



# Using land for housing

Summary version



# Using land for housing

## Summary version

September 2015

## The New Zealand Productivity Commission – Te Kōmihana Whai Hua o Aotearoa<sup>1</sup>

Date: September 2015

The Commission – an independent Crown entity – completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues. The Commission aims to provide insightful, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders. The Commission is bound and guided by the New Zealand Productivity Commission Act 2010.

To find out more about the Commission, visit [www.productivity.govt.nz](http://www.productivity.govt.nz), or call +64 4 903 5150.

### Disclaimer

Some of the results in this report are created from Statistics New Zealand Longitudinal Business Database and Statistics New Zealand Survey of Family, Income and Employment. Results based on these data are not official statistics, they have been created for research purposes from the Integrated Data Infrastructure (IDI), managed by Statistics New Zealand.

The opinions, findings, recommendations, and conclusions expressed in this report are those of the New Zealand Productivity Commission, not Statistics New Zealand.

Access to the anonymised data used in this study was provided by Statistics New Zealand in accordance with security and confidentiality provisions of the Statistics Act 1975. Only people authorised by the Statistics Act 1975 are allowed to see data about a particular person, household, business, or organisation, and the results in this report have been confidentialised to protect these groups from identification.

Careful consideration has been given to the privacy, security, and confidentiality issues associated with using administrative and survey data in the IDI. Further detail can be found in the Privacy impact assessment for the Integrated Data Infrastructure available from [www.stats.govt.nz](http://www.stats.govt.nz).

The results are based in part on tax data supplied by Inland Revenue to Statistics New Zealand under the Tax Administration Act 1994. This tax data must be used only for statistical purposes, and no individual information may be published or disclosed in any other form, or provided to Inland Revenue for administrative or regulatory purposes.

Any person who has had access to the unit record data has certified that they have been shown, have read, and have understood section 81 of the Tax Administration Act 1994, which relates to secrecy. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

The contents of this report must not be construed as legal advice. The Commission does not accept any responsibility or liability for an action taken as a result of reading, or reliance placed because of having read any part, or all, of the information in this report. The Commission does not accept any responsibility or liability for any error, inadequacy, deficiency, flaw in or omission from this report.

ISBN: 978-0-478-44025-6 (online)

### Inquiry contacts

<b>Administration</b>	Robyn Sadlier T: +64 4 903 5167 E: <a href="mailto:info@productivity.govt.nz">info@productivity.govt.nz</a>	<b>Website</b>	<a href="http://www.productivity.govt.nz">www.productivity.govt.nz</a>
		<b>Twitter</b>	@nzprocom
<b>Other matters</b>	Steven Bailey Inquiry Director T: +64 4 903 5156 E: <a href="mailto:steven.bailey@productivity.govt.nz">steven.bailey@productivity.govt.nz</a>	<b>LinkedIn</b>	NZ Productivity Commission

<sup>1</sup> The Commission that pursues abundance for New Zealand.

# Foreword

The Commission's first inquiry report *Housing affordability* in 2012 identified a range of factors that affect the price of housing. The supply of infrastructure-enabled land for housing was identified as a key constraint. The Commission was pleased therefore to be asked to "dig deep" into the processes by which land is zoned and serviced for housing to see where improvements can be made.

The inquiry has found that the planning system is not responsive to changes in demand for housing in our fastest growing cities. It places unnecessary constraints on the use of available residential land and the supply of infrastructure to new residential land can in effect be rationed.

This is because in many of our cities the local political economy is stacked against growth. Ratepayers often do not want the higher rates bill and debt levels that accompany more infrastructure expenditure. Homeowners may oppose more development in their neighbourhoods, because of concerns about the impacts on the value and amenity of their homes. Landowners whose properties earn capital gains because of restricted supply may not welcome larger releases of residential land. These "insiders" have strong reasons to engage in local political processes to defend their interests, to the detriment of "outsiders".

The Commission has identified a number of areas where the responsiveness of urban planning could be improved, but the most important step that needs to be taken is a credible commitment to bring land price inflation under control. This is needed to shift incentives on all the players in the land supply and development system. Only then can we stem the escalating land and house prices that result from an insufficient supply of ready-to-build land. This report lays out what is necessary for the supply of land for housing to meet demand.

Professor Sally Davenport, Dr Graham Scott and I oversaw the preparation of this report. We acknowledge the co-operation and support of Local Government New Zealand and the councils around New Zealand who engaged with us in this inquiry and provided valuable information. The Commissioners would like to acknowledge the work and commitment of the inquiry team: Steven Bailey (inquiry director), Judy Kavanagh, Kevin Moar, Nicholas Green, Terry Genet, Rosara Joseph and Tim Maddock, along with the Commission's Economics and Research team who contributed important new analysis of New Zealand's land and housing data.



MURRAY SHERWIN  
Chair  
September 2015

# Terms of reference

## PRODUCTIVITY COMMISSION INQUIRY INTO THE SUPPLY AND DEVELOPMENT CAPACITY OF LAND FOR HOUSING IN NEW ZEALAND CITIES

Issued by the Minister of Finance, the Minister of Housing, the Minister of Local Government, and the Minister for the Environment (the “referring Ministers”).

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the Productivity Commission [the Commission] undertake an inquiry to assess and identify improvements in local and regional authorities’ land use regulation, planning, and development systems. These systems should be reviewed with respect to how they deliver an adequate supply of development capacity for housing.

### Context

Ensuring that rapidly growing cities can efficiently supply and use land to house people in an affordable manner has the potential to make a significant difference to New Zealand households’ living standards and support national productivity and macroeconomic stability.

The Productivity Commission’s 2012 report – *Housing affordability*, identified planning, land use regulation and the systems for supply of infrastructure as playing a critical role in managing the growth in cities. The Commission’s 2012 report, and its 2013 Local government report, highlighted variability in regulatory practices across local and regional authorities. This inquiry seeks to explore and understand the practices of local and regional authorities in more detail, with the aim of improving overall performance, given that, over the next several decades, the population in several major cities will grow significantly.

Local and regional authority planning systems aim to balance the competing social, environmental and economic impacts of development. Planning systems and land regulations include the regulatory requirements imposed by central, local, and regional government and the actions of regulators. Development systems include the institutions, plans, policies, processes and appeal rights on the use of land, including changes to its use.

Planning and development systems affect the potential uses of land with the intention of delivering social benefits to the local community. Delivering these social benefits will have a significant influence on the cost, availability and development capacity of land for new housing.

The past decade has seen a large increase in New Zealand house prices. The reasons for this increase are multi-faceted. One important factor has been the approach to land use planning and regulation.

Over time the range of objectives of local authority planning systems has increased and the environment in which they operate has become increasingly complex. The framework within which local authorities reach decisions has been subject to ongoing reform, but there remains significant autonomy for local authorities to set their own rules and make decisions on development within their area. This is consistent with the promotion of local democracy and the concept of subsidiarity. There are increased requirements to extend the planning horizon in dealing with environmental and infrastructure issues.

Decisions about the use of land are important to the community. They involve costs to some, and benefits to others. Community consultation can and should influence the outcome, but the ways and means of consulting with the community need to be carefully considered to ensure that the needs of the entire community, including the needs of future generations, are being met. Identifying leading practices and innovation in consultative processes is an important way to improve processes, performance, and outcomes across New Zealand.

## Scope and aims

The Commission is requested to undertake an inquiry to examine and report, in a comparative sense, the by-laws, processes, and practices of local planning and development systems to identify leading practices that enable the timely delivery of housing of the type, location, and quality demanded by purchasers. The Commission should particularly focus on urban growth areas, including any early lessons from the Housing Accords and Special Housing Areas Act 2013, and consider successful international experiences with urban development.

Planning and development systems should be reviewed with respect to how they deliver an adequate effective supply of development capacity for housing. The inquiry should review practices of the larger urban planning and development systems, including but not limited to the authorities of the largest and/or fastest-growing urban areas, and any comparable international urban areas with valuable lessons.

The Commission would be expected to provide information on absolute and relative performance, identify leading practices, and make recommendations to improve performance with respect to: (i) policies, strategies, outcomes and processes for urban land supply, including the provision of infrastructure; (ii) funding and governance of water and transport infrastructure; (iii) governance, transparency and accountability of the planning system; (iv) the implication of leading practice for the range of laws governing local authority planning; (v) involvement and engagement with the community.

## Exclusions

This inquiry is not a fundamental review of the Resource Management Act, and does not include the processing of building consents. It does not include consideration of changes to the ownership of infrastructure assets, but does include the funding and governance (including legal structure of ownership) of those assets.

## Consultation

To ensure that the inquiry's findings provide practical and tangible ways to improve the performance of development and planning systems, the Commission should work closely with Local Government New Zealand, Society of Local Government Managers and the wider local government sector.

## Timeframes

The Commission must publish a draft report and/or discussion document, for public comment, followed by a final report that must be presented to referring Ministers by 30 September 2015.

## Referring Ministers

Hon Bill English, Minister of Finance

Hon Dr Nick Smith, Minister of Housing

Hon Paula Bennett, Minister of Local Government

Hon Amy Adams, Minister for the Environment

# Contents

**Foreword** .....iii

**Terms of reference** .....iv

**Overview** ..... 1

- Why this inquiry is important.....1
- The New Zealand planning system.....2
- Cities, growth and land for housing.....3
- The rating system and land for housing.....4
- The planning system can work better.....5
- Getting infrastructure in place .....7
- More fundamental reform of the planning system.....11
- Meeting demand for urban space .....12
- Conclusion.....13

**Findings and recommendations** ..... 15

## KEY

<b>F</b>	Finding
<b>R</b>	Recommendation

# Overview

The Government has asked the Productivity Commission to investigate the processes that New Zealand's fastest-growing local councils use to provide land for housing. These include planning, zoning, and the provision of infrastructure such as roads, parks and water pipes. The Commission has also been asked to identify examples of leading practices from within New Zealand and overseas. In investigating these issues, the Commission focused on ten high growth areas (Whangarei, Auckland, Tauranga, Hamilton, Waikato District, Wellington, Christchurch, Selwyn, Waimakariri and Queenstown Lakes) and sought evidence from a number of other countries.

## Why this inquiry is important

Housing is fundamental to our economic and social wellbeing. It plays a central role in individual and community health, family stability and social cohesion. A responsive housing market facilitates labour market mobility, allowing people to move to take up job opportunities, thereby enhancing the productivity of the economy. A poorly performing housing market leads to high housing costs (whether rented or owned), overcrowding, barriers to home ownership, and risks to macroeconomic stability. Providing an adequate supply of land and development capacity for housing has the potential to lift the living standards of many New Zealanders.

*Housing supply has struggled to keep pace with strong population growth and demand*

New Zealand's population is growing. This growth is concentrated in a handful of cities, but especially in Auckland. The number of dwellings required to house the population of these cities will grow at an even greater rate as average household size becomes smaller. Housing supply in many cities has been sluggish in response to population growth and struggled to keep pace with increasing demand. This has manifested itself in the increased price of housing, and in the high proportion of disposable income spent on housing in New Zealand compared with many other OECD countries. Making sure a choice of housing types is available at different price points, to cater for a range of income levels, is critically important to the effective functioning of the housing market, the economy, and the wellbeing of New Zealanders.

