SmartGrowth Submission on

The Productivity Commission's
Using Land for Housing – Issues Paper

19 December 2014

To:

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Submission:

This is a submission by the SmartGrowth Implementation Committee on the Productivity Commission's **Using Land for Housing** issues paper. The content of the submission follows overleaf. We appreciate the opportunity to provide comments on the document.

Signed:

Bill Wasley
Independent Chair - SmartGrowth Implementation Committee

1. Introduction

This submission is presented on behalf of the SmartGrowth Implementation Committee (“SmartGrowth”), a joint committee of the Bay of Plenty Regional Council, Tauranga City Council, the Western Bay of Plenty District Council and Tangata Whenua. The Committee is responsible for overseeing the implementation of the SmartGrowth Strategy, a 50 year spatial and implementation plan for the western Bay of Plenty sub-region.[1]

SmartGrowth is a collaborative model for responding to spatial plan and growth management issues. It is a voluntary, cooperative arrangement built on understanding, agreement and a commitment to agreed outcomes. A key factor in the success of the SmartGrowth Strategy has been its long-term commitment to collaboration and implementation between agencies along with broad community support and effective central government engagement.

The name “Smart Growth” was identified at the start of the project as a positive, easily understandable, appealing, and memorable term - a concept that could be owned by the sub-regional community; not just local government. The term “SmartGrowth” was therefore adopted to ‘brand’ the sub-region’s growth management strategy. While the SmartGrowth Strategy borrows the name and shares some of the same concerns of the US “Smart Growth” movement, that is where the similarities end. SmartGrowth is a non-ideological, pragmatic, local strategic planning response to social, cultural, environmental and economic issues, including managing growth, in the western Bay of Plenty sub-region.

The SmartGrowth Implementation Committee is supportive of initiatives to better understand how we can increase the efficiency of land development for all housing. However, we are of the view that this must be looked at in an integrated manner which considers land use, infrastructure and funding alongside one another.

Some of the individual SmartGrowth Partners are also making submissions on the report and these may cover more specific issues relating to their territorial areas or functions.

SmartGrowth is happy to work with the Productivity Commission on some or all of the matters raised in this submission and to discuss any of those matters further.

[1] The western Bay of Plenty sub-region covers the territorial areas of the Western Bay of Plenty District Council and Tauranga City Council.

2. The SmartGrowth Strategy

2.1 Western Bay of Plenty Context

The western Bay of Plenty sub-region encompasses both the Western Bay of Plenty District and Tauranga City. The sub-region has been an area of rapid population growth since 1950. The population is projected to be 219,192 by 2033, and 256,696 in 2063.[2]

The SmartGrowth Strategy was originally adopted by the partner councils (Bay of Plenty Regional Council, Tauranga City Council, and the Western Bay of Plenty District Council) in 2004. The Strategy was updated in 2013 and now has a wider, more comprehensive approach and has evolved into a spatial plan. It considers a range of environmental, social, economic and cultural matters. The SmartGrowth Strategy identifies short, medium and long term opportunities for 'building the community'.

SmartGrowth sets the strategic vision and direction for the growth and development of the western Bay, on key issues across the spectrum of social, environmental, economic and cultural objectives. SmartGrowth is a mechanism to harness the collective impact of local government, iwi, business, central Government agencies, key industries and the community.

2.2 Strategy Focus

An important feature of SmartGrowth is to provide a wide range of lifestyle choices. The Settlement Pattern promotes a more compact urban footprint and protects productive rural land for the foreseeable future under the current growth rates.

The SmartGrowth Settlement Pattern is a 'blueprint' that sets out how, where and when development will occur within the sub-region and ensures that implications of infrastructure and funding can be worked through early, in an integrated manner. The Settlement Pattern is currently being reviewed given that we now have the Census data.

