contributions review in 2021, we encouraged Council to continue to explore options for additional revenue, especially where this helps deliver more equitable outcomes.

Improving urban form is central to addressing mode shift, vehicle kilometre travelled reduction and climate change outcomes. Achieving compact mixed-use development in the right locations improves accessibility and transport options, reduces carbon emissions and other environmental harm and improves health and safety outcomes. Consideration could be given in the policy to a reduced 'unit of demand' in locations that assist with meeting these outcomes e.g. for higher density development within the walkable catchment of rapid transit stops.

It is important that a regionally consistent approach to development contributions is implemented across the growth areas of Auckland as quickly as possible. This will ensure equitable cost recovery and avoid inadvertently incentivising development in locations where outcomes such as vehicle kilometres travelled reduction, mode shift and safety may be more difficult to achieve. We recommend that Council investigates options available to them to provide a regionally consistent approach swiftly.

We support the proposal to review and re-evaluate projects on a regular basis as infrastructure delivery and the type of infrastructure intervention required may evolve over an extended time period.

We support the approach taken in the methodology for collector roads. Waka Kotahi sees merit in funding sections of collector roads through the development contribution policy if they are essential to the function of the transport network and where there are significant challenges for implementation.

Thank you again for the opportunity to provide feedback on the developer contribution policy review.

Yours sincerely

[redacted]

[redacted]
Director Regional Relationships

Submission on the Auckland Council Development Contributions Policy 2022 Variation A

To: Auckland Council (Contributions Policy Team)

Name of Submitter: Hugh Green Limited

Address for Service: C/- CivilPlan Consultants Limited
PO Box 97796
Manukau City
Auckland 2241

Attn: [redacted]

Telephone: [redacted]

Email: [redacted]

This is a submission on Variation A to Auckland Council's Development Contributions Policy 2022, henceforth referred to as 'the proposal'.

1. The Submitter (Background)

Hugh Green Limited ('HGL') is a long-established management company of the Hugh Green Group, which holds a substantial portfolio of land for farming and development purposes, as well as a number of commercial and industrial property assets within the Auckland and Waikato Regions. Combined, the companies which fall under the Hugh Green Group umbrella conduct a range of businesses on their landholdings, including developing residential property for sale, developing and managing commercial / industrial buildings for lease plus farming operations on rural zoned properties. The portfolio includes sizeable landholdings strategically located to meet the needs of Auckland's population growth.

HGL is actively working on enabling growth around Auckland, through residential subdivision within various landholdings such as those in Hingaia, Redhills, and Flat Bush, as well as having interest in other locations within Auckland.

HGL's interest in the proposal relates to:

a) The likely precedent effects of decisions on the proposal in relation to Drury on future decisions for other growth areas within Auckland; and

b) The impacts of the proposal on development contributions at Hingaia.

2. General Submissions

1. Issue

HGL acknowledges the various infrastructure needs of development and the challenges of ensuring that funding for this infrastructure is available, especially for projects that benefit multiple developments.

In order to provide for the efficient delivery of infrastructure to support development and growth, HGL considers the most important requirement is certainty:

a) Certainty as to which infrastructure projects are required to provide for the anticipated growth and development;

b) Certainty as to how each project is to be funded (either by developers, Council, third-parties or a combination of these);

c) Certainty that infrastructure benefiting multiple parties will be funded in an equitable manner;

d) Certainty as to when funding of each project will be available; and

e) Certainty as to when construction of each project will occur, especially in relation to the anticipated timeframes for growth and development supported by this infrastructure.

Albeit, in an ever-changing and unpredictable world, it is acknowledged that complete certainty is not always achievable. In this regard, HGL supports Council's attempts to provide certainty regarding the funding of projects required for the anticipated growth of Drury and Opaheke over the next 30 years, acknowledging the intention for similar approaches to be taken in other growth areas.

However, HGL is not convinced that the approach taken by Council is the most appropriate from a fair and equitable perspective, or sufficiently provides for the certainty necessary for developers to have confidence in delivering the growth and development anticipated within Auckland. In particular:

a) The complexity of determining the costs for projects over a 30-year timeframe is highly likely to result in today's estimates being inaccurate and resulting in cost equity issues for development occurring at different times but benefiting from the projects to the same extent. Such complexities include:

   i) Assuming the construction requirements of each infrastructure project;

   ii) Estimating the impacts of inflation on infrastructure costs;

   iii) Estimating the timing of infrastructure construction in relation to timing of development;

   iv) The potential for changes in demands for infrastructure;

   v) The potential for unexpected and unpredictable external forces (for example, the implications of the Covid-19 pandemic).

b) The potential for the high upfront costs to developers disincentivising development in growth areas, which would have implications on the assumptions used in the Policy.

c) The risk that money collected for infrastructure projects required in 30 years' time may be used for other projects, especially if to cover unexpected costs for other projects required sooner.

On the latter point, HGL has first-hand experience whereby contributions identified for a specific project in 2015 have instead been used by Council to cover budget overruns for another project in 2020, leaving the first project unfunded. No specific consultation was undertaken for this reallocation of funding. The unfunded works will very soon impact on development delivery in the affected area.. Given unannounced reallocation has occurred within a timeframe of five years, there is considered to be high risk that this would occur within a 30-year timeframe.

In addition, HGL disputes the position by Council that development contributions in the order of $100,000 per dwelling will not directly impact the sale prices of dwellings. HGL also considers that contributions of this magnitude will unfairly be burdened upon the first purchaser of the property, driving house prices up or diverting purchasers away from growth areas.

a) Council assumes that the value of land will decrease in response to the Development Contribution Policy requirements prior to the purchase of this land by developers. However, in most cases land is already owned by developers at the time that the policy would be confirmed. Therefore, the additional costs cannot be absorbed by lower land values and instead the first purchasers of developed properties would be charged premium prices to account for the significant development contribution cost being passed on by developers in order to retain sustainable profit margins.

b) Over time, the value of properties within the development area would respond to market forces and give less regard to the upfront cost of development contributions. When the property is resold in the future, the market value would likely be similar to other properties that were not subject to development contributions to the same extent. Effectively, the first home buyer is subsiding the infrastructure benefits to be enjoyed by future owners of the property. As sale of properties is likely to occur within 30 years, this includes subsidising the benefit by future owners of infrastructure that may not yet be constructed.

Given the above, HGL considers that Auckland Council should explore the following alternative arrangements to fund infrastructure required for growth, which can be in combination with development contributions:

a) The use of the Infrastructure Funding and Financing Act 2020 ('IFFA') to establish a Special Purpose Vehicle to cover, through annual levies, infrastructure with costs that are currently identifiable, especially where infrastructure construction is required to precede development.

b) The use of targeted rates to cover the costs of infrastructure that cannot easily be identified with sufficient certainty, subject to these rates being ringfenced for sole use on infrastructure to facilitate growth in the specific area the targeted rate applies to. This would be supported by a strategic plan outlining which infrastructure projects would be funded by this rate and their priority, which can be updated as need be to respond to the actual roll-out of development in the growth area.

The use of these funding mechanisms will avoid the single blunt development contribution payment and instead spread the costs of infrastructure across decades to better reflect the timeframes of the infrastructure being funded. This is considered to be significantly more equitable as the cost of the infrastructure is not placed solely on the first owner of the property. This approach also incentivises development as greenfield land would be subject to the levies or rates as well as developed properties.

The option of targeted rates is also flexible enough to respond to changing needs over the next 30 years (including to account for budget overruns and changes to project priorities by altering the value of the rate over time), without unfairly disadvantaging developments that are completed at different times. Therefore, this option is considered to provide more certainty and equitability than relying solely on development contributions.

2. Relief

HGL requests that Auckland Council prioritise the use of alternative funding sources (such as annual levies under the IFFA or targeted rates) rather than significantly increasing development contributions to fund infrastructure required to facilitate anticipated growth within Auckland.

In order to avoid setting a precedent of relying heavily on development contributions, the proposal should not be approved by Council in its current form.

3. Submissions Related to Hingaia

3.1 Southern Growth Area 1

1. Issue

Hingaia forms part of the Southern Growth Area 1 funding area, which is confusingly also referred to in the proposal as the Papakura-Takaanini funding area.

The proposal spreads the costs of transport projects primarily to facilitate growth in Drury and Opaheke across a variety of funding areas in the vicinity, including Southern Growth Area 1, as well as contributions on an Auckland-wide basis. Contributions from each of these funding areas are then proportionate to the benefit that the project will have to development within those funding areas.

In most instances, contributions from the Southern Growth Area 1 funding areas will fund approximately 1.5% of the project's cost (including Auckland-wide contributions), while funding areas within Drury and Opaheke will contribute to up to 50% of the project's cost. This is considered appropriate given that the projects in Drury and Opaheke will primarily benefit development in Drury and Opaheke and only have peripheral benefits to the surrounding areas.

2. Relief

HGL supports the approach of spreading development contributions across multiple funding areas proportionately to the benefits the project will have in the respective area. HGL requests that contributions for transport projects within Drury and Opaheke attributed to the Southern Growth Area 1 funding area not be increased above that proposed.

HGL requests that a consistent term be used to refer to the Southern Growth Area 1 funding area within the Policy and its attachments.

3.2 Drury Pool and Leisure Centre

1. Issue

The proposal includes funding of a leisure centre and pool at Drury by development contributions applying within the "Drury 10km" funding area (also referred to as "Drury Pool/Leisure 10km" and "10km Catchment" in the proposal). The creation of a funding area based on a distance-based catchment that overlaps with other Community Infrastructure catchment areas is unusual in the context of Auckland Council's Development Contributions Policy but not necessarily inappropriate.

The rationale for specifically applying a 10 km distance for the catchment is unclear and is only referred to as "driving distance" in the supplementary consultation material. HGL considers that this catchment distance is not necessarily appropriate to identify the benefactors of the leisure centre as:

a) No allowance has been given to driving time rather than distance, acknowledging that a longer distance would be trafficable along rural roads (e.g. Ramarama and Karaka) or along the motorway in comparison to urban roads within the same time allowance.

b) No consideration has been given to the impact of the availability of similar facilities in Papakura or other nearby locations.

c) The funding area extent does not follow the boundaries of properties, natural features or suburbs, resulting in ambiguity, inequity and split communities (e.g. Conifer Grove).

In comparison, development contributions for the Drury community hall are to apply to the Opaheke / Drury funding area and development contributions for the Drury library are to apply to all of Auckland. It is unclear why a different approach is taken for all of these facilities when they are likely to have similar benefactors.

2. Relief

HGL suggests that the funding area for the Drury pool and leisure centre either be:

a) Changed to be the Opaheke / Drury community infrastructure funding area (potentially supplemented by additional funding from other sources);

b) Amended to account for driving times rather than distances, to give regard to existing similar facilities and to follow the boundaries of suburbs.

If no changes are to be made to the funding area extent, HGL requests that a consistent term be used to refer to this funding area within the Policy and its attachments.

3.3 Intersection of Great South Road and Park Estate Road

1. Issue

HGL has submitted on the previous Development Contributions Policy (in 2021) regarding the removal of funding for the signalisation of the intersection of Great South Road and Park Estate Road, which was previously included in the 2015 and 2018 policies and has still not been constructed. This infrastructure upgrade is now urgently required to cater for short-term growth already enabled in South Auckland and any capacity issues would be exacerbated by further growth within the Drury area (due to increased traffic on Great South Road). Despite the previous submissions and inquiries by HGL earlier this year, there is no clarity as to how or when this intersection upgrade will be funded or constructed.

2. Relief

HGL requests that the signalisation of the intersection Great South Road and Park Estate Road be added into Schedule 8 of the 2022 Development Contributions Policy, as it had been within the 2015 and 2018 policies. Ideally, contributions currently being paid to Council by development lodged prior to 2021 should also fund this project. This may require additional contributions for the budget overruns of the Hingaia Road widening project in order to make up the difference, noting that significant areas of Hingaia that directly benefit from that widening project have not yet been developed.

4. Conclusion

Upon review of the Auckland Council Development Contributions Policy 2022 Variation A, HGL has a number of concerns that it seeks be addressed by the following relief (or similar):

a) That the proposal is not approved in its current form and instead Council partly funds the necessary infrastructure in Drury for the 30 year horizon through a targeted rate and/or the establishment of a Special Purpose Vehicle under the IFFA and defers the balance for future development contribution reviews.

b) That the proposal retain the approach of spreading development contributions across multiple funding areas proportionately to the benefits the project will have.

c) That no further increases (from that proposed) be made to contributions in Southern Growth Area 1 for transport infrastructure that primarily benefits development within Drury and Opaheke in order to decrease contributions within the Drury and Opaheke funding areas.

d) That the proposal be amended so that development contributions for the Drury pool and leisure centre relate to existing community facilities funding areas, deleting the “Drury 10km” funding area, or alternatively that the boundaries of the “Drury 10km” be refined to better relate to the suburbs most likely to use the facilities.

e) That the proposal use a single term for the following funding areas (if retained):

   i) Southern Growth Area 1 / Papakura-Takaanini

   ii) Drury 10km / Drury Pool/Leisure 10km / 10km Catchment

f) That the proposal reinstates contributions for the signalisation of the intersection of Great South Road and Park Estate Road.

Signature:  .....

[redacted] Senior Planner, CivilPlan Consultants Ltd
on behalf of Hugh Green Limited

Date: 8 November 2022

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NZGBC
TE KAUNIHERA HANGANGA TAUTAIAO

4th November 2022

Contributions Policy Team
Auckland Council
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Victoria Street West
AUCKLAND 1142

Contributions.Policyteam@AucklandCouncil.govt.nz

NZGBC submission Contributions Policy 2022 variation A

1 Thank you for the opportunity to make a submission on Draft Contributions Policy 2022 Variation A.

2 We are the New Zealand Green Building Council (NZGBC) and we represent 700 construction sector organisations and companies who believe in a better built Aotearoa. We advocate for regulatory and industry-wide change, provide independent and trusted certification, in order to support New Zealand on its path to a low carbon future. We also administer the Homestar and Green Star rating systems on behalf of the industry and the NABERSNZ building efficiency standard on behalf of central Government.

3 We ask that Council treat this review of development contributions as an opportunity encourage and facilitate green building and low carbon approaches, and in doing so take an approach that will incorporate principles and policy from the Auckland Council Climate Action Plan and related strategic directions.

4 Using development contributions in a sophisticated way as proposed will encourage the building of low-emission, energy efficient homes that will help Auckland towards its carbon goals and reduce living costs for families, and will further enable Council to live up to its 2019 declaration of a climate emergency.

5 The key focus of our submission is that Council should include strong incentives in it's development contributions policy to promote building of homes with high energy efficiency and sustainability standards, including as measured through the Homestar rating system or other similar systems.

It is imperative that we reduce emissions from new homes

6 We are in a climate emergency. Flooding and extreme weather are increasingly impacting on property. These impacts are well accepted and only set to grow. Parts of Auckland will be significantly impacted by these events.

7 The Intergovernmental Panel on Climate Change state that all sectors should go as fast as possible with every decision in every sector to decarbonise as fast as possible.

8 The built environment makes up 20% of New Zealand's emissions. It also has considerable impacts health and well being, on waste to landfill, on water consumption and resilience to climate change.

9 New Zealand is committed to carbon neutrality by 2050, and both Parliament and Auckland Council have declared climate emergencies. Obviously the 30 year infrastructure demand assessments conducted by Council as a part of developing this policy sit right alongside this 2050 target (which is also 30 years away). We do not consider it is open to Council to ignore it's climate commitments and policy when putting in place this development contributions policy.

10 The Council has set a target 'to reduce our greenhouse gas emissions by 50% by 2030 and achieve net zero emissions by 2050'. With operational energy use in residential and commercial buildings accounting for over 10% of Auckland's total emission, according to the Auckland Climate Plan, more energy efficient/less carbon intensive buildings are a vital part of the solution.

11 Auckland Council estimates that 313,000 new homes will be built in the city by 2050 but the Building Code is not currently adequate for housing to meet New Zealand's climate goals. Recent BRANZ research has found "new-built dwellings exceed their 1.5 °C climate targets by a factor of 6.7, 6.8 and 10.9 for detached, medium-density housing, and apartments respectively." Construction and demolition waste currently account for 50% of Auckland's total waste stream, contributing to emissions.

12 Action area B5 of the Auckland Climate Plan is "Accelerate the uptake of sustainable design and construction for new buildings" including tools to encourage sustainable design and construction. There is a real opportunity here for Council to seek to incorporate tools in this development contribution policy to encourage developers to include sustainable design and construction approaches into their plans for all of these new homes.

Auckland plan 2050

13 The development contributions policy clearly references the Auckland Plan 2050 as being a touchstone for the approaches being proposed. However NZGBC considers it is not open to Council, when developing this development contributions policy to only take heed of certain parts of the Auckland Plan 2050. The following outcomes, directions and focus areas have not been recognised or provided for in the proposed new development contributions policy – variation A:

- Homes and places / Ngā kāinga me ngā wāhi haere noa
    - Directions 1-3
    - Focus areas 1, 3, 5
- Environment and Cultural Heritage / Te taiao me ngā tikanga ā-iwi tuku iho, including:

- Directions 1-4
- Focus areas 1, 3, 4 and 6.

14 Of particular note are the statements in the Auckland Plan 2050 that seek to:

- Ensure that the quality of existing housing is improved significantly. This is fundamental to our health and wellbeing and to our ability to reduce carbon emissions. (Homes and places outcome, focus area 3 Improve the built quality of existing dwellings, particularly rental housing)
- Reduce building emissions, and embed good design in all developments and new housing (Homes and places outcome, direction 1 Develop a quality compact urban form to accommodate Auckland's growth and support a low carbon future)
- Ensure that Auckland's housing is well-designed and constructed with quality and sustainability as foremost considerations. This is stated to be critical for better liveability, health and climate outcomes. (Homes and places outcome, direction 2 Accelerate the construction of quality homes that meet Aucklanders' changing needs and preferences)
- Put the right support mechanisms in place for the development and construction sectors to raise their productivity and make use of new, innovative and sustainable building methods and materials to ensure that quality housing is built and delivered at greater speed. (Homes and places outcome, focus area 1 Accelerate quality development at scale that improves housing choices)
- Encourage all Aucklanders to be good environmental stewards and make sustainable choices, including with specific reference to considering the products we use to construct and maintain our buildings (Environmental and Heritage Outcome, focus area 6).

15 The most appropriate method to recognise and provide for all of these stated outcomes, directions and focus areas in the Auckland Plan 2050, is ensure that tools are included in the development contributions policy which facilitate low impact building approaches and designs of the type that NZGBC advocates for.

16 Given the central reliance on, and numerous references to, the Auckland Plan 2050, the Council must make provision for these outcomes in it's new development contributions policy and subsequent variations.

Incentivising sustainable building through Development Contributions

17 Strong leadership is needed to encourage the increased adoption of sustainable building approaches and designs. Development Contributions are a powerful tool because they are paid by the developers and builders making choices about the design of the housing they build.

18 Given the Council's strong commitment to reducing emissions, as laid out in the Auckland Climate Plan, and the Government's similarly strong commitment in the Emissions Reduction Plan, we are surprised that consideration of buildings' energy efficiency and emissions are not included anywhere in the proposed Development Contribution Methodology at present. We ask that Council reconsider this, and incorporate a remission or reduction proposal that can be taken up by developers who are able to provide Council with sufficient certainty that sustainable building approaches and designs will be implemented as part of their developments.

19 We suggest for example that the methodology for calculating Development Contributions for Drury should be modified from the proposal to include a reduction in cost when the houses to be built are going to be built to Homestar standards, Living Building Challenge standards (repayable if the homes are not in fact delivered to the pledged standard). This will have the advantage of:

- Delivering on the Auckland Council climate action plan
- Delivering lower carbon homes
- Reducing running costs for Auckland families
- Helping the sector learn how to build in a lower carbon way, meaning they will be more supportive of regulatory change
- Driving uptake of lower embodied carbon materials
- Less waste to landfill
- More resilient communities
- Taking steps to seek to reduce the impact of climate change on our own Auckland communities.