*The price of land is increasing, reflecting a constrained and stressed planning system*

A number of factors affect the supply of housing, but one of the most important is the availability of land and the land use rules that determine the capacity of land to carry dwellings. Land values have grown more quickly than total property values over the last 20 years. This suggests a shortage of residential land in places where people want to live. The problem is particularly acute in Auckland, where land value accounts for almost 60% of total property value. However, in many high growth councils land is approaching 50% of total property value, compared with about 45% in the rest of New Zealand.

Planning systems and land use regulations imposed by central, regional and local government affect the speed and efficiency with which land is made available for residential development, including the more intensive use of land within existing city boundaries. Decisions about the amount of land to be released, the timing of when this will happen, how it can be developed, and when it will be serviced with infrastructure, all directly impact on the price of land and, in turn, on the price of housing. Constraints on the release of land and development capacity (within and on the edge of cities) create scarcity, limit housing choice, and increase housing prices. These impacts are disproportionately felt by people on lower incomes.

*Unlocking land supply is a critical first step*

Unlocking land for housing is a necessary first step and catalyst for productivity improvements in other parts of the housing supply pipeline. Unlocking land allows economies of scale in land assembly, land development and housing construction. Larger building firms are able to generate scale efficiency from building large numbers of houses on contiguous sites and by purchasing at a greater scale, particularly building materials. Yet the building industry in New Zealand is characterised by small firms that build just one or two houses a year. The current industry structure is a product of the environment in which it operates,

which is characterised by fragmented and expensive land supply. Importantly, without greater land supply, any construction efficiencies are likely to accrue to landowners, rather than home buyers.

### *Substantial benefits are on offer*

A report considering global housing affordability issues concludes that “unlocking land supply at the right location is the most critical step in providing affordable housing” (McKinsey Institute, 2014, p. 7). The report estimates that unlocking land supply could reduce the annualised cost of a standard unit of housing by between 8% and 23%. Remarkably, in the world’s least affordable cities (including Auckland), unlocking land supply could help to reduce the cost of housing by between 31% and 47%. Productivity improvements in construction, by taking advantages of scale or taking an industrial approach to construction, could help to reduce the cost of housing by a further 12%–16%.

Local regulatory constraints to releasing land and development capacity for housing have national and economy-wide impacts. Overseas research suggests that constraints on the supply of housing in high-wage cities can price out workers who would be more productive if they could move to take up the opportunities available. Lifting barriers to urban growth by releasing land and development capacity in these cities would increase a country’s Gross Domestic Product (GDP).

Quantifying the size of the prize is difficult, but it could be significant. One US study (Hsieh & Moretti, 2015) estimates that lowering regulatory constraints on land supply in three high-productivity US cities – New York, San Francisco and San Jose – to that of the median level of restrictiveness in the United States would increase GDP by 9.5%. A productivity bonus anywhere near this level would be of major significance to the New Zealand economy. Indeed, it is difficult to think of many other policies that would yield such an improvement in the nation’s economy.

### *The inquiry*

This inquiry investigates the effectiveness and efficiency of the planning and development system in New Zealand:

- How well does the system meet the demand for land in its most valued use?
- How well does the system provide infrastructure efficiently and in a way that is responsive to demand?
- Can the current system be made to work better for New Zealanders?
- Are different approaches required to deal with the complexity, incentives and coordination problems faced by our fastest growing cities?

A number of incremental improvements are recommended, but more fundamental change is needed to resolve land supply issues.

## **The New Zealand planning system**

To understand the current nature and performance of New Zealand’s planning system, it is important to understand how the system has evolved over time. The following themes have dominated:

- changing views about the role of local authorities;
- rising expectations of community participation in planning decisions;
- an increasing weight placed on environmental protection; and
- expansions in the perceived role and scope of planning.

Responsibility for land use regulation, planning and the provision of infrastructure (with the exception of main highways) has been progressively devolved to local government, and formal rights for the public to be consulted and/or object to land use rules or proposed developments have expanded. Despite repeated

changes to the underlying legislation, there have been longstanding concerns about constraints placed by the planning system on development.

New Zealand's constitutional and institutional arrangements give particular discretion and autonomy to local authorities in regulating land use and providing infrastructure. In comparison to state or national governments in other developed countries, central government in New Zealand plays a limited role in urban policy, regulation and the provision of infrastructure. As a result, any misalignment of incentives between local and national interests may be more pronounced in New Zealand than in other countries.

New Zealand's planning system is complex. It is governed by three main statutes (Box 1). Each statute creates its own set of institutions, policies, processes and rules. Together they set the regulatory framework for the supply of land and development capacity required for housing.

#### Box 1 **Regulatory framework for the planning and development system**

New Zealand's planning and development system is governed by three main Acts of Parliament:

- the Resource Management Act 1991 establishes processes to authorise, limit or prohibit the use of land, so as to promote "sustainable management";
- the Local Government Act 2002 establishes processes to shape the provision of infrastructure needed to make land viable for housing; and
- the Land Transport Management Act 2003 establishes processes to shape the provision of transport infrastructure and services.

A host of other statutes also have an impact on the planning and development system, including the Building Act 2004, the Public Works Act 1981, the Reserves Act 1977, the Property Law Act 2007, the Unit Titles Act 2010, and the Local Government (Rating) Act 2002.

## Cities, growth and land for housing

The concentration of people and firms within cities creates benefits both for their residents and for the country as a whole. When cities function well, they provide greater choices of employment and a wider pool of labour, more opportunities for specialisation, and easier transfer of ideas. Cities also raise the prosperity and wellbeing of surrounding regions. Cities are not only places where people work; they are also places where they play and consume goods and services. But the growth of cities also creates costs, such as pressure on infrastructure and the availability and cost of housing. This puts a premium on good city organisation and the ability to effectively plan for growth.

Because decision making about whether to accommodate growth is made at the local level, this can result in a lower level, or a slower pace, of growth than would be optimal from the perspective of the national economy. Growth can be stymied through planning regulation and rules that do not make the best use of land, or by poorly coordinated or rationed infrastructure at the local level. The implications for the nation's wellbeing can, however, be much wider. Local regulations that restrict the supply of land to accommodate growth can result in escalating housing prices that impact on individuals, society and the wider economy. This mismatch of interests creates a 'wedge' between local and national interests about the costs and benefits of growth in the areas in New Zealand experiencing the greatest housing demand.

Overall, New Zealand's housing market is only moderately responsive to changes in prices, meaning that an increase in demand for housing will lead to a proportionately larger increase in the price of existing housing than in the construction of new housing. Part of the reason for this is that the planning system releases land through a policy and political process. It is not responsive to price signals, which would provide information about the location and type of housing that people demand and about the adequacy of supply. A fundamental disconnect exists between the demand for housing and the supply response of the planning system. Where the demand for land exceeds the supply allocated through the planning system, landowners

and developers act like monopolists. They are able to restrict the supply of zoned and serviced land to maintain high prices.

The political economy of local planning ultimately determines the outcomes that are seen from the planning and development system. The influence of existing homeowners on land use regulation and on infrastructure spending restrict the supply of land for housing and limit expenditure on the infrastructure required to support urban growth. Homeowners have an incentive to oppose developments that could negatively affect the amenity and value of their homes and that may involve new infrastructure spending and higher rates. This opposition is expressed through the political process. The disproportionate influence of homeowners in local government elections and consultation processes promotes regulation that has the effect of reducing land supply for housing. Examples include urban containment policies, height restrictions, minimum apartment sizes, density controls and a reluctance to use available funding sources resulting in the rationing of growth-enabling infrastructure.

The impact of local decision making on the nation's wellbeing can be significant. The failure to provide an adequate supply of infrastructure-enabled land to meet the demand for housing results in escalating housing prices that has impacts on individuals, society and the wider economy. Central government ultimately bears the risks and costs associated with these local decisions. The consequences include high housing costs (whether rented or owned), overcrowding, barriers to some groups accumulating wealth, limits on the ability of people to seek better employment opportunities in cities, obstacles to potential productivity gains, and risks to macroeconomic stability. There is a strong argument that those bearing the costs of constraints on land supply are not effectively represented in the planning system at present. National and local interests in the planning system need realignment.

## The rating system and land for housing

Local government rates allocate a fixed revenue burden among ratepayers. Although growth provides councils with the opportunity to spread expenditure over a larger rating base, new growth also increases expenditure. The connection between the size of the revenue base or its value, and the total amount of revenue collected, is not automatic. The structure of council rating in New Zealand therefore means local authorities have weak incentives to accommodate growth. And ratepayers don't like the financial costs of new growth.

The first step to address this weak incentive is to make sure that the costs of growth are not unnecessarily passed on to ratepayers through general rates. More efficient pricing and cost recovery policies would mean that the infrastructure necessary to service growth is paid by those who benefit from it, and provide better signals for where development should occur.

A number of influences can impact on the choices of landowners with respect to holding or making land available for development. These influences include financial constraints, a council's planning and regulatory barriers, difficult sites, the prospects of capital gain, and lifestyle reasons. Owners of Māori land also have differing views on the desirability of developing their land.

Owners of developable land face a choice between releasing land for development, and holding it in anticipation of greater future returns. Where expected demand is high, or land is scarce, the incentives to hold land can be strong. Land banking is therefore a symptom, rather than a primary cause, of land supply shortages. Strategies to encourage owners of land to develop it for housing rather than holding it should focus on

- increasing certainty about what can be developed on a site;
- reducing the scarcity value of land, through a commitment to ensuring that zoning and servicing land is responsive to demand; and
- influencing holding costs, at the margin, to reduce the expected future returns on land development.

Council rates are a type of tax, and can influence landowners' decisions about how they use their land. A capital value rating system taxes the improvements on land; so, at the margin, owners are discouraged from

developing land or intensifying development on it. By contrast, a land value rating system encourages land to flow to its highest value use and, at the margin, discourages holding undeveloped land.

The trend in recent decades has been for city councils to abandon land value rating in favour of capital value rating. The arguments that support this shift in policy are not strong. The Commission acknowledges that changing back to land value rating would cause significant administrative costs and disruption for these councils. However, where councils review their rating policies, they should consider the merits of land value rating in encouraging the efficient use of land.

The Crown is also a major landowner in New Zealand cities, and should face similar incentives to the private sector to hold or release land. Core Crown land has long been exempt from general rates. No principled reason for this is apparent. Rating Crown land would provide government agencies with the same incentives that private owners face to use land or release it to those who will develop it. Similarly, some land used by councils is non-rateable. Rating such land would help make clear the opportunity cost of councils' own land use decisions.

## The planning system can work better

The Commission has examined the planning and development system and identified the need for improvements in the following areas:

- the ability of cities to build up or out in response to a greater demand for housing;
- the speed with which land can be rezoned for housing and approvals issued for development; and
- policies targeting lower-cost housing.

### Regulatory barriers to the growth of cities

Land use regulations affect the supply and price of development capacity by limiting the use of particular parcels of land, prohibiting various types of housing or making them uneconomic to produce, and adding steps and cost to development processes. This limits the ability of supply to meet the demand for housing.