SmartGrowth takes a staged approach to land use and infrastructure which includes the use of urban limits as a planning tool to identify where urban development is expected to take place. The sub-region like many other cities and regions has identified certain areas where urban development will be supported and other areas where it is not. Identification of these areas in the SmartGrowth Strategy has informed the Regional Policy Statement and the City and District Plans. The sub-region's sequencing/urban limits

[2] University of Waikato – National Institute of Demographic and Economic Analysis, *2014 Review of Demographic and Labour Force Projections for the Bay of Plenty Region for the Period 2013 – 2063*, April 2014

policy and maps identify land that can be developed for urban purposes now as well as land that is anticipated to be re-zoned for urban development in the future as far out as 2051.

2.3 Land Supply and Housing in the Western Bay of Plenty Sub-region

A key feature of the SmartGrowth Strategy is its integrated planning approach. This advocates that land use planning should be contemporaneous with infrastructure provision and equitable funding. The aim of this approach is to reduce the potential costs of growth on communities now and in future as the sub-region grows.

The SmartGrowth Strategy takes the following approach to land use:

- Integration of land-use, infrastructure, and funding
- Establishing clear links between the future land required to successfully accommodate growth
- Identifying existing and future infrastructure, possible costs and an equitable approach to future funding. Without this approach being taken there would be less certainty of development location, timing and costs.
- Ensuring that development does not occur in sensitive environmental or amenity areas.
- Optimising the use and capacity of existing infrastructure.
- Supporting more sustainable transport modes such as public transport through a more compact urban form.
- Encouraging a range of housing choice and style to meet the varied needs of the population.

Given the costs of providing and funding the bulk, public infrastructure necessary to support growth, it is not financially sustainable to have total market freedom for growth locations. Specific growth areas must be identified and services designed in a manner that supports the future land use pattern. Unless infrastructure needs and benefits are clearly identified, it is not possible to recover the costs of these from the development community. Opening up large tracts of land puts territorial authorities in a potentially financially unsustainable position.

The Strategy's land release programme has been carefully sequenced to minimise any negative effect of land supply issues in the sub-region, and to avoid having development open on too many fronts. A significant consequence of not sequencing development is that too many development choices means that Councils take a long time to recover infrastructure investment through financial or development contributions. This can negatively impact balance sheets.

The SmartGrowth partnership has recently adopted the concept of a 10 year consentable land supply as a working tool for the Settlement Pattern Review. SmartGrowth is using the concept of having 10 years supply as a pragmatic approach to zoned land supply which provides for:

- Sufficient housing choice.
- The ability to meet growth demands even under changed circumstances (eg higher growth rates).
- Recognising the need for competition and to keep land prices at the lowest possible level.
- Accepting that under normal RMA 1991 circumstances it takes around 3 – 5 years to get land to a state where resource consent can be obtained for development.[3]

SmartGrowth has used the concept of 'consentable land' which means that the land would be zoned and able to be built on for housing but it would not need to be serviced. This is because the costs of having land fully serviced would make it impossible to maintain 10 years' worth of supply. The servicing of land is a judgement that needs to be made by the developers in conjunction with local government. Sometimes land can be serviced in advance of need, but other times it may not be financially possible to do this and servicing will need to occur as the development gets underway and in stages.

SmartGrowth has undertaken some research to look at land supply examples from elsewhere. We found that there are a number of places both within New Zealand and internationally where land supply targets have been set either formally or informally. For example, the United Kingdom through the National Planning Policy Framework (2012) introduced a requirement to have in place sufficient land available to meet a five years supply plus either 5% or 20% depending upon past performance. Australia also has examples, eg the South Australian State Government has set targets in order to respond to a policy objective of having 15 years zoned supply of residential land, and a further 10 years supply of future urban designated land[4], and the Victorian Government has committed to a 15 year land supply pipeline, with ten years of zoned supply.[5] None of these examples appear to require infrastructure servicing, instead they are focussed on whether the land is developable.

The Productivity Commission Report uses the concept 'shovel-ready'. SmartGrowth would like to see a definition of what is meant by this term.

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[3] Note that this is only an average timeframe and some developments may take longer while others will take less time, for example the Pyes Pa development which was progressed as part of SmartGrowth implementation around 10 years ago, had a plan change approved within 17 months and earthworks on the site started within 2 years. At the other extreme is Wairakei which took around 10 years to anchor.

