Methodology demonstrating calculation of development contributions

Supporting
Contributions Policy 2019

Version: Final
Date: 13 December 2018

Contact: Bobbi Parkinson
Financial Strategy and Planning
Document Number: 0.3

Table of Contents

Methodology demonstrating calculation of development contributions

1.0 Purpose

As part of its policy on development contributions or financial contributions, Auckland Council has resolved to require development contributions to be used as the main funding tool for growth related infrastructure. In accordance with Section 106(3) of the Local Government Act 2002, this is the full methodology that demonstrates how the calculation of the development contributions was made. This is not a summary required in accordance with Section 201(1)(a) of the Act that explains and justifies the way in which each development contribution is calculated.

This document is intended to meet the public inspection requirements of the Act. It is not intended as a practice manual for officers applying the methodology. Its purpose is to give confidence to the public and interested parties that the methodology is based soundly in law and produces reasonable outcomes.

2.0 Statutory requirements

The legislation sets out the framework within which the Council makes and administers its policy on development or financial contributions. The legislative framework contains particular requirements relating to the calculation of development contributions. The principal statutory requirements in calculating contributions are shown in **Appendix 1** which emphasises a number of particular aspects in law to be observed when calculating contributions.

The calculation methodology described in this document is based on attending to each of the key legislative requirements. In addition to requiring compliance the Local Government Act 2002, enables and in some cases requires the Council to make certain judgements about what it considers appropriate and to base its considerations on assumptions.

However, while it may make judgements and assumptions, the Council must still be seen to have acted reasonably, fairly and consistently when making any consideration or using any methodology.

All persons exercising duties and functions related to development contributions must take into account the development contribution principles in Section 197AB of the Local Government Act 2002 when preparing a development contribution policy under section 106. Other key provisions governing the contents of this methodology document include section 101(3) and Schedule 13.

3.0 Auckland’s approach to meeting the statutory requirements

The methodology adopted for the Contributions Policy 2019 has been refined and improved over time. Projects that were delivered under previous policies and legacy councils keep the methodology that was applicable at the time of delivery.

Nothing in the Local Government Act 2002 requires contribution calculation methodology to be carried out at project level. Section 101(3) – one of the principal pieces of legislation used in allocating costs requires analysis at an *activity* level. While some contribution calculations work at an activity level, common practice is to work to project level. It is a principle of this methodology that, wherever possible, cost allocation be carried out at least at a programme level and preferably at a project level to enable more refined analysis and transparency.

4.0 Methodology detail

The legislative requirements with which the Council must comply in calculating development contributions are shown in Table 1 and illustrated in **Figure 1** and can be broadly categorised under seven headings. The response in the methodology to each requirement is set out under each heading.

1. Allowances for costs to be included:

Legislation requires the total cost of the capital expenditure the council expects to incur to meet increased demand resulting from growth to be included into development contribution calculations. The total cost of capital expenditure should be that reflected in the council's long-term plan, as well as past spending incurred in anticipation of growth (see sections 199 and 201A(3)) and interest incurred in undertaking that expenditure.

Methodology response
The methodology uses an Excel based spreadsheet (the Auckland Council Development Contributions Cost Allocation Model (ACDCCAM).

While cost allocation can be lawfully carried out at an activity level, the spreadsheet lists all capital works at either a project or programme level but preferably at a project level to improve detail and transparency.

In determining costs eligible for inclusion, in accordance with Schedule 10 of the Act, projects or programmes are derived from the asset management plans and initially categorised into renewal, service level improvement and demand types defined as follows and illustrated in **Figure 2**:

- Renewal: Maintains and continues the provision of services. Increases the physical integrity and remaining life of assets with no change to the asset base. A renewal project/programme may include a growth component.
- Level of service: Results in improved standards of quality, reliability, responsiveness, safety, comfort, flexibility, regulatory requirements or similar. May or may not result in new or additional assets. A service level improvement project/programme may include a growth component.
- Growth: Increased availability and capacity to cater for increased people, water, traffic or similar. Associated with an increase in the asset base – the number of assets, total area or length – as distinct from expenditure that is related to the existing community. A growth project/programme may include renewal or level of service components and may include demand generated by the existing community.