Land regulation can constrain the ability of cities to “build up” and “build out” to accommodate their growing populations. The impacts of restrictive regulation are most prominent in Auckland, but this partly reflects high demand. If other cities were growing as fast as Auckland, similar effects would be seen in them.

Overly restrictive urban limits increase both land and housing prices. Many of New Zealand's high-growth cities impose, or intend to impose, urban limits. The limits vary in terms of their permanence and their ability to be adjusted in response to market developments. Councils should ensure that mechanisms are in place to promptly review the placement and restrictiveness of urban limits.

Many high-growth councils seek to protect agricultural soil from residential development through policies such as large minimum lot size rules in rural and urban fringe zones. Such policies are unlikely to encourage the most efficient use of land. Land, like any other resource, will tend towards its highest value use. Prices indicate the highest and best use of a particular section of land, and should play a more prominent role in planning decisions.

A number of land use regulations in District Plans have costs that exceed their likely benefits. Examples include minimum apartment sizes and balcony requirements, minimum parking requirements and density limits. Local authorities should remove regulations that do not pass robust cost–benefit tests.

Other land use regulations can provide net benefits if designed well, but are applied in an overly broad manner in some District Plans. Examples include building height limits and heritage or “special character” protection rules. Councils should review existing rules, to ensure that those rules are well-targeted and supported by robust analysis.

Private covenants can be a barrier to growth by restricting the current and future development capacity of land. Yet they can also create incentives for development and allow private individuals to make

arrangements that increase their wellbeing. The Commission does not see a strong case to regulate the content of covenants or give local authorities the power to overturn covenants. However, the Commission considers that time limits on covenants, and reforms which make it easier for landowners to modify or extinguish covenants, have merit.

Multiple or conflicting objectives in District Plans, inadequate analysis before rules are introduced, and poor overlaps with other regulatory frameworks are key sources of unnecessary regulatory costs. Wider and better use of cost-benefit analysis (CBA) by councils is necessary to reinforce the public interest in land use regulation and to provide greater discipline in making regulation. Central government has scope to provide technical assistance to help local authorities conduct better CBA of proposed land use rules, through arranging training and providing templates and technical guides.

## Rezoning and approval processes

The ability to promptly rezone land plays an important part in increasing land supply, by bringing new land to market (by converting rural land to residential or industrial use) and increasing the development capacity of existing urban land (eg, by increasing height limits or reducing minimum lot sizes). When investigating options for change, the challenge is to strike the right balance between the goals of speeding up planning processes and ensuring that regulatory processes provide quality outcomes.

A plan change is the mechanism used to rezone land for different uses. Councils in high-growth cities take longer on average to make plan changes operative than other local authorities. However, the available data do not support claims that plan changes typically take many years to complete. Longer timeframes for plan changes in high-growth areas partly reflect the fact that cities have more people and therefore more complex interests to manage.

The Commission has identified a number of improvements to the consultation obligations on local authorities, including:

- restricting the ability to make additional submissions on proposed plan changes; and
- allowing for limited notification of site-specific plan changes.

Leading practices include engaging with affected parties on proposed plan changes ahead of their notification, and the use of broad zones that enable a wide range of activities. This may help reduce the incidence of appeals. The current consultation process requirements in the Resource Management Act 1991 (RMA) should be reviewed to ensure they are not unduly impeding more innovative engagement processes.

A number of submissions to this inquiry argued that access to appeals on plan changes should be limited. While limiting access to appeals could speed up rezoning, any reductions in timeframes may not be large and would need to be weighed against the loss of an institutional check on local authority regulation-making. The Commission is not persuaded by arguments that removing or significantly limiting the access to appeals would improve the quality of District Plans or land use regulations.

The time it takes to gain an approval for development matters for housing affordability. Uncertainty about council obligations and problems coordinating between different units within councils create costs and delays for developers. Processes to improve internal council coordination (eg, "one-stop shops") and greater use of electronic planning tools help to reduce these delays. Scope also exists for greater liberalisation within the planning system, and local authorities should look for opportunities to move more residential land-use activities to either "permitted" or "restricted discretionary" status.

## Policies targeting lower-cost housing

One distinctive feature of New Zealand housing markets over the past 30 years has been the shift in new housing production towards more expensive dwellings. As a result, concerns have been expressed about the future provision of lower-cost dwellings and the existing supply of such housing. Some local authorities have taken steps through their planning provisions to encourage the provision or retention of lower-cost housing through rules or conditions attached to rezoning or development applications (also known as inclusionary zoning or inclusionary housing policies).

Such policies are commonly applied in overseas jurisdictions. In New Zealand, only Auckland Council and Queenstown Lakes District Council have inclusionary housing provisions in their current or proposed District Plans.

Special Housing Areas (SHAs) and Housing Accords have created new opportunities to introduce inclusionary housing policies. Cities and high-growth areas with Housing Accords have taken different approaches, with some requiring developments in SHAs to provide a proportion of housing at specified price thresholds, and/or for people at specified incomes. Others have preferred to negotiate with developers on a case-by-case basis.

International evidence suggests that inclusionary housing policies have a very small impact on the overall supply of lower-priced housing, and can have a number of other undesirable effects. The Commission does not see a strong case for their expansion in New Zealand. Inclusionary housing policies tackle the symptoms of the reduced supply of lower-priced housing, rather than the causes. These causes include restrictive planning controls and the high-cost nature of New Zealand's building industry.

To increase the supply of lower-priced housing, central government and local authorities should focus instead on easing planning controls and establishing or supporting institutions that can reduce barriers to supply such as the lack of land parcels that are sizeable enough to make large-scale development economic.

One important contribution that governments can provide to support the development of lower-cost housing is land. Central government and local authorities own large amounts of land, although information about the quantity and state of this land is patchy. Available information suggests that significant amounts of public land may be bare, vacant or substantially unimproved, and suitable for residential development. The Government and local authorities should make an inventory of their land holdings to identify sites that could be freed up for housing.

The Government has recently announced a tender to use more than 400 hectares of Crown land in Auckland for housing, and has taken early steps to use public land in Christchurch to increase the supply of affordable housing. There are likely opportunities to use surplus public land in other high-growth cities to help offset the shortfall of lower-priced housing, especially through partnerships with other landowners to achieve scale.

## Getting infrastructure in place

Infrastructure is a critical part of the housing supply pipeline and a significant share of the total cost of new dwellings (Box 2). Releasing land that is not serviced with infrastructure does nothing to improve housing supply. Providing infrastructure for new housing can be an expensive and risky undertaking for councils. Councils that install new infrastructure ahead of housing demand may find themselves facing high borrowing and depreciation costs, particularly if growth occurs at a slower rate than anticipated. For this reason, many councils tightly control the supply of new infrastructure. This constrains the supply of land that is both zoned and serviced for housing.

### Box 2 **Infrastructure needed to support growth**

Accommodating residential growth requires:

- transport – highways, local roads, footpaths and cycleways, and public transport;
- water – drinking water supply (also referred to as “potable water”), collection and treatment of wastewater, and the removal of stormwater (collectively “3 waters”);
- energy – electricity and natural gas transmission and distribution;
- telecommunications – fixed line, mobile coverage and internet; and
- social and community infrastructure – eg, public recreation spaces and libraries.

Most types of infrastructure can be grouped into two categories: trunk infrastructure and local infrastructure. Trunk infrastructure refers to assets that serve a large number of households, such as trunk water lines or urban rail services. Local infrastructure relates to the requirements that are specific to a subdivision or dwelling, such as individual connections to trunk water.

The Commission has examined how infrastructure is planned, delivered, funded and governed across high-growth councils in New Zealand, as well as overseas. Some important themes have been identified.

- **Cost recovery and efficient pricing:** These provide incentives for councils to invest in growth-enabling infrastructure and mean that developers face the full costs of different development typologies, whether greenfield or brownfield.
- **Coordination:** A responsive and efficient supply of infrastructure requires the coordination and alignment of numerous actors and different planning processes.
- **Competition:** Where competition in the provision of infrastructure is limited, local public monopoly provision requires an appropriate monitoring and regulatory framework.

## Infrastructure planning and delivery

Effectively managing ageing assets and funding the renewal of infrastructure will be major challenges for councils in the coming years.

Good information and good asset management practices enable councils to make better use of existing assets, better coordinate and schedule maintenance and replacement work, set well-informed infrastructure standards, and improve the coordination of infrastructure delivery among different providers. Such practices also allow an evidence-based approach to spatial planning. Wellington City Council's approach to asset management is a leading practice.

The gains from unlocking spare capacity within existing infrastructure networks and using infrastructure more efficiently can be substantial. Exploiting spare network capacity requires a deep understanding of existing infrastructure assets and the current and future network demand, and permissive planning rules that allow intensification to occur in areas where excess capacity exists.

A challenge for councils is to strike the right balance between making sure shovel-ready land is available to meet demand and not over-capitalising in the construction of costly infrastructure. The following leading practices can help councils to manage this balance.

- **Staged construction techniques** that lower the upfront costs and allow services to be scaled up as demand increases can help to overcome the difficulties of investing in infrastructure to support future growth. The staged construction approach that Selwyn District Council uses is a good example of this practice.
- **"Development agreements"** enable developers to take responsibility for building infrastructure that a council would usually build. This has the potential to generate a swifter and lower cost supply of infrastructure. The requirement for councils to consider all requests to enter into development agreements should also apply to council controlled organisations (CCOs).
- **Councils should publish information** about land availability and its readiness for residential building (eg, planned for future zoning; zoned; zoned and serviced; zoned, serviced and consented).

Councils should make more use of user charges where this can reduce demands on, and prolong the life of, critical infrastructure. User charges are an effective approach to managing demand and have substantial potential to reduce the operating expenditure of councils, and delay or avoid capital investments in new infrastructure. Tauranga City Council's introduction of water meters and volumetric charges has resulted in a significant reduction in demand for water. This, in turn, has generated significant savings, primarily because

upgrades to water infrastructure can be delayed. Similar benefits are being realised in other cities, including Auckland, where user charges are in place for water. Other cities could replicate this experience. Government should facilitate infrastructure demand management by removing legislative restrictions on user charges for roads and wastewater.

Infrastructure standards imposed by councils can be a source of tension between developers and councils. Decisions about imposing or changing infrastructure standards should be evidence-based and subject to robust CBA. Where a good case to change infrastructure standards exists, those developments already with consent should be exempt from the change or be compensated for the additional costs incurred.

Variations in infrastructure standards between different councils can create unnecessary costs for developers and infrastructure providers that work across multiple council areas. The Commission has identified a number of leading practice instruments and forums that promote consistency of standards across local authority jurisdictions.

Council infrastructure exists alongside infrastructure that is built and maintained by private utility companies. In some cases, these other infrastructure providers are not well integrated into broader planning and land development processes. The Auckland Infrastructure and Procurement Forum connects infrastructure providers, advisors, builders and suppliers to provide for better procurement and coordination of major construction projects. Likewise, the SmartGrowth Property Developers Forum has improved the dialogue between councils and developers and allowed direct industry participation in reviewing and implementing the SmartGrowth strategy. These approaches to integration work well and could be adopted more broadly.