[4] *Housing and Employment Land Supply Program Report 2010, Greater Adelaide*, October 2010, and *Planning Strategy for South Australia – Annual Report Card 2011-2012*

[5] *2014 UDIA State of the Land Report*, Urban Development Institute of Australia – National Land Supply Study

The western Bay of Plenty sub-region does not have a land supply shortage. There is an adequate supply of consentable or zoned for at least the next 10 years. When the SmartGrowth Strategy was updated in 2013, the research undertaken found that in relation to existing growth capacity the sub-region has an estimated 30 plus years of urban land supply planned, and there is no urgency to zone or identify additional greenfield land in the short term.[6] SmartGrowth closely monitors land supply through regular reporting such as the *Development Trends* publication.

SmartGrowth is also undertaking a Settlement Pattern Review now that we have the Census results available. For residential Urban Growth Areas the Settlement Pattern Review will:

- Identify new Urban Growth Areas required to accommodate the projected population
- Confirm existing Urban Growth Areas
- Confirm the amount of growth allocated to Urban Growth Areas
- Confirm the sequencing of development of Urban Growth Areas
- Confirm the infrastructure triggers required for development of Urban Growth Areas
- Confirm projections for residential intensification

For industrial land the Settlement Pattern review will:

- Assess the amount of industrial land required at Wairakei and Ōmokoroa
- Assess the infrastructure servicing and funding requirements for Rangiuru
- Assess the balance of industrial land provided throughout the Settlement Pattern based on the confirmed Urban Growth Areas and identify whether any new industrial land is required[7]

Much of the work on the Settlement Pattern Review will be undertaken in 2015. This will include assessing infrastructure funding options.[8]

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[6] SmartGrowth Strategy 2013, page 109
[7] Ibid, Part C – Settlement Pattern
[8] Ibid, Part C – Settlement Pattern Implementation Plan

3. Using Land for Housing Issues Report - Questions

SmartGrowth has responded to several of the questions in the report which are relevant to the SmartGrowth project and to the sub-region.

Q2: Can the current land planning and development system be made to work better to benefit cities throughout New Zealand? Is a different type of planning system required to meet the needs for housing in New Zealand's fastest growing cities?

In the western Bay of Plenty we have made the current planning system work to meet our needs. This has been helped by having a spatial plan in place which guides our approach. However, the Resource Management Act 1991 ("RMA 1991") is not well designed for cities. In our view this could be overcome by either having a National Policy Statement which provided guidance and perhaps allowed for the fast-tracking of key developments where these were in accordance with a growth strategy / spatial plan and / or embedded in a Regional Policy Statement. The other option would be to have a schedule added to the RMA similar to the Housing Accords and Special Housing Area legislation which allowed complying developments to be fast-tracked.

In saying this, before we can consider this type of approach we must fundamentally address infrastructure and funding issues. Otherwise we can release all the land we like and we will still not end up with houses being built or we will put both councils and developers in a financially untenable situation.

In previous submissions SmartGrowth has identified the following issues with the current planning system:

- No statutory recognition for growth management strategies / spatial plans like SmartGrowth.
- Difficulties getting RMA 1991 acceptance of the SmartGrowth Strategy.
- Complexity of the planning system sometimes resulting in duplication of efforts.
- Schedule 1 of the RMA 1991 needs to be streamlined to reduce overlapping processes, sharpen up timeframes and reduce compliance costs.
- Re-litigation of the same issues (for example anchoring the SmartGrowth Strategy in the Bay of Plenty Regional Policy Statement and then having similar debates at the District Plan level).
- Difficulties getting alignment between the three principal planning statutes – the RMA 1991, the Local Government Act 2002 ("LGA 2002") and the Land Transport Management Act ("LTMA 2003").
- The RMA 1991 not giving sufficient attention to development feasibility, infrastructure affordability or funding when making land use decisions.

- A lack of tools to protect key infrastructure corridors in the long-term.