2. Screening provisions:

Legislation imposes limitations requiring the exclusion of certain sources or types of funding, such as operating and maintenance costs, subsidies, grants, developer funded works, financial contributions or targeted rates funding.

Methodology response
The methodology specifically requires any operating or maintenance costs to be declared and excluded. It also requires any subsidies, third party, developer, financial contribution or other funding source for the project/programme to be declared. Any such costs are deducted from the project/programme cost to arrive at net cost which goes forward to the contribution calculation. See **Figure 2.**

3. Cost allocation capital activities, programmes or projects – among sources of funding:

Legislation requires costs to be attributed between different parts of the community after consideration of (amongst other matters) of the community outcomes to which the activity contributes, and who causes and benefits from the expenditure being incurred. Consideration also needs to be given to the periods over which benefits are expected to occur, and the costs and benefits of funding an activity distinctly from other activities. Cost allocation can determine a proportion of capital expenditure attributable to growth and recoverable through development contributions. While the analysis is required at an activity level, cost allocation at a programme or project level is preferable.

Methodology response
The methodology allows for asset managers to make determinations of appropriate levels of funding from sources such as rates and development contributions, when carrying out considerations under Section 101(3) of the Act. At this stage of the development of the ACDCCAM, the determinations under Section 101(3)(a)(ii) and (iv) are required to be expressed as average percentage.

The percentage amount indicates the part of a project/programme's net cost that relates to providing increased capacity (new assets or assets of increased capacity) to meet the increased demand from growth. Asset managers also attribute the growth related portion of project/programme net cost to the applicable separate activity funding area in the development contributions policy to reflect the users or beneficiaries of the programme/ project.

The current ACDCCAM relies in some cases on cost allocations made in legacy policies of the former councils but only where a project/programme is directly comparable to a project/programme in a legacy policy model.

4. Cost allocation – intergenerational equity:

Legislation requires a consideration of the period over which the benefits of growth related capital spending will accrue and attribution of costs between the growth community over time, including "new" growth occurring during the long term plan period and *"future"* growth occurring after Year-10.

Methodology response
Asset managers also make determinations under Section 101(3)(a)(iii) on intergenerational equity, by stating the proportion of benefit of any project/programme expected to accrue to new development occurring in the long-term plan period and that expected to accrue to future development occurring after Year-10.

This determination indicates whether the project/programme is expected to provide capacity for more than 10 years of growth (within the relevant activity funding area). Projects that are part of an ongoing programme are usually assumed to deliver capacity for 10 years of growth over the long-term plan period while major separately identifiable projects can be expected to have a proportion of benefit attributed to development after the long-term plan period.

5. Totalling and attribution:

Legislation requires totalling of all capital expenditure (at an activity or group of activities level) within the district as a whole or parts of it (activity-funding areas) and sharing that expenditure among units of demand assesses by which the impact of growth has been assessed.

Methodology response
The portion of capital costs in any project/programme which is attributable to growth in the 10 year long term plan period is totalled with all other portions and sorted by activity and funding area. This result is passed to the Auckland Council Development Contributions Funding Model (ACDCFM).

In the ACDCFM, costs are attributed to the growth units of demand expected in the activity funding area in the 10-year period, as derived from the Auckland Regional Transport Model – Scenario I11 (June 2017).

6. Declaration and reporting - Outputs for public scrutiny:

Legislation requires methodology to be shown and for a schedule of contributions to be provided. This document and schedule of assets to be funded by development contributions provides the full methodology for the calculation of development contributions for public inspection. Section 6 and Attachments B and C of the Development Contributions Policy describe in summary form the way in which contributions are calculated.

Methodology response
Figure 1 illustrates the processes and the role of assumptions and determinations in producing a schedule of development contributions.