About Homestar

20 Homestar is an evidence based independent rating tool for assessing the health, efficiency, and sustainability of homes across Aotearoa. It is designed by industry experts and regularly updated through consultation with the industry to make sure it is reflective of real-world practice and enabling higher quality housing.

21 Homestar is a holistic tool to rate a home's performance and environmental impact. A 10 Homestar rating recognises world leading standards for design, construction and efficiency in operation. A 6 Homestar rating recognises a home that has been built above the current standards set by the New Zealand building code.

22 The newly launched Homestar version 5 offers a new operational energy and carbon modelling tool with targets aligned to MBIE's Building for Climate Change framework. Combined with updated requirements to ensure a healthy, comfortable indoor environment and, for the first time also accounting for embodied carbon, achieving a

minimum 6 Homestar rating under version 5 will be a significant statement of industry leadership for those choosing to be ahead of the building code.

23 Homestar certification is able to provide Council with real certainty that, if a reduction in development contributions is being granted to a developer, then the sustainable outcomes promised are really being achieved. It is a robust certification that the sector relies on for significant financial transactions.

- ANZ, NZs largest bank, issues lower interest business loans for companies building Homestar certified homes. ANZ also issues lower interest mortgages rates for homes built to Homestar.
- Kiwibank issues lower interest business loans for companies building Homestar certified homes.
- Wellington City Council utilises Homestar certification for their subsidy regime.
- Kainga Ora rely on Homestar certification to authenticate their green bond transactions.

24 Over 20,000 homes are registered for Homestar. It is a robust regime that is understood by the market.

Examples of reductions offered in reliance on Homestar ratings elsewhere

25 Wellington City Council presently has a fund in place which is able to offer developers a payment to recognise their adoption of sustainable building approaches and design. This includes:

- $10,000 per unit, up to a maximum of $750k per project (where dwellings achieve Homestar 6 ratings).
- $15,000 per unit, up to a maximum of $1M per project (achieving Homestar 7).
- $20,000 per unit, up to maximum of $1.5M per project (achieving Homestar 8 or higher or Living Building Challenge).

26 We ask Council to consider offering similar amounts of reductions to overall HUE calculations made under the proposed new Development Contributions policy for Drury/Ōpaheke.

27 An advantage of doing this via the Development Contribution system, rather than an application process as in Wellington, is that the subsidy would help to offset some of the increases to Development Contributions that developers are becoming increasingly concerned about. It also means a separate process does not need setting up and is therefore more efficient.

28 Alternatively an advantage to a subsidy regime is that a limit can be set, capping the total financial contribution.

Final comment

29 We are in a climate crisis. This will place a huge burden on our eco system, our cities and towns and our future. The reason we are here is that not enough has been done to systemically change. Auckland Council has a huge lever with which to help the construction sector decarbonise it's impacts and deliver a lower carbon future.

30 Representatives from the NZGBC would wish to appear at any hearings on the proposed new development contributions policy, and would be able to further discuss possible implementation approaches if that would assist.

Ngā mihi nui



[redacted]
Chief Executive, NZ Green Building Council
[redacted]



NEW ZEALAND
INFRASTRUCTURE
COMMISSION
Te Waihanga

Sharing the cost of Drury's growth – Contributions Policy 2022 variation A

Te Waihanga Submission November 2022

TeWaihanga.govt.nz

Sharing the cost of Drury's growth – Contributions Policy 2022 variation A

Te Waihanga Submission on Auckland Council's proposal

Introduction

1. Thank you for the opportunity to respond to the proposal for Sharing the cost of Drury's growth – Contributions Policy 2022 variation A. The development contributions (DC) work for Drury is a significant step forward for understanding the infrastructure costs associated with urban growth. The use of DCs as an instrument to reflect infrastructure costs across space is broadly consistent with Rautaki-Hanganga-o-Aotearoa, the New Zealand Infrastructure Strategy (the Strategy), specifically, the need for cost reflective pricing (page 126). However, the proposed variation raises a number of issues which will be important to resolve to ensure the intended outcomes.

2. In our feedback we set out several suggestions for consideration, based on our review of the various consultation documents, and our findings and consultation during the development of the Strategy. We draw particular attention to the need for a consistent application of DCs across the region; a methodology that is both stable and forward signalled; the need for demand projections that take account of the National Policy Statement on Urban Development (NPS-UD), the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021 (MDRS), and the proposed DC charge relative to other DC charges in the region; and the role land acquisition might play in corridor protection and infrastructure funding. We are happy to meet to discuss these ideas further at any stage.

About Te Waihanga

3. Te Waihanga is an Autonomous Crown Entity that was established in 2019 as the Government's lead advisor on infrastructure by the New Zealand Infrastructure Commission / Te Waihanga Act 2019. The main function of Te Waihanga is to co-ordinate, develop and promote an approach to infrastructure that improves the wellbeing of New Zealanders.

4. In particular, the Act requires that Te Waihanga must have regard to long-term trends that impact on, or are impacted by, infrastructure including:

   (i) changes to demographics;

   (ii) the emergence and availability of new technology; and

   (iii) matters relating to the mitigation of the effects of climate change (including through reducing emissions of greenhouse gases) and adapting to the effects of climate change.

Rautaki-Hanganga-o-Aotearoa – the New Zealand Infrastructure Strategy

5. One of our legislative requirements is to produce a 30-year infrastructure strategy. The first Strategy was released this year and sets out a strategic approach to infrastructure that will improve the wellbeing of New Zealanders.

6. The Strategy follows a blueprint for action identifying our infrastructure challenges and opportunities and sets out 68 recommendations. A key component of the Strategy is the responsiveness of the infrastructure system to increasing demands arising from growth.

Assessment of the DC policy variation for Drury

Auckland is likely to experience significant growth

7. Auckland is expected to account for 49% of all population growth over the next 30 years. It is already three times the size of the next biggest New Zealand city and could grow by nearly one million people by 2050. Auckland is also one of the world's most severely unaffordable cities, with a median house price that's 10 times the median household income. Since 2000, average house prices have quadrupled.

8. More housing is required to address the current shortage and to cater for future growth. New housing development requires supporting infrastructure. This includes basic infrastructure such as water, energy and waste, but also social infrastructure such as parks and green spaces. The Strategy supports increasing development opportunities in areas with good access to infrastructure (Recommendation 23).

9. There is uncertainty about when and where this growth will occur. Demand uncertainty comes from a range of places including monetary policy, international shocks, domestic fiscal policy, immigration settings, regional house prices, urban congestion and changing patterns of work.

Infrastructure services should be paid for by those who benefit

10. Infrastructure funding is essential for community services. How we choose to fund and finance infrastructure influences what projects are chosen, which community needs are met, when these needs are met, who can access infrastructure, and how it is used.

11. The Strategy sets out six principles for infrastructure funding. These are shown in Table 1. Principle 1 – the benefits principle – implies that those who benefit from an infrastructure service should pay. In our public consultation and stakeholder engagement in developing the Strategy, we heard there is a need to avoid breaking the 'person who benefits pays' (or benefit) principle.

12. Users are not the only beneficiaries of infrastructure. When new infrastructure generates wider benefits, these should be reflected in funding arrangements. For example, a new train station allows people who live nearby to take public transport – but it also increases the value of nearby properties (whether the owners use the train station or not), and benefits road users by shifting demand off congested roads. Application of the benefit principle requires a broader

approach than just user chargers. The proposed DC policy appears consistent with this approach by thinking about the catchment areas for different kinds of infrastructure.

13. We understand that the intent of the Drury DC is to recover a fair, equitable and proportionate share of the total cost of infrastructure necessary to service growth over the long-term. The approach appears to be used as a way of creating a clear link between the demand for new infrastructure (caused by more housing) and the cost of providing that infrastructure.

Table 1: Core principles for infrastructure funding and financing

Infrastructure funding and financing principles	
Principle 1:	Those who benefit pay – Infrastructure services should be paid for by those benefiting from the services (the benefit principle) or creating a need for the service (the causer principle).
Principle 2:	Intergenerational equity – Funding and financing arrangements should reflect the period over which infrastructure assets deliver services and be affordable for current and future generations.
Principle 3:	Transparency – There should be a clear link between the cost to provide infrastructure services and how services are funded. Wherever possible, prices should be service-based and cost-reflective.
Principle 4:	Whole-of-life costing – Funding requirements should include the ongoing costs to maintain and operate an infrastructure asset and the cost to renew or dispose of it at the end of its life as well as the up-front cost to construct or purchase it.
Principle 5:	Administratively simple and standardised – Administrative costs for both providers and users should be minimised unless there are clear benefits from more complex funding and financing arrangements.
Principle 6:	Policies for majority of cases – Funding and financing policies should be written to work for the majority of cases. If needed, alternative or supplementary mechanisms should be added to provide flexibility and ensure fairness.

Source: Te Waihanga

The Drury investments are larger and take place over a longer period than most projects subject to DC policy

14. Drury is expected to have significant growth over the next three decades. By 2060 the population of Drury is projected to be similar to that of current-day Napier and its density is projected to be comparable with the current density of Grey Lynn. Development of this size requires large amounts of infrastructure, most of which will not be built, and much of which may not realise benefits, until well beyond a 10-year long-term plan.

15. The timeline of infrastructure provision in Drury will occur over a long time period. The shift to a 30-year time frame appears to better match investment timing to value realisation. According to the consultation documents, the expenditures intended for recovery by DCs begin in 2032, reach a peak of over $200m in 2041, and conclude in 2048. The current long-term plan extends to 2031.

16. The current 10-year timeframe would likely result in developers being undercharged for the benefit they should expect. The approach appears to be designed in a way such that ratepayers are not made to fund a disproportionate share of capital expenditure.

There is transparency in the schedule of infrastructure requirements

17. As highlighted in the Strategy, transparency is a core principle for decision-making for public infrastructure. We note that the approach of using DCs as an instrument to reflect likely infrastructure costs to market participants has created the need for a detailed assessment of the infrastructure requirements for Drury, over a 30-year period; and that this information is publicly available. The information provided sets a useful standard for future urban infrastructure planning.

Council faces asymmetric risk under the proposed policy

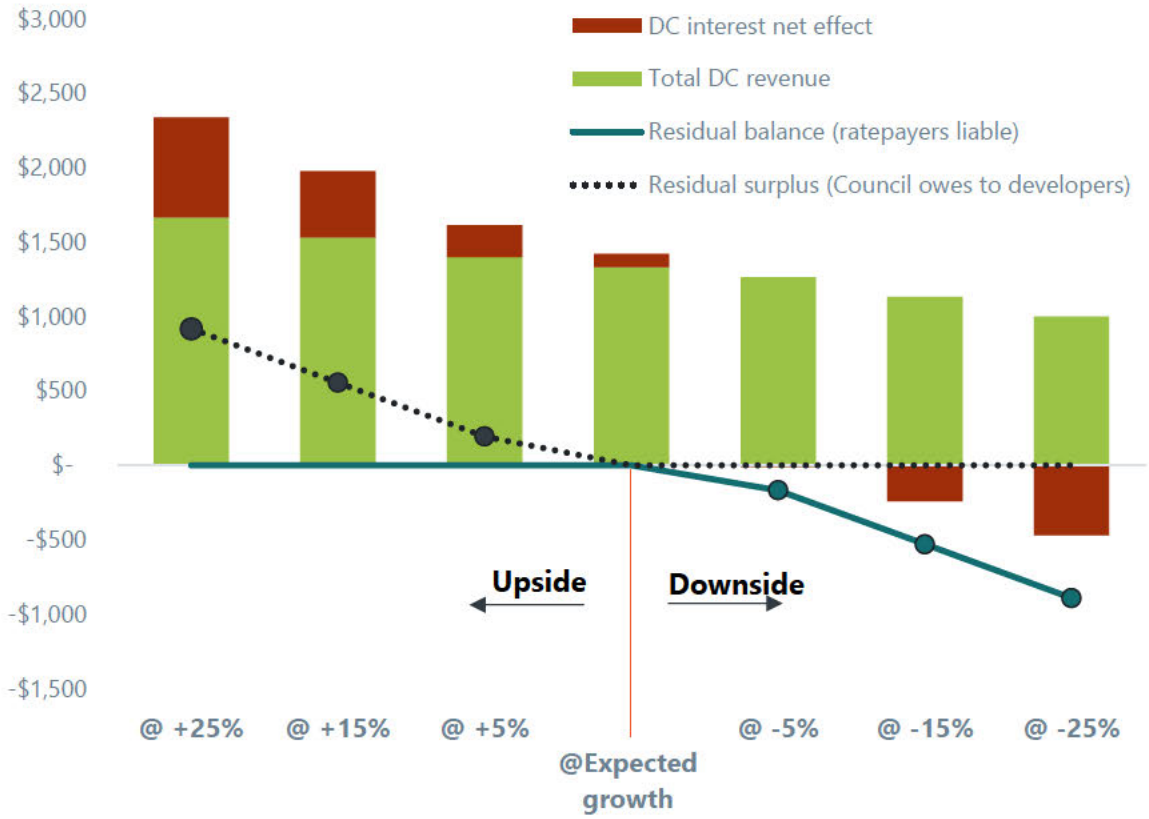
18. Council assumes the risk of covering gaps in funding if development uptake is lower or slower than expected. This is the case in both the existing 2022 DC policy and the Drury variation. We understand that if growth is below expectations during the DC recovery period, ratepayers are liable for the debt used to finance investment capex. If growth is stronger or faster than expected then the DC effectively over-charges developers, but the Council does not gain extra revenue. Instead, the Council is obliged to refund the difference. Should growth in Drury occur exactly as and when expected, the proposed DC charges are calculated to result in a remaining balance of zero.

19. Ratepayers are liable for under-collection of DC charges, while Council is liable for refunding developers for any over-collection. Figure 1 shows our understanding of the total DC revenue (including the interest net effect) when development uptake does not match forecast demand. The DC charge amounts are calculated to reach a zero balance in 2060 based on the exact forecast timing of both uptake and capex. Using the models provided, we estimate that if growth in household unit equivalents (HUEs)[1] was 15% less than projected, ratepayers would be liable for an estimated $530m. If HUE growth was 15% greater than projected, there would be an estimated residual surplus in the order of $555m which we understand would then be refunded. Note this does not account for any additional infrastructure investment that may be needed to accommodate the higher growth.

[1] The DC charges for development of any given subsection are determined based on an allocation of the level of use that development is expected to draw from each type of infrastructure service. This level of use is measured in HUEs, the amount equivalent to what an average household might use.

Figure 1: Auckland Council faces asymmetric risk

The effect of HUE growth sensitivity on residual 2060 liabilities



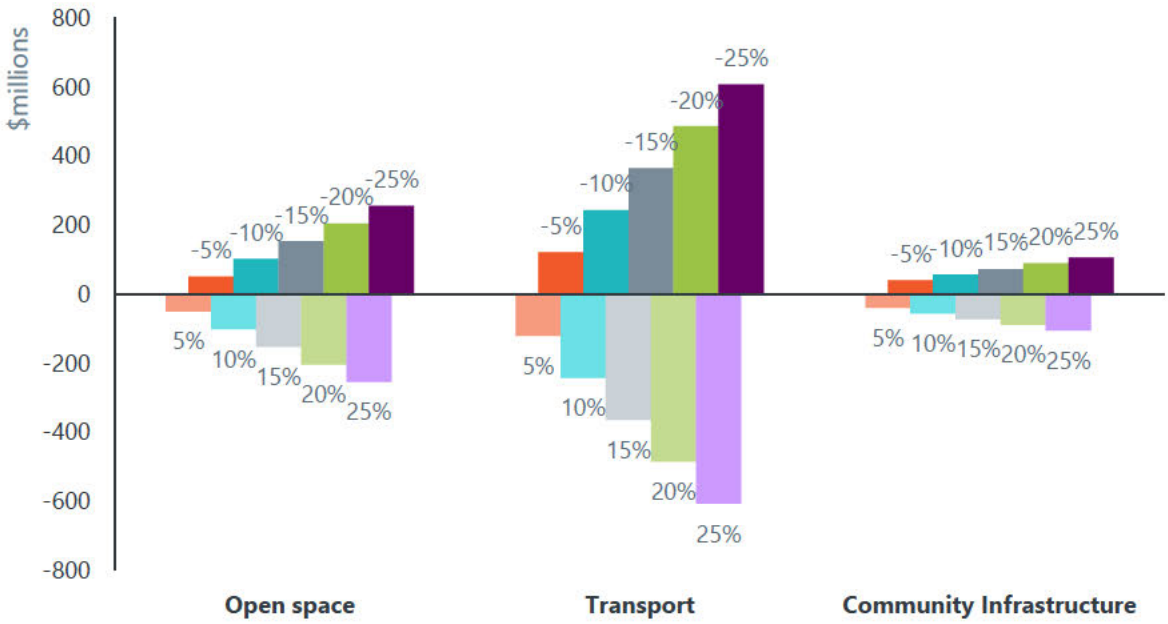
Source: Auckland Council Drury DC model released 12 September 2022; Te Waihanga analysis.

Revenue is sensitive to changes in forecast demand

20. Differences in actual demand from forecast demand mean a non-zero closing balance. In the Drury variation, DC charges are calculated to allow DC revenue plus earned interest to exactly offset eligible capital expenditure plus net interest charges over the period to 2060. Figure 2 shows a calculated sensitivity of this closing balance as of 2060 to changes in development uptake. The residual balance amounts are broken down into three categories: open space infrastructure, transport infrastructure and community infrastructure, with the predicted HUEs changing by various percentages. As transport infrastructure requires the largest expenditure, it carries the greatest financial risk.

Figure 2: Closing balance is relatively sensitive to changes in HUEs with transport carrying the most risk.

Change in 2060 closing balance for a given % change in DC collection per period

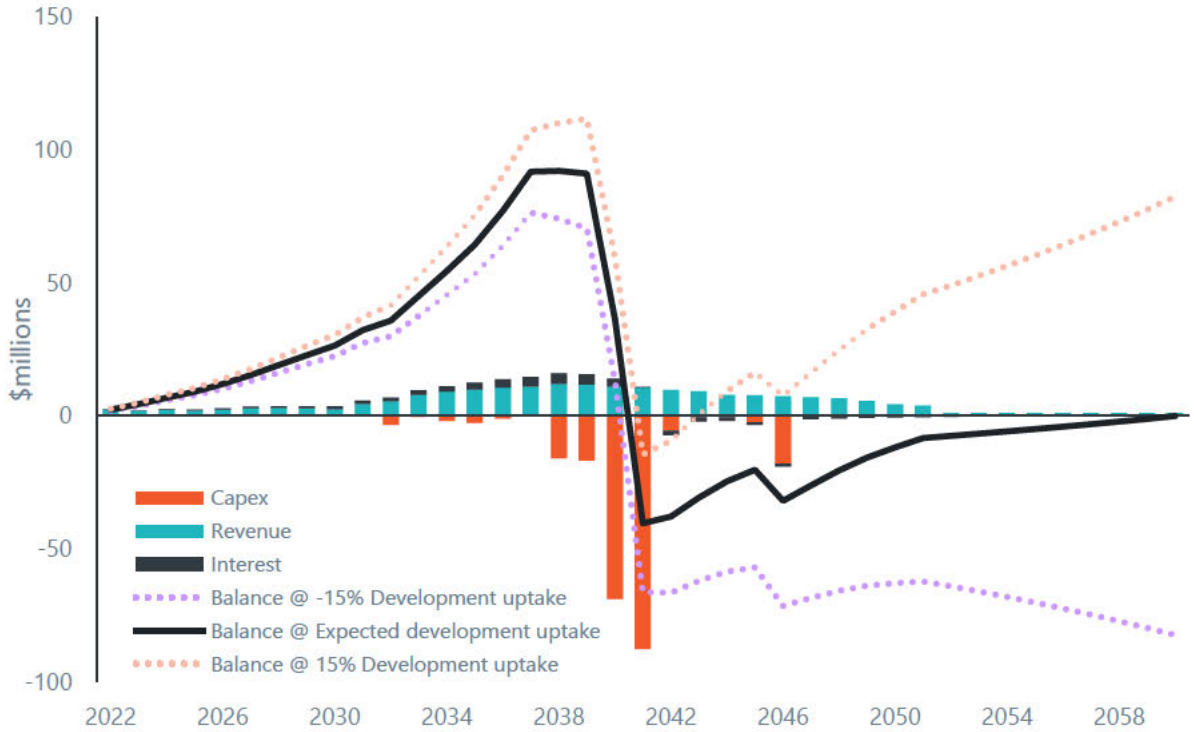


Source: Auckland Council Drury DC model released 12 September 2022; Te Waihanga analysis.