## **Paying for infrastructure**

Paying for the infrastructure needed to support urban growth is a significant challenge for many high-growth councils. The costs associated with urban infrastructure appear to be rising. Many high-growth councils report that the cost of new infrastructure has a major influence on the rate of residential development. Factors underlying the increasing cost of infrastructure provision include increasing standards and the spread of development into land areas that are more costly to service.

Having effective processes in place to recover the costs of infrastructure from the parties that benefit from the investment is important. It is also important to acknowledge the way that councils build infrastructure and operate existing assets can also make a material difference to costs. Any decisions about how infrastructure is paid for should be framed in the context of ongoing efforts to ensure that infrastructure is provided and managed in a disciplined, cost-effective and efficient manner.

Debt is an important source of finance for urban infrastructure in high-growth areas. It enables councils to deliver infrastructure when it is most needed and for infrastructure costs to be spread over the life of the asset. This means that those who benefit from the infrastructure contribute to paying for it, which promotes intergenerational equity. Recent reviews have not identified any issues or concern with the use of debt by high-growth councils. Indeed, many councils are well within prudent debt benchmarks, and arguably take a conservative approach to taking on debt. This is likely driven by community attitudes and opposition to debt, as debt is perceived to lead to future rates increases.

Recent legislative changes have introduced a debt-servicing benchmark. Many high-growth councils are well within the benchmark. The effect of this benchmark may deter a council from taking on prudent levels of debt. The Commission recommends that the effects of the debt-servicing benchmark should be monitored over the coming years to see how it influences a council's ability to provide infrastructure to support growth and to determine whether current benchmarks for debt-servicing ratios are appropriate for high-growth councils.

Development contributions play an important role in enabling the provision of infrastructure to support growth. Linking payment for some types of additional infrastructure to the benefits received helps to ensure that investment reflects its opportunity cost and that locational decisions are efficient. Despite recent changes to the LGA that sought to improve the approach to development contributions, such contributions remain a source of tension between developers and councils. A number of leading practices have been

identified to improve the implementation and administration of development contributions policy. Three of these practices are noted below.

- Development contributions policies should recognise that certain dwelling characteristics result in lower or higher costs on the infrastructure network, and this should be reflected in the size of the development contribution.
- Policies that enable flexibility when development contributions are required to be paid will make it easier for developers to finance development and improve the viability of some projects.
- Informal review mechanisms allow an open dialogue between council and developers to improve the development contributions policy and implementation.

Councils have considerable scope to increase their use of targeted rates to recoup the upfront costs of growth-related infrastructure over a longer timeframe. This is particularly suitable for community infrastructure that benefits a wider group than just new developments and which cannot be funded through development contributions. This funding approach allows the cost of infrastructure to be attributed to those that benefit from the investment and be spread over the life of the asset.

Tax increment financing (TIF) is used to raise finance for infrastructure in other countries and some inquiry participants suggested that the approach might be adopted in New Zealand. The idea behind TIF is that a local authority forecasts the increase in tax revenue that will result from an infrastructure investment, and borrows against that future income. However, a straight adoption of TIF as practised in other countries does not appear well suited to financing many types of growth-related infrastructure. It also does not fit easily with New Zealand's current rating system. Allowing councils to levy targeted rates based on changes in property value that result from the addition of new infrastructure would capture many of the benefits of TIF. The Department of Internal Affairs should investigate amending the Local Government (Rating) Act 2002 to provide for this.

## **Governance of transport and water infrastructure**

Transport and water infrastructure are critical components in an effective supply of land for housing. The governance arrangements for these assets are quite different. For transport infrastructure, central government plays a central role both in a planning and funding capacity; while the arrangements for water infrastructure are much more devolved.

The Government Policy Statement on Land Transport includes relatively weak reference to land supply for housing. A stronger focus on how transport infrastructure can support land supply for housing would change the New Zealand Transport Agency's investment priorities and might help to free up land supply in high-growth cities.

The current governance arrangements for water infrastructure have three major shortcomings that are likely to inhibit affordable and efficient provision:

- fragmentation in water provision;
- problems associated with monopoly provision; and
- evidence of inefficient pricing.

Governments in other countries have sought to increase the scale of water provision through mergers of existing providers. This can deliver scale economies and gains in capability. However, mergers have not always resulted in increased performance or efficiency. This points to the need for a careful assessment of costs and benefits before undertaking any merger.

Water services have a range of characteristics that have led to local public monopoly provision. This has a number of well-recognised issues, including weak incentives to minimise supply costs, weak accountability, and susceptibility to political interference. These can have consequences for the provision of water infrastructure to support urban growth.

Watercare – Auckland Council’s water provider – does not currently recover the full costs of growth. This has the potential to create disincentives on both the CCO and existing residents to accommodate new growth. Watercare should change its approach to calculating infrastructure growth charges to better reflect the underlying economic costs of supply in different locations and for different types of dwelling. These charges should be subject to the same appeal processes as development contributions.

The current legislative restrictions on the use of contracting or franchise arrangements for delivery of water services limit the ability to create contestability in water provision. The Local Government Act 2002 should be amended to provide councils with a wider range of options for providing and managing water services. Legislative barriers to the use of contracting arrangements for water services should be repealed.

The Commission has found that the regulatory and institutional framework around the water sector can be improved. More clarity around the statutory framework for water supply, wastewater and stormwater; more discipline and transparency around the pricing of water services; and better performance monitoring, would improve the ability of the water sector to support urban growth.

In regard to Auckland’s CCOs, there is scope to improve coordination and give greater priority to growth. Auckland Council should ensure that its CCOs are aligned with the Auckland Plan and its target for new dwellings. The statement of intents of Auckland Transport and Watercare should be amended to include performance measures relating to the efficient roll-out of new infrastructure to support an increased supply of new dwellings.

## More fundamental reform of the planning system

A key task for this inquiry has been identifying leading practices and improvements that could be made to the planning system. Many of the findings and recommendations in this report are made in the context of the existing planning and development system. However, the more the Commission looked at the incentives underlying the system, the more it became clear that substantial changes are required to enable cities to better accommodate growth.

Issues with the current legislative planning framework were a recurring theme throughout the course of this inquiry. The current planning framework suffers from a number of systemic weaknesses, including:

- poor integration between the planning processes of the three main Acts;
- inadequate attention to the national interest;
- insufficient recognition of the needs of cities and housing;
- lack of responsiveness; and
- scope creep.

A deeper and more substantive review of the planning framework is needed to deal with issues of poor integration, low responsiveness and scope creep. Such a review would be timely given that the Housing Accords and Special Housing Areas Act 2013 (HASHA) will begin to expire in September 2016. The Commission has heard positive support from submitters for the HASHA and a substantive review would avoid potential gaps opening up in the planning system when HASHA expires.

The details of a future planning framework would need to be worked through a considered policy development process. However, through the course of this inquiry, the Commission has identified a number of elements that could underpin a future planning framework; in particular:

- a formal place in the planning framework for spatial plans – plans that are tightly-specified, evidence-based, include clear growth and housing demand expectations and have greater legislative weight;
- a greater role for central government in city planning, including longer-term infrastructure planning to complement local authority plans, supporting the development of common datasets, working with cities

to ensure their plans are robust enough to meet the demand for housing, and closer monitoring of performance;

- a recognised role for price signals in making planning decisions over factors such as overall land supply, the allocation of different types of land uses within a city, and the need for reviews of planning controls;
- stronger controls on the quality of land use regulation, informed by an evaluation of the processes used by the Auckland and Christchurch Independent Hearings Panels;
- room for more responsive rezoning so that planning controls can adjust more quickly (eg, in response to specified triggers such as the installation of key infrastructure, population densities passing a certain threshold, or evidence of scarcity-based price pressures); and
- greater ability to develop neighbourhood plans through which local authorities can provide infrastructure or other services for neighbourhoods facing significant change.

Taken together, these changes will help to provide greater certainty for developers, more security for local authorities, fewer unnecessary burdens on development, a system that responds more quickly to change, and better recognition of national interests.

## Meeting demand for urban space

Under New Zealand's devolved system for land use regulation, councils are responsible for land use decisions, including providing land to meet demand for residential dwellings. Many urban councils in New Zealand have a clear idea about how they want to develop in the future, and how they intend to meet a growing population demand for housing. Many larger cities have chosen to pursue a compact urban form. Yet some of our cities have difficulty in giving effect to this strategy through land use rules. This is because local democratic processes are dominated by interests that resist efforts at urban intensification and accommodating growth. Councils fail to confront the trade-offs between the interests of existing residents and the decisions about land use rules that will be required to accommodate new residents.

Some larger cities are responding to the challenge of delivering on compact city forms by establishing local urban development authorities (UDAs) to redevelop existing urban areas. Auckland and Christchurch have such vehicles, and Wellington is in the process of establishing one. UDAs offer the potential to redevelop sites to deliver large numbers of new dwellings. They can also take advantage of economies of scale to generate efficiencies, and foster a larger, more efficient and more capable construction industry.

Government should support local UDAs by providing for streamlined planning processes, and granting UDAs powers of compulsory acquisition within certain areas designated by the Government.

This report has shown that where councils are unable to confront the trade-offs necessary to provide sufficient residential space to meet growing demand, a range of negative social and economic consequences result. Central government bears many of the consequences of this failure.

One measure of how effectively demand for land for housing is being met is through relative land prices. Large discontinuities between the price of land that can be developed for residential dwellings and land that cannot be developed, is indicative of the inadequacy of development capacity being supplied within a city.

Government should take steps to ensure that where councils are unable to provide sufficient residential space to meet demand, additional ready-to-build land is made available to help the market provide the housing demanded by a growing population. A process should be established to monitor the relative price of developable and non-developable land. Government should also establish a threshold of this price differential, beyond which it will take steps to ensure additional greenfield land will be released. A credible commitment to increasing supply to meet demand will encourage landowners holding land in expectation of capital gain to use or release it for development. It will also encourage infrastructure providers to sharpen their pricing and cost recovery approach.

