

SUBMISSION ON DRAFT REPORT ON LOCAL GOVERNMENT FUNDING AND FINANCING

INTRODUCTION

Loadscan is a family owned and operated Hamilton based business involved in the software development, design, development and supply of laser based 3D load measurement systems. These systems are used both nationally and internationally in a number of industries including mining, quarrying, civil construction, land development and remediation. Loadscan has experienced steady growth over the past 6 years. It has now matured to the point where its staff FTE numbers are known and, with the aid of changing technology, will be able to support additional sales growth for many years to come.

Loadscan currently operates out of at 105 Higgins Road Hamilton at a site which is shared with larger associated company. The floor plan that Loadscan currently occupies is cramped and lacks warehousing space; hence this is what has led to a management decision to relocate to a new building. Loadscan is currently assembling and storing larger and bulky steel pieces of its LVS system for use in the countries outside of New Zealand.

Loadscan is currently in the process of relocating to a new building in Rotokauri, Hamilton and has been experiencing the adverse effects of monopoly power by the Council in the assessment of DCs.

Loadscan **generally supports Recommendation 6.1** of the draft report concerning the need for standardised DC templates but it has serious concerns about both the integrity and substance of Finding 6.5 if that finding assumed Hamilton's DCP is an example of a good DCP.

This submission is confined to the issue of DCs and particularly the methodologies used by local councils to calculate DCs once the charges have been set.

WHAT REPRESENTS A GOOD DCP?

In regard to DCs, the draft report refers to a report prepared by Insight Economics Ltd titled “Review of Changes to Council Development Contributions Policies in four High-Growth Areas” which critiqued the DCPs in Auckland, Tauranga, Hamilton and Queenstown relative to some desirable policy features it identified. Noticeably, the DC assessment methodologies used by councils or the policy constraints imposed on DC assessments to ensure the principles for DCs are actually being applied by local councils were not identified as desirable features of a good DCP.

The original submissions by Foodstuffs (sub 23) and the Property Council New Zealand (sub 117) both expressed concerns about the conduct of local councils in regard to their DC assessment practices so it is disappointing to observe these were not identified as critical features of any good DCP.

In regard to DC assessments, Loadscan suggests that, at the very minimum, a good DCP should not provide for local councils to:

- Levy DCs at the time of subdivision using the final demand for developments that they imagined at the time of subdivision;
- create site demand credits when DCs have been demonstrably over-recovered rather than refunding the overpayments;
- levy DCs by applying assumed average rates of demand when independently validated real rates of demand have been provided for a development;
- apply gross floor area adjustments to developments for the purpose of assessing more site demand;
- arbitrarily allocate areas within fully integrated buildings to different uses for the purpose of assessing higher site demand; and,
- apply arbitrary assumed vs real demand variance thresholds to deliberately discriminate against small to medium scale developments with demonstrably low demand characteristics under the guise of administrative efficiency.

Yet, in the case of Hamilton, the features outlined above appear to be features of what the Productivity Commission currently considers to be part of a good DCP. Loadscan respectfully suggests these features of the Hamilton DCP would better be described as examples of monopoly abuse which should have been identified in the review.

Likewise, as identified in the Foodstuffs submission, unpredictable changes in DC charges between DCPs does not present a desirable feature of a good DCP. *Figure 1* below provides an example of the unpredictable swings in the DC charges over time at the Rotokauri growth cell in Hamilton where Loadscan is currently developing.

