

Property Council New Zealand

Submission on Draft Tauranga City Council Development Contributions Policy

26/04/2022

For more information and further queries, please contact

Logan Rainey
Logan@propertynz.co.nz
021410787

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Tauranga Submissions
Tauranga City Council
Tauranga 3143

Tauranga City Council Development Contributions Policy 2022

1. Summary

1.1 Property Council New Zealand Central Region Branch (“Property Council”) welcomes the opportunity to provide feedback on the [Tauranga City Council’s draft Development Contributions Policy 2022](#). We have made a list of recommendations to influence better and fairer outcomes for all.

2. Recommendations

2.1 At a high level, we recommend that Tauranga City Council:

- Not adopt the proposed 15% increase in city-wide development contributions;
- Discontinue the use of city-wide development contributions to fund community infrastructure; and
- Make use of alternative funding models for investment in community infrastructure.

2.2 Property Council is in favour of:

- The proposed approach to local development contributions; and
- The proposed changes to Section 2 of the Development Contribution Policy.

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 the largest industry in the Bay of Plenty. There are around \$97.4 billion in property assets across the Bay of Plenty, with property providing a direct contribution to GDP of \$2 billion (13 percent) and employment for 11,730 Bay of Plenty residents.

3.4 Property Council is the collective voice of the property industry. We connect property professionals and represent the interests of 72 Bay of Plenty based member companies across the private, public and charitable sectors.

3.5 This document provides Property Councils feedback on [Tauranga City Council’s draft Development Contributions Policy 2022](#). Comments and recommendations are provided on issues relevant to Property Council’s members.

4. Policy Process

- 4.1 It is crucial that development contributions policies provide developers with long term certainty to make significant investments, both in new housing and in commercial developments. This draft policy is the second development contribution policy released by Tauranga City Council (“TCC”) in the past year. Property Council submitted to TCC in June 2021, on both the Long Term Plan 2021-2031 and the 2021 Development Contribution Policy.
- 4.2 Property Council understands the circumstances surrounding the need to provide two development contribution policies in the past year, but we stress the importance of stability when it comes to development contribution policies in order to provide certainty to the private sector and encourage future development and investment in Tauranga.

5. Increase to city-wide development contributions

- 5.1 TCC has proposed a 15% increase in city-wide development contribution fees for residential developments across Tauranga. The proposed increase is intended to fund a number of community infrastructure projects, namely the Memorial Aquatic facility, the City Centre library, and the indoor court facilities at Memorial Hall.
- 5.2 There has been a significant increase in the cost of development contributions in Tauranga over the past two years. The proposed increase for 2022 is in addition to the large increase to city-wide development contribution fees introduced last year in the 2021-2031 Long Term Plan, which saw city-wide development contributions on a three-bedroom house increase from \$12,200 to \$28,557.
- 5.3 Under TCCs proposal, a city-wide residential development contribution fee for a new three-bedroom house in Tauranga would increase from \$28,557 to \$32,754. Any residential development may also need to pay a local development contribution fee. This adds an additional \$4,227-\$41,324 depending on where the development occurs.
- 5.4 Property Council does not support the use of development contributions to fund community infrastructure and therefore, does not support the proposed 15% increase in city-wide development contributions.

Use of development contributions to fund community infrastructure

- 5.5 We are deeply disappointed to see that TCC has continued the use of development contributions to fund community infrastructure and has not implemented our previous recommendations to adopt alternative funding mechanisms.
- 5.6 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.
- 5.7 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.
- 5.8 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.

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

- 5.9 We are concerned that when development contributions are used as a funding model for community infrastructure, it is difficult to attribute a causal nexus to the demand for wider, holistic, demand for community infrastructure.
- 5.10 We urge TCC not to treat city-wide development contributions as an alternative to increasing rates, for services and infrastructure that may or may not be used by the eventual users of those developments.

Rising cost of doing business

- 5.11 Using city-wide development contributions to fund community infrastructure, by definition, widens the scope of infrastructure funded by development contributions and therefore increases the financial cost charged to developers of new properties in Tauranga and will likely be passed onto the end consumer i.e., house purchaser.
- 5.12 Property Council has deep concerns regarding the extent to which TCC is seeking to raise costs for the business sector in Tauranga. Alongside the proposed development contribution policy, TCC through the draft Annual Plan, is proposing to significantly increase the commercial rating differential along with proposed large-scale increases in general rates for 2022.
- 5.13 The cumulative effect of all these changes is a significant increase in the cost of doing business in Tauranga. All these additional costs come at a crucial, and challenging, time for Tauranga businesses. They also run contrary to TCCs stated aim of encouraging new private sector investment in the rejuvenation of the CBD.
- 5.14 An independent economic report by Insight Economics, commissioned in 2018 by Hamilton City Council, found that:

“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 landowners 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.”