Figure 1

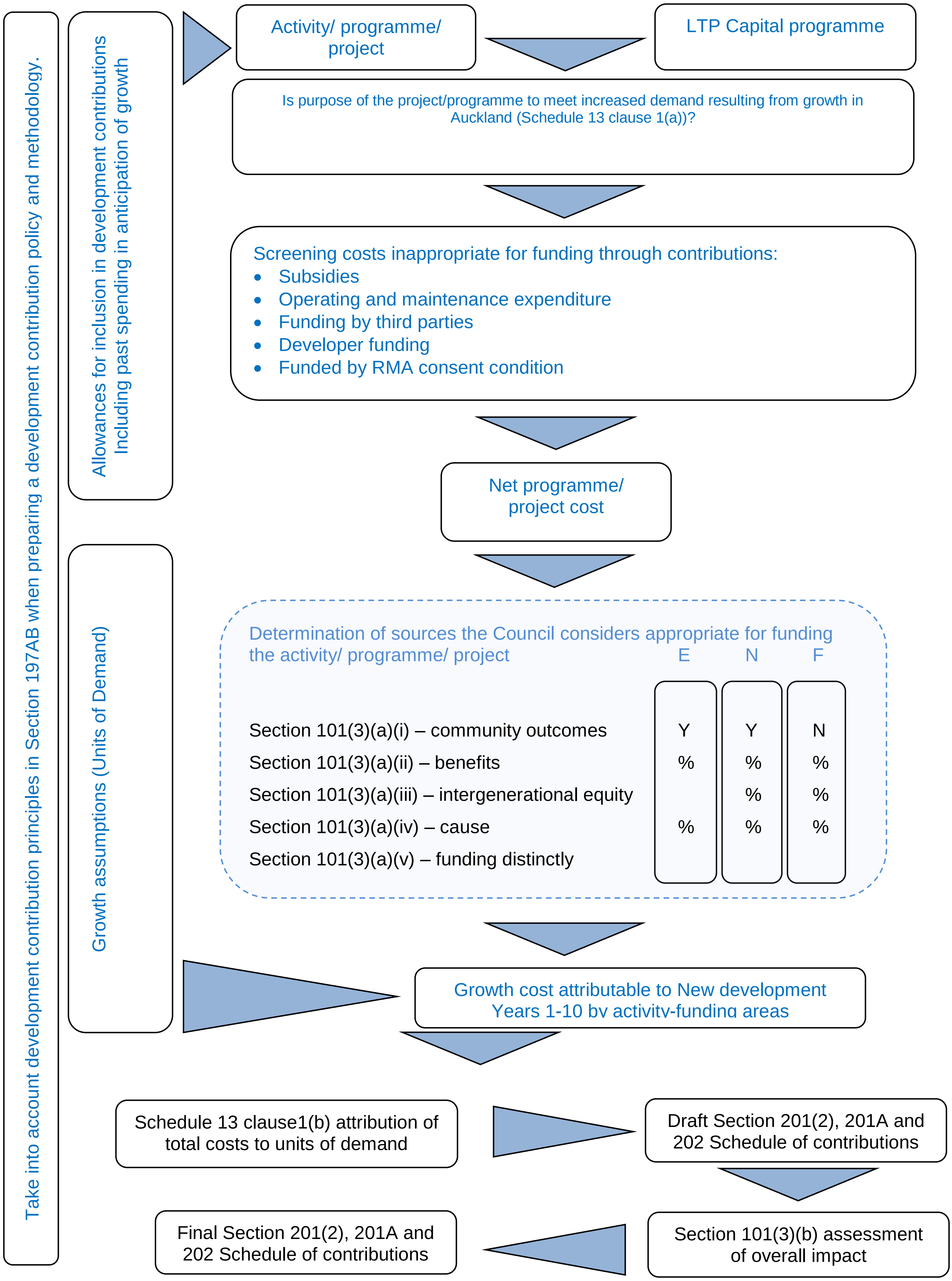