Q4: Would a significantly increased supply of development capacity lead to an increased supply of affordable housing, or would further regulatory or other interventions be required to achieve that outcome?

It is SmartGrowth's view that increasing supply of development capacity will not lead to an increased supply of affordable housing. SmartGrowth submits that a range of factors, often national and sometimes international in origin, like migration[9] for example, drive growth rates and effect land prices.

There are a number of areas throughout New Zealand where there is an adequate supply of land and yet housing is still unaffordable. Tauranga City is one of these Councils. There is enough land supply in Tauranga, however housing costs are still high.[10] Supply and demand factors are strongly influenced by the lack of market confidence to build new housing stock.

SmartGrowth has identified the following issues for affordable housing in the sub-region:

- Inability of the affordable housing market to compete for resources.
- The influence of employment, wage rates and transport costs on housing affordability.
- Land banking by developers can prevent residential land from coming on to the market.
- Lack of subsidies or other tools means councils and developers must bear the full cost of providing infrastructure.
- The market does not always provide the range of housing types needed, for example smaller homes and apartments.
- Compliance and development contribution costs for developers.

Releasing more land for housing is not going to address these issues. Therefore, other interventions are required to achieve affordable housing. This could include:

- Addressing infrastructure issues
- Providing more funding options for local government
- Addressing wider issues on the demand side of the equation (eg the tax system)
- Finding ways to incentivise a range of housing types, particularly higher density developments

[9] SmartGrowth Strategy and Implementation Plan May 2007, p. 24.
[10] In 2009, the Tauranga / Western Bay of Plenty area was assessed in the Demographia International Housing Affordability Survey as 'severely unaffordable' with a rating of 6.6. The Tauranga / Western Bay of Plenty housing market was the least affordable of the New Zealand cities surveyed for that year. For 2011, the Tauranga / Western Bay of Plenty area is listed as being severely unaffordable and ranks as the third most expensive metropolitan area in New Zealand. Tauranga City therefore has a high percentage of households that are unable to afford a home.

- Affordable housing targets for large developments

Q19: What impact does transport planning have on the supply of development capacity?

Transport has a significant impact on land use planning and the staging / sequencing of development. It also strongly influences where development can and will take place.

The link between land use and transport is an important one. It has been SmartGrowth's experience that without the necessary transport infrastructure in place, it is difficult to effectively manage growth. Likewise, without a clear land use pattern, transport infrastructure can become uncoordinated and unsustainable. The concept of integrating land use and transport planning recognises that:

- Land use (residential, commercial, industrial and recreational) and transport are closely related;
- Transport has a relationship with housing, especially in terms of density (eg trips generated, demand for transport services close to where people live); and
- Transport is essential lead infrastructure for shaping future land use.

Transport needs to be ahead of or at a minimum in line with, planned developments. This is why strategies like SmartGrowth have located key growth areas where they can take advantage of existing transport facilities (roads, public transport, walking and cycling networks).

It is also important that developments are carefully planned, otherwise we end up in situations where the land use 'colonises' existing transport routes in an inefficient manner.

Q44: What is your experience working with the infrastructure component of the land supply system?

SmartGrowth notes the following challenges relating to the provision of infrastructure in the western Bay of Plenty sub-region:

- Maintaining essential services and resources within strict financial parameters
- Funding growth-related infrastructure
- The challenge of delivering serviced land in a timely manner without incurring the financial impact on councils of having development open on too many fronts
- Changes in housing demand and type which can affect infrastructure delivery and cost
- Affordability of services and ability to pay
- Increasing debt levels

- Funding the ongoing costs associated with maintenance and operation of infrastructure
- Land use changes can significantly impact infrastructure, particularly transport
- Increasing compliance costs for infrastructure provision and maintenance

SmartGrowth would also like to highlight the following infrastructure and funding issues which have arisen in recent times:

