

Government response to the New Zealand Productivity Commission report on Using Land for Housing

August 2016

The Government would like to thank the New Zealand Productivity Commission (the Commission) for its inquiry *Using Land for Housing*.

Using Land for Housing reviewed the local planning and development systems of New Zealand's fastest-growing urban areas to identify leading practices to support the adequate supply of land for housing. The Commission made recommendations to improve the New Zealand planning system's responsiveness to urban growth.

The inquiry builds on the Commission's 2012 report *Housing Affordability* which identified planning, land use regulations and the systems for infrastructure supply as playing a critical role in managing the growth of our cities. Since then the Government has focused on lifting housing supply through reforms to the Resource Management Act to accelerate the planning and consent process, entering housing accords with nine local authorities and establishing 205 special housing areas with an eventual anticipated yield of over 70,000 homes, and changes to the way councils can charge for infrastructure for new development.

The Government has also focused on increasing housing supply using Crown-owned land, including developments at Awatea, and Welles and Colombo Streets in Christchurch, Hobsonville, Tamaki and other Housing New Zealand areas in Auckland, and other Auckland sites through the Crown land development programme. In Tamaki, the Government has announced it will transfer ownership of approximately 2800 houses to the Tamaki Redevelopment Company (TRC) to initiate regeneration of the area. The TRC plans that in the next 10 to 15 years, there will be about 7500 new houses built in place of 2500 existing ones. On 17 June 2016 we announced an agreement with Fletcher Building to develop 200 homes on vacant Crown land at Moire Road in the Auckland suburb of Massey.

The Government also has a number of reforms underway that address recommendations from *Using Land for Housing*, such as the National Policy Statement on Urban Development Capacity (NPS), the Resource Legislation Amendment Bill (RLAB), and Better Local Services. The Government has also recently announced the establishment of a Housing Infrastructure Fund and has outlined it is considering Urban Development Legislation to provide a means for fast-tracking high quality, at-scale urban development projects.

In *Using Land for Housing*, the Commission finds that the planning system struggles to provide sufficient residential development capacity to keep pace with demand in high-growth areas of New Zealand. The incentives and drivers on decision-makers within the planning system often resist rather than embrace growth.

Specific problems include:

- A slow and prescriptive planning process that neglects important priorities and is not responsive to household demand and price signals
- A strong focus on local interests and existing homeowners and a weaker focus on the national interests and interests of non-homeowners and future residents
- Infrastructure provision that is unresponsive to growth demands.

A planning system that is unresponsive to growth is a key driver of escalating land prices. The consequences from this are felt both locally and nationally through higher housing costs, greater fiscal costs to Government, macro-economic risks, greater inequality, and reduced labour mobility. Low interest rates, migration and household formation are also affecting housing prices. However, in line with the Commissions' recommendations, the Government considers that improving land supply through a more responsive planning system will make the greatest contribution to housing choice and affordability in the medium term.

A key theme of the Commission's recommendations is to re-set the incentives on decision makers in the planning and development system to support growth. This involves central Government setting clear expectations for local authorities to provide sufficient development capacity for housing, while still providing the autonomy and flexibility to them to determine the way their communities accommodate growth. This will be backed up by government intervention where those expectations are not met.

The Government agrees with the approach outlined by the Commission. In most areas, work is already well underway. The actions set out in this response will significantly improve the incentives on decision makers to ensure the planning and development system is more responsive to urban growth. However, these improvements will only go so far, and more fundamental changes may also be needed. In light of this, the Government has commissioned a further inquiry, *Better Urban Planning*, to identify new approaches that provide longer term solutions to improve the incentives in the system. The final *Better Urban Planning* report is expected by the end of November 2016.

Actions to increase the responsiveness of the planning system to demand

Using Land for Housing contains 70 recommendations to both central and local government on a range of issues relating to the urban planning and development system.

The Government agrees with and will act on almost all recommendations. Many recommendations are already being addressed through the RLAB, the NPS, Better Local Services, Crown-led development projects, the Housing Infrastructure Fund, and Urban Development legislation. Remaining recommendations will be addressed through other new initiatives.

Where recommendations are made directly to local government, the Government's influence will be indirect. Consistent with this, the Government will work with local government to ensure its reforms will empower local authorities to adopt the best practice identified by the Commission. Both central and local government each have a key role to play and will need to work together.

The Government has developed its response to the Commission's recommendations under four main themes outlined below. The Government's detailed response to all of the Commission's recommendations is set out in the Annex.

1. Defining expectations and monitoring performance

The Commission cites the lack of central government direction in urban development as a key driver for the weight given by planning system to the views of existing homeowners (over other residents and national interests). There is also limited information and monitoring of the performance of urban land markets, which means urban planning decisions are often made without evidence of their likely impact or subsequent evaluation.

To address this, the Government has released a draft NPS for public consultation. The NPS will set explicit requirements for councils to provide sufficient development capacity for both residential and business land within their resource management plans. What this means is that Councils will need to ensure there is sufficient development capacity to create competitive tension between landowners and developers to keep land prices in check. This is not just about plans. The NPS will introduce requirements for councils to consider how more customer-focused consenting and the conditions imposed on consents enable development. The NPS is a key lever in rebalancing outcomes towards national interests, and those of non-homeowners and future residents, and to reduce land price inflation.

The NPS will also set a measuring, monitoring and reporting process to improve information on the performance of urban land markets and whether development capacity is sufficient to create the competitive tension needed. Councils facing growth will be required to monitor a range of indicators including price signals, such as the difference in price between developable and non-developable land. These price signals will provide an indication of the additional costs associated with zoning restrictions and whether the market believes the development capacity provided in plans is sufficient.