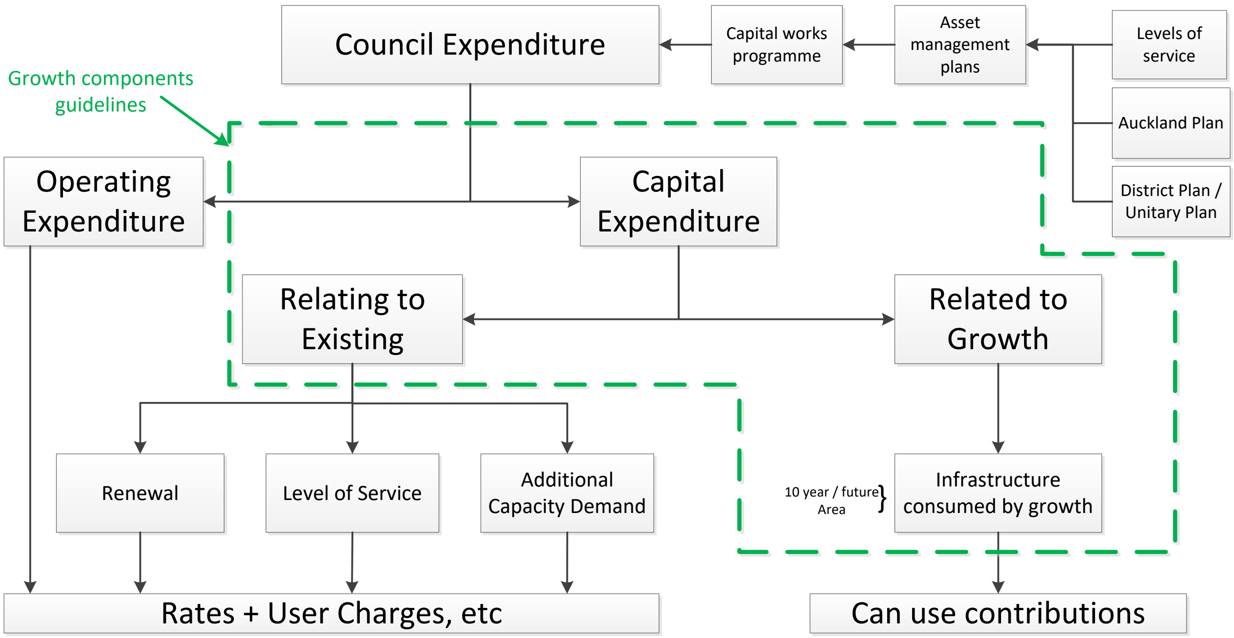