21. All projects proposed are vulnerable to demand-side risk. A project example of this is shown in Figure 3 using TRA A26; transport expenditure in a specific funding area. The figure shows the capex, revenue, and interest changes assuming no change to the forecast HUEs for this project but also shows how the remaining balance would change if there was a positive and negative 15% change in the forecast HUEs.

Figure 3: The closing balance is sensitive to relatively small changes in HUE growth

Cash flows over time – TRA A26



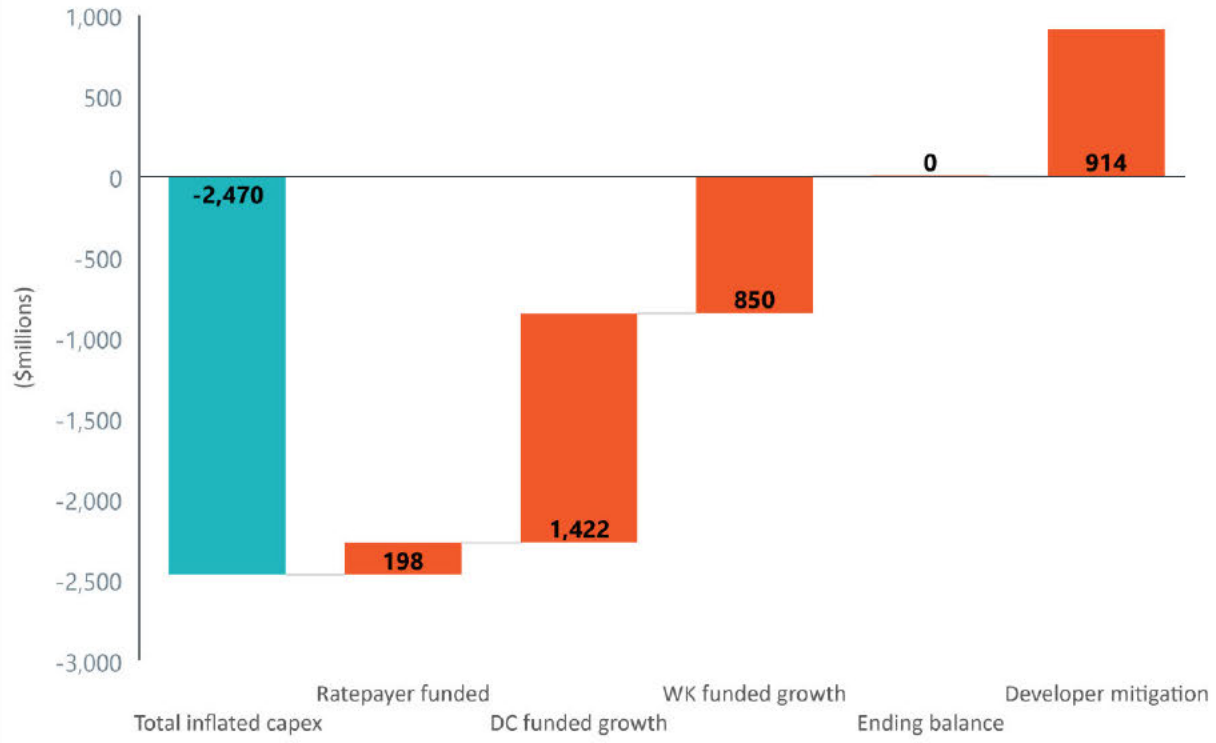
Source: Auckland Council Drury DC model released 12 September 2022; Te Waihanga analysis.

Small changes in growth lead to big differences in ratepayer liability

22. The intent of the policy appears to limit the proportion of capex funded by ratepayers. This reflects the fact that a high proportion of benefits accrue to new growth. Figure 4 shows the breakdown of funding for DC-eligible capex in Drury. We understand that the estimated total capex for the Drury proposal will be funded through a mix of DCs, Waka Kotahi funding and ratepayers. DCs appear to fund the largest proportion, followed by Waka Kotahi. Ratepayers are expected to fund just under $200m (8%) of capex.

Figure 4: Developers fund the majority of capex in the base case

Breakdown of sources of capital expenditure cost recovery

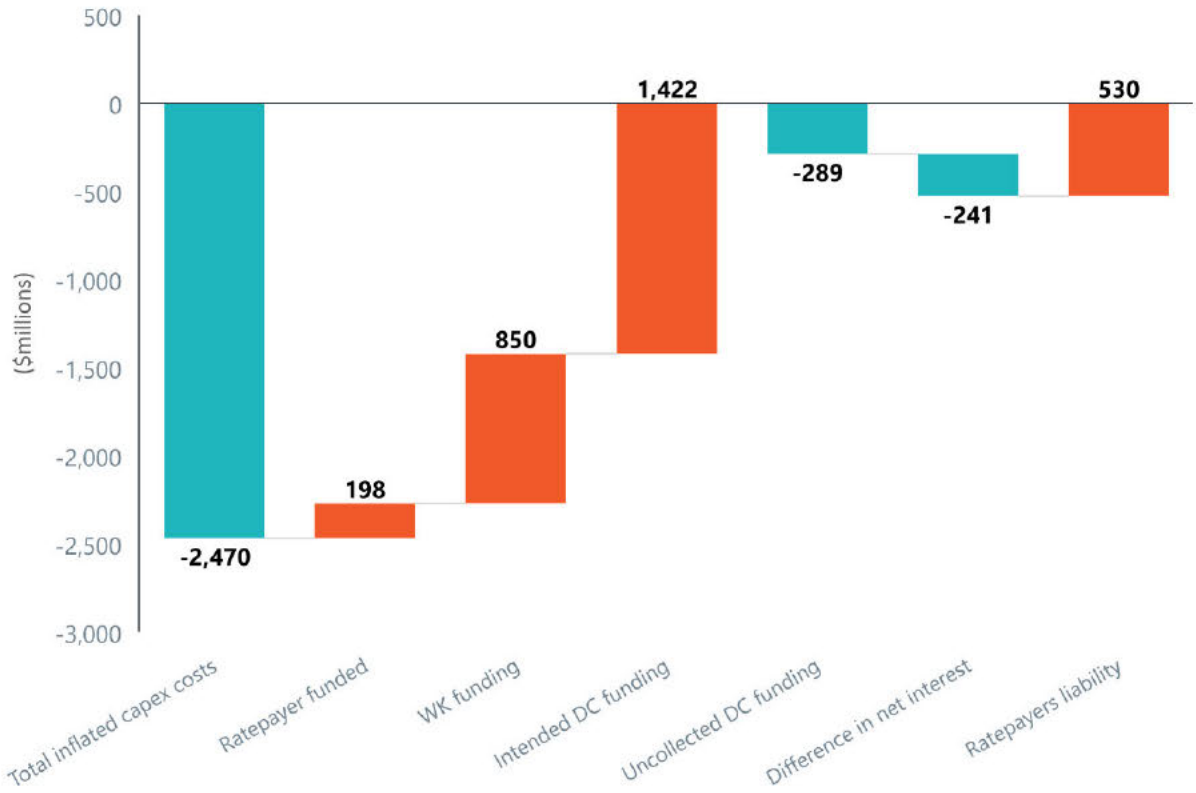


Source: Auckland Council Drury DC model released 12 September 2022 and G2 Detailed transport costs v3; Te Waihanga analysis.

23. This distribution of costs appears to hold when the timing and volume of development uptake is as expected. While developers will be refunded when overpayment occurs, the burden on ratepayers is sensitive to demand. Figure 5 shows the residual balance using the same DC charge if development uptake is 15% less than expected in every year to 2060. The residual balance is estimated at $530m and results in total liability for ratepayers of 3.67 times the original, or 27% of the new total (which also increases due to greater financing costs). At 25% less uptake, it is a 5.5 multiple.

Figure 5: A 15% shortfall in uptake each year leads to a ratepayer liability of 3.67 times

Breakdown of capital expenditure cost recovery by source with 15% less uptake in each year



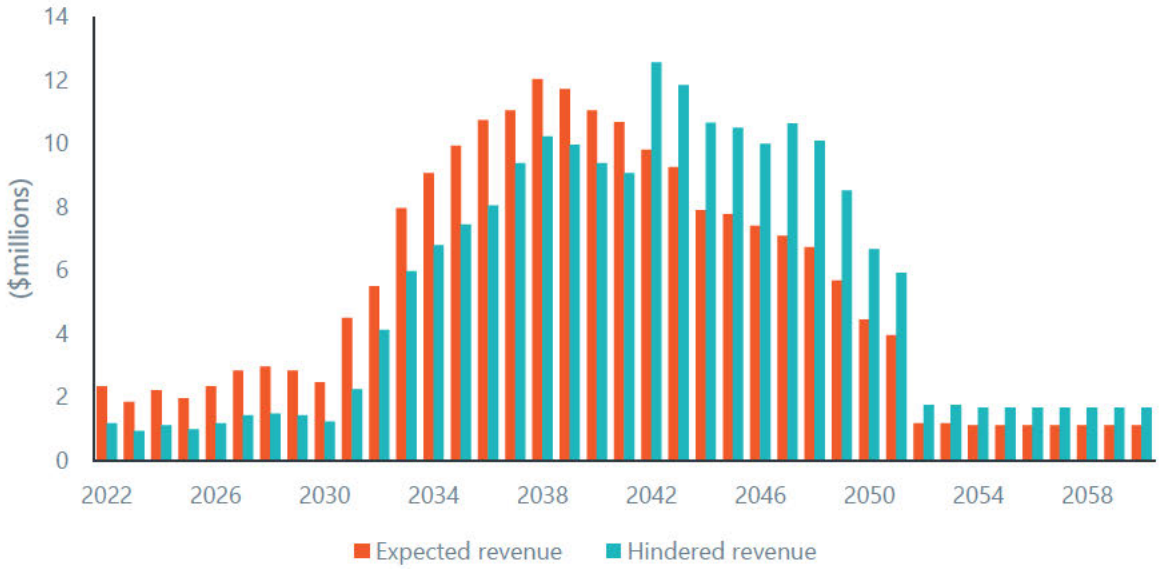
Source: Auckland Council Drury DC model released 12 September 2022 and G2 Detailed transport costs v3; Te Waihanga analysis.

A change in uptake timing impacts ratepayer liability

24. We simulate a shift in the timing of development. The adjusted HUE growth value scenario (hindered revenue) in Figure 6 was calculated using growth multipliers that shifted the HUE growth timing out to later years, keeping the total quantity of HUEs constant. Figure 7 shows that funding pressures are sensitive to a timing change. The simulated shift in timing of growth results in an estimated ending unpaid balance of $57m for TRA A26. This is the additional liability that might fall on ratepayers under this slow uptake scenario, equal to 6% of the total forecast capex.

Figure 6: The time of revenue cashflows are very sensitive to when uptake in Drury occurs

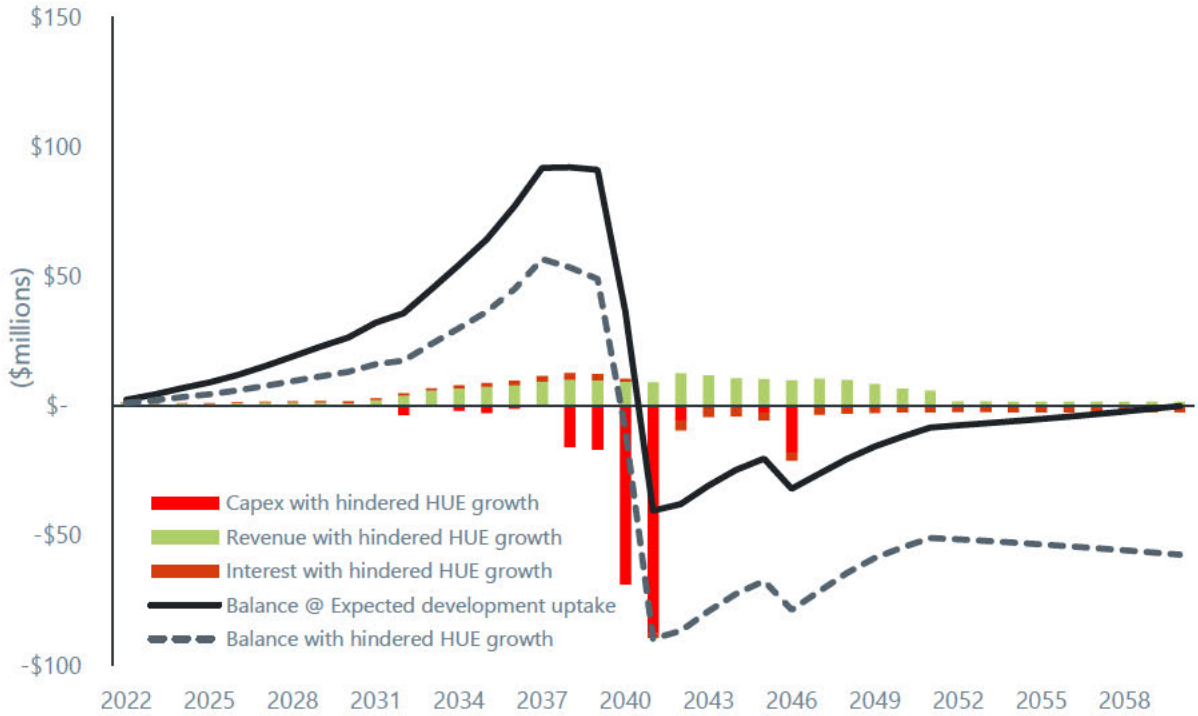
Revenue timing under expected HUE uptake vs hindered HUE uptake



Source: Auckland Council Drury DC model released 12 September 2022; Te Waihanga analysis.

Figure 7: Ratepayers are vulnerable to the timing of development uptake

Expected uptake vs hindered HUE growth for a single project (TRA A26)



Source: Auckland Council Drury DC model released 12 September 2022; Te Waihanga analysis.

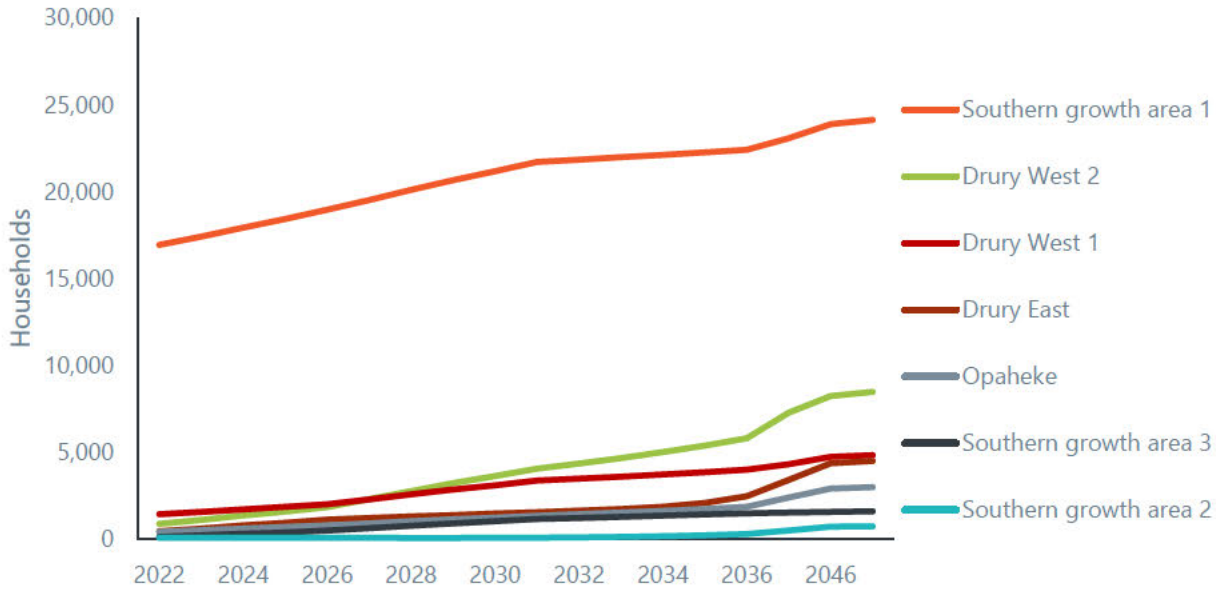
There are several reasons why uptake may be slower than planned

25. Density in Drury is forecast to rise considerably over the development period. The Drury West 1 funding area is projected to have the highest level of density out of all the transport funding areas in Drury. Its forecast 2051 density is comparable to the current density in suburbs such as Grey Lynn, Devonport, and Glenfield. Figure 8 shows how total households in each of the

transport funding areas are forecast to rise between now and 2051. With an average density increase of more than seven times current density, the expectation appears to be that it will start slow and rise rapidly from 2031 onwards.

Figure 8: Southern growth area 1 is expected to have the most households by 2051 and Drury West 2 is expected to have the highest household growth rate

Household growth by funding area



Source: Auckland Council Growth HUE model; Te Waihanga analysis.

26. Council's response to the NPS-UD and MDRS rule changes will greatly increase permissible development capacity in areas other than Drury. In August 2022, Council notified proposed Plan Change 78 (PC78), an intensification planning instrument (IPI). The purpose of the change is to respond to recent Resource Management Act changes made by central government under the NPS-UD and the MDRS. PC78 makes changes to the current operative district and regional plan. It significantly increases development capacity across Auckland and notably, in areas with low transport costs (those areas in a walkable catchment area of rapid transit nodes).

27. This increase in capacity has the potential to influence growth patterns in Drury. Urban zoned sites across the city now have greater capacity, creating new competition for Drury. To our knowledge, the projections for Drury (as part of land use scenario i11.6) have not been updated following the planning changes in Plan Change 78.