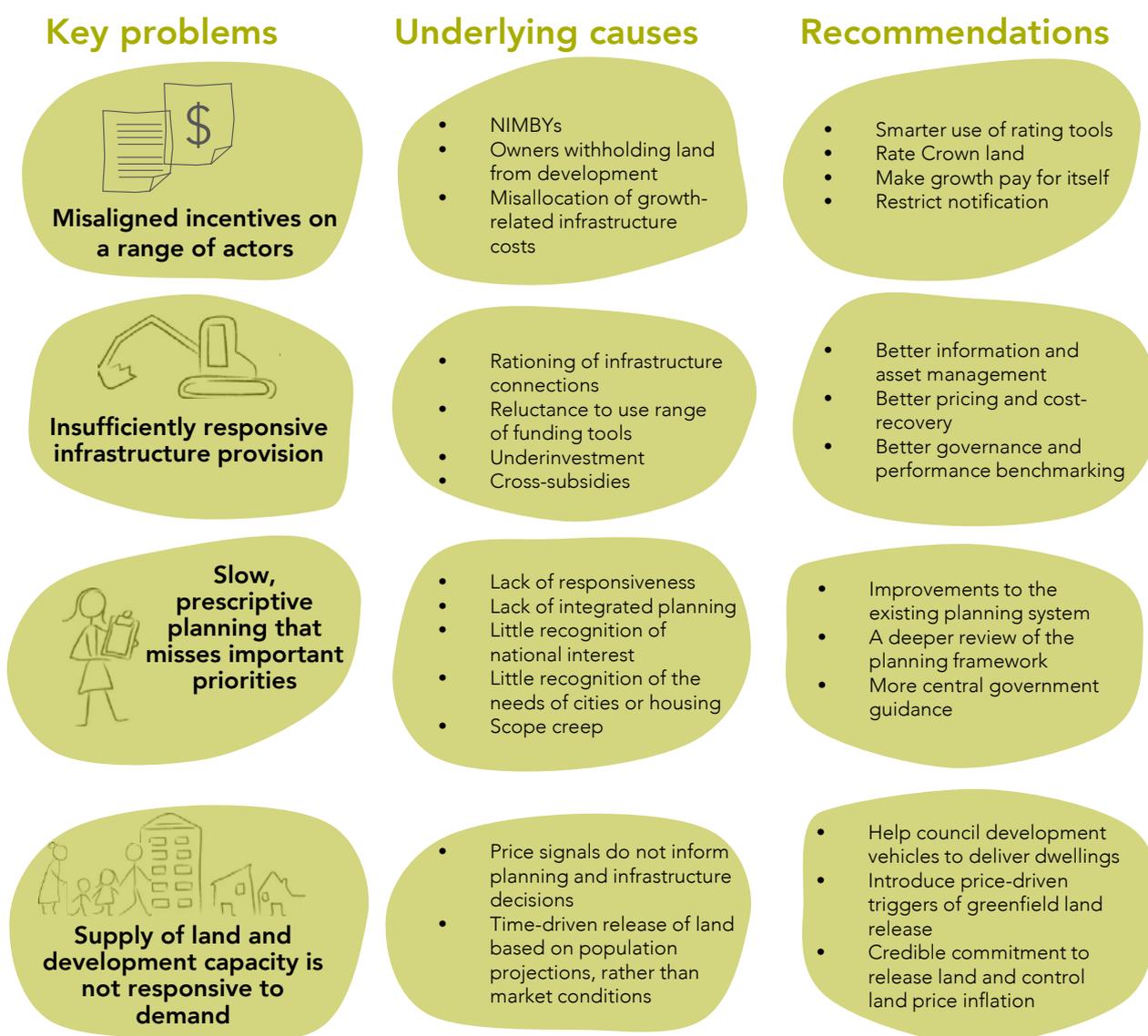
A differential "price trigger" mechanism, as recommended in this report, provides considerable freedom for local authorities to plan their cities, in line with New Zealand's tradition of devolved urban governance. But,

importantly, it encourages councils to confront the trade-offs necessary to give effect to their preferred urban form. The Commission looked at planning systems in other jurisdictions, where local authorities have more limited roles and where central or state governments directly provide infrastructure and have wider decision rights. The Commission concluded that such arrangements would involve considerable costs to central government, would not sit well with New Zealand’s constitutional settings, and would not necessarily provide better outcomes. The proposed land “price trigger” respects local decision making, but sets parameters to ensure that these decisions acknowledge the national interest and demand for land for housing. A council can continue to determine the shape of its city’s growth, but not its city’s size.

## Conclusion

This report outlines a range of changes to reform land use rules, planning processes, and local incentives that will measurably improve land supply and development capacity (Figure 1).

**Figure 1 Providing land for housing**



Where a city faces pressing demand for residential space, a disconnect can emerge between the local and national interest about to what extent, or how fast, the city should accommodate that demand.

New Zealand’s highly devolved regulatory framework in land use regulation means that this tension is currently resolved in favour of the local interest. Councils can do a better job of providing development capacity. This will require them to confront trade-offs between the interest of their existing residents and accommodating demand for new housing. The Government can do more to help, through a number of

modifications to the planning system and through supporting local UDAs to provide dwellings consistent with local preferences for a city's future urban form.

Improving the supply of land for housing is a key component in addressing affordability concerns. Yet it is not the only component of a comprehensive solution. This report has not considered the capacity of the building industry to respond to an increased availability of land or to the stronger incentives to develop land for housing. It has not considered the quality of building regulation, the productivity of the construction sector, or the cost of building materials. As outlined in the Commission's report on *Housing affordability* (2012a), these areas also have an important impact on housing affordability. Unless land supply is addressed, any gains in these areas are likely to accrue not to homebuyers but to landowners.

Locally-governed UDAs could play an important role in supporting private sector development. Partnering with UDAs can reduce regulatory risk for private sector developers and builders. UDAs can demonstrate the effectiveness of different approaches to building communities, and allow developers and builders to operate at a larger scale. The Government can support local UDAs in a number of ways to do this, including through providing them with powers to assemble sites for redevelopment.

New Zealand's fastest-growing cities need to accommodate their rising populations. This will require councils to confront the trade-off that has been a central theme of this inquiry – between the wealth and amenity of existing homeowners, and the need of new households for affordable access to quality housing.

Where demand for space is unmet, the resulting significant negative consequences and lost opportunities have to be managed at a national level. There is a point at which these harms become so great that the tension between local interests and national interests should be resolved in favour of the national interest.

A failure to provide residential land in response to growing demand contributes to a shortage of housing, causing a range of invidious social and economic harms that hurt the wellbeing of individuals, families, communities and the nation. Councils in our largest and fastest-growing cities should be given every opportunity to accommodate their rising populations, but where they cannot, government should commit to managing land price inflation by establishing a transparent process to ensure that residential land supply is responsive to demand. This report sets out a mechanism to do this.

# Findings and recommendations

The full set of findings and recommendations from the report are below.

## Chapter 2 – The planning and development system

### Findings

**F2.1**

Responsibility for land use regulation, planning and the provision of infrastructure (with the exception of main highways) in New Zealand has been devolved to local government over time.

**F2.2**

Successive planning frameworks have included more formal rights for the public to be consulted and/or object to plans, land use rules and proposals.

**F2.3**

The perceived role and scope of planning has progressively expanded from managing public health issues in the later part of the 19th century, to controlling socially problematic behaviours in the early-to-mid 20th century, to promoting a wide range of desired social, cultural, economic and environmental outcomes.

**F2.4**

There are longstanding concerns about the extent of constraints placed by the planning system on development.

**F2.5**

Central government in New Zealand plays a limited role in urban policy, regulation and the provision of infrastructure in comparison with other jurisdictions such as the UK and Australia.

**F2.6**

Where central government has become directly involved in planning, this has generally occurred in response to crises or specific issues (eg, the Canterbury earthquake recovery, housing supply in Auckland). It has otherwise made little use of the statutory intervention powers it has under the RMA until recently.

**F2.7**

The constitutional and institutional arrangements in New Zealand strengthen the role of local government in the planning and development system relative to other countries. As a result, any misalignment of incentives between local and national interests may be more pronounced in New Zealand than elsewhere.

## Chapter 3 – Cities, growth, and land for housing

### Findings

**F3.1**

New Zealand's economy is increasingly dominated by services produced in our largest cities. Taking full advantage of agglomeration economies, or removing barriers to achieving agglomeration economies, will be important for New Zealand's overall productivity growth.

**F3.2**

Poorly organised cities can lead to a loss of potential agglomeration benefits. Firms cannot take advantage of a wider pool of workers available in a big city if the costs and time of getting to work or the lack of coordinated public transport infrastructure limit the areas in which people seek work.

**F3.3**

Capturing the productivity benefits that large and growing cities offer their residents and the wider economy puts a premium on good infrastructure planning, including the delivery of an adequate supply of development capacity for housing.

**F3.4**

The decisions that a city council makes about its growth may be at odds with the interests of central government in increasing the wellbeing of New Zealanders that would arise from a city of a larger size. Large cities offer more jobs, higher incomes and productivity which benefit a city's residents and provide wider benefits to surrounding regions and the country as a whole, but the costs of growth are felt locally.

**F3.5**

Land values in major New Zealand cities and high-growth areas have increased significantly since the middle of the last decade, both in nominal terms and as a share of total property values.

**F3.6**

Restrictions on land use, and resulting high land prices, encourage the production of larger and more expensive housing.

**F3.7**

Although New Zealand's housing market is moderately responsive to changes in prices compared to other countries, an increase in demand for housing leads to a proportionately larger increase in housing prices than new house construction.

**F3.8**

Variation in the responsiveness of housing supply between different cities is likely to be a reflection of different land-use regulatory settings.

**F3.9**

A fundamental disconnect exists between the demand for housing and the supply response of the planning system, which essentially is a policy and political process. Where land use regulation prevents an adequate supply response to the demand for housing, the price of housing increases.

**F3.10**

The planning system is not responsive to price signals that provide information about the location and type of housing that people demand, and about the available supply.

**F3.11**

Where demand for land exceeds the supply allocated through the planning system, landowners and developers act like local monopolists. They are able to restrict the supply of zoned and serviced land to maintain high prices.

**F3.12**

No consistently collected or comparable data is available on the stringency of land use regulation in New Zealand.

**F3.13**

A survey of fast-growing New Zealand councils found universally restrictive land use rules, but considerable variation in the overall stringency of land use regulation. This variation is due in large part to:

- differing levels of influence over planning by the courts, regional councils and community groups; and
- differences in the time taken to get approvals for development.

**F3.14**

Restricted housing supply will tend to inflate the value of existing homes. Existing homeowners have an incentive to be risk-averse in opposing developments that could affect the amenity of their neighbourhood and the value of their home.

**F3.15** Existing homeowners have an incentive to oppose development that involves council expenditure on infrastructure that does not benefit them but will be recovered through general rates.

**F3.16** Cities that are subject to geographic constraints to development (eg, near to a large body of water) show less supply responsiveness to housing demand, both because of the geographic constraints and because these constraints encourage higher land prices, strengthening the incentive for existing owners to support anti-development regulations. This is particularly true in larger and faster-growing cities.

**F3.17** Groups that have high home ownership rates have higher rates of participation in local government elections. The influence of homeowners in local government elections and consultation processes promotes local regulatory and investment decisions that have the effect of reducing land supply for housing.

**F3.18** Stringent land use regulations have a disproportionate impact on the less well-off and contribute to the unaffordability of housing. Demand-side assistance for homeowners and renters puts pressure on public finances. Restrictive land use regulation means that demand-side measures, such as rent and home owner subsidies, lead to increasing housing prices rather than a greater supply of housing at the low end of the housing market.

**F3.19** Housing makes up a significant share of many New Zealanders' wealth. High housing prices have implications for the ability of some groups to accumulate wealth and for the distribution of wealth across the community.

**F3.20** Restrictive land use regulations limit the ability of people to seek better employment opportunities in cities, are a barrier to potential productivity gains, and may create risks to macroeconomic stability.

**F3.21** A "wedge" exists between the preferences of central government around accommodating growth in our fastest growing cities and the preferences of local communities represented by local councils. Local decision making has national consequences. The balance between local and national involvement in the planning and development system needs to shift in the national interest.