Take into account development contribution principles in Section 197AB when preparing a development contribution policy and methodology.
Allowances for inclusion in development contributions
Including past spending in anticipation of growth
Growth assumptions (Units of Demand)
Activity/ programme/ project
LTP Capital programme
Is purpose of the project/programme to meet increased demand resulting from growth in Auckland (Schedule 13 clause 1(a))?
Screening costs inappropriate for funding through contributions:
Subsidies
Operating and maintenance expenditure
Funding by third parties
Developer funding
Funded by RMA consent condition
Net programme/ project cost
Determination of sources the Council considers appropriate for funding the activity/ programme/ project
E N F
Section 101(3)(a)(i) – community outcomes Y Y N
Section 101(3)(a)(ii) – benefits % % %
Section 101(3)(a)(iii) – intergenerational equity % %
Section 101(3)(a)(iv) – cause % % %
Section 101(3)(a)(v) – funding distinctly
Growth cost attributable to New development Years 1-10 by activity-funding areas
Schedule 13 clause1(b) attribution of total costs to units of demand
Draft Section 201(2), 201A and 202 Schedule of contributions
Section 101(3)(b) assessment of overall impact
Final Section 201(2), 201A and 202 Schedule of contributions

Figure 2

Growth components – funding tools



Appendix 1: Statutory requirements for calculating development contributions

Section reference LGA 2002	Content	Consideration required/ Result
Section 101(3)(a)	Sets out five considerations (community outcomes, distribution of benefit, period over which benefits occur, cause, costs and benefits of funding distinctly) when determining whether development contributions are an appropriate source of funding for each activity.	The considerations assist in determining activities to be funded by development contributions and the funding areas that will apply to each activity
Section 101(3)(b)	Consideration of overall impact of any allocation of liability for revenue needs on the community when determining whether development contributions are an appropriate source of funding for each activity.	After making its cost allocation considerations under Section 101(3)(a) Council may deem it appropriate to shift the resulting cost allocation burden to address wider impacts on the community
Schedule 13	In order to calculate the maximum development contribution in respect of a community facility or an activity or group of activities for which a separate development contribution is to be required, a requirement to first— a) ***identify the total cost of the capital expenditure*** that the local authority expects to incur in respect of the community facility, or activity or group of activities, to meet increased demand resulting from growth within the district, or part of the district, as the case may be; and b) ***identify the share of that expenditure attributable to each unit of demand***, using the units of demand for the community facility or for separate activities or groups of activities, as the case may be, by which the impact of growth has been assessed.	Total growth related costs of capital expenditure (including borrowing costs) for an activity in a given funding area must be shared fairly among all the growth units expected to take it up
Section 197AB	All persons exercising duties and functions under this subpart must take into account the following principles when preparing a development contributions policy under section 106 or requiring development contributions under section 198: a) development contributions should only be required if the effects or cumulative effects of developments will create or have created a requirement for the territorial authority to provide or to have provided new or additional assets or assets of increased capacity: b) development contributions should be determined in a manner that is generally consistent with the capacity life of the assets for which they are intended to be used and in a way that avoids over-recovery of costs allocated to development contribution funding: c) cost allocations used to establish development contributions should be determined according to, and be proportional to, the persons who will	Council must take into account the purpose and principles of development contributions when preparing and applying the development contribution policy.

Section reference LGA 2002	Content	Consideration required/ Result
	benefit from the assets to be provided (including the community as a whole) as well as those who create the need for those assets: d) development contributions must be used— i. for or towards the purpose of the activity or the group of activities for which the contributions were required; and ii. for the benefit of the district or the part of the district that is identified in the development contributions policy in which the development contributions were required: e) territorial authorities should make sufficient information available to demonstrate what development contributions are being used for and why they are being used: f) development contributions should be predictable and be consistent with the methodology and schedules of the territorial authority's development contributions policy under sections 106, 201, and 202: g) when calculating and requiring development contributions, territorial authorities may group together certain developments by geographic area or categories of land use, provided that— i. the grouping is done in a manner that balances practical and administrative efficiencies with considerations of fairness and equity; and ii. grouping by geographic area avoids grouping across an entire district wherever practical	
Section 199(2)	Allowance that a development contribution can be used to pay, in full or in part, for ***capital expenditure*** already ***incurred by the Council in anticipation of the development.***	The contribution calculation methodology can include capital expenditure the Council has incurred already but it must have been incurred in anticipation of a/the development.
Section 204(1) and S197AB (d)	A development contribution must be used for, or towards, the ***capital expenditure*** of the reserve, network infrastructure, or community infrastructure for which the contribution was required, which may also include the development of the reserve, network infrastructure, or community infrastructure; but must not be used for the maintenance of the reserve, network infrastructure, or community infrastructure.	Only growth related capital costs can be entered into the calculation methodology and they must be attributed to the activity and funding area for which they were required
Section 200(1)(a)	Council must not require a development contribution for a reserve, network infrastructure, or community infrastructure if, and to the extent that it has imposed	Development and financial contributions cannot be taken for the same purpose. Any costs to be funded by financial