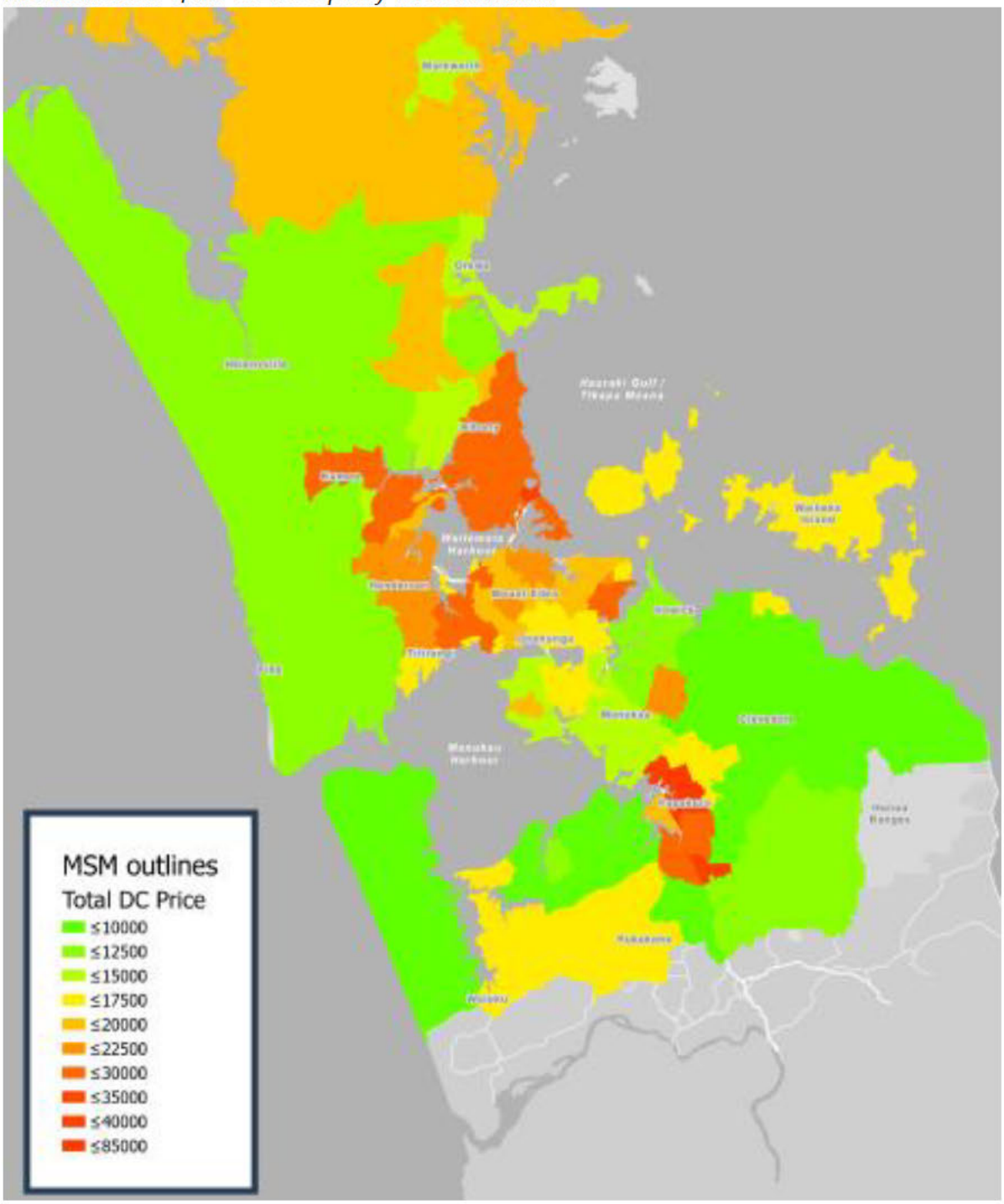
28. DCs are 2 to 9.5 times higher in Drury. Charges under the 2022 DC policy throughout Auckland vary significantly by location and development type, yet on average they are significantly lower elsewhere than what is being proposed in Drury. The 2022 total DC charges in the rest of Auckland range from around $8,700 to $35,000 per HUE. This is materially different to the proposed average DC charge in Drury of $83,251 per HUE (see Figure 9). Figure 10 compares current and proposed transport DCs in Drury; Figure 11 compares transport DCs in Drury with other areas in Auckland. Both imply large differences in relative prices. We suspect that these differences are driven by the high proportion of benefit accruing to new growth in the Drury methodology and the extension of the policy to cover the 30-year build-out period, among other factors.

29. To the extent that these differences do not reflect actual differences in infrastructure costs, the relative prices may result in unintended outcomes. High relative prices in Drury will likely

disincentivise growth in Drury. Other parts of Auckland, which now enjoy more permissive zoning, benefit from relatively low DCs. This increases the likelihood of weaker development uptake and lower DC revenue than expected, which may in turn increase contingent liability for ratepayers. This appears to contradict the original intent of the policy.

Figure 9: Proposed DCs in Drury are significantly greater than other areas.

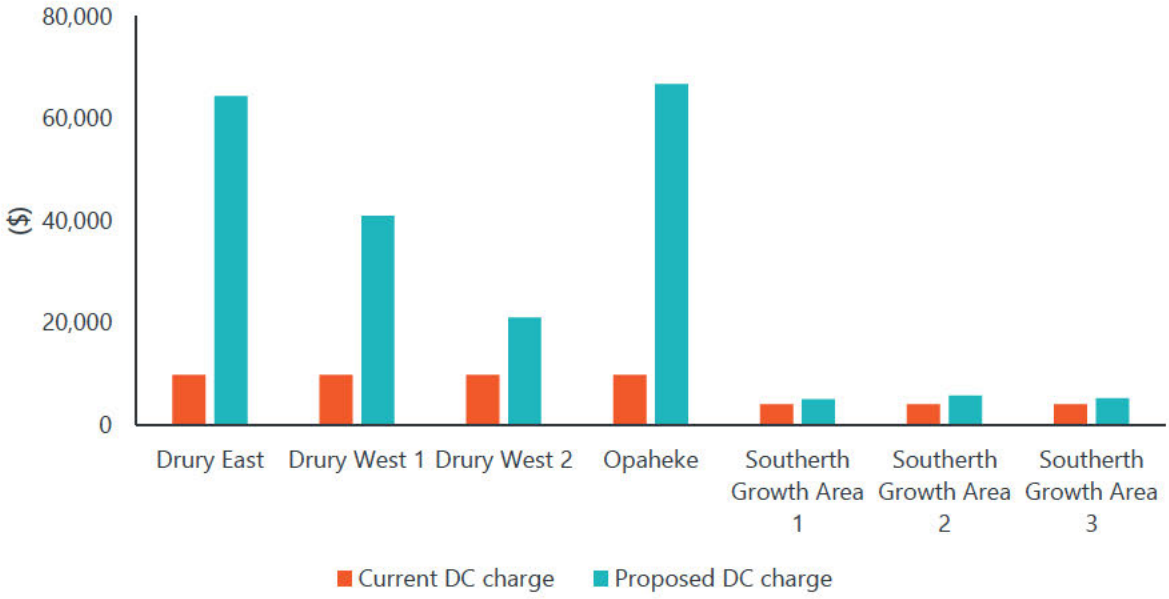
The distribution of the 2022 DC policy across Auckland



Source: Auckland Council, Contributions Policy 2022: Maps and growth HUEs.

Figure 10: The proposed DC transport charges for Drury are significantly greater in certain funding areas then they are today.

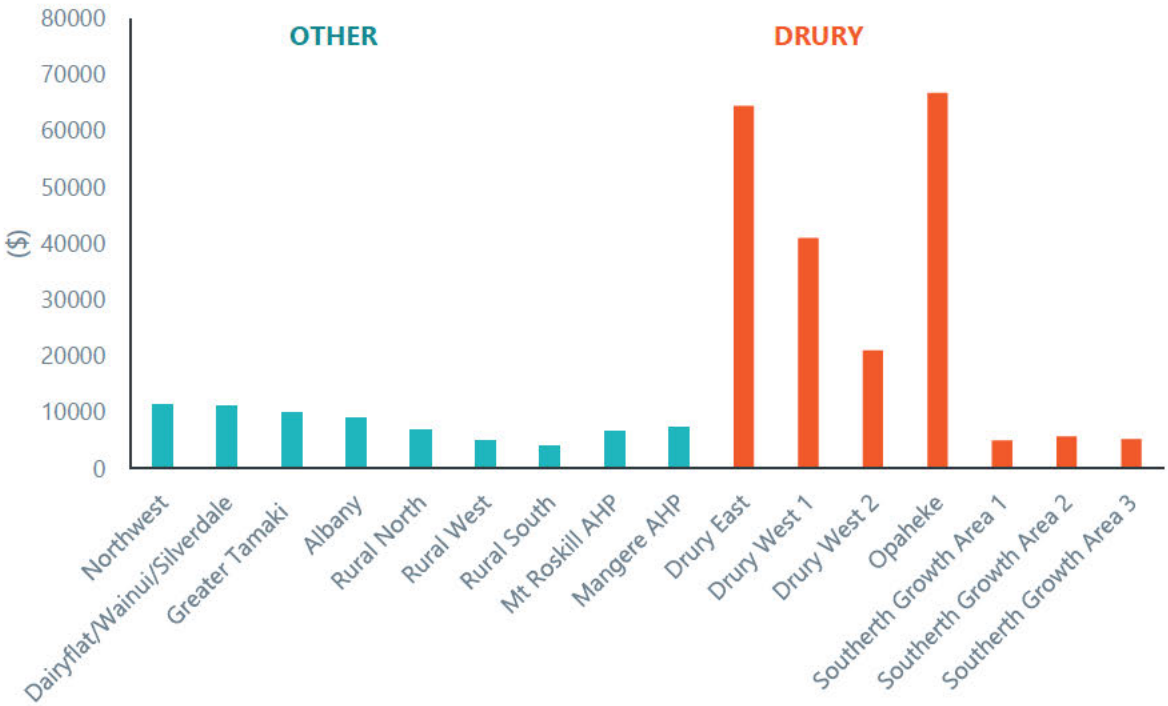
Current vs proposed DC transport charge



Source: Auckland Council 2. Methodology for Calculating DCs for Drury Final; Te Waihanga analysis.

Figure 11: Transport component of DC charge by area in Auckland

Drury vs elsewhere in Auckland



Source: Auckland Council: Development Contributions Policy 2022, Development Contributions Policy 2022 maps & Methodology for Calculating DCs for Drury.

Risk allocation might be improved using other tools

30. The current method for calculating DC charges is a form of amortised payment covering capex costs. The payment amount is calculated to offset a lump sum over time, reaching zero in a specific future period. However, it differs from standard amortisation applications (such as a mortgage) in two ways. First, where a standard amortisation will equalise payments per period, the DC charge calculation equalises payments per HUE such that HUE uptake at the expected level in each period will result in a zero balance in 2060. Second, a standard amortisation usually involves flows of interest in only one direction as the lump sum disbursement either precedes or follows all instalments of the equalised payments. By contrast, the DC charge involves two-way interest flows – in one direction as Council earns interest for contributions collected before the major capex outflows, and in the other direction as Council makes payments on loans after the capex outflows. This two-way flow design helps prevent under-contribution by early developers and also allows early DC collections to earn interest to offset the eventual capex and thereby lower the overall DC charge needed.

31. An amortisation-based approach is well suited when cashflows are predictable. This approach of timing repayment of a loan to reach a target amount (in this case, zero) in a specific year is common where cash flows are reliable and predictable, such as a mortgage, corporate debt for cash-positive firms, or a monthly savings plan for retirement. In contrast, the timing and volume of development uptake in Drury is less predictable.

32. Council might consider using an equity-based approach to compliment DCs in Drury. Equity investment is useful when value is likely to be created but the timing of its realisation as a cash flow is difficult to predict. Such an approach may better allocate risk across the parties best placed to manage it. This aligns with the recommendation of the OECD Council in their 2012 Principles for Public Governance of Public-Private Partnerships (a label for a collection of mechanisms commonly used to fund and deliver infrastructure). Principle 6 states:

    "Transfer the risks to those that manage them best. Risk should be defined, identified, and measured and carried by the party for whom it costs the least to prevent the risk from realising or for whom realised risk costs the least."

33. One way to do this is early land acquisition for corridor protection or other activities. Council could consider early purchases of land in key areas needed for (or surrounding) planned infrastructure investments. This land will increase in value with growing demand. It can later be used to deliver or fund infrastructure. This could be done either by Council or through a special purpose vehicle (under the Infrastructure Funding and Financing Act for instance).

34. We acknowledge that there are challenges to this approach. For instance, current limits set by the Public Works Act (for designations for instance) and local government debt limits. We would welcome the opportunity to work with Auckland Council to better understand these issues and how system settings might change to improve how we fund and finance infrastructure.

Recommendations

The proposed approach needs to be applied across the region

35. The relative DC price is as important as the absolute price. A bespoke approach for Drury risks creating pricing distortions that push growth to more expensive areas or undermine the case

for development in Drury with contingent liability for ratepayers. Cost reflective DC pricing has advantages but it needs to be applied region wide.

Council should fund corridor protection in Drury

36. The work on DCs strengthens the case for corridor protection. Funding corridor protection buys Council infrastructure optionality. Since land prices and urban growth are correlated, the current approach of purchasing land three years prior to delivery raises the infrastructure cost considerably. For instance, the cost for purchasing the land for the N-S Opaheke Arterial today is $78.4m. Auckland Council expects this to rise 13 times, to $1.047bn at the expected time of purchase. Corridor protection could be viewed as a mechanism for mitigating Council's demand risk. This approach would be consistent with Recommendation 16 in the Strategy.

Demand projections for Drury need updating

37. The planning work for Drury was done prior to the MDRS and NPS-UD. These regulatory changes have vastly increased the supply of housing across Auckland. This will likely impact the scale and timing of growth in Drury.

38. The proposed DC charge in Drury will impact demand because DC charges are many multiples the average DC charge. The proposed DC transport charge for Drury is 3.8 times greater than the current average DC transport charge in Auckland (excluding Drury); and DCs are 2 to 9.5 times higher in Drury. This is likely to incentivise development away from Drury. This will likely impact the scale and timing of growth in Drury.

39. The current macroeconomic environment may change the timing of demand. Rising interest rates, cost of materials and continued housing affordability problems, together with changing expectations of working from home, might impact when development occurs in Drury.

40. We note that Council has some flexibility in the DC charge over time and that this could be used to help manage deviations in demand from expectations.

Future DC policy should be announced simultaneously, or in advance of, zoning decisions

41. Land markets value certainty. The current approach highlights two sources of uncertainty that might be better managed. First, the Drury DC policy introduces a different, more sophisticated approach to pricing. While this is welcomed, it deviates from existing policy. Second, the announcement of this cost reflective DC policy has occurred subsequent to zoning changes. The combination of these two factors is likely to create an expectations gap with market participants. For instance, land may have been purchased by developers with an expectation of DCs that were more aligned with regional DC policy.

42. Markets would benefit from DC policy that is stable and provided early. To avoid this issue in the future, DC policy should be announced alongside, or even prior to planning decisions. Doing so would improve information and certainty to market participants. If DC policy is provided early, we expect land purchase costs would fall and the incidence would lie with the landowner. Cost incidence of DC policy that is announced subsequent to zoning decisions (and is higher than expected) would lie between landowners and developers and would manifest through lower margins and/or lower housing supply.

43. This approach would likely require a fundamental reordering of planning activities. This would involve more resource being allocated to infrastructure planning and delivery.

44. For the Drury DC charge, Council might consider the usefulness of a transition period, where the policy is staged with forward guidance. We acknowledge that staging the introduction of the policy would need to be funded. Some consideration might be given to a targeted rate on areas with highly stringent regulatory policy (such as where land supply has been restricted on the basis of Special Character) – on the basis that these policies are displacing residents away from more desirable locations, creating demand for infrastructure in more dispersed areas.

Conclusion

Thank you for the opportunity to make our submission on the proposal. Te Waihanga looks forward to engaging further with Auckland Council on how best to fund new infrastructure to support growth across the region. In the meantime, if you have any questions about this submission, or any other aspect of Te Waihanga's work, please do not hesitate to get in touch.

Yours Sincerely

[redacted]

General Manager – Strategy

New Zealand Infrastructure Commission, Te Waihanga

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Visit us online at https://tewaihanga.govt.nz

SUBMISSION ON AUCKLAND COUNCIL'S CONTRIBUTIONS POLICY 2022 VARIATION A

TO: Auckland Council ("**Council**")

SUBMITTER: Woolworths New Zealand Limited ("**Woolworths**")

SUBMISSION ON: Auckland Council's Contributions Policy 2022 Variation A ("**Variation A**")

Summary

1. Woolworths owns and operates 190 supermarkets under the Countdown and Metro banners, and 4 "eStores" across New Zealand. We are also the franchisor for over 70 SuperValue and FreshChoice supermarkets, which are locally owned and operated businesses.

2. Woolworths has been part of New Zealand communities for more than 90 years. Our purpose across our business is to make Kiwis' lives a little better every day. We are committed to contributing positively to New Zealand communities, and our team of more than 20,000 people work hard to deliver safe, fresh and affordable groceries to New Zealanders.

3. Woolworths is actively engaged in expanding its store network in New Zealand to support the growth of our communities, including in high growth areas in Auckland. In this regard, Woolworths has a direct interest in Variation A.

4. Through Variation A, the Council proposes to amend the Contributions Policy 2022 for the Drury area to include capital expenditure on infrastructure it plans to develop over the next 30 years (rather than a 10-year period). This has the effect of significantly increasing the amount of development contributions payable for developers in the area.

5. While Woolworths is not opposed in principle to a long-term view of infrastructure funding, and understands the benefits of a future focussed approach, Woolworths is concerned the 30-year horizon has the potential to result in developers being overcharged and runs the risk of deterring future development where it is needed in critical high growth areas. This will have perverse outcomes for developers, such as Woolworths, who may be prevented from providing essential services to support growth in the Drury area.

6. Woolworths seeks that the Council develops a 30-year strategic vision for infrastructure required to support development in Drury, with development contributions levied in accordance with a 10-year forecast horizon to ensure any contributions levied are based on accurate and reliable forecasting. Variation A should be deferred until such time as that work has been carried out.

Council's new approach to growth

7. The Local Government Act 2002 ("**LGA**") requires that development contributions constitute a fair, equitable and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term.[1] They must also be calculated based on demand generated by growth.[2] Woolworths is concerned Variation A will not result in a fair or equitable cost recovery from developers as required under the LGA.

8. Variation A, as currently proposed, will have a significant impact on developers like Woolworths. For example, transport development contributions for retail activity will increase from approximately $10,000 per approximately 250m^2 Gross Development Area up to $67,000 under Variation A. This substantial increase is a result of the Council's proposal to include in Variation A capital expenditure on infrastructure which is required over a 30-year horizon and levy development contributions to fund that infrastructure.

9. Variation A could have the perverse outcome of deterring development in high growth areas such as Drury because a 30-year timeframe:

   (a) is challenging for infrastructure funding because of the significant uncertainties and inaccuracies that arise from estimating expenditure over such a long horizon, particularly in terms of inflation, delivery risks, and the fact that infrastructure costs may simply change significantly over that time period as a result of external factors, such as supply chain issues many developers are currently experiencing. The resulting inaccuracies could result in over-recovery of costs, which is contrary to principles under the LGA.[3] Any overallocation risks will not be realised for a long period of time, at which point it becomes difficult to remedy; and

   (b) increases the risk that developers will be contributing to infrastructure in other areas because there is a lack of clarity as to whether the funds that are proposed to be levied under Variation A are being ringfenced for the Drury area. It would be inequitable if developers were required to bear the upfront costs of 30 years of infrastructure development and never see the benefits.

10. While Woolworths considers there are benefits in taking a longer term view of infrastructure funding, this is better achieved by developing a 30-year strategic vision for infrastructure provision in Drury, with funding and financing mechanisms reforecast every 10 years (and development contributions levied on expenditure over that 10 year horizon). This approach will also allow the Council to use alternative funding and financing mechanisms such as through the Infrastructure Funding and Financing Act 2020.

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1 LGA, sections 197AA and 197AB(f).
2 LGA, Schedule 13.
3 LGA, section 197AB(1)(b).

Inadequate consultation

11. The decision regarding Variation A was originally planned for June 2022. However, it was deferred until September 2022 so that the Council could compile further information for submitters, to show how investment beyond 2031 has been calculated.

12. The LGA requires the Council to provide reasonable access to relevant information under the principles of consultation, with reasonable opportunity for the community to provide its views. However, supporting documentation has been provided in a piecemeal manner since the Contributions Policy 2022 was made operative.

13. Initial consultation on development contributions for the Drury area took place in late 2021 during a COVID-19 lockdown, with significant gaps in the information provided. Since then, further information has been provided for Variation A but the information still fails to demonstrate that the cost allocation modelling is robust and workable. Following this, on 20 October 2022, while consultation on Variation A was already open, the Council released more information, but has not provided any more time for the community to consider this and provide feedback.

14. By providing information in a piecemeal way, with limited timeframes for community input, Woolworth is concerned the Council has failed to comply with the principles of consultation under the LGA through both its consultation on variations to the Contributions Policy in 2021 and in Variation A.