## Chapter 4 – Incentives on landowners and ratepayers

### Findings

**F4.1** The way rates are set means increases in the value of the rating base (through increasing property prices or new development) will not of itself increase rating revenue. Unlike other taxes, there is no automatic connection between the size of the revenue base or its value, and the total amount of revenue collected. This means that councils face weaker incentives to grow the underlying revenue base than central government.

**F4.2** High-growth councils tend to see new housing development as a net cost. The first response should be to ensure the costs of infrastructure are allocated appropriately.

**F4.3**

Owners of land may choose not to develop their land for a variety of financial and non-financial reasons. Efforts to encourage the development of such land needs to acknowledge and account for these varying drivers.

**F4.4**

Expectations of high future demand can encourage landowners to withhold land from development.

**F4.5**

Expected returns from developing land in the future are increased by regulatory constraints that increase the scarcity value of land. Owners withholding land from development is a symptom, rather than a primary cause, of land supply shortages.

**F4.6**

Auckland has a large number of owners of bare land suitable for subdivision and the construction of dwellings. No evidence exists that a small number of owners have a dominant position in the Auckland market.

**F4.7**

The practice of owners withholding land from development is widespread and has many causes. Patterns differs across New Zealand cities. In some cases owners may have a strong position in the local market for greenfield land that allows them to stage releases to control supply. In other cases ownership may be dispersed, but owners may withhold land from development because they expect higher returns from developing in the future.

**F4.8**

The use of capital value rating systems makes it less expensive to carry undeveloped and underdeveloped land compared to land value rating systems. At the margin, the use of land value rating systems would encourage land to flow to its highest value uses, including more and denser housing.

**F4.9**

Both land value and capital value are strongly associated with income. National evidence shows that the relationship between land value and income is stronger; but councils should review the evidence in their own districts as an input into future local reviews of their rating policies.

**F4.10**

Although market transactions of unimproved land are fewer, little evidence is available of greater variance in assessed values of bare land than improved land.

**F4.11**

The distributional effects of a systematic incorrect valuation of land on the rating burden may be greater under a capital value rating system than a land value rating system.

**F4.12**

Owners of undeveloped land benefit from council services and infrastructure funded from general rates because the value of these services is capitalised into land prices.

**F4.13**

A good case appears to exist for setting general rates on the basis of land value rather than capital value, to encourage the development and the efficient use of land.

**F4.14**

The rating exemption on core Crown land does not appear to have a principled justification.

## Recommendations

**R4.1**

When councils review their rating policies in the future, they should review the evidence in this report with a view to adopting land value as the basis for setting general rates.

**R4.2**

In future local government amalgamations, central and local government should take the opportunity to consider the merits of adopting land value rating to encourage the efficient use of land.

**R4.3**

The Government should investigate removing the rating exemption on land owned by the Crown (including on land used for health and education purposes), land used by local government for recreation and community facilities, and the Crown's exemption from other local government fees and charges.

## Chapter 5 – Regulatory barriers to the growth of cities

### Findings

**F5.1**

Many of New Zealand's high-growth cities impose, or intend to impose, urban limits. The limits vary in terms of their permanence and their ability to be adjusted in response to market developments.

**F5.2**

Most of the high-growth cities investigated in this inquiry have goals and policies in their RMA plans to protect high-class agricultural land from residential development.

**F5.3**

Tensions between the growth of cities and agricultural activities are inevitable, since many cities in New Zealand are located near land that is, or has been, used for agricultural purposes.

**F5.4**

Zoning practices that require large minimum lot sizes in rural areas are unlikely to encourage the most efficient use of land.

**F5.5**

Land, like any other resource, will tend to move towards its highest value use. Prices indicate the highest and best use of a particular parcel of land. In some cases, the highest value use will be residential housing; in others, it will be agriculture or horticulture.

**F5.6**

Land prices, especially price differentials between different types of zones, should play a more prominent role in planning decisions.

**F5.7**

Balcony requirements for apartments create costs that appear to outweigh any likely benefits.

**F5.8**

Controls on apartment sizes were introduced in New Zealand in part because of concerns about the adequacy of ventilation, natural light and internal noise insulation. These concerns are best dealt with through targeted regulation and through amendments to national regulations such as the Building Code and /or the Housing Improvement Regulations.

**F5.9**

Minimum parking requirements create land use inefficiencies and higher construction costs, contributing to increased housing costs. In addition, they represent an effective subsidy to car users, encouraging excessive use.

**F5.10**

Building height limits significantly reduce development capacity. Such restrictions contribute to housing shortages and higher house prices, and force cities to move outwards, increasing transport costs for some residents. They weigh against objectives of increasing urban density and using city land more efficiently. Although building height limits can play a role in managing local externalities from development, they also create costs that are felt across a city.

**F5.11**

Protecting buildings and sites of major historical significance can provide benefits to the wider community, but also create costs, most obviously by making renewing and increasing the housing stock more difficult.

**F5.12**

The wider the reach of a heritage protection policy or rule, the larger the likely negative effects on housing supply.

**F5.13**

The wider costs and impacts of imposing heritage and special character protection policies and rules, which can be substantial, have not been fully accounted for in the underlying analysis supporting such policies.

**F5.14**

Limits on density – either explicit restrictions on density or implicit controls such as minimum section size rules – are blunt tools that have a negative impact on development capacity, affordability and innovation. Externalities arising from more intensive development can be better managed through other controls and policies.

**F5.15**

Covenants established in new subdivisions are increasingly common and impose detailed restrictions on purchasers.

**F5.16**

Covenants reduce the flexibility of use of land now and in the future, and increase the cost of constructing dwellings.

**F5.17**

Covenants provide a number of benefits, including encouraging development by reducing risks for buyers and sellers, and allowing landowners to set rules and conditions that reflect their preferences. Regulatory controls on covenants should reflect both the costs and benefits of covenants.

**F5.18**

Multiple and conflicting objectives in RMA plans reduce the ability of those plans to enable the provision of sufficient land and development capacity.

**F5.19**

Inadequate underpinning analysis for District Plan rules and provisions is a key source of unnecessary regulatory costs for developers.

**F5.20**

District Plan provisions which impose controls on the internal design and construction of buildings that are more stringent than standards set under the Building Act 2004 may be unlawful.

**F5.21**

The New South Wales Urban Feasibility Model is a leading practice tool that can be used to develop and test commercially viable land-use rules, especially for infill and brownfield development.

**F5.22**

Auckland Council's commissioning of detailed cost-benefit studies for particular land use rules is a good example of the depth and rigour of analysis that should accompany the introduction of new rules. Their findings should be better taken into account in council decisions.

**F5.23**

Central government's existing policies and guidance on planning fail to meet the level of analysis now expected of local authorities.

## Recommendations

**R5.1**

Councils with urban limits should ensure that they have mechanisms to promptly review the placement and restrictiveness of those limits, in light of market developments.

**R5.2**

The Government should ensure that any future legislative proposals to permanently remove or limit specific areas near cities from being developed are assessed for their impacts on housing supply and costs.

**R5.3**

The Government should amend the Local Government Act 2002, to enable faster and more streamlined approval of minor changes to local authority boundaries.

**R5.4**

High-growth councils should review minimum lot size rules, subdivision and density controls in rural zones to ensure they provide the right balance of promoting efficient use of land for housing and managing externalities.

**R5.5**

The Treasury should review the foreign investment screening regime for developers with a view to enabling foreign developers to purchase land without gaining consent from the Overseas Investment Office, providing that it is developed into housing within an acceptable timeframe.

**R5.6**

Councils should remove District Plan balcony requirements for apartments.

**R5.7**

Councils should remove minimum apartment size rules in District Plans, once the Ministry of Business, Innovation and Employment has:

- completed planned work on updating Building Code rules and guidance related to air quality, lighting, acoustics and access in multi-unit dwellings, and
- reviewed the Housing Improvement Regulations 1947.

**R5.8**

Councils should remove minimum parking requirements in District Plans and make more use of traffic demand management techniques (eg, variable pricing for on-street parking).

**R5.9**

Councils should:

- lift current height limits where it cannot be demonstrated that the benefits outweigh the costs; and
- undertake robust cost–benefit analyses before considering the introduction of building height limits.

**R5.10**

Councils should:

- undertake a review of their existing heritage and special character protection policies, carefully assessing the costs and benefits of such policies and their impacts beyond protected areas, and identifying constraints imposed on housing supply;
- tightly focus heritage and special character polices on specific structures or items with high, genuine and significant historical or cultural value; and
- avoid introducing wide-ranging heritage or special character policies that restrict the redevelopment of a large share of the housing stock.

**R5.11**

Councils in high-growth cities should avoid introducing explicit limits on housing density, and review existing limits with a view to lifting them.

**R5.12**

The Ministries of Justice and of Business, Innovation and Employment should review the legislative provisions governing covenants with a view to:

- reducing the proportion of landowners required to agree to covenant changes from all to a super-majority; and
- introducing a statutory sunset period on restrictive covenants of 25–30 years.

**R5.13**

Councils should review District Plan controls on the internal design and construction of buildings or dwellings that exceed standards set under the Building Act 2004, with a view to removing them.

**R5.14**

The Ministry for the Environment, in partnership with urban councils, should explore the potential to develop an Urban Feasibility Model that New Zealand councils can use to develop and test suitable planning controls.

**R5.15**

Councils should make more use of cost–benefit analysis in assessing the merits of proposed new land use regulations.

**R5.16**

Central government should assist councils in conducting better cost–benefit analysis of proposed land use rules, through arranging training and providing templates and technical guides.

**R5.17**

The Government should replace its existing guidance on planning with material that more clearly demonstrates and showcases high-quality cost–benefit analysis. Key documents that should be replaced include:

- the *New Zealand Urban Design Protocol*, and
- *National Guidelines for Crime Prevention through Environmental Design in New Zealand*.

## Chapter 6 – Rezoning and approvals processes

### Findings

**F6.1**

High-growth councils take longer on average than other local authorities to make plan changes operative.

**F6.2**

Available evidence does not support the proposition that plan changes typically take many years for cities to complete. Even for high-growth councils, the median time taken to complete a plan change was slightly over a year and a half.

**F6.3**

Appeals and associated processes appear to partly account for the longer average time it takes to complete plan changes in high-growth councils.

**F6.4**

The fact that plan changes take longer on average to complete in faster-growing areas is not surprising. Faster-growing areas tend to be larger cities, where more residents with interests may be affected and where more impacts on others must be managed.

**F6.5**

Limiting the ability of directly affected parties to make further submissions on proposed plan changes would be undesirable.

**F6.6**

Giving councils greater flexibility over notifying site-specific plan change proposals could create opportunities for faster rezoning processes, while protecting the ability of those directly affected to be heard.

**F6.7**

Despite amendments to the RMA in 2009 which were intended to give local authorities more flexibility over how they notify a plan change or variation, councils are still obliged to publish notices in newspapers. This is unlikely to be the most effective way of communicating with parties affected by a plan change.

**F6.8**

Engagement with affected parties on proposed plan changes ahead of their notification and circulation of draft plan changes for comment are both leading practices that may help to reduce the incidence of appeals.

**F6.9**

Broad zones that enable a wide range of activities to occur are less likely to require rezoning.