- 5.15 Given the report’s findings in Hamilton, we are concerned that a 15% increase in city-wide development contributions would ultimately have a negative impact on house prices and serve as a disincentive to future development in Tauranga.
- 5.16 As discussed in the Insight Economics report, higher development contribution costs will likely result in the following impacts for Tauranga:
- Higher house prices across the city, as the costs of higher development contributions are passed onto consumers; and
 - Future development viability is negatively impacted, leading to the potential for future developments to be cancelled or postponed.
- 5.17 In a time when Tauranga is experiencing record growth in house prices and ongoing shortages of new homes, now is not the time to financially penalise new developments. We therefore recommend that TCC discontinue the use of development contributions to fund community infrastructure.

Viable alternative funding models for community infrastructure

- 5.18 Property Council has consistently supported the use of transparent, beneficiary pays funding models for local government. We support the use of a wide range of alternative funding models for the funding needs currently met with city-wide development contributions for community infrastructure. Examples of these include such as targeted rates, user-pays approaches to delivering services and special purpose vehicles (SPVs).
- 5.19 These models are more equitable to ratepayers and better meet the legislative principles of transparency and objectivity for funding local government set out in both the *Local Government Act 2002* and *Local Governing (Rating) Act 2002*.
- 5.20 These models more equitably distribute the costs of investment in community development across the broader community, all of whom benefit from such investment. They also offer ratepayers greater transparency and certainty, while funding community infrastructure in manner with far fewer external consequences to development and house prices.
- 5.21 We therefore recommend that TCC make use of alternative funding models for investment in community infrastructure, such as targeted rates, user-pays approaches to delivering services and special purpose vehicles (SPVs).

6. Local Development Contributions

- 6.1 TCC has updated the capital expenditure budgets for local infrastructure funded by local development contribution. As such, there are an array of proposed alterations to local development contribution charges.
- 6.2 Many of these are relatively minor. Some of the more notable changes include a 4.4% increase for the Pyes Pa West area, due to an increase in land costs for infrastructure, as well as a 6% increase for the West Bethlehem area due to the gradual withdrawal of the existing TCC subsidy for development.
- 6.3 We support the proposed changes to local development contributions and are comfortable with the rationales for the two increases. As already discussed, Property Council members believe in paying a fair and equitable share of the cost of developing new, core infrastructure that enables development in Tauranga.

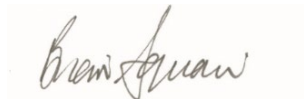
7. Update to Section 2

- 7.1 TCC has proposed two updates to Section 2 of the Development Contribution Policy, compared to the 2021 Development Contribution Policy.
- 7.1.1 Changes to paragraph 2.2.2 (c) would enable development contributions to be charged when the 'permitted' use of a building changes. For example, if the new permitted use would entail a higher development contribution charge as a new build, a top up development contribution charge would be levied. Although supportive, we have concerns around the complexity of the policy and encourage greater transparency on how this would operate. For example, if the permitted use changes resulting in a lower development contribution charge could a refund be provided?
- 7.1.2 Changes to paragraph 2.3.1 (e) would enable development contributions to be charged on developments outside TCCs Urban Growth Area if it is connected and serviced by local infrastructure. We are of the view that all developments that access the same local infrastructure should pay an equal share of development contribution charges.

8. Conclusion

- 8.1 Property Council supports elements of [Tauranga City Council's draft Development Contributions Policy 2022](#). We are in favour of the updates to local development contributions and the proposed changes to Section 2 of the Policy.
- 8.2 However, we are deeply concerned about the proposed increase in city-wide development contributions. We have consistently opposed the use of city-wide development contributions to fund community infrastructure and have recommended the use of alternative funding models.
- 8.3 Property Council members invest, own, and develop property in Tauranga. We wish to thank TCC for the opportunity to submit on the draft Development Contributions Policy as this gives our members a chance to have their say on the future of our city. We would like to make an oral submission to TCC in support of our position.
- 8.4 Any further enquires do not hesitate to contact Logan Rainey, Advocacy Advisor, via email: Logan@propertynz.co.nz or cell: 021410787.

Yours Sincerely,



Brian Squiar

Central Committee Chair