



s 9(2)(a)

Tēnā koe s 9(2)(a)

On 16 April 2025 Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (the Ministry) received your request for the following information under the Official Information Act 1982 (the Act):

1. *Dates of meetings of the Housing Expert Advisory Group and topics discussed. In addition, the agenda, minutes and or notes held by MHUD of these meetings.*
2. *Applying to information held since 5 July 2024 — advice tendered, briefings, reports and other correspondence of the Government’s Housing Expert Advisory Group, which is held by MHUD.*

On 12 May 2025 you refined the second part of your request to:

*Applying to information held since 5 July 2024 — advice tendered, briefings, reports and other correspