



DMS #780053

8 February 2011

Peter Alsop
General Manager
New Zealand Productivity Commission
Level 15, Fujitsu Tower
PO Box 8036
WELLINGTON 6143

Dear Peter

**PALMERSTON NORTH CITY COUNCIL SUBMISSION TO PRODUCTIVITY COMMISSION
HOUSING AFFORDABILITY ISSUES INQUIRY**

Thank you for the opportunity to make a submission to the Housing Affordability Issues Inquiry. Please note that this submission is based on views of officers of the Council.

The Council appreciates the work undertaken by the Commission so far, and acknowledges the incorporation into the draft report of findings from the *Palmerston North Housing Needs Assessment*.

Yours sincerely

A handwritten signature in black ink, appearing to be "Paddy Clifford".

Paddy Clifford
CHIEF EXECUTIVE



Manawatu
Young Heart, Easy Living

Submission from Palmerston North City Council

February 2011

Productivity Commission *Housing Affordability Inquiry*

Draft Report December 2011

1 Introduction

- 1.1 Palmerston North City Council is the Territorial Local Authority representing over 80,000 people and is New Zealand's eighth largest city. The City contains a wide mix of rented and owner-occupied homes totalling approximately 28,000 dwellings. Housing affordability is critical to the success and sustainability of the City and is identified as a key issue within the Council's Economic Well-being Strategy. As such we have a particular interest in the findings of the Commission.
- 1.2 Please note that this submission is based on views of officers of the Council.

2 Overview

- 2.1 The PNCC acknowledges that the Commission has identified a number of issues which, if implemented, may contribute to addressing housing affordability issues. It also reiterates the view that some of these solutions may need to be further tailored to meeting the needs of provincial centres, rather than larger metropolitan areas.
- 2.2 The City Council has provided specific responses to some of the sections of the Issues Paper. Please do not hesitate to contact the Council if you would like clarification of any of the points that have been made. Please contact Julie Macdonald at julie.macdonald@pncc.govt.nz in the first instance.

3 Responses to Specific Sections

3.1 Introduction

Palmerston North City Council appreciates the opportunity to participate in the formation of recommendations to Government on housing affordability. We note that, in addition to the Society of Local Government Managers and Local Government New Zealand, local authority views were provided by only five submitters to the initial document. We encourage the Commission to continue to seek the views of local authorities, particularly as so many of the recommendations have significant implications for their areas of operation.

The Commission notes that "while many of the Commission's proposals apply nationally, there is a particular focus on Auckland, given that the challenge of providing adequate housing is largely one for Auckland, although a smaller number of regional centres will also struggle." We agree that there is a major issue for Auckland, but as our initial

submission showed, Palmerston North has already identified significant housing affordability issues. These include the lack of appropriate sized housing for the growing number of smaller households. We suggest that the Commission may like to consider the issues for smaller regional centres and cities separately to those facing Auckland. This is because the solutions appropriate for Auckland may not easily translate to the regional context.

This submission makes comments under the question headings provided on pages 200 and 201 in the report and the findings and recommendations on pages 202 - 206.

3.2 Rental Housing

Q 11.1 and R 11.1 Sustainability and scalability of Community Housing provision and Q 11.2 Scale in the third sector

The PNCC agrees that the transfer of responsibility to the community sector requires development and support for this sector. We support the Commission's recommendation that the social housing fund should be increased to enable a significant increase of social housing, particularly as the Housing New Zealand Corporation has decreased its provision of state housing. We also agree that transferring stock to the community sector is not a good idea if it has already been deemed (by HNZC) to be of an inadequate standard or in the wrong place. It appears that large scale developments are currently unlikely, as the resources required (in terms of volunteer time and donations) are significant. There is a shortage of the sophisticated management planning and operational expertise required to provide large scale community housing, and we encourage further consideration of the resources needed to ensure that community housing is adequately supported.

It may also be noted that centres such as Palmerston North currently seem unlikely to be prioritised for the receipt of the new social housing funding (due to the severity of the housing situation in Auckland). The Government has expressed interest in transferring social housing responsibilities to large scale organisations who already have the capacity to provide this type of housing. It seems that in places, where there will be social housing gaps as a result of the shift by HNZC (other than Auckland), there needs to be consideration of smaller scale funding in support of existing organisations. This support could be offered with a view to these organisations growing over time.

We endorse the need for good practice principles to guide Social Housing Unit and other relevant housing agencies. We suggest that the "encouragement" for these agencies to take up these principles (p. 180) be strengthened to form a recommendation for future practice.

Q 11.3 Affordability in the private rental market

The Commission's identification of 'transitional renters' is helpful, and supports the findings we have made in Palmerston North. The national home ownership trends show that there may have been a fundamental shift in the profile of housing ownership and rental in New Zealand. It may be helpful for the Commission to make further acknowledgement of this change, as the implication is that many more people will be 'life-long renters'. The report does not explicitly address what this may mean for the growing population of older people who may never own their own homes. This group, in particular, may increasingly require attention to ensure that their specific housing needs

are met. As the report notes, rental housing can include a lack of security (and consequent access to continuity of locally available services) and this is an important issue for a growing group of the 'life-long renters'.

We endorse the Commission's findings about the relatively poor standard of rental accommodation (in comparison to that which is owner-occupied). While new houses have to meet current standards of insulation, for example, older homes do not. The negative outcomes associated with poor quality housing (which are canvassed in the draft report) and the growing proportion of the population living in rental housing, mean that the quality of rental accommodation is of pressing concern. However, while the report mentions such measures as 'voluntary reporting tools' (p. 186) there are no recommendations which explicitly address the rental quality issue. We suggest that this issue is given further consideration.