- Local Government funding issues as a result of the Global Financial Crisis and the significant reduction in development contributions income which was frequently being used for infrastructure debt servicing.
- Pressure to further sweat existing infrastructure to avoid the need for large scale capital headworks investments.
- Developer's ongoing holding and opportunity costs on vacant land also give rise to pressures to get individual parcels of land serviced in a self-contained rather than a wider network manner involving headworks costs.
- Increasing pressure for development on land that is zoned and not serviced or needs significant investment in headworks. This is both a timing and a capital scarcity issue. Often solutions which are largely developer driven have to proceed in a staged manner to ensure that development remains viable.
- Achieving economies of scale without having to go to such a critical mass of development to get the costs down to a reasonably affordable level. There is a need to assess each area according to the pace and scale of development. There may be situations where because of the costs of reticulated infrastructure and the distance from existing sites to treatment plants, it is not economically viable to have fully reticulated services. Taking this approach would remove the pressure for ongoing land rezoning to create infrastructure economies of scale. Ongoing work is required to ensure that the right decisions are taken.
- Balancing the demands between having sufficient land available for development to provide sufficient choice and to avoid curtailing supply, and not having development open on too many fronts.

Q58: Do councils in high-growth areas require a greater range of approaches for funding infrastructure?

Yes.

High-growth areas are facing, either now or projected in the medium to longer term, financial sustainability issues given their growth rates, high infrastructure and service costs, timing lag between investment in growth infrastructure and recoupment through development contributions, and significant increases in operating costs arising from the growth in network infrastructure.[11]

There are also the following added pressure for high-growth councils:

- Less money is available to invest in additional new infrastructure in the foreseeable future. Related to this is the expectation that existing investment infrastructure is optimised to defer the need for investment in new infrastructure.
- There are significant pressures on public agencies to reduce debt rather than take on additional debt (which is often associated with infrastructure investment)
- Changes in the amount of growth and development activity. This puts pressure on the funding models for "lead" infrastructure which rely on continued growth to provide sufficient revenue streams to repay project debt (e.g. through development/ financial contributions or tolls).

There have also been recent legislative changes which have reduced the amount of funding that councils can raise. For example, as a result of the Local Government Amendment Act 2014, the following changes have been made which affect local authority funding:

- Restrictions on the use of development contributions.
- Narrowing of the purpose of Local Government.
- Amending the definition of community infrastructure so that it has a much narrower focus – this affects what development contributions can be collected for.

Q59: What alternative approaches for funding infrastructure should be considered in New Zealand's high growth areas?

The following tools could be considered for growth areas[12]:

- A Funding Guarantee: A Central Government funding guarantee for core infrastructure debt which would provide interest rate savings.
- A Funding Facility: The Reserve Bank to provide an agreed sum funding facility equivalent to a Committed Bank Line or a stand-by facility. This would enable growth Councils to secure a defined level of funding at a cheaper rate and by-pass the increasing line fees being charged by the banking sector.

[11] *Growth Challenges – Current Financial Issues*, August 2009, Prepared for Tauranga City Council, Hamilton City Council, Queenstown Lakes District Council and Western Bay of Plenty District Council (page 1)
[12] Ibid at page 26

- Zero Interest Loans: Make available zero interest loans to growth Councils for investment in growth-related projects. This will reduce the cost of capital charges to development and helps lower the cost to ratepayers through a reduced debt profile.
- Grants, Subsidies and Suspensory Loans: Provide grants to Councils that have growth strategies in place to allow them to offset and cap development contributions for the next three years. Provide infrastructure grants to growth Councils to ensure that major projects can go ahead. Suspensory loans could be made where it is possible for the Government to clearly define future expectations which would need to be met before the need to repay the loan was revoked, eg x sites available for residential development.

The benefits of these funding tools would be that it allows important infrastructure projects to go ahead, provides stimulus to the local and national economy, reduces the debt burden on growth Councils, reduces the cost of borrowing and reduces the impact on ratepayers. It will allow development to go ahead by allowing infrastructure to be funded.

There are also a number of other funding tools which could be used, including options such as tax increment funding, local fuel taxes or charges, business improvement districts, greater direct or indirect government funding through bonds or incentives within the tax system or a refund of GST on rates.