Section reference LGA 2002	Content	Consideration required/ Result
	a condition on a resource consent in relation to the same development for the same purpose.	contributions must be excluded from the calculation methodology
Section 200(1)(b)	Council must not require a development contribution for a reserve, network infrastructure, or community infrastructure if, and to the extent that a developer will fund or otherwise provide for the same reserve, network infrastructure, or community infrastructure.	Capital costs incurred or to be incurred by a developer* (and will not be reimbursed by council) must not be entered into the calculation methodology
Section 200(1)(ba)	Council must not require a development contribution for the same purpose in respect of the same building work, whether on the granting of a building consent or a certificate of acceptance.	Development and financial contributions cannot be taken for the same purpose. Any costs to be funded by financial contributions must be excluded from the calculation methodology
Section 200(1)(c)	Council must not require a development contribution for a reserve, network infrastructure, or community infrastructure if, and to the extent that Council has received or will receive funding from a third party.	Capital costs to be recovered by the Council from a third party cannot be entered into the calculation methodology
Schedule 10 Part 1 – 3(1)	A long-term plan must, in relation to each group of activities of the local authority and for each financial year covered by the plan, include a statement of the amount of capital expenditure that the authority has budgeted to— a) meet additional demand for an activity; and b) improve the level of service; and c) replace existing assets.	This requires the Council to distinguish between three different types of capital expenditure. It is only capital expenditure that meets additional demand for an activity that can be considered for funding through development contributions.
Section 106(2)	The contributions policy must: a) summarise and explain the total cost of capital expenditure identified in the long-term plan, or identified under clause 1(2) of Schedule 13 that the local authority expects to incur to meet the increased demand for community facilities resulting from growth; and b) state the proportion of that capital expenditure that will be funded by (i) development contributions: (ii) financial contributions: (iii) other sources of funding.	The calculation methodology must produce summary tables that show the different sources for funding capital expenditure on an activity

Section reference LGA 2002	Content	Consideration required/ Result
	d) identify separately each activity or group of activities for which a development contribution or a financial contribution will be required and, in relation to each activity or group of activities, specify the total amount of funding to be sought by development contributions or financial contributions. e) if development contributions will be required the local authority must comply with Sections 201 to 202A requirements.	
Section 106(3)	If development contributions are required, the local authority must keep available for public inspection the ***full methodology*** that demonstrates how the calculations for those contributions were made.	This is a reporting requirement enabling any person to see in detail the way in which development contributions are calculated. The detailed methodology need not be contained in the contributions policy
Section 201(1)	In addition to the matters set out in Section 106, a development contributions policy must include, ***in summary form***, (a) an explanation of, and justification for, the way each development contribution in the schedule of development contributions (required by Section 202) is calculated.	This is a requirement for the contributions policy to hold sufficient information for a person to gain a reasonable understanding of the way in which development contributions are calculated
Section 201(2)	This requires a development contributions policy to contain a schedule of development contributions in accordance with Section 202.	The calculation methodology must produce a schedule showing contribution amounts for different activities in different areas
Section 201A	Reporting requirement to show in the development contribution policy a schedule of assets for which development contribution will be used must list - a) each new asset of programme of works b) estimated capital cost of each asset c) proportion of capital costs to recover through development contributions d) proportion of capital costs to recover through other sources Assets can be grouped together in logical format that reflect complete programme of works. Section 201A(3) also states the schedule must include assets that have already been delivered for growth and the amount still to be recovered through development contributions. (Assets must be ground by “district” or “part of the district” and by the activity or group of activities for which the contribution was required	This is a reporting requirement enabling any person to see in detail which assets and groups of assets are to be funded by development contributions. The policy must produce a schedule showing assets and groups of assets grouped by activity and funding areas and the proportion to be funded by development contributions and other funding sources.

Section reference LGA 2002	Content	Consideration required/ Result
Section 202	Reporting requirement to show in the schedule of development contributions required by Section 201(2) — the development contributions payable in each “district”, calculated, in each case, in accordance with the methodology in respect of— (i) reserves; and (ii) network infrastructure; and (iii) community infrastructure. If different development contributions are payable in different parts of the “district”, the reporting requirement applies in relation to the each part of the “district”. The requirements are to report separately in relation to each activity or group of activities for which separate development contributions are required.	The calculation methodology must produce a schedule showing contribution amounts for different activities in different areas