Decision sought

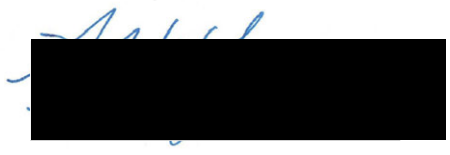
15. Woolworths seeks that the Council:

    (a) develops a 30-year strategic vision for infrastructure in Drury, with funding and financing reforecast every 10 years and development contributions levied for capital expenditure on infrastructure projects over that 10-year period; and

    (b) Variation A be deferred until such time as the strategic vision has been developed and capital expenditure reforecast; and

    (c) any such further relief or alternative or consequential amendments as may be necessary to address Woolworths' concerns set out above.

WOOLWORTHS NEW ZEALAND LIMITED by its solicitors and authorised agents Russell McVeagh:



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7th November 2022

Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
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Auckland Council draft Development Contribution Policy

1. Summary

1.1. Rock Solid Holdings Limited t/a Euroclass welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council revisit the 30-year funding and financing plan decision that the previous Council made and replace it with a 30-year strategic vision that is financed and reforested in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year timeframe and $83,000 average DC fees. We recommend:

- The new Mayor and the Council reconsider the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;
- The Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent (very much a minimum reduction we are seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and

- The Council work closely with the residential developers to better understand the implications that DC increases have on house prices.

2. 30-year timeframe creates complexities with funding and financing

2.1 The previous Council decided to introduce a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's decision to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;
- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

6.1. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, we are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframe.

6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

6.3. We recommend the new Mayor and the Council reconsider the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

6.4. Instead, we are supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and

reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

7. Problems with model

Causation

7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

7.3. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

7.4. We are also concerned around double dipping. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. We strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

7.5. We are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

8. Housing affordability

8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

8.3. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

8.4. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of Remuera. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

8.1. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing huge inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone. These increases must be factored into the DC policy.

8.5. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

8.6. We have serious reservations towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs from around $23,000 to $83,000 average per household will have significant consequences and likely hinder unlocking Drury development altogether.

9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

Yours sincerely,



Director
Rock Solid Holdings Limited

IN THE MATTER of the Local Government Act 2002

AND

IN THE MATTER of a submission by **MADE GROUP LIMITED** to **AUCKLAND COUNCIL** in relation to the draft Auckland Council Development Contributions Policy 2021

SUBMISSION OF COUNSEL FOR MADE GROUP LIMITED

1. INTRODUCTION

1.1 This submission is made on behalf of MADE Group Limited ("MADE") in respect of Variation A to the Council's draft DC Policy 2022 ("Draft 2022A Policy"). MADE also made submissions on 18 October 2021, in relation to the Auckland Council's ("Council") draft Development Contributions ("DC") Policy 2022 ("2022 draft Policy") (which was released in 2021).

1.2 MADE appreciates that a significant amount of work has been undertaken by the Council to address shortcomings in information that were apparent in the 2022 draft DC Policy and the Draft 2022A Policy. Nevertheless, MADE still has several concerns that it considers need to be addressed.

1.3 MADE's 2021 submission on the 2022 draft DC Policy was supported by an analysis undertaken by senior economist, Fraser Colegrave of Insight Economics. Mr Colegrave has also prepared a report titled "Review of Proposed Future Development Contributions for Auranga" setting out his comments and suggestions in relation to the Draft 2022A Policy which is attached as **Appendix A**.

1.4 In light of Mr Colegrave's advice, MADE is concerned that the DCs for Drury proposed in the Draft 2022A Policy:

(a) Will not result in MADE making a fair, equitable and proportionate contribution to the costs of projects required as a result of its Auranga development in Drury West;

(b) Will ultimately impact the social, economic, environmental, and cultural well-being of the Drury community, as the Council has failed to develop a causal connection between long-term projects and development; and

(c) Accordingly, is inconsistent with the relevant statutory requirements.

1.5 For the reasons outlined in this submission, MADE's key requests in respect of the 2022 draft Policy are that:

(a) The Council work with MADE to carve out a separate funding area in respect of the Auranga development in Drury West and allocate to it proportionate growth related costs;

(b) Relevant Council staff engage in discussions with MADE to refine the rules in relation to the concept of "mitigation differences" not previously addressed in the 2021 draft Policy; and

(c) The Council to elect to implement DC incremental adjustments at a standard rate between funding areas.

Purpose and scope of submission

1.6 Against that background, the purpose of this submission is to record MADE's position on the draft Policy and set out MADE's requests for how its concerns regarding the Draft 2022A Policy should be resolved.

1.7 To that end, this submission addresses the following:

(a) Background to MADE (Section 2);

(b) MADE's overall position on the 2022 draft Policy (Section 3);

(c) Summary of the regulatory framework applicable to development of the draft Policy (Section 4);

(d) Project specificity and certainty (Section 5);

(e) Causal nexus for distant developments (Section 6);

(f) Delineation of funding areas / sub-areas (Section 7);

(g) Cost allocation to funding sub-areas (Section 8);

(h) The impact of "mitigation differences" (Section 9);

(i) Charge indexation (Section 10); and

(j) MADE's requests to the Council regarding the 2022 draft Policy (Section 11).

1.8 We gratefully acknowledge that this submission draws on and incorporates the analysis of the draft Policy undertaken for MADE by Fraser Colegrave of Insight Economics. The Insight Economics report is **attached** as **Annexure A**.

2. BACKGROUND TO MADE

2.1 MADE was established by developer Charles Ma and is in the business of "community making". Since 2012, Mr Ma (via MADE or, prior to MADE being established, related entities) has completed over $1.07bn of development. His portfolio of projects ranges from niche rural lifestyle to large scale CBD apartment developments, including:

(a) Auranga in Drury, Auckland.

(b) The 696 dwelling "Sugar Tree" apartment complex in central Auckland.

(c) Developments in Flat Bush with a combined total of 500 lots.

(d) Thirty rural lifestyle sections in Whitford.

2.2 Also, underway is Rotokauri North, MADE's next large town development in Hamilton which will deliver approximately 2,000 homes.

MADE and KDL's group interests in Drury West

2.3 MADE in association with Karaka and Drury Limited ("KDL") has put in place the policy and planning framework that has enabled the development of a significant urban community in Drury West, known as the 'Auranga development'. This has been authorised by the following three plan changes to the Auckland Unitary Plan ("AUP"):

(a) Plan Variation 15 ("PV 15") to the then proposed AUP to authorise the Drury Precinct 1 (Auranga A) which rezoned an area of approximately 84.6ha in Bremner Road, Drury, from Future Urban zone to a mix of Residential: Mixed Housing Suburban, Residential: Mixed Housing Urban, Residential: Terraced Housing and Apartment Building and Local Centre zones to facilitate residential development. That area was declared to be a Special Housing Area in July 2015.

(b) Plan Change 6 ("PC 6") to the AUP to authorise the Drury Precinct Expansion (Auranga B1), rezoning approximately 83ha of land in Drury West to the immediate west of Auranga A, known as Auranga B1, from Future Urban zone to a mix of Residential: Mixed Housing Suburban and Residential: Mixed Housing Urban zoning to facilitate and support residential development on that land. This plan change was approved in 2018 and become fully operative in February 2020.

(c) Plan Change 51 ("PC 51") Drury 2 Precinct (Auranga B2), rezoning 33.65 ha of land in Drury West from Future Urban Zone to 15.29ha of Business: Town Centre zone, 13.75ha of Residential: Terrace Housing and Apartment Buildings zone, and 4.61ha of Residential: Mixed Housing Urban zone, and to introduce a new precinct. This rezoning was made operative by a determination of the Environment Court dated 22 September 2022.

2.4 There has been considerable progress in the development at Auranga, with the majority of Drury West residents currently residing within the Auranga development. As noted by Mr Colegrave[1]:

> *Significant development has already been completed or is well underway, including approximately 350 houses built, which are occupied by approximately 1,000 people, a new school, early childhood education, and various supporting amenities. Overall, a community of 3,500 houses is planned for the Auranga Development (and eventually approximately 6,000 to 8,000 houses in Drury West).*

3. MADE'S OVERALL POSITION ON THE DRAFT 2022A POLICY

3.1 MADE has always been (and continues to be) prepared to pay its fair share of the CAPEX required to service infrastructure demand growth that is generated by its development. This is confirmed, for example, in the decision, following the hearing, for PC 51 to the partly operative AUP whereby MADE, in association with KDL committed to undertake a number of key infrastructure upgrades to mitigate any adverse effects from the approval of PC 51.[2]

1 Insight Economics report, page 11.

2 Decision following the hearing of a Private Plan Change under the Resource Management Act 1991, 9 February 2022, at [111].

3.2 While MADE appreciates that many of its concerns regarding the 2021 draft Policy have been addressed, there are still a number of concerns and objections that MADE has regarding the 2022 draft Policy, which are set out below. We summarise the key aspects of the applicable regulatory framework and MADE's concerns regarding compliance with that framework as follows.

4. SUMMARY OF REGULATORY FRAMEWORK

4.1 In summarising the regulatory framework as relevant to MADE's position on the draft Policy, we address:

(a) The key provisions from the LGA02 DCs regime; and

(b) The key propositions and principles regarding the application of those provisions from case law.

Key provisions of the LGA02 DCs regime

4.2 In summary, the Local Government Funding Act 2002 ("LGA02") requires that the draft Policy must (emphasis added):

(a) Ensure that the Council's funding needs are met from those sources which the Council determines to be appropriate, having considered the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity (section 101(3)(a) LGA02);

(b) Result in MADE contributing a *fair, equitable, and proportionate* portion of the cost of those projects (section 197AA LGA02);

(c) Require MADE to pay DCs only where the effects (or cumulative effects) of its development will create a requirement for the territorial authority to provide new or additional assets or assets of increased capacity (sections 197AB(1)(a) and 199(1) LGA02); and

(d) Ensure that DCs are determined according to, and are 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 (section 197AB(1)(c) LGA02).

4.3 Further, in preparing the draft Policy, the Council is subject to the following requirements under the LGA02:

(a) The Council must take account of the likely impact of its decisions regarding the draft Policy on each aspect of wellbeing referred to in section 10 of the LGA02 (section 14(1)(c)(iii) LGA02).

(b) In the course of its decision-making process, the Council must seek to identify all reasonably practicable options for achieving the objectives of its decisions regarding DCs, and assess the advantages and disadvantages of those options (section 77(1) LGA02).

(c) Where the Council's decision on the draft Policy is anticipated to have consequences that will be significantly inconsistent with any plan required by any other enactment (for example, the AUP required in accordance with the Resource Management Act 1991), the Council must clearly identify:

(i) The inconsistency;

(ii) The reasons for the inconsistency; and

(iii) Whether it has any intention to amend the AUP to accommodate the decisions made in respect of the draft Policy (section 80(1) LGA02).

(d) Developers such as MADE who will be affected by the draft Policy must be provided with reasonable access to relevant information regarding the draft Policy, so they can understand its potential effect and adequately engage in the consultation process (section 82(1)(a) LGA02).

(e) For the purposes of section 82(1)(a) LGA02 (which applies to preparation of the draft Policy), the Council must make publicly available an analysis of the reasonably practicable options, including the proposal, identified under section 77(1) LGA02 (section 82A(2)(b) LGA02).

Key propositions and principles from case law

4.4 There is now a reasonable body of judicial guidance and comment regarding the application of the DCs regime from the LGA02. It is not necessary to traverse those cases in detail for the purposes of these submissions, other than noting the following from *Neil Construction Limited v North Shore City Council*[3], the leading decision on development contributions.

4.5 In that case, the High Court set out the following process that councils should follow, when deciding whether DCs can be required:

> *"[113] I consider the relevant provisions of the Act inter-relate to require of councils the following stepped process and line of inquiry when considering whether a development contribution or development contributions may be required:*
>
> *Step 1 Is the subdivision or development a "development", i.e. does it generate a demand for reserves or infrastructure? (s 197 definition)*
>
> *Step 2 Does the development (either alone or cumulatively with another development) require new or additional assets or assets of increased capacity to provide for reserves or infrastructure which will cause the council to incur capital expenditure (s 199(1)) or has already caused the council to incur capital expenditure for the development? (s 199(2))*
>
> *Step 3 Is there an alternative source of funding? (s 200)."*

4.6 The Court then went on to set out the following statutory triggers that must be met, before DCs can be required:[4]

> *"[116] ...The statutory triggers for requiring a development contribution are that a given project:*
>
> - *Is a development (s 197);*

3 [2008] NZRMA 275 (HC).

4 This approach was applied more recently by the Court of Appeal in *Beaumont Trading Co Ltd v Auckland Council* [2016] NZCA 223, [2016] NZRMA 359 at [32]-[34] (CA). While there have been minor amendments to sections 197, 198(2) and 199 of the LGA since the *Neil Construction* case was decided, none of those are material to the parts of the decision that have been quoted.

- *Which either alone or in combination with another "development" will have the effect of requiring expenditure on infrastructure (s 199); and*

- *Is provided for in the development contributions policy (s 198(2)).*"

4.7 Having regard to *Neil Construction* and other relevant cases,[5] the key propositions and principles as relevant to MADE's position on the draft Policy can be summarised as follows:

(a) The Council's DCs policies and decisions to charge DCs must comply strictly with the relevant provisions of the LGA02.

(b) DCs can only be charged where:

(i) There is a development, which either by itself or cumulatively with other development(s), creates a demand for new or additional assets or assets of increased capacity for reserves, network infrastructure, or community facilities; and

(ii) A council has incurred or will incur capital expenditure to provide for the new or additional assets or assets of increased capacity; and

(iii) The relevant DCs policy contains charges for the new or additional assets or assets of increased capacity; and

(iv) The same works have not already been funded or provided via an alternative source (such as a resource consent condition, private developer agreement, previous development contribution payment or third party funding/construction).

(c) Before requiring DCs, a council must determine as a preliminary point, on a case by case basis, whether any particular project is a "development" as defined in the LGA02, that creates a demand for new or additional assets or assets of increased capacity that the council has incurred or will incur capital expenditure in relation to.

(d) If the required causal nexus is satisfied, a council must then determine under section 101(3) LGA02 the appropriate sources to meet funding needs after consideration of the five factors identified in section 101(3)(a) LGA02. In relation to each activity, the council must give appropriate consideration to and allowance for the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals. This will ensure that the principles of fairness and equity are observed.

4.8 In light of the above regulatory framework, MADE's issues regarding the draft Policy are summarised under the following headings.

5. PROJECT SPECIFICITY AND CERTAINTY

5.1 MADE considers it is already sufficiently clear that some of the long-term projects included in the Draft 2022A Policy are not required as a result of the effects (including cumulative effects) of "development" in Drury. Thus, these projects do not meet Step 1

5 Including *Domain Nominee Limited v Auckland City Council* [2009] 1 NZLR 113 (HC); *Beaumont Trading Company Limited v Auckland Council,* supra n1; and most recently, *AGPAC Limited v Hamilton City Council* [2021] NZHC 2222 (HC).

of the High Court's test from *Neil Construction* and lack the certainty of timing and cost that is normally required for projects to be eligible for DCs.

5.2 There is no genuine causal nexus between some of the long term projects (in particular, transport upgrades) identified as being required in Drury beyond 2031, and the level of demand that will be generated by future growth in Drury. Given the long lead times involved, it is currently too speculative to determine whether those new or additional assets, or assets of increased capacity, will in fact be required to accommodate growth in Drury. As Mr Colegrave notes,[6] there is therefore a risk that these projects are never delivered as initially intended, either because:

(a) Travel patterns and mode shares may evolve to the point that the intended future works no longer represent the optimal infrastructure solution; and/or

(b) Other unforeseen work (by central Government, for example) may occur in the interim, which serves a similar purpose and therefore affects the ultimate need for the work.

5.3 For example, the rapid uptake of Uber, e-bikes and e-scooters, as well as car sharing platforms (such as CityHop) over the last five to ten years, demonstrates how quickly travel patterns (and therefore demand for infrastructure) can change. This is particularly relevant for areas such as Drury West, where MADE has focused on creating an urban form that encourages (and enables) micro-mobility and active mode travel to reduce the need for private vehicle use.

5.4 In November 2022, through the implementation of a government $300K innovation fund there have been moves towards the establishment of an e-bike subscription service to encourage greener transport, mode shift, and road safety.[7] A 2018 study by the University of Auckland found that e-bikes had already started to replace cars for short to medium length trips.[8] Specifically, the researchers concluded that:

(a) E-bikes are expanding Auckland's 'active transport radius' (from 5km for a traditional push bike to 15km for an e-bike).

(b) E-bikes are making 'trip-chaining'[9] easier for active transport users (making them an increasingly likely replacement for private car use).

(c) E-bikes are increasing commuting efficiency and reducing commuting stress (due to improved commuting 'control' and arrival time reliability, especially in congested conditions).

(d) E-bikes are making active transport more realistic for women (which, combined with easier trip-chaining, increases the likelihood of displacing car use for regular travel needs).

5.5 The uncertainty inherent in trying to predict travel demand patterns long-term is clearly demonstrated in the real-world example of the number of e-bikes imported from Asia quadrupling since 2018. As Mr Colegrave goes on to note, because the proposed future transport projects reflect historic travel mode choices, there is a significant risk that some will become obsolete before they even begin.

6 Insight Economics report, page 4.
7 https://www.rnz.co.nz/national/programmes/morningreport/audio/2018865455/e-bike-subscription-service-wins-dollar300k-from-government-transport-innovation-fund.
8 https://cpb-apse2.wpmucdn.com/blogs.auckland.ac.nz/dist/c/520/files/2018/08/Electric-City-Ebikes-and-the-Future-of-Cycling-in-NZ-1rihn5y.pdf
9 'Trip chaining' – the making of trips with multiple stops and multiple purposes, linked together between anchor destinations, such as a trip that leaves home, stops to drop a passenger, and continues to work.

5.6 Plainly, there is no indication in the Draft 2022A Policy that the Council properly considered the capacity life of some of the longer term projects, in relation to transportation when calculating the proposed DCs (as required by LGA02 s.197AB(b)).

6. CAUSAL NEXUS FOR DISTANT DEVELOPMENTS

6.1 Even if the need for some longer-term projects can be sufficiently established, the Council must then demonstrate a reasonable causal nexus between those projects and the level of demand that will be generated by MADE's Auranga development in Drury West, as opposed to development within Drury East/the wider Drury- Opāheke area.

6.2 MADE's position is that the material provided in support of the 2022 draft Policy, including in relation to the assessment of "equity options for funding long-term infrastructure investment", provided for in the paper dated 10 June 2022 and released as part of the new bundle of information, continues to fall well short of this requirement.

6.3 For the Auranga land specifically, the value uplift impacts have already occurred via its live zoning and the ability to develop and occupy sites today. The proposed distant future works have little, if any, marginal benefits over and above that baseline. The infrastructure required to support development in the Drury 1 Precinct has been comprehensively assessed and agreed upon with the Council through PV 15, PC 6, and PC 51. With much of this infrastructure already constructed, having been funded up-front by MADE.

6.4 Additionally, some of the transport upgrades proposed as long term projects for Drury are already required to rectify existing service level shortfalls. They are therefore not attributable to future growth but would have been included in the Council's current LTP, if the Council had the ability to fund those projects now. This is on the basis that the Council's own Future Urban Land Supply Strategy (as refreshed in 2017) required Drury West to be "development ready" by 2022. Therefore, Auranga will neither cause, nor will materially benefit from, many of the proposed long-term projects for Drury (as required by section 197AB(1)(c) LGA02).