**F6.10**

Removing or significantly limiting the access to appeals would be unlikely to improve the quality of District Plans or land use regulations.

**F6.11**

The question of whether and how appeal avenues could be limited needs to be considered in the light of a wider review of the planning system and, in particular, of any alternative institutional arrangements to test the rigour and appropriateness of proposed land use regulation.

**F6.12**

Providing a “one stop shop” for developers by bringing together all parts of councils that influence a development project can help to reduce transaction costs and unnecessary delays.

**F6.13**

Opportunities exist in New Zealand to reduce costs and delays by making greater use of electronic planning tools.

**F6.14**

The benefits of nationally standardised land use rules and zones, such as occur in many Australian states, are unlikely to outweigh the costs.

**F6.15**

Little information is available on the proportion of land use activities that are “permitted” under existing District Plans. However, the experience of the Queenstown Lakes District Plan review suggests that scope exists for further liberalisation of residential land use requirements in current RMA Plans.

## Recommendations

**R6.1**

The Government should introduce amendments to the RMA, allowing councils to only notify directly affected parties of proposed plan changes that are specific to particular sites. The amendments should mirror the 2009 amendments to section 95 of the RMA.

**R6.2**

The Ministry for the Environment should review whether the current Schedule 1 requirements provide enough room for innovative consultation processes, while also protecting the rights of affected parties.

**R6.3**

Councils should publish and consult on draft plan changes of interest to the wider community ahead of notification, unless compelling reasons exist for not doing so.

**R6.4**

Councils should limit the use of special purpose zones. They should only be used for large facilities with particular land use requirements that are unlikely to move sites.

**R6.5**

In reviewing their District Plans, local authorities should move more residential land-use activities into “permitted” or “restricted discretionary” status.

## Chapter 7 – Policies targeting lower-cost housing

### Findings

**F7.1**

International evidence indicates that inclusionary housing policies make a very small contribution to the provision of lower-cost dwellings.

**F7.2**

Council policies on inclusionary housing are likely to struggle without a range of other supporting policies, most of which require support from central government (such as land and funding).

**F7.3**

Inclusionary housing policies that involve high degrees of discretion on the part of local authorities create uncertainty and delay, discouraging development.

**F7.4**

Depending on their design and the state of the housing market, inclusionary housing policies can also increase the price of non-targeted dwellings and involve significant administrative costs.

**F7.5**

Inclusionary housing policies target the symptoms, not the causes, of a declining supply of lower-cost housing. They do not offset planning controls that limit the supply of land or the other factors that contribute to the high-cost nature of New Zealand's building industry, such as fragmented land holdings that mean developments cannot capture significant economies of scale.

**F7.6**

With the exception of Auckland and Christchurch, neither central nor local government appears to have undertaken a stocktake of public land holdings in high-growth cities to identify land that could be released for residential development.

## Recommendations

**R7.1**

Rather than pursuing inclusionary housing policies, the Government and councils should promote a greater supply of lower-cost housing by:

- removing planning controls that limit the supply of development capacity and housing; and
- supporting or establishing institutions that lower barriers to the supply of lower-cost housing (eg, urban development authorities).

**R7.2**

The Ministry of Business, Innovation and Employment, in conjunction with relevant councils, should make an inventory of public land holdings in all high-growth cities to identify surplus sites that could be used for housing.

**R7.3**

Once an inventory of public land holdings is complete, the Government should seek opportunities to partner with local authorities and private landowners to achieve scale sites for lower-cost housing development.

## Chapter 8 – Planning and delivering infrastructure

### Findings

**F8.1**

Infrastructure accounts for a significant share of the cost of new dwellings. Costs are location-specific and consist primarily of costs incurred by the developer in constructing on-site infrastructure, development contributions paid by the developer to councils, and connection fees for private utilities.

**F8.2**

Most inquiry participants suggested that higher-density urban developments are less costly to service with infrastructure, particularly when existing infrastructure assets have not yet reached capacity. International research examining the relationship between urban form and infrastructure costs generally supports this proposition.

**F8.3**

Councils are required to undertake relatively rigorous infrastructure planning processes, a reflection of the fact that councils are asset-intensive organisations.

**F8.4**

Councils tightly control the supply of trunk infrastructure to support urban growth. This is a prudent approach from the perspective of managing costs and risks. However, if the supply of infrastructure is too conservative, it can constrain the supply of land for housing. In turn, this can contribute to higher land prices by reinforcing expectations among investors of a scarce supply of serviced land for housing.

**F8.5**

Development agreements enable developers to take responsibility for building trunk infrastructure. This shift has the potential to generate a swifter supply of infrastructure and to encourage innovative approaches to infrastructure construction.

**F8.6**

Measures taken by councils to facilitate development agreements involving multiple land-owners can help to increase the responsiveness of infrastructure supply. However, as negotiating between multiple land-owners and developers can be costly and time consuming, councils should not be obliged to facilitate private agreements.

**F8.7**

Innovative approaches to infrastructure construction that lower upfront costs and allow services to be scaled up as demand increases can help to overcome the difficulties of investing in infrastructure to support future growth. The staged construction approach used by Selwyn District Council is a good example of this leading practice.

**F8.8**

Improving the supply of infrastructure for housing is not just about rolling out new infrastructure. Effective use of existing infrastructure assets is also an important part of the equation.

**F8.9**

Councils can unlock land supply by enabling growth in areas where spare capacity is available within existing infrastructure networks. This leading practice requires councils to establish a good understanding of existing infrastructure capacity along with appropriate planning rules that allow intensification to occur in areas where capacity exists.

**F8.10**

Forecasts in the Long-Term Plans of high-growth councils point toward a growing and potentially under-funded requirement for infrastructure renewals. Effectively managing ageing assets and funding the renewal of infrastructure are likely to be major challenges for councils in the coming years.

**F8.11**

Effective asset management can enable councils to make better use of existing assets, facilitate optimal decisions about the location of growth, set well-informed infrastructure standards, and improve the coordination of infrastructure delivery among different providers.

**F8.12**

Wellington City Council's approach to asset management is a leading practice. Benefits of the approach include enabling the council to make more effective use of existing infrastructure, better coordination and timing of maintenance and replacement work, and the ability to take an evidence-based approach to spatial planning.

**F8.13**

A broad range of initiatives is in place to strengthen local government asset management practices. The National Infrastructure Unit is well positioned to monitor these initiatives and take additional steps to strengthen practice as necessary.

**F8.14**

User charges are an effective approach to demand management that can enable councils to make better use of existing assets. This can contribute to an improved supply of land if it increases the number of dwellings that existing infrastructure assets can support. It also has potential to reduce the operating expenditure of councils and to delay or avoid capital investments in new infrastructure.

F8.15

It is not clear that a longer default period for designations would provide a net benefit. The RMA already allows requiring authorities to seek longer designation periods, and a recent assessment suggests that these are used when necessary. The option of removing the default period altogether could be considered as part of any wider RMA reform.

F8.16

A number of practices enable consistency in infrastructure standards set by councils, including the use of the *New Zealand Standard Land Development and Sub-Division Infrastructure* (NZS4404:2010).

F8.17

Adopting consistent infrastructure standards at a regional or subregional level (as practised in the Waikato region) may provide a good balance in addressing concerns about unnecessary variation in standards, while being responsive to local priorities.

F8.18

Council processes that seek early engagement with the development community and private utility companies are a leading practice.

## Recommendations

R8.1

The Local Government Act 2002 should be amended to ensure that the requirement to consider development agreements that applies to councils also applies to council controlled organisations.

R8.2

A National Policy Statement on urban development should introduce common terminology regarding land supply and its readiness for building (eg, not residential zoned; zoned; zoned and serviced; zoned, serviced and consented). Councils should use this terminology to publish clear information about available land and its readiness for building.

R8.3

Councils should prioritise the development of up-to-date asset management information systems. This should be supported by recruiting and developing staff with the skills and expertise needed to make effective use of these systems, and ensuring that the information from asset management systems is integrated into decision-making processes.

R8.4

Councils should pursue opportunities to make more efficient use of existing infrastructure assets, including through greater use of user charges where this can reduce demands on infrastructure.

R8.5

When reviewing options for the governance, funding, and delivery of infrastructure under section 17 of the Local Government Act 2002, councils should assess whether the benefits of introducing volumetric charges for water outweigh the costs.

R8.6

Where no economic case exists for introducing water metering and volumetric charges, councils should separately list these costs on rates bills or present them in a separate water services bill.

R8.7

The Local Government (Rating) Act 2002 should be amended to enable all local authorities to charge for wastewater volumetrically in the way that they can for drinking water (irrespective of whether wastewater services are managed by a CCO).

**R8.8**

The Government should amend the Land Transport Management Act 2003 to allow pricing on existing roads where a case has been made that it would enable more effective use of the roading network.

**R8.9**

Effective asset management systems are important for maintaining existing assets and planning and delivering new infrastructure. Councils should set infrastructure standards based on evidence collected through asset management systems. Evidence underpinning infrastructure standards should be shared openly with the development community to help build an understanding regarding the rationale for certain standards.

**R8.10**

If councils determine that a good case to change infrastructure standards exists, then developments that already have consent should be exempt from the change, provided that they have held that consent for fewer than five years. Alternatively, developers should be compensated for any additional costs incurred as a result of the change.

## Chapter 9 – Paying for infrastructure

### Findings

**F9.1**

Debt is an important source of finance for urban infrastructure in high-growth areas. It enables councils to deliver infrastructure when it is most needed and for infrastructure costs to be spread over the life of the asset. This means that those who benefit from the infrastructure contribute to paying for it.

**F9.2**

Recent assessments have not identified serious concerns regarding councils' use of debt.

**F9.3**

Development contributions play an important role in enabling the provision of essential infrastructure to support urban growth. Properly structured charges help to ensure that investment reflects its opportunity cost and that locational decisions are efficient. By providing a way to recover the costs of growth from those that benefit, development contributions remove some of the reason why ratepayers oppose growth.

**F9.4**

Some types of community infrastructure cannot be recovered through development contributions. However considerable scope exists for councils to increase their use of targeted rates to recoup the costs of this infrastructure from the sections of the community that benefit.

**F9.5**

There is little evidence to suggest that the current processes for challenging, and providing transparency over, development contributions are deficient.

**F9.6**

Tauranga City Council provides an opportunity for the development community to review proposed development contributions, and will consider feedback on areas for improvement. Inquiry participants have identified this approach as a leading practice.

**F9.7**

New Zealand's current system of rates means that a straight adoption of tax increment financing schemes used overseas is not suited as a funding tool for growth-related infrastructure.

**F9.8**

The municipal utility district (MUD) model of infrastructure development has potential to inject competition into the market for infrastructure. However it is not clear whether a proliferation of small, resident-managed infrastructure districts would achieve efficiencies. In addition, there appears to be few barriers to pursuing this model of development in New Zealand and little enthusiasm for the model among the development community.

## Recommendations

**R9.1**

The Department of Internal Affairs' monitoring of the *Financial Reporting and Prudence* regulations should:

- assess how the regulations affect councils' ability to provide infrastructure to support growth; and
- review whether 15% is the most appropriate debt-servicing ratio for high-growth councils.

**R9.2**

Development contributions should fully recover the costs of trunk infrastructure needed to support growth.