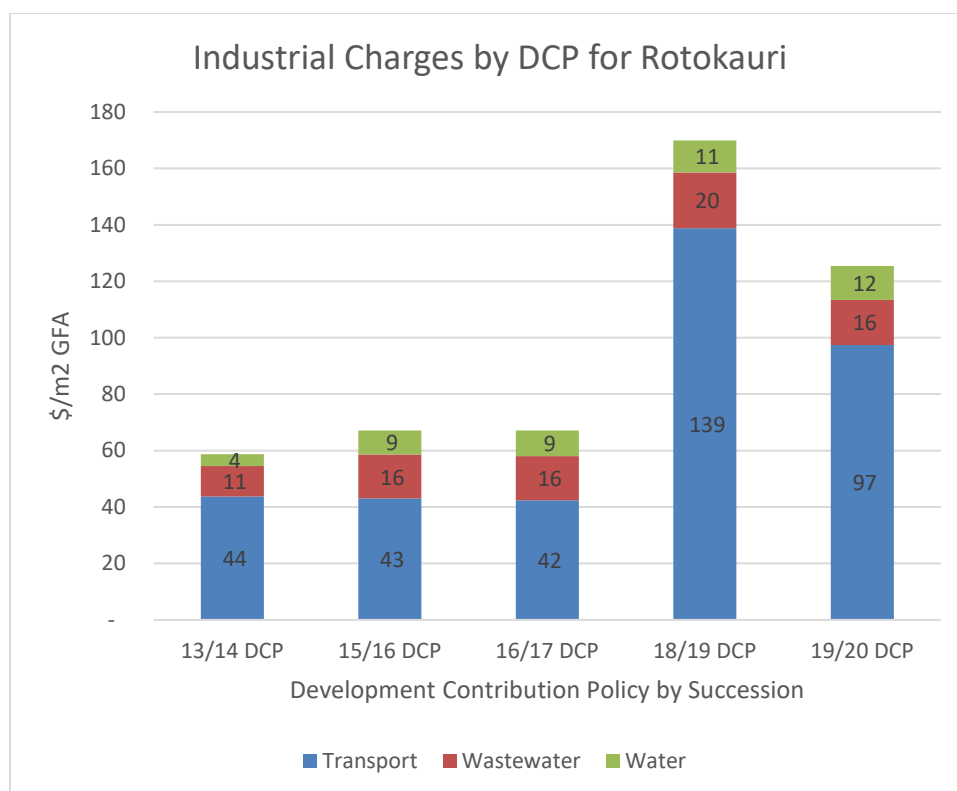


Figure 1: Industrial DC Charges at Rotokauri Sourced from Hamilton DCPs

Of real concern has to be the magnitude of the DC charge reduction between 2018/19 and 2019/20. This indicates that existence of fundamental flaws in the methodologies used to establish DC charges which were the purportedly peer reviewed by external experts.

LOADSCAN'S RECENT DC ASSESSMENT EXPERIENCES IN HAMILTON

The Loadscan business has been in existence in Hamilton for 21 years. Approximately 2 years ago it decided it needed a larger building to optimise its operational performance over the longer term. Over the years it has optimised the technical, sales and administrative expertise and resources it needed to design, assemble and market load measurement systems. However, the existing building provided inadequate areas for R&D, goods storage and dispatch purposes and this precipitated the decision to relocate.

Loadscan's demand on Council infrastructure is readily quantifiable, stable and demonstrably lower than the average demand for industrial types of development.

A 2,600sqm site at Rotokauri was purchased from a reputable Hamilton land developer who provided and funded all of the necessary local network infrastructure for the subdivision and also paid DCs in accordance with the DCP at the time of subdivision. At the time of subdivision, the Council had estimated the final site demand would be equivalent to that of an average industrial building with a gross floor area of 780sqm. This assessment took no account of the nature of the type of business activity that will be conducted at the site.

Loadscan lodged a building consent application for a 1,234sqm building which, for the purpose of reassessing DCs, the Council adjusted upwards to 1,533sqm by adding on canopies used to shelter the entranceways. The Council also attributed 293sqm of the total building footprint to a commercial land use so it could apply higher demand conversions factors and thereby assess higher DCs.

The DCs were assessed in accordance with the 2018/19 DCP and are summarised by activity in *Table 1* below.

Activity	Demand			Charge	DC
	Final HUEs	HUE Credits	Net HUES	\$/HUE	(Incl GST)
Transport	17.02	7.02	10.00	17,733	\$177,333
Water	3.75	1.63	2.12	6,251	\$13,253
Wastewater	5.19	2.33	2.86	7,600	\$21,734
Stormwater	7.31	7.31	0		\$0
Total					\$212,320

Table 1: Summary of DC Assessment for the Loadscan Building at Rotokauri

Significantly the assessed DCs were based on the assumed site demand which, in native measure, are summarised in *Table 2* below.