6.5 MADE also rejects several of the paper's claims, including that DCs do not flow through into house prices and instead affect only development profits. As summarised by Mr Colegrave, this is not how housing markets work in the real world, where additional costs – including higher DCs – *will* largely be passed on via the selling prices of new homes, especially since DCs are typically charged at the 224c stage well before construction, and often well ahead of receiving any offsetting revenues.[10]

6.6 As such, the Draft 2022A Policy is still likely to have:

(a) Negative impacts on the social, economic, environmental, and cultural wellbeing of communities, both present and in the future; and

(b) Consequences that are significantly inconsistent with the outcomes the Council is required to achieve under both the National Policy Statement on Urban Development 2020 and Regional Policy Statement provisions (Chapter B2) of the AUP.

10 Insight Economics report, page 8.

7. DELINEATION OF FUNDING AREAS / SUB-AREAS

7.1 Even where it could be accepted that some of the long term projects included in the draft Policy are required to accommodate growth generated by MADE's Auranga development, MADE considers the draft Policy will not result in fair, equitable and proportional contributions as required under section 197AA of the LGA02.

7.2 The Draft 2022A Policy splits the wider Drury-Opaheke area into five new funding areas, namely:

(a) Drury West 1, which is north of SH22 and hence includes Auranga;

(b) Drury West 2, which is south of SH22;

(c) Drury East;

(d) Opaheke; and

(e) Southern Growth area, which is also known as Drury South.

7.3 While MADE endorses this proposed decoupling of Drury West from Drury East, the proposed new approach is still flawed because it inappropriately groups Auranga with all other greenfield land in Drury West north of SH22 to form Drury West 1. In effect, this means MADE would be partly subsidising the infrastructure required to accommodate development in Drury West, rather than its own development (which has largely already been provided for). In this respect, the Draft 2022A Policy requires a greater degree of spatial disaggregation in order to better reflect the applicable LG02 principles, particularly those requiring a causal nexus between developments and the growth-related works funded via DCs.

7.4 Unlike the rest of Drury West 1, the first two stages of the Auranga development did not form part of the Drury-Opaheke structure plan area and were live-zoned some years ago. As noted above, significant development has already been completed or is well underway, including approximately 350 occupied by approximately 1,000 people, a new school, early childhood education, and various supporting amenities.

7.5 As noted by Mr Colegrave[11], Auranga's infrastructure requirements have already been assessed in fine detail during the planning process that led to these rezonings, and these did not include any of the distant works that the new policy seeks to recover from Drury West 1. Therefore, in order to ensure a "fair, equitable and proportionate" contribution to the CAPEX costs of infrastructure, the Draft 2022A Policy funding areas need to be further revised to carve Auranga out from the rest of Drury West 1 to reflect its differing circumstances.

8. COST ALLOCATION TO FUNDING SUB-AREAS

8.1 Along with the geographical division of the Auranga development, the allocated growth-related costs to it must also result in fair, equitable and proportional contributions as required under section 197AA of the LGA02.

8.2 Currently, the allocation of growth-related costs under the Draft 2022A Policy has not been allocated in this manner. As explained in detail by Mr Colegrave, and supported by analysis conducted in Table one of the Insight Economics report, while the allocation of

[11] Insight Economics report, page 11.

costs to funding areas naturally varies by the location of projects, the allocation of growth-related costs is currently unbalanced.[12] For example:

(a) While nearly 4% of projects in Drury East-Opaheke are allocated regionwide, only 2.1% of those in Drury West are allocated regionally;

(b) While Drury West 1 and 2 pick up 5.7% of the costs of projects in Drury East/Opaheke, Drury East and Opaheke are allocated only 0.6% of projects located in Drury West (i.e., ten times less); and

(c) Drury West 1 and 2 are being asked to fund nearly 95% of projects located in the west, compared to only 85% of eastern project costs being allocated to Drury East and Opaheke.

8.3 It is MADE's concern, therefore, that should the Auranga development be carved out as a separate funding area, it may be allocated a disproportionate proportion of growth-related costs.

9. IMPACT OF "MITIGATION DIFFERENCES"

9.1 The Draft 2022A Policy has introduced the notion of developer mitigation (through contributions of a resource consent or infrastructure funding agreements). As noted by Mr Colegrave, there are significant risks around the degree of mitigation works undertaken by each developer, and hence the amount that the Council will need to do on their behalf and recover via DCs.[13]

9.2 This raises a serious potential issue because developers have a vested interest in minimising their own mitigation works and having DC absorb these charges, thereby effectively sharing their own cost responsibilities with other parties. Such outcomes are patently unfair and contrary to section 101(3)(a) of the LGA02, which requires funding needs to be met from appropriate sources.

9.3 The Council should be clear to provide a consistent set of rules relating to mitigation to avoid costs that would ordinarily be each developer's responsibility being shared with others. Unless or until the Council provides that information, MADE considers that the Council cannot demonstrate that those inclusions adequately comply with the applicable principles and thresholds of the LGA02, as it is legally required to do.

10. CHARGE INDEXATION REQUESTED

10.1 In the Draft 2022A Policy Council has proposed an option to set in annual incremental adjustments to DCs, by a fixed percentage each year, in comparison to a fixed price (in nominal terms). Both options generate identical revenues in net present value terms; the only difference is how costs are allocated to developments that occur at different points in time. This is graphically represented in Figure 2 of the Insight Economics report.[14]

10.2 Charge indexation is provided for in section 106 (2B) of the LGA02 and conditional under (2C) of the LGA02. Since 2014, when the LGA02 was amended to incorporate these provisions, many councils have adopted to include indexation. Table 6 of the Insight

12 Insight Economics report, page 14.
13 Insight Economics report, page 15.
14 Insight Economics report, page 17.

Economics report identifies these councils and references the sections of their policies that discuss indexation.[15]

10.3 It is MADEs view that through the implementation of DC charge indexation, the Council can promote the social, economic, environmental, and cultural well-being of communities in the present and for the future (section 10 LGA20), in alignment with section 14(1)(c)(iii) LGA02, as indexation more accurately recovers the cost of servicing growth at different points of time for different developments.

10.4 As Mr Colegrave identifies, the extensive benefits of adopting index charges are that indexed charges:[16]

(a) Are more efficient than fixed charges because they forge a closer link between the interest costs incurred by Council and the specific charges that developments pay at different stages during the cost recovery period. Thus, indexed charges reward developments that pay earlier because those early payments help to reduce council interest costs, and vice versa for those that pay later and hence increase Council interest costs. As a result, indexed charges provide more accurate price signals to the market and may also encourage developments to occur sooner than they may have otherwise.

(b) Are more equitable than fixed charges, because the gradual increases mimic growth in household incomes, and thus provide a better fit between DCs and people's ability to pay for them (either directly during the building process or indirectly via higher house prices).

(c) Are a better reflection of underlying capital works costs, which tend to increase annually according to capital goods inflation and relevant labour cost indices.

(d) Are more consistent with the price paths of nearly all other goods and services in the economy, which generally increase over time.

(e) Encourage earlier development by lowering the DC charges in earlier years, which also de-risks the upfront provision of infrastructure by Councils.

(f) Reduce incentives for land-banking.

Incremental adjustments at a standard rate between funding areas

10.5 As identified in Table 2 of the Insight Economics report different fixed percentage increases have been implemented for different funding areas.[17] It is unclear why differing growth rates have been applied or the purpose of the Council's decision to implement differing rates. It is MADEs submission that a consistent figure of 2.5% to 3% be used for all funding areas. That issue aside, MADE strongly recommends that the incrementing price option be adopted for the reasons set out above.

15 Insight Economics report, page 17.
16 Insight Economics report, page 18.
17 Insight Economics report, page 18.

11. MADE'S REQUEST

11.1 For the reasons outlined above, MADE requests that:

(a) The Council work with MADE to carve out a separate funding area in the Draft 2022A Policy in respect of the Auranga development in Drury West and allocate to it proportionate growth related costs;

(b) Relevant Council staff engage in discussions with MADE to refine the rules in relation to the concept of "mitigation differences" not previously addressed in the 2021 draft Policy; and

(c) The Council to elect to implement DC incremental adjustments at a standard rate between funding areas.

11.2 MADE wishes to be heard in support of this submission if there is an opportunity to do so.

DATED at Auckland this 11th day of November 2022

[redacted]

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Final Report: 11 November 2022

Review of Proposed Future Development Contributions Charges for Auranga

Prepared for: **MADE**

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1. Key Findings

This document reviews the proposed development contributions (DC) policy by Auckland Council (AC or Council) known as Variation A to the draft 2022 policy (hereafter referred to as the Draft 2022A Policy) and comments on various concerns arising for the Auranga development in Drury West.

The key findings of our review are that:

1. Although Variation A comprehensively addresses the lack of detail that previously hampered the distant works that the policy proposes to include in the new DC charges, there is still significant uncertainty over the need for them given ongoing changes in travel behaviour, particularly the rapid uptake of e-bikes and e-scooters. This creates a material risk that DC charges set today will include projects that are never delivered as intended, which gives rise to a potential future refund obligation on the Council.

2. There is also no clear causal nexus between the distant projects slated for inclusion in the DC charges and the Auranga development. Auranga neither caused the need for, nor will substantively benefit from, them. Indeed, because its land was live zoned several years ago and is already under development, the infrastructure requirements for Auranga were assessed in detail during the rezoning process itself and have either already been provided, or are in the process of being provided. Accordingly, it follows that any distant future works beyond the LTP are surplus to Auranga's requirements, so it cannot and should not be forced to fund them.

3. Auckland Council's approach to setting funding areas has evolved considerably since its first policy was adopted in 2012. In the latest iteration, Variation A to the 2022 Policy, Auranga is grouped with all other developments west of SH1 and north of SH22 (known as Drury West 1). However, again, because the first two stages of the Auranga development did not form part of the Drury/Opaheke structure plan area upon which future infrastructure requirements are based, and because its own infrastructure requirements are already in place or will be delivered during the current LTP, it should not be grouped with other greenfield areas nearby. Instead, a separate funding area needs to be created that recognises the different state of development, and thus infrastructure needs, of Auranga.

4. In addition to the funding area issue just noted, we also note that the allocation of project costs to the new funding areas appears to be unbalanced, with Drury West paying a higher share of Drury East's infrastructure needs than vice versa. This should be reviewed to ensure that a 'level playing field' is achieved.

5. Differences in the extent of onsite works, known as mitigation, are another concern. Currently, developers have a strong incentive to minimise the amount of mitigation and instead have such works included in the DC policy to share them (unduly) with other developers. This outcome should be avoided at all costs by standardising and communicating mitigation requirements.

6. Finally, this report explains that the Council should adopt indexation so that the DCs charged increase by a set percentage each year. This has a raft of important economic benefits and has now been adopted by more than half of all councils classified as Tier 1 or 2 under the National Policy Statement on Urban Development 2020 (NPS-UD).

2. Introduction

2.1 Context & Purpose of Report

In late 2021, we reviewed AC's draft 2022 DC policy, focussing on projects outside the LTP's 10-year capex window. Our review identified several shortcomings, as summarised below. Subsequently, AC undertook further work to inform and support its policy position, with that information recently being made public. This document updates our review to incorporate that new information and focusses on the impacts of that for the Auranga development in Drury West.

2.2 Key Findings of Previous Work

The key findings of our review in late 2021 were that:

1. Distant projects included in the proposed new DC charges lack specificity and certainty. In addition, further thought must be given to the effects of evolving transport trends (such as the uptake of Uber and e-bikes) on the likely design of, and need for, these distant works.

2. There is only a weak causal nexus between developments occurring over the next few years and distant projects programmed for beyond year 10 of the LTP. They neither cause these works, nor benefit from until they are operational. Moreover, DCs should be indexed to reflect the financial reality that earlier payments are worth more in NPV terms than later ones.

3. The Council's economic analysis of likely impacts on house prices is flawed and uncompelling. The proposed new charges will not only affect house prices, but they will also challenge development viability, with consequential effects on the Council's ability to meet NPSUD obligations for sufficient feasible capacity.

4. A more thorough and robust consideration of funding options is needed to ensure that DCs are the best way to meet the Council's funding needs. Other viable options for funding some of the identified distant works are targeted rates and IFFs.

5. Property development is not the only cause of growth in network demand, so it is important that developers are only charged for the share of growth attributable to them, not also network growth caused by other factors (such as increased tourism activity).

6. The proposed charges may expose the Council to legal and financial risks.

2.3 Structure of Report

The remainder of this report is structured as follows:

- **Section 3** considers the extent to which the new information addresses the issues of specificity and uncertainty raised in our previous review;

- **Section 4** reconsiders the extent of any causal nexus between Auranga and distant future works that AC proposes to include in the new DC charges;

- **Section 5** discusses issues related to the delineation of funding areas;

- **Section 6** reviews the proposed allocation of growth-related costs to funding areas;
- **Section 7** briefly raises issues about variation in onsite mitigation across developments; and
- **Section 8** explains why we believe that the charges should be indexed so that they increase each year by a set percentage.

3. Project Specificity and Certainty

3.1 Introduction

Our previous review concluded that projects beyond the 10-year LTP slated for inclusion in future DCs lacked the specificity and certainty required. While AC has comprehensively addressed the specificity issue by providing detailed information about distant transport projects, including preliminary costings and beneficiary assessments, uncertainty around the need for these projects remains.

3.2 Outstanding Issues

As noted in our previous review, there is still a material risk that some of these distant future transport projects are no longer required and/or never delivered as initially intended because:

- Travel patterns and mode shares may evolve to the point that the intended future works no longer represent the optimal infrastructure solution, and/or

- Other currently unforeseen work (by Central Government, for example) may occur in the interim, which serves a similar purpose and hence affects the ultimate need for the works.

These issues have become more acute since our previous review, particularly with the explosive uptake of e-bikes and e-scooters, and their implications for transport networks based on current travel patterns. For example, a 2018 study by the University of Auckland found that e-bikes had already started to replace cars for short to medium length trips.[1] Specifically, the researchers concluded that:

- E-bikes are expanding Auckland's 'active transport radius' (from 5km for a traditional push bike to 15km for an e-bike).

- E-bikes are making 'trip-chaining'[2] easier for active transport users (making them an increasingly likely replacement for private car use).

- E-bikes are increasing commuting efficiency and reducing commuting stress (due to improved commuting 'control' and arrival time reliability, especially in congested conditions).

- E-bikes are making active transport more realistic for women (which, combined with easier trip-chaining, increases the likelihood of displacing car use for regular travel needs).

Fast forward to 2022, and these findings are more relevant than ever, with the number of e-bikes imported from Asia quadrupling since 2018 (from 18,000 to 72,000 in 2021/2). As the number of e-bikes increases, Aucklanders will become increasingly less reliant on the use of private motor vehicles.

[1] https://cpb-ap-se2.wpmucdn.com/blogs.auckland.ac.nz/dist/c/520/files/2018/08/Electric-City-Ebikes-and-the-Future-of-Cycling-in-NZ-1rihn5y.pdf

[2] 'Trip chaining' – the making of trips with multiple stops and multiple purposes, linked together between anchor destinations, such as a trip that leaves home, stops to drop a passenger, and continues to work.

And, because the proposed future transport projects reflect historic travel mode choices, there is a significant risk that some will become obsolete before they even begin. We consider this a relatively high probability event.

4. Causal Nexus for Distant Projects

4.1 Introduction

Our previous review identified that there is no credible causal nexus between distant projects and developments occurring over the next few years, such as at Auranga. This issue remains live. AC has sought to address the causal nexus issue with distant future transport works by engaging two economists to assess "equity options for funding long-term infrastructure investment." Their paper, dated 10 June 2022, was recently released as part of the new bundle of information.

4.2 Outstanding Issues

The paper noted above does nothing, in our view, to address the lack of causal nexus between current developers – particularly Auranga – and the distant future transport works embedded in the new DCs.

For example, amongst other things, the authors claim that "early developers contribute towards the need for infrastructure as much as later developers, so this proposal also reduces the inequity of undercharging early developers inherent in current practice."

This statement may be correct for the FUZ areas in and around Drury, whose transport network requirements have not yet been met. However, it is patently incorrect for MADE Group, which has already invested millions at Auranga to create a transport network that enables its live-zoned land to be developed (with any remaining requirements being met by works programmed in the current LTP).

Indeed, the authors even define project benefits from the provision of new infrastructure as being the land value uplift from the full planning process. Given that this process is complete for Auranga, it logically follows that there are no further benefits to gain from distant future transport works. There will only be potential minor improvements in levels of service. However, the authors do not appear to grasp this important implication.

The authors also argue that the proposal to include distant future works does not raise any equity issues because "developers benefit financially from planned infrastructure long before delivery." Not only does this contradict the definition of benefits adopted by the authors (i.e., the ability to rezone land), but we are unconvinced that works in (say) 15 to 20 years' time enables land to be developed today.

Delving deeper into the paper, the authors clarify their argument by stating that markets capitalise the expected value of future zoning rights and infrastructure services into today's land prices. While that may be true to some extent, at least in purely theoretical terms, this factor is of limited relevance here because the land was already earmarked for future development years ago via its FUZ zoning. Accordingly, the value uplift associated with expectations of future development rights has already occurred for most of the land in Drury.

For the Auranga land specifically, the value uplift impacts have already occurred via its live zoning and the ability to develop and occupy sites today. The proposed distant future works have little, if any, marginal benefits over and above that baseline. Interestingly, the authors concede this later in their

paper (as per the quote below) but fail to acknowledge the implications of that for the live zoned areas in Drury. Specifically, the paper concedes that:

> "But infrastructure for land not changing use provides only a marginal benefit for the occupier equal total the value of a better level of service. Without the infrastructure the same land use was still possible."

We agree with this statement, which has very important implications for Auranga, which neither caused, nor will materially benefit from, the distant future transport works proposed for Drury.

The paper also makes several other bold claims that we categorically reject, but which are of limited relevance here. For example, the authors argue that DCs do not flow through into house prices and instead affect only development profits. This is not how housing markets work in the real world, where additional costs – including higher DCs – *will* largely be passed on via the selling prices of new homes.

Similarly, the authors argue that DCs are levied "close to the 'high liquidity event' of construction and sales" while providing upfront cashflow to Councils. This is also incorrect for the large subdivisions that comprise Drury, where DCs are typically charged at the 224c stage well before construction, and often well ahead of receiving any offsetting revenues. Consequently, DCs are a significant cashflow burden – and thus a disincentive – for developers of greenfield areas like Drury.

5. Delineation of Funding Areas/Sub-Areas

5.1 Introduction

In large geographic areas like Auckland, most infrastructure projects service only a specific area, rather than the whole region. Accordingly, most DC policies delineate "funding areas" for each activity to enable the recovery of growth-related infrastructure costs to align with the specific developments that cause, and benefit from, them. AC's DC policy is no exception. However, its approach to setting funding areas has evolved a lot since its first (2012) DC policy was adopted, particularly for transport and stormwater charges. This is illustrated in the figure below, which shows how AC's transport funding areas, i.e., the different colours on each map, have changed over time.