**R9.3**

Councils should underpin their development contributions policies with analysis regarding the relationship between relevant dwelling characteristics and the cost of providing infrastructure services. Where certain dwelling characteristics result in lower or higher costs on the infrastructure network, this should be reflected in the size of the development contribution.

**R9.4**

Councils should consider repayment options for development contributions that allow the costs to be recovered over a longer time period. The application of a targeted rate that recovers the cost of infrastructure is one existing mechanism that would facilitate this.

**R9.5**

To enable councils to capture the uplift in property values resulting from infrastructure investments, the Department of Internal Affairs should investigate amending the Local Government (Rating) Act 2002 to allow councils to levy targeted rates on the basis of change in land value.

## Chapter 10 – Governance of transport and water infrastructure

### Findings

**F10.1**

The Government Policy Statement on Land Transport makes relatively little reference to land supply for housing. A stronger focus on how transport infrastructure can support land supply for housing would change the New Zealand Transport Agency's investment priorities and might help to free up land supply in high-growth cities. However, shifting the priorities for land transport funding could have implications for existing priorities.

**F10.2**

Facilitated discussions involving central and local government organisations can be effective in developing a shared understanding of land use demand and associated infrastructure.

**F10.3**

Governments in other jurisdictions have deliberately sought to increase the scale of water provision through mergers of existing providers. This can deliver scale economies and gains in capability. However, mergers have not always resulted in increased performance or efficiency, which points toward a need for careful assessment of costs and benefits before undertaking any merger.

**F10.4**

While water services have a range of characteristics that have led to local public monopoly provision, the approach has a number of well-recognised issues. One particular problem is that the provision of water services, particularly water pricing, is susceptible to political interference. This can inhibit efficient and responsive provision of water infrastructure to support urban growth.

**F10.5**

Watercare's Infrastructure Growth Charge does not currently recover the full costs of new infrastructure to support growth. This has the potential to create disincentives on the council controlled organisation and existing residents to accommodate new growth.

**F10.6**

The current legislative restrictions on the use of contracting or franchise arrangements for delivery of water services limit the ability to create contestability in water provision.

**F10.7**

The process by which Hamilton City Council, Waikato District Council and Waipa District Council have proactively considered approaches to improve the efficiency of three waters infrastructure is a leading practice.

**F10.8**

While the primary accountability documents for Watercare and Auckland Transport (the Statements of Intents) are broadly aligned with the Auckland Plan vision, they do not give effect to the specific objective in the Auckland Plan to increase the city's supply of new dwellings.

**F10.9**

The statutory and legal frameworks for water supply, wastewater and stormwater in New Zealand are unclear.

**F10.10**

A feature of water services provision in many other countries is the presence of strong self-regulatory institutions, particularly performance benchmarking.

**F10.11**

The industry-led approach to benchmarking the performance of water providers in the Netherlands is a leading practice.

**F10.12**

Water New Zealand's *National Performance Review* is a good practice. However its effectiveness could be strengthened with greater industry buy-in and further development of some indicators.

## Recommendations

**R10.1**

Watercare should revise its approach to the Infrastructure Growth Charge so that the full costs are recovered.

**R10.2**

Watercare should change its approach to calculating infrastructure growth charges, to better reflect the underlying economic costs of supply in different locations and for different types of dwelling.

**R10.3** Watercare’s Infrastructure Growth Charge should be subject to the same appeal processes as development contributions.

**R10.4** When reviewing the cost-effectiveness of arrangements for infrastructure services under part 17 of the Local Government Act 2002, councils should ensure that the arrangements facilitate a responsive supply of infrastructure to support urban growth.

**R10.5** The Local Government Act 2002 should be amended to provide councils with a wider range of options for providing and managing water services. Legislative barriers to the use of contracting arrangements for water services should be repealed.

**R10.6** When reviewing their arrangements for good quality infrastructure under section 17 of the Local Government Act 2002, councils should consider whether the council controlled organisation model offers potential to capture scale economies, and to generate a more responsive supply of infrastructure to support urban growth.

**R10.7** Auckland Council should ensure that its council controlled organisations are aligned with the Auckland Plan and its target for new dwellings. Auckland Transport and Watercare’s SOIs should be amended to include performance measures relating to the efficient roll-out of new infrastructure to support an increased supply of new dwellings.

**R10.8** LGNZ should support Water New Zealand’s benchmarking initiative by encouraging all councils to participate and by working with councils to assist them in improving their data quality.

## Chapter 11 – Reform of the planning framework

### Findings

**F11.1** There are systemic weaknesses in the planning framework, including:

- poor integration between the planning processes of the three main Acts;
- inadequate attention to the national and public interest;
- insufficient recognition of the needs of cities and housing;
- lack of responsiveness, and
- scope creep.

**F11.2** A review of the planning framework is timely and would provide an opportunity to address its weaknesses.

**F11.3** Inquiry participants reported a number of benefits from New Zealand’s spatial planning processes, including greater intra-regional cooperation and understanding, more efficient infrastructure use and investment, a better ability to respond to new policy initiatives, cost savings and greater certainty.

**F11.4**

Duplicative statutory consultation requirements and weak legal connections between the different planning Acts make it time-consuming and challenging for local authorities to successfully translate spatial plans into RMA regulatory plans and other planning processes.

**F11.5**

Spatial plans have a place in a future planning system, and the planning framework should be designed to ensure that such plans:

- have stronger legislative weight in other planning processes (ie, land use regulation, transport and infrastructure);
- express clear priorities and trade-offs;
- include a statement of expected housing demand;
- focus on activities and goals that have a close link to the demand for and use of land, and
- make extensive use of data and are designed with close involvement from infrastructure providers.

**F11.6**

The planning system has scope to be rationalised, by re-allocating some existing functions and collapsing or removing some of the plans that are currently required.

**F11.7**

There would be benefit in central government being involved upfront in ensuring city plans are sufficiently robust to meet the demand for land for housing.

**F11.8**

A need exists for better and more regular data on changes in the dwelling stock, especially housing additions and demolitions. Existing information provided through building consents is of poor quality.

**F11.9**

Responsibility for urban planning matters is currently distributed between several central government departments. If central government is to play a more active and engaged role in the development of cities, greater coordination between these departments and Ministerial leadership will be required.

## Recommendations

**R11.1**

The Government should make the preparation of long-term infrastructure strategies a permanent part of central government's planning and reporting framework.

**R11.2**

The Government should work with councils using spatial plans to develop a common set of data and growth projections that can be used to underpin planning at all levels.

**R11.3**

The Ministry of Business, Innovation and Employment, Statistics New Zealand and councils should work together as a priority to improve the quality of official statistics on changes to the dwelling stock, including demolitions and conversions.

**R11.4**

The Government should establish processes to better coordinate departments involved in urban planning, so that it can engage more effectively with urban councils.

**R11.5**

A future planning system should require councils to make use of land price information in their planning decisions, such as setting the overall land supply and deciding on the allocation between different types of zones (eg, industrial, commercial, residential) within a city.

**R11.6**

Once the work of the Auckland and Christchurch Independent Hearings Panels (IHPs) is complete, the Ministry of Business, Innovation and Employment and the Ministry for the Environment should, in consultation with the relevant local authorities, evaluate the IHP processes, with a view to learning whether and how IHPs could be made a permanent feature in the planning system.

**R11.7**

A future planning framework should explore options for more responsive rezoning, allowing planning controls to adjust in response to specified triggers (eg, the installation of key infrastructure, population densities passing a certain threshold).

**R11.8**

The review of the planning framework should aim to make it easier to develop neighbourhood plans, through which local authorities can provide targeted infrastructure or services for neighbourhoods facing significant change.

## Chapter 12 – Meeting demand for urban space

### Findings

**F12.1**

Urban development authorities can play an important role in de-risking development and bringing land to market.

**F12.2**

Submitters gave broad support for urban development authorities to lead urban regeneration projects that provide for residential development, but gave little support for one nationally established Authority.

**F12.3**

New Zealand's largest cities have local urban development authorities established or planned.

**F12.4**

A nationally established urban development authority is likely to be counterproductive where councils have urban development vehicles.

**F12.5**

The ability of local authorities to compulsorily acquire land for housing or urban regeneration is unclear.

**F12.6**

Large differences between the price of developable and non-developable land reflect demand for urban uses that are prevented by the planning system or by a lack of growth-enabling infrastructure.

**F12.7**

Discontinuities of price between land inside and outside the Auckland Metropolitan Urban Limit continue to grow.

**F12.8**

Event-driven triggers to release land will be significantly more responsive to demand for land than time-driven approaches. This will contribute to more stable land prices for developable land.

**F12.9**

Price signals provide an indication of whether councils are successfully creating sufficient economically feasible capacity for more dwellings within their cities. Where councils are pursuing denser urban forms, price signals provide an indication of whether their land use rules facilitate this in practice.

**F12.10**

A commitment to release additional land where price discontinuities reach a certain threshold would assist councils in confronting the trade-offs necessary to give effect to their visions for a more compact urban form.

**F12.11**

A credible commitment to releasing additional greenfield land when price discontinuities reach a given threshold would promote the release of land currently being held in expectation of future price increases.

## Recommendations

**R12.1**

The Government should legislate to create a regime similar to Special Housing Areas whereby certain developments undertaken by local urban development authorities are designated by Order in Council as having the potential to deliver significant numbers of dwellings, and within which the urban development authority will operate with different powers and land use rules.

**R12.2**

The Government should provide for 'designated developments' undertaken by local urban development authorities to allow higher height and storey limits than in the Special Housing Areas regime, and to allow non-residential uses that may be necessary for the development to be economically viable.

**R12.3**

The Government should legislate to grant compulsory acquisition powers to local urban development authorities for 'designated developments', subject to the normal processes, compensation and protections of the Public Works Act 1981.

**R12.4**

The Government should adjust the 'offer back' provisions of the Public Works Act 1981 for use by urban development authorities, so that they are not obliged to offer back land that has been significantly redeveloped.

**R12.5**

The Government should provide for 'designated developments' undertaken by local urban development authorities to operate under streamlined planning and consenting processes. This should include restricting public notification.

**R12.6**

The Government should look at other opportunities to support the activity of local urban development authorities to deliver on councils' goals for urban redevelopment, including through making Crown land available, partnering in specific projects, and ensuring that Housing New Zealand cooperates where relevant.

**R12.7**

Land Information New Zealand should provide wider public access to information in District Valuation Rolls and property sales data.

**R12.8**

The Government should develop a process to regularly monitor and report on the relative prices or assessed values of developable and non-developable land in our fastest growing cities.

**R12.9**

The Government should establish a threshold for the price difference between developable and non-developable land, beyond which it will ensure additional developable land is made available.

**R12.10**

The Government should establish a process involving the relevant council to bring forward the release of additional greenfield land where relative land prices exceed the threshold set.

**R12.11**

The Government should develop a process for ensuring that greenfield land brought forward for development as a result of the price threshold being exceeded is serviced with necessary bulk infrastructure, to allow land to be developed.



NEW ZEALAND  
PRODUCTIVITY COMMISSION  
Te Kōmihana Whai Hua o Aotearoa

