15 March 2010

MAJOR PROBLEMS WITH DEVELOPMENT AND FINANCIAL CONTRIBUTIONS IDENTIFIED

A joint report by the Local Government Forum and the Property Council New Zealand identifies major problems with the practices of councils in levying development and financial contributions.

Taxing Growth and Development: A critical review of the role of development and financial contributions examines the conceptual bases for such contributions, considers alternatives (particularly greater recourse to user charges) and recommends policy reforms.

Development contributions were introduced in the Local Government Act 2002 and most councils impose them when land is subdivided or developed. They are mainly used to fund capital spending on water, wastewater, stormwater, transport, and parks and reserves.

Financial contributions are levied under the Resource Management Act 1991 to fund similar capital expenditure, particularly on parks and reserves, intended to mitigate the environmental effects of developments.

Local Government Forum chair Charles Finny said that both development and financial contributions have been growing rapidly.

“Development contributions are expected to raise $3.9 billion or 5.3% of all council revenue during 2006-16. For some councils with rapidly growing populations, the figure is up to 20%.

“Contributions of around $30,000 for each residential section are common in some districts. They are a major reason for the excessive cost of housing in New Zealand.”

Property Council New Zealand chief executive Connal Townsend said the property sector faced similar excesses, as the case taken by Neil Construction and some other developers against North Shore City demonstrated.

“Commercial projects are also subject to development and financial contributions. These costs are passed forward to homeowners and consumers, or backward to the owners of undeveloped land.”

The report finds that development and financial contributions involve complicated formulas, lack transparency and weaken the accountability of elected representations. Direct user charges would be superior mechanisms in many situations.

The report also suggests that a value for money test should be applied to council requirements or that development contributions be capped like financial contributions, as is generally the case in Australia.
The Local Government Forum and Property New Zealand are calling on the government to review both levies on a first principles basis as part of its current reviews of the Local Government Act and the Resource Management Act.

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