Figure 1: AC Transport Funding Areas by Policy Version

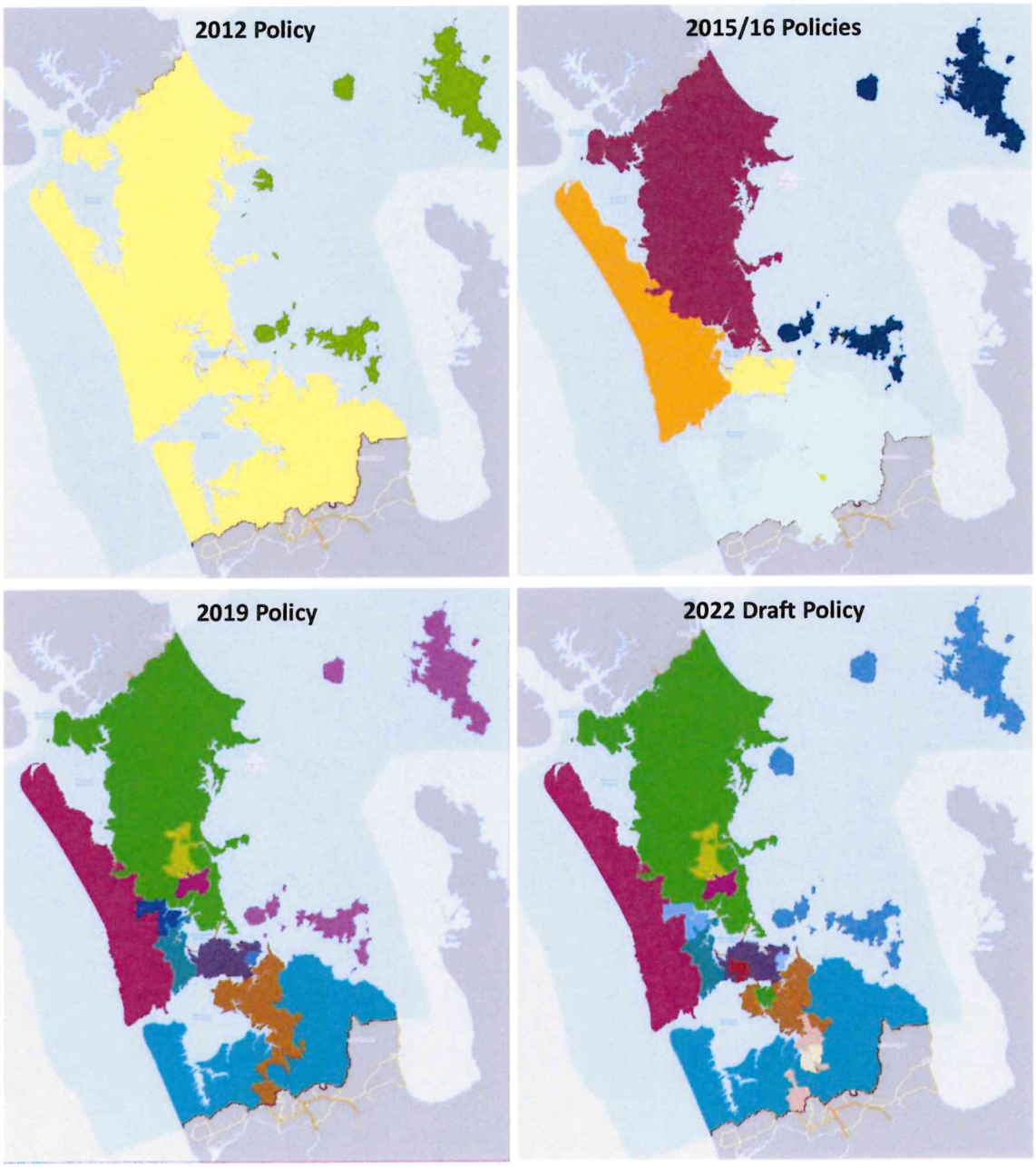
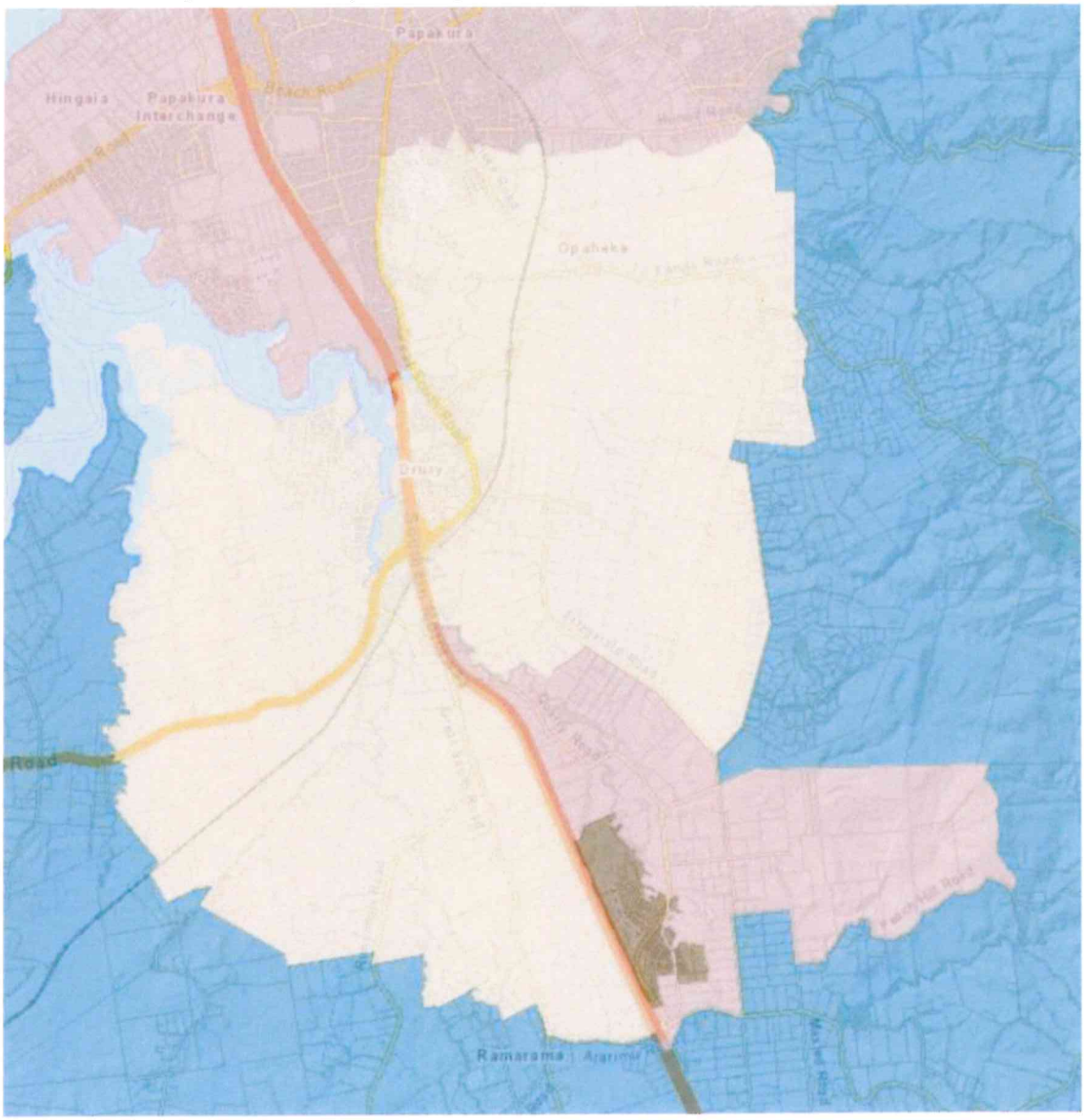


Figure 1 shows that AC's first DC policy had only one mainland funding area for transport activities, with another set just for islands in the Hauraki Gulf. The 2015 and 2016 policies split that single mainland funding area into four sub-regional parts, which were further subdivided in the 2019 policy. The 2022 draft DC policy then took it to another level by creating a total of 18 funding areas, including:

- 1 regional funding area;
- 4 sub-regional funding areas; and
- 12 local funding areas.

Further, whereas the 2019 policy placed Auranga in a relatively broad local transport funding area that took in all the urbanised areas of south Auckland down to Pukekohe, the Draft 2022 Policy carved Drury-Opaheke out to form its own catchment, as shown in the map below. This funding area broadly matches the scope of the Drury-Opaheke Structure Plan area but extends slightly further southwest.

Figure 2: Local Transport Funding Areas for Drury and Surrounds in Draft 2022 Policy



5.2 Outstanding Issues

The Draft 2022A Policy re-examined the local transport funding areas for Drury and its surroundings. Rather than continuing to group developments across Drury east and west – as defined by State Highway 1 – the new funding areas were delineated using zones embedded in the Council's Macro Strategic Transport Model (MSM). The resulting new local transport funding areas for Drury are shown in the map below, where the red lines indicate the underlying MSM zones.

Figure 3: Drury Local Transport Funding Areas in Draft 2022A Policy

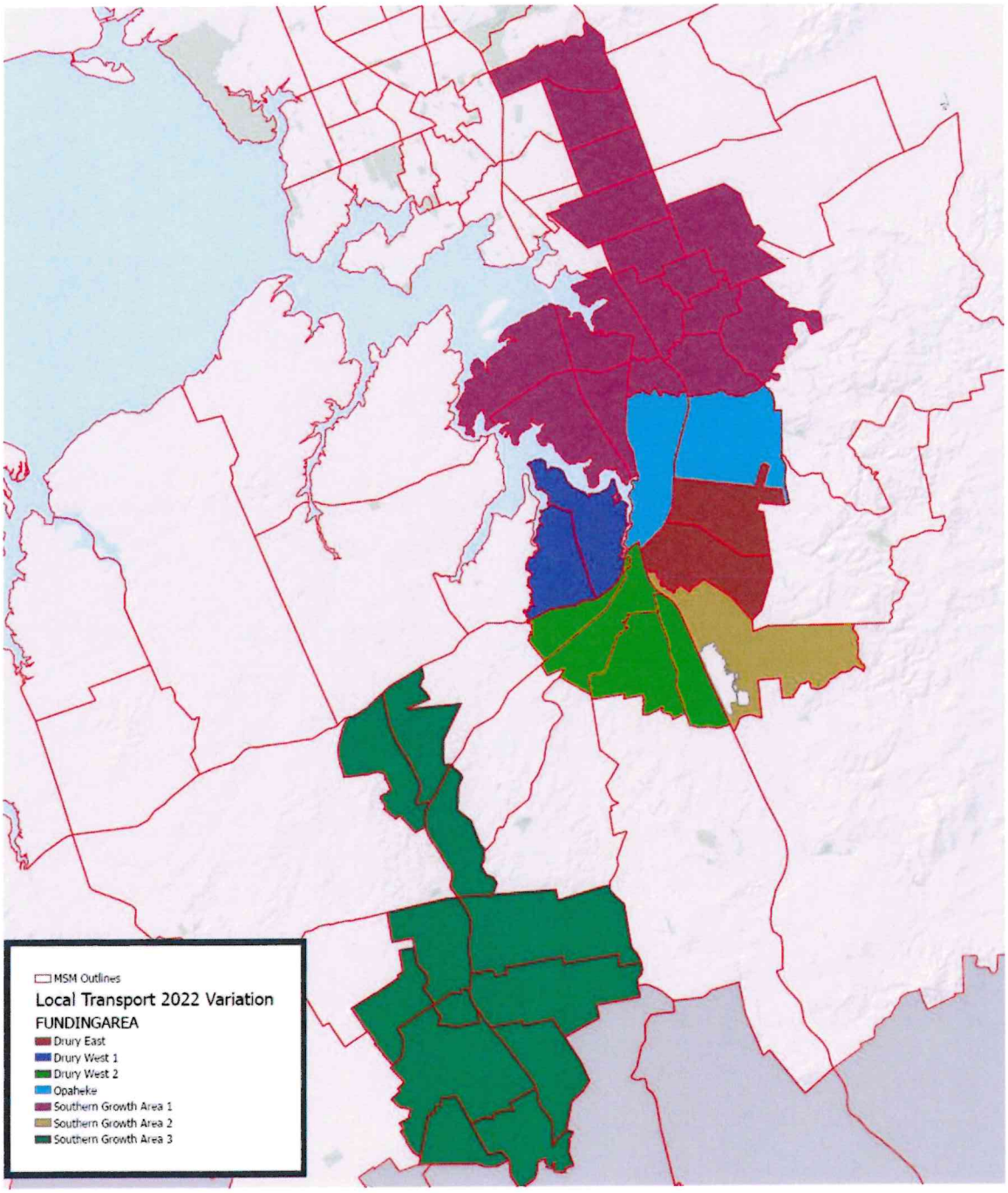


Figure 3 shows that the Draft 2022A Policy no longer groups Drury East and West together in its local transport funding areas, and instead splits the wider Drury-Opaheke area into five new sub-areas, namely:

1. Drury West 1, which is north of SH22 and hence includes Auranga;
2. Drury West 2, which is south of SH22;
3. Drury East;
4. Opaheke; and
5. Southern Growth area, which is also known as Drury South.

We endorse this proposed decoupling of Drury West from Drury East because the two areas have different development timeframes and thus differing local transport requirements. However, even so, the proposed new approach is still flawed because it inappropriately groups Auranga with all other greenfield land in Drury West north of SH22 to form Drury West 1.

At first glance, this may seem like a logical approach. However, unlike the rest of Drury West 1, the first two stages of the Auranga development did not form part of the Drury-Opaheke structure plan area and were live-zoned some years ago, as follows:

- Auranga A comprising 84.6ha was authorised via Plan Variation 15 to the then proposed AUP which was declared a Special Housing Area in July 2015; and
- Auranga B1 comprising approximately 83 ha via Private Plan Change 6 to the AUP, which was approved in 2018 and became fully operative in February 2020.

Significant development has already been completed or is well underway, including approximately 350 houses built, which are occupied by approximately 1,000 people, a new school, early childhood education, and various supporting amenities. Overall, a community of 3,500 houses is planned for the Auranga Development (and eventually approximately 6,000 to 8,000 houses in Drury West).

In addition, Auranga's infrastructure requirements have already been assessed in fine detail during the planning process that led to these rezonings, and they did not include any of the distant works that the new policy seeks to recover from Drury West 1. Consequently, the policy's funding areas need to be further revised to carve Auranga out from the rest of Drury West 1 to reflect its differing circumstances.

6. Cost Allocation to Funding Sub-Areas

6.1 Introduction

Once funding areas have been delineated, as per the previous section of this report, the next step in the DC calculation process is to allocate growth-related costs to them. To that end, this section considers the way that the Draft 2022A Policy allocates the costs of growth-related works in Drury to the newly derived funding areas shown in Figure 3 above.

6.2 Analysis & Discussion

We used the spreadsheets provided by AC for the Draft 2022A Policy to examine how the costs of each transport project were allocated to the new funding areas. The table below shows how the costs of each project were allocated to different funding areas depending on where they were located and/or which areas were the primary driver of the works.[3]

Table 1: Allocation of Transport Project Costs to Funding Area by Project Location/Primary Purpose

Funding Areas	Drury East/Opaheke	Drury East/West	Drury West	All Locations
Auckland wide	3.8%	1.9%	2.1%	3.2%
Drury East	40.7%	50.3%	0.2%	32.5%
Drury West 1	3.0%	24.4%	81.1%	24.6%
Drury West 2	2.7%	12.4%	13.3%	6.6%
Opaheke	45.1%	4.4%	0.4%	28.7%
Southern Growth Area 1	4.4%	0.0%	0.1%	2.7%
Southern Growth Area 2	0.0%	1.5%	0.0%	0.2%
Southern Growth Area 3	0.3%	5.2%	2.7%	1.6%
Grand Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Table 1 shows that the allocation of costs to funding areas naturally varies by the location of projects, with those located in Drury East-Opaheke naturally being allocated mainly to those areas, and similarly for projects located in Drury West (which are mainly allocated there). However, beyond that core observation, there do appear to be some anomalies that may warrant closer inspection. For example, while nearly 4% of projects in Drury East-Opaheke are allocated regionwide, only 2.1% of those in Drury West are allocated regionally. Similarly, while Drury West 1 and 2 pick up 5.7% of the costs of projects in Drury East/Opaheke, Drury East and Opaheke are allocated only 0.6% of projects located in Drury West (i.e., ten times less).

We also note that Drury West 1 and 2 are being asked to fund nearly 95% of projects located in the west, compared to only 85% of eastern project costs being allocated to Drury East and Opaheke. Again, this appears to be slightly unbalanced, so further work may be required to resolve this.

For the record, we note that these issues are independent of the fundamental problem identified in the previous section, where Auranga was incorrectly grouped with other land at totally different stages of readiness/development to form the Drury West 1 funding area.

[3] This classification of projects by area is included in Appendix A of the document titled *Drury Development Contributions Policy - Transport Assessment August 2022 (Version 0.6).*

7. Impacts of Mitigation Differences

7.1 Introduction

The newly released materials introduce a new concept not previously addressed in the prior documentation, as far as we are aware. It relates to the notion of mitigation, i.e., the extent to which developers in each major growth cell are meeting their own internal infrastructure requirements rather than requesting the Council to include them in the DC policy and recover them that way.

7.2 Discussion

We acknowledge that works within the boundary of each site are the developer's responsibility, and that the costs of these can run into the tens of millions for larger projects. I am not aware of any developers that query this responsibility, however the Variation A documents released by AC for this consultation note that there are significant risks around the degree of mitigation works undertaken by each developer, and hence the amount that AC will need to do on their behalf and recover via DCs.

This raises a serious potential issue because developers have a vested interest in minimising their own mitigation works and instead including them in the DC charge, thereby effectively sharing their own cost responsibilities with other parties. We are unclear how material this issue is; however, felt the need to state that there should be a clear and consistent set of rules relating to mitigation to avoid costs that would ordinarily be each developer's responsibility being shared with others. Such outcomes are patently unfair and should be carefully managed.

8. Charge Indexation

8.1 Introduction

Section 3.1 of the consultation document sets out two options for structuring the DC price over time, which are described as fixed price and incrementing price, respectively. Under fixed prices, charges remain constant in nominal terms, while in the incrementing price option they increase by a fixed percentage each year.

Importantly, both options generate identical revenues in net present value terms; the only difference is how costs are allocated to developments that occur at different points in time.

8.2 Clarification

Many people seem to assume that charge indexation is a proxy for cost inflation. In other words, they assume that indexed charges increase over time just to reflect the fact that the costs of capital works increase over time due to capital goods inflation. However, the two are separate issues. Let us explain.

Cost inflation refers to gradual increases in the costs of supplying infrastructure due to ongoing increases in labour and materials costs. These should be explicitly factored into the total cost to be recovered from growth via DCs regardless of whether charges are indexed or not.

Charge indexation takes the total future costs of servicing growth (including inflation., as per the paragraph directly above), and then considers how it will be recovered from different developments that occur at different points in time. Thus, while indexation may be justified partly due to cost inflation, the two concepts are separate and should not be confused.

To put it slightly differently. Indexation is purely a mechanism for changing the way that growth-related costs are recovered from different developments within the asset's funding/capacity period, but they are completely independent of inflation built into the capex estimates themselves.

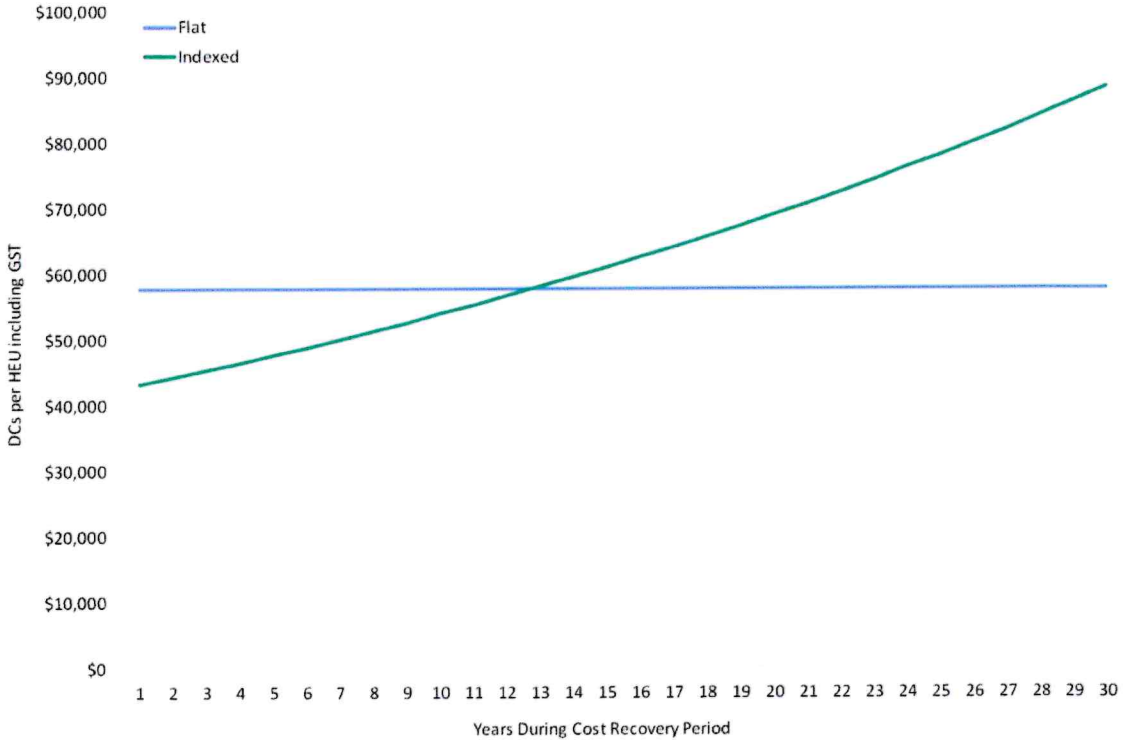
8.3 Worked Example

Consider a hypothetical example where:

- Growth is forecast to be 100 new dwellings per annum over the next 30 years;
- Council is undertaking $10 million of growth-related works per annum over the 10-year life of the LTP (i.e., a total of $100 million in growth-related capital works); and
- Council interest costs are 5% per annum.