The NPS is expected to be operative in November 2016, but the Government's expectation is that having a clear statement of its intentions in the public domain will immediately influence current urban-planning processes. In particular, the Government expects that the Auckland Council will pay particular attention to the requirements set out in the draft NPS when it makes decisions in August on the recommendations of the Auckland Unitary Plan (AUP) Independent Hearings Panel. As the economic and social impacts of Auckland extend nationally, the AUP needs to be informed by the national perspective offered by the draft NPS.

Government intervention

In the Government's view, planning decisions are best made locally. The Government also accepts, however, that in some circumstances local processes may fail to deliver outcomes in line with national needs. The range of proposed indicators within the NPS are expected to provide clearer evidence of where plans fall short. In these rare circumstances, a credible expectation of government intervention would provide confidence to participants in land and housing markets that development capacity will be made available.

The Resource Management Act already provides options for escalation and intervention by central government, and the RLAB expands those options. Where it is clear that a local authority is failing to provide sufficient development capacity to create competitive tension in development markets as required by the NPS, and is unable to address this, then government intervention would be considered. This could include the Minister for the Environment directing the relevant local authority to undertake a plan change, or making use of further national direction avenues provided for through the RLAB. The Local Government Act 2002 also provides for government intervention, such as allowing the Minister of Local Government to appoint a Crown observer or manager, or to appoint a Commission.

The Government has also directed officials to develop for government consideration urban-development legislation to enable designated developments to operate with different powers and land use rules. This approach, common internationally, could build on the success of the special housing area programme by providing access to a wide range of powers for developments that meet certain thresholds. This framework could enable increases in development capacity in targeted areas and go some way to addressing a shortfall in plans.

2. Infrastructure

The Commission finds that infrastructure provision is unresponsive, largely because "growth does not pay for growth". The Commission makes recommendations to improve the efficiency of infrastructure pricing and financing, and to improve information and asset management techniques used by councils.

The Government agrees that the cost of new infrastructure to support growth should be recovered from the new development it services. However, infrastructure providers need to use an appropriate combination of both upfront and ongoing charges. Given the lumpy nature of infrastructure investment, relying on upfront charges alone to recover costs does not address the risk of stranded assets or the cost of financing infrastructure until connection charges are paid. Local authorities and infrastructure providers already have flexibility to make greater use of ongoing charges, but often choose not to. This appears to be a result of political constraints, and has the effect of skewing investment decisions. The Better Local Services reforms which support the creation of Council Controlled Organisations are an important step. The Government is considering whether governance, institutional and regulatory reforms for the water

sector would improve infrastructure-related decision-making and responsiveness to growth.

The NPS also changes expectations for infrastructure providers. Competitive development markets not only require sufficient plan-enabled capacity. Adequate infrastructure must also be in place now or prospectively to support the development of land. These expectations mean that high-growth councils may need to bring forward planned investment projects to provide enough development-ready land.

The Commission identified that debt constraints can limit councils' ability to bring forward infrastructure investment. The Government agrees and has directed officials to identify whether and how debt constraints could be relaxed. Given the need for councils in high-growth areas to act now, the Government has established the Housing Infrastructure Fund to help address these constraints in the short term. In the longer term, it may be that new funding tools are needed. The Government will look to work with councils to understand this need. Our work on urban development legislation will also look at different methods to fund and finance key infrastructure needs.

The Government has also initiated the Auckland Transport Alignment Project (ATAP), as Auckland will need significant investment in its transport system in the coming decades to provide for its forecast growth. The Government needs to be confident that investment in Auckland's transport system will address the region's transport challenges and provide value for money. With this in mind, the Government is working with Auckland Council to improve alignment between the parties over the way Auckland's transport system should develop. The ATAP is scheduled to deliver a final report in September 2016. The ATAP's preliminary findings, published in May 2016, outlined an emerging case that includes progressive introduction of a variable network-pricing system to encourage more-efficient travel-patterns and reduce the long-term need for investment.

The Government also agrees with the Commission's view that there are substantial gains from unlocking spare capacity within existing infrastructure networks and using infrastructure more efficiently. The Government is already progressing the development of shared infrastructure data standards, which will enable advanced and more integrated decision-making across public-sector infrastructure. The Government has also directed officials to explore incentives to encourage uptake of these standards and other advanced asset-management tools by infrastructure providers.

3. Tools, flexibility and support for councils

The Commission recommends central government do more to empower and support councils. The Government agrees.

The RLAB provides for a streamlined and collaborative planning process to increase councils' ability to respond to changes in demand. The RLAB also limits notification for resource consents to enable more timely approval of development proposals.

The Commission also identifies a number of specific rules and aspects of plans that appear to impose unnecessary constraints on development capacity. Part of the problem may be that the cost of these rules – including the opportunity cost of development that does not occur – are less visible than the benefits of protecting existing amenity and minimising environmental impacts. But the costs are real, and have the effect of driving up the cost of housing. A central objective from the NPS is to ensure those costs are reflected in decision making. To support this, the Government proposes a programme of guidance and support for councils to give effect to the NPS, and will also take an active role in monitoring its effectiveness. The Government will also review the Urban Design Protocol to clarify the role that regulation plays in improving the quality of urban design.

The urban development legislation for designated developments being developed by officials could also be available to support council-led development projects, improving the council's ability to catalyse redevelopment.

4. Others

The Government is also acting on a number of other recommendations. These include: considering the merits of a sunset-clause for restrictive covenants and allowing changes by super-majority, and working with the Overseas Investment Office to identify process improvements to reduce the cost and time associated with approvals for foreign owned developers wanting to build houses in New Zealand.

The only recommendation with which the Government disagrees is that the Crown exemption from rates should be removed. We consider that a proposal along these lines should be considered as a part of broader reform of the funding of local government.