Activity	Native Measure	Demand
Transport	trips/day	170
Water	litres/day	2,227
Wastewater	litres/day	2,158

Table 2: Assumed Final Site Demand for the Loadscan Building at Rotokauri

The DCP includes a DC remissions policy that provides criteria for applying for actual demand based DC remissions. One of the criteria is a requirement for the actual demand to be at least 5 HUE less than the site demand the Council had assumed when it assessed the DCs. This constraint meant that only the transport activity could be considered for a DC remission.

In response to the DC notice, Loadscan engaged traffic experts to report on the real transport demand for the development. To inform their report these experts visited the current shared building located elsewhere in Hamilton and they performed a physical site survey of traffic movements on and off the property. As a result of their investigations they determined the development would generate demand of 38 trips/day; or less than a quarter of the 170 trips/day assumed by the Council by applying DCP demand factors to its gross floor area allocations.

With the traffic experts report as evidence of the real demand, Loadscan applied to have the transport DCs recalculated. Loadscan had an expectation that there would be no additional transport DCs levied because the final site demand of 38 trips/day was less than the existing site credits (which equated to 70 trips/day). However, the Council rejected Loadscan's application after taking advice from one of its consultants who effectively recommended that

assumed average rates of demand they took from a trip data manual should have primacy over the real rates of demand determined by Loadscan's traffic experts.

Loadscan has been caught in a no win situation whereby it is being required to pay an additional \$177,000 transport DC for site demand its traffic experts advise will not be generated. It also understands the DC objection process provided under the Local Government Act 2002 is unlikely to deliver a fair and equitable and proportionate outcome in this instance due to statutory constraints on what can be considered by DC commissioners. The only viable option would be to pursue a judicial review which is likely to be too time consuming and too expensive for Loadscan to pursue.

DRAFT REPORT FINDING 6.5

The draft report finding 6.5 suggests good examples of DCPs exist without identifying any examples policy. It refers to a report on a review of the DCPs of 4 local councils that does not consider the methodologies those councils (or other councils) use to calculate or recalculate DCs in a manner that fully complies with the Local Government Act 2002 and ensures DCs are not overcharged.

The only valid conclusion from Finding 6.5 is that the Queenstown DCP was comparatively not as good as the 3 others based on the assessment criteria applied.

Loadscan suggests the Productivity Commission should identify all of the essential features of a good DCP from both a regulatory, administrative and development community perspective and then reassesses the DCPs in the 4 high growth areas to validate its draft findings. The local councils with good DCPs should then be identified in the final report.

DRAFT REPORT RECOMMENDATION 6.1

Draft report recommendation 6.1 recommends the Government, Local Government New Zealand and the New Zealand Society of Local Government Management should work together to develop standardised templates both for DCPs and for assessing DCs.

This is a sound recommendation that should be supported by all parties including the development community. However, the draft report identified that the Government, Local Government New Zealand and the New Zealand Society of Local Government Management have previously demonstrated an inability or unwillingness to produce far simpler DC guidelines. This raises considerable doubt about the likely implementation of the recommendation as currently drafted.

SUMMARY

Loadscan supports the Productivity Commission's efforts to identify and quantify the funding and financing challenges faced by local government, particularly in relation to DCs. However, Loadscan respectfully suggests that prior to finalising its report that:

1. It ensures that the methodologies used by councils to assess DCs for individual developments are identified as critical features of any good DCP;
2. It recommends that that any good DCP will provide for demonstrable actual demand having primacy over assumed demand when calculating DCs;
3. The councils with good DCPs are identified; and
4. Recommendation 6.1 is amended to ensure there is appropriate levels of development community representation in the development of templates.

Loadscan would like to record its gratitude and appreciation for the opportunity to make this submission.

Yours Sincerely



Carey West
Managing Director
Loadscan Ltd
0272759789