The figure below shows two sets of hypothetical charges that will fully recover all growth-related costs over time, including interest. One set of charges is fixed in nominal terms, while the other is fixed in real (inflation-adjusted) terms. Hence, the second set of charges includes indexation.

Figure 2: Example of Flat vs Indexed Charges (indexed at 2.5% p.a.)



Although both sets of charges produce the same revenues in net present value terms, the indexed charges are cheaper for the first 12 to 13 years of the asset's capacity life, but more expensive thereafter. Hence, relative to flat charges, indexation reduces the DCs paid in the early years of asset capacity life, but increases it in later years.

In this example, the indexed charge is roughly 25% cheaper than the flat charge in year 1 ($43,100 vs $57,800), but about 50% higher by year 30 ($88,300 vs $57,800). Again, however, both sets of charges return the same revenues in net present value terms and hence both fully recover all growth-related costs, including interest. The only difference is that the indexed charges increase over time like virtually all other Council fees and charges, while the nominal charges do not.

8.4 A Short History of Indexation in New Zealand

Over the last 19 years, we have worked on approximately 100 DC projects, during which we have consistently endorsed the use of indexation. Our reasons are set out in section 8.6 below. Despite it being a "no brainer" from our perspective, the uptake of indexation on DCs has been remarkably slow. Given that virtually all other council fees and charges increase annually, including rates, why should DCs be any different? We see two possible reasons.

First, because DCs are used to recover the costs of long-lived assets over prolonged periods, council debt and interest may be sensitive to the profile of charges adopted. Thus, because flat charges maximise DC revenues in early years by maximizing the charge per HEU, they may assist to contain council debt and interest costs. Conversely, if indexation, which reduces the charge in earlier years, leads to lower DC revenues in earlier years, it could have the opposite effect, placing further pressure

on Council debt and interest. And, given the prudential debt limits placed on councils, any policy decision that may increase future debt levels, such as indexation, may not be viewed favourably.

Second, in about 2007 or 2008, shortly after the first ever DC judicial review – of North Shore City's policy which led to a $10 million refund – a prominent Auckland law firm released a strongly-worded opinion, which deemed indexation unlawful under the Local Government Act 2002 ("LGA"). That opinion was the first of its kind, and many councils were still grappling with how best to implement this new funding tool, so the opinion was taken very seriously. Consequently, a highly precautionary approach to indexation has traditionally been taken in most DC policies.

To address the sector's apparent reluctance to include indexation in DC charges, the LGA was specifically amended in 2014 to not only explicitly enable indexation, but to also nominate a particular price index – PPI – to help implement it. This is shown in the excerpt below, where sections 106 (2B) and (2C) explicitly enable indexation. Now, eight years later, many councils have adopted indexation, as discussed in the next subsection.

Figure 3: LGA Excerpt Enabling Indexation Following 2014 Amendments

106 Policy on development contributions or financial contributions

(2B) Subject to subsection (2C), a development contribution provided for in a development contributions policy may be increased under the authority of this subsection without consultation, formality, or a review of the development contributions policy.

(2C) A development contribution may be increased under subsection (2B) only if—

(a) the increase does not exceed the result of multiplying together—

(i) the rate of increase (if any), in the PPI since the development contribution was last set or increased; and

(ii) the proportion of the total costs of capital expenditure to which the development contribution will be applied that does not relate to interest and other financing costs; and

(b) before any increase takes effect, the territorial authority makes publicly available information setting out—

(i) the amount of the newly adjusted development contribution; and

(ii) how the increase complies with the requirements of paragraph (a).

8.5 Review of Other Council's Approaches to Indexing

We reviewed the current DC policies of the 23 councils that comprise Tier 1 and 2 of the NPSUD to identify whether or how each is indexing its DCs charges. Surprisingly, indexation has recently become popular, with more than half of these councils now indexing DC charges. The table below identifies these councils, and references the sections of their policies that discuss indexation.

Table 6: Current DC Policy Content on Indexation

Council	Policy Commentary on Indexation
Christchurch City	"A development contribution charge may be increased at any time, without community consultation, if that increase complies with the requirements of section 106 of the LGA. Any change of this type must use the Statistics New Zealand Producers Price Index Outputs for Construction as the basis for change." (p. 7).
Hamilton City	"Council will at its sole discretion and in accordance with s106(2B-2C) LGA, will increase the capital component of development contribution charges annually based on the Producers Price Index Outputs for Construction rate provided by Statistics New Zealand." (Section 8.9, p. 13)
Hutt City	"These charges may be adjusted for inflation annually in line with the Producers Price Index outputs for construction, as permitted by sections 106(2B) and (2C) of the LGA. The Council will publish the latest charges on its website: www.huttcity.govt.nz." (Section 12, p. 5)

Council	Policy Commentary on Indexation
Kāpiti Coast District	"122. The Council may increase a development contribution without reviewing the policy, or without consultation, provided that the increase does not exceed the result of multiplying together the: • rate of increase (if any) in the Producers Price Index (PPI) Outputs for Construction provided by Statistics New Zealand since the development contribution was last set or increased; • proportion of the total costs of capital expenditure to which the development contribution will be applied that does not relate to interest and other financing costs." (Section 122, p. 549)
Selwyn District	"The Council will adjust all development contributions annually as at 1 July by the Producer Price Index Outputs for Construction (PPI) as at the previous 31 December" (p. 4)
Waikato District	"In addition to these regular reviews, the Council will, in accordance with Section 106 (2C) of the LGA, annually increase its charges (excluding the portion relating to interest), in accordance with the rate of increase (if any), in the Producers Price Index Outputs for Construction provided by Statistics New Zealand since the development contribution was last set or increased. The Council will make publicly available information setting out details of the adjustment before it takes effect." (Section 7.2, p. 8)
Waimakariri District	"For work that is forecast to be undertaken in the period of the LTP, the Council may apply indexation to the development contribution calculations based on the Producers Price Index Outputs for Construction as provided in LGA2002 Sections 106 (2B) and (2C). These provisions, however, exclude interest and financing costs from the adjustments for increases in this producer price index." (Section 4.6.6, p. 21)
New Plymouth District	"66. Development contribution charges will be increased annually under the provisions of section 106(2C), LGA 2002 ensuring that the increase does not exceed the result of multiplying together: • The rate of increase (if any), in the Producers Price Index Outputs for Construction provided by Statistics New Zealand since the development contribution was last set or increased; and • The proportion of the total costs of capital expenditure to which the development contribution will be applied that does not relate to interest and other financing costs. 67. Inflation will also be applied year on year to development contributions charges between the time the original charges were quoted and when the development contribution is invoiced." (p. 13)
Palmerston North City	"The development contribution payable during the life of this Policy shall not be less than the amounts shown in the attached schedule of fees and shall increase annually on 1 July of each year, in accordance with the following formula: < complex formula here>" (p. 18)
Queenstown Lakes District	"These charges may be adjusted for inflation annually in line with the Producers Price Index outputs for Construction, as permitted by sections 106 (2B) and (2C) of the LGA 2002." (Section 3.3.2, p. 214)
Tasman District	"These charges may be adjusted for inflation annually in line with the Producers Price Index outputs for Construction on 1 July each year, so please check Council's website www.tasman.govt.nz for the latest charges." (Section 14, p. 3)
Whangārei District	"all figures in the development contributions schedules are expressed in 2021 dollars and these will be amended as appropriate in accordance with the Producer Price Index Outputs for Construction on an annual basis." (p. 37)

In addition, Napier City Council indexes its financial contributions under the RMA, which it levies in lieu of DCs under the LGA. This effectively brings the total to 13 of the 23 Tier 1 or 2 councils that include indexation in their growth-related infrastructure charges.

8.6 Benefits of Indexation

The economic rationale for indexed charges is clear. In short, indexed charges:

- **Are more efficient than fixed charges**, because they forge a closer link between the interest costs incurred by councils and the specific charges that developments pay at different stages during the cost recovery period. Thus, indexed charges reward developments that pay earlier because those early payments help to reduce council interest costs, and vice versa for those that pay later and hence increase council interest costs. As a result, indexed charges provide more accurate price signals to the market and may also encourage developments to occur sooner than they may have otherwise.

- **Are more equitable than fixed charges**, because the gradual increases mimic growth in household incomes, and thus provide a better fit between DCs and people's ability to pay for them (either directly during the building process or indirectly via higher house prices).

- **Are a better reflection of underlying capital works costs**, which tend to increase annually according to capital goods inflation and relevant labour cost indices.

- **Are more consistent with the price paths of nearly all other goods and services** in the economy, which generally increase over time.

- **Encourage earlier development** by reducing the DC charges in earlier years, which also de-risks the upfront provision of infrastructure by councils.

- **Reduce incentives for land-banking.**

8.7 Costs of Indexation

The main "cost" of indexation is that it may elevate council debt and interest costs relative to the situation absent indexation. However, this assumes that indexation does not encourage any development to occur earlier than it would have otherwise. In our view, it is possible that indexation will bring some development forward by creating more enticing price signals for earlier development. To the extent that this is correct, indexation may not increase Council debt and interest relative to flat charges.

8.8 Comments on the Council's Price Structure Options

As noted earlier, AC has identified two options for structuring the DC price over time, which are captured in the table below (from page 11 of the consultation document). For the purposes of this discussion, we have added another column on the right showing the annual growth rate that has been applied to the 2023 charge under the incrementing price option to reach the charge shown for 2060.

As we can see, the implied annual scalar (or growth rate) used for the incrementing price option appears to differ by funding area, ranging from only 0.5% for the Southern Growth Area 1 up to 3.7% for Opaheke. We are unclear why differing growth rates have been applied, and recommend that a consistent figure of 2.5% to 3% be used for all funding areas. **That issue aside, we strongly recommend that the incrementing price option be adopted for the reasons set out above.**

Table 2: Price Structure Options in Consultation Document

	Option 1: Fixed	Option 2: incrementing Price		
Funding Area	**2023 – 2060 Charge**	**2023 Charge**	**2060 Charge**	**Implied Annual Scalar**
Drury East	99,298	58,580	207,738	3.5%
Drury West 1	75,848	53,808	179,788	3.3%
Drury West 2	55,855	38,107	111,952	3.0%
Opaheke	101,631	61,193	236,445	3.7%
SGA1	45,339	43,693	52,154	0.5%
SGA2	20,021	18,269	28,025	1.2%
SGA3	21,113	19,513	27,458	0.9%

NZSHL

NZ STORAGE HOLDINGS LIMITED

7th November 2022

Via Email: Contributions.PolicyTeam@aucklandcouncil.govt.nz
Auckland Council
Freepost Authority 182382
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Auckland 1142

Auckland Council draft Development Contribution Policy

1. Summary

1.1. NZ Storage Holdings Limited welcomes the opportunity to provide feedback on the Auckland Council's ("the Council") Development Contribution Policy 2022 ("DC policy"). It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers.

1.2. We strongly oppose the proposal to increase the average development contribution fee from around $23,000 in Auckland to $83,000 in Drury. Increases of this magnitude would have a negative impact on the number of houses developed and housing affordability.

1.3. We recommend the new Mayor and Council revisit the 30-year funding and financing plan decision that the previous Council made and replace it with a 30-year strategic vision that is financed and reforested in 10-year increments. Shifting from 30-year financing to 10-years would allow the Council to use alternative funding and financing mechanisms such as using the Crown Infrastructure Partners balance sheet through the Infrastructure Funding and Financing Act. Consequently, decreasing the blunt funding tool of charging $83,000 on average per household for DCs in Drury.

1.4. We are extremely concerned that if the Council approve Drury DCs to this magnitude ($83,000), it will establish a precedent throughout Auckland. This would result in a huge amount of uncertainty for the rest of Auckland with all future pipeline development (residential, commercial, industrial and retail) being put on hold due to having to reassess feasibility. This will in turn put more pressures on New Zealand's housing supply and will likely see the sector look outside of Auckland for development opportunities. In turn, this would only add to housing affordability pressures in Auckland.

2. Recommendations

2.1. We strongly oppose the 30-year timeframe and $83,000 average DC fees. We recommend:

- The new Mayor and the Council reconsider the 30-year infrastructure funding and financing timeframe, due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions;
- The Council request officers to develop a 30-year strategic vision for Drury, with funding and financing reforecast every 10 years;
- The Council request officers to develop a 10-year funding and financing plan that incorporates Crown Infrastructure Partners funding;
- The Council remove causation from their modelling which would decrease Drury DCs by 9.5 per cent (very much a minimum reduction we are seeking);
- The Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur; and
- The Council work closely with the residential developers to better understand the implications that DC increases have on house prices.

2. 30-year timeframe creates complexities with funding and financing

2.1 The previous Council decided to introduce a 30-year timeframe to fund and finance infrastructure in Drury. This is a significant change from current 10-year timeframes within Long Term Plans.

3.1. It is essential that the Council has a robust DC policy that allows developers to make informed long-term investment decisions and ensures a fair distribution of fees amongst all ratepayers. However, when looking at the cost of infrastructure over a 30-year timeframe, complexities arise around the accuracy of the price of infrastructure creating uncertainty. Particularly, when trying to estimate things such as inflation, delivery risks, costs of infrastructure, and future demands over a 30-year period. We have serious concerns that the calculations become increasingly inaccurate and uncertain past 10 years.

3.2. For example, there are a number of things that add to the complexity of the modelling and will need to be considered by Council, such as:

- Impact of inflation on delivery of projects over time;
- Benefits of paying upfront vs. delivery risks;
- The accuracy of capital expenditure allocations that far in advance, given that each development will not necessarily generate the same demand on infrastructure;
- Evidence supporting the Council's decision to take a 30-year approach;
- Actions the Council will have to take to ensure money collected today will be spent on delivery of the projects over 30-year period;

- The impacts on development in the short term;
- Lack of evidence suggesting that a 30-year approach is better than a 10-year one; and
- The time value of money, and how the real value of contributions collected today will not erode through inflation, specifically in relation to the increasing costs of the anticipated future infrastructure against which it is allocated.

6.1. The proposed changes lack transparency and raise concerns around the accuracy of the proposed DC charges. In particular, we are concerned that there could be over collection of DCs in which the Council will be legally required in 30-years' time to track down the developers and return any overcompensation in the way of remuneration. This too will add layers of complexity for the Council and is another reason why we support 10-year funding and financing timeframe.

6.2. Both Wellington City Council and Tauranga City Council are using Crown Infrastructure Partners to fund significant infrastructure projects within their region. Using the Infrastructure Funding and Financing Act could result in Crown Infrastructure Partners funding a significant proportion of infrastructure within Drury. We urge the Council do to the same.

6.3. We recommend the new Mayor and the Council reconsider the 30-year infrastructure funding and financing due to a number of uncertainties (such as predicting the future cost of infrastructure and insurance) which could result in grossly overcharging through development contributions. We already have many questions relating to the proposed cost of infrastructure, as we believe the costs are overstated as discussed later in our submission.

6.4. Instead, we are supportive of a 30-year strategic vision for Drury, with financing and reforecasting in 10-year increments. This would better ensure that project costs are greater aligned to upcoming projects and lowers the risk of cost blow-outs from insurance or overcharging through DCs. Reforecasting every 10 years will also allow for alternative funding and financing mechanisms through the Infrastructure Funding and Financing Act and reduce the proposal to have a $83,000 average DC fee per household. This will help ensure fairer allocation, better transparency and intergenerational equity.

7. Problems with model

Causation

7.1. We are concerned that without ringfencing DCs to the Drury development, removing causation or reforecasting infrastructure every ten years, there will be significant equity issues. It is extremely problematic that a household moving into the Drury

development in the early years, will contribute to the upfront costs of thirty years' worth of infrastructure – a benefit of which they may never see or experience in their time living in Drury. This does not seem equitable or fair.

7.2. We disagree with the Council including causation into their modelling. If the Council remove causation from their modelling this would see a reduction of $44m or 9.5 per cent of costs. As we see it, the Council incorporating causation into their modelling is a way to collect more fees. It is important to note that 9.5 per cent is only a small fraction of the total proposed DC increase.

Prices may not affect actual costs and in some cases are introduced 'after the fact'

7.3. We have concerns that the current prices of infrastructure are inflated and do not reflect actual costs. Not only do we have concerns with current pricing, but our concerns exponentially increase beyond the 10 year forecast due to the uncertainty of pricing increasing.

7.4. We are also concerned around double dipping. In particular, where private developer/s have paid for a piece of infrastructure (i.e. stormwater) but are being charged for that same piece of infrastructure through development contributions. We strongly recommend that the Council continue to work closely with developers that have already invested in infrastructure in Drury to ensure that double dipping does not occur, due to the serious nature of consequences if discovered.

7.5. We are particularly concerned that DC costs are rising after land is sold, or in some instances projects signed on the dotted line. The Council's proposal to significantly increase DCs in Drury will impact more significantly on developers and future residents having to share the load.

8. Housing affordability

8.1. Direction 3 of the Auckland Plan seeks to shift to a housing system that "ensures secure and affordable homes for all".

8.2. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

8.3. The Council economist has stated that it does not consider these increases will impact housing affordability. We disagree. Property Council New Zealand's 2021 Economics Assessment as attached in their 2021 submission, concluded that the changes will reduce supply, increasing prices for existing stock and passing on the DC increases

into the price of new housing stock (in cases where developers are not entirely deterred from constructing more housing).

8.4. Adding to our affordable housing concerns are the Council's predictions for the price of land in Drury. For example, the Council have priced Drury land at the equivalent price of Remuera. Drury land is difficult to develop. The difficulty of predicting land prices over the 30-year period is significant and the Council's predicted land price in Drury is not conducive to predicted values in the coming years.

8.1. Furthermore, accumulative costs are an important factor in DC considerations. The industry in Auckland is already facing huge inflationary costs across the board. Construction costs have gone up between 5-15 per cent, land values have increased between 20-30 per cent, while building material costs have gone up by 5-15 per cent in the last year alone. These increases must be factored into the DC policy.

8.5. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. At a time when we desperately need to be increasing our housing supply and streamlining development, we are potentially creating a 'perfect storm' that could have the opposite effect.

8.6. We have serious reservations towards the Council believing that increasing DCs will not result in house prices increasing. Increasing DCs from around $23,000 to $83,000 average per household will have significant consequences and likely hinder unlocking Drury development altogether.

9. Conclusion

9.1. We strongly oppose the Council's proposed 30-year timeframe and draft DC policy which would see the average house contribute over $83,000 in DCs. This will have negative effects to the Drury development and could set a precedent across Auckland. Consequently, developers will start to look for investment opportunities outside of the Council's Priority Areas or entirely outside of the Auckland region.

Yours sincerely,

[redacted]

NZ Storage Holdings Limited