3.3 Urban Planning and Housing Affordability

The report concludes in a number of locations that the inadequate provision of land for growth by local government is increasing the cost of housing in New Zealand. PNCC challenges this conclusion. Residential growth planning within the context of Palmerston North has traditionally been based around satisfying market demand in the most sustainable manner, i.e. providing sufficient land for projected greenfield, infill and rural housing preferences. PNCC has continually maintained a greenfield residential land bank and has recently identified further land for greenfield growth (yet to be rezoned). The current District Plan also provides ample opportunity for residential infill and rural-residential development. Despite such policies PNCC has, like the rest of the country, experienced a decrease in housing affordability over the last decade.

The report underestimates the complexities and challenges associated with identifying and releasing land for greenfield residential growth. In many New Zealand cities and towns the identification and release of greenfield land is constrained by natural hazards, expectations regarding sustainable communities (walking, cycling and public transport) and the financial capacity of local government to provide essential network infrastructure in advance of growth actually occurring. The release of additional land for greenfield growth is therefore a matter that needs to be carefully considered by local government on behalf of their communities.

There have been various pieces of research completed on the cost of greenfield growth. For many years this cost was lost amongst the variety of activities funded by local government. The introduction of Development Contributions as part of the Local Government Act 2002 provided Councils with a transparent and equitable mechanism to identify and fund the costs associated with providing additional network infrastructure to support greenfield growth. In many cases, prior to the introduction of Development Contributions, these costs were subsidized by the general ratepayer. In the Palmerston North context the majority of the residential growth that occurred during the high growth period of the mid 2000s was located on greenfield land where the infrastructural capacity had already been provided by PNCC and the associated costs had already been incurred by the ratepayer. In most New Zealand situations, including Palmerston North, new greenfield growth is required to be sustainable, well designed, hazard free (or mitigated) and the infrastructure costs of growth are required to be paid for by those undertaking the growth. This process ultimately affects housing affordability. To simply conclude that local government needs to release more land significantly understates the challenges and costs faced by local government in releasing further land.

It should also be noted that releasing further land does not reduce the likelihood of land banking by the development community. No planning mechanism is available to control who buys and sells land. It is also irresponsible and poor planning for local government to release further greenfield land if the infrastructural capacity is not available to support the release. The release of land (zoning) directly affects land valuations. The release of land without supporting infrastructure has the potential to undermine this process as it is generally assumed that land zoned for development has the required supporting infrastructure.

3.4 Development Contributions

The report discusses making development contributions contestable through changes to the Local Government Act. PNCC opposes this idea. Prior to the introduction of Development Contributions the only infrastructure / growth funding tool available to local government was financial contributions under the RMA, which, as correctly identified within the report, tends to focus more on the immediate effects of a development. Financial contributions were subject to appeal at the District Plan development stage and the consenting stage at the time of development. As a result, very few Councils, including PNCC, were able to successfully prepare and implement a financial contributions model under the RMA. Therefore, local government did not have a high level of certainty that the true costs of growth incurred by local councils in advance of development actually occurring were going to be adequately recouped. A return to this model is likely to result in fewer Councils being prepared to commit to providing infrastructural capacity in advance of growth as the risk of not recovering these costs will significantly increase. This needs to be seen in the wider context of pressure on councils to reduce their levels of debt. The consequences of Councils not supporting greenfield growth through the provision of additional infrastructural capacity has far reaching implications for the sustainable and affordable provision of housing. Councils borrowing money to pay for infrastructure that may not be used will increase the cost of rates, and therefore housing, for everyone.

R 8.1 Best Practice Guidelines to Development Contributions

The reports suggest that best practice guidelines for development contributions be developed to better assist local government with this function. PNCC notes that the Local Government Know How guidance series produced by SOLGM, Local Government New Zealand and the Department of Internal Affairs includes a specific best practice guide on Development Contributions, produced in 2003 to support the role out of Development Contributions under the Local Government Act 2002. While this document may be in need of an update to take into account the development contributions experience gained since 2003, it does provide a very useful overview for local government. Given the majority of development contributions experience and expertise sits within local government and / or advisors to local government, should the 2003 best practice guide be updated, or should new guidance be produced, it is strongly recommended that local government plays a leading role in this process.

4 Other Issues

The draft report does not canvas the role that improving inter-regional commuter services could play in contributing to a reduction in regional differences in housing affordability. While it is unlikely to be a primary factor in changing relative house prices, there are a range of social and economic gains which could occur through improving long-distance and regional commuter services to the main metropolitan centres.

The PNCC has done some analysis of this issue and can provide this to the Commission should it wish to pursue this.

5 Conclusion

The PNCC agrees that housing affordability is a significant issue for the economic and social wellbeing of its community.

The PNCC believes that the unique issues facing Auckland require unique solutions. Imposing these solutions on cities like Palmerston North may not help make our housing more affordable.

Significant investment needs to be made to increase the capability and capacity of the social housing sector as the country's population ages and HNZC reduces its investment outside the areas with the greatest need. In addition, solutions need to be found to improve the quality of rental housing in New Zealand.

Simply zoning new greenfield sites for housing is no guarantee of increasing housing affordability. Indeed, in the wider context of housing costs (rates, travel to work costs) it may decrease housing affordability.

Development Contributions provide a clear and transparent method for ensuring the costs of new development are not paid for by existing ratepayers. Any review of best practice guidance should reflect local government experience.

Measures to address housing affordability need to take into account a wider view of the costs involved in everyday living, including Council rates, travel to work costs, costs for central government of additional infrastructure (such as schools and hospitals) and energy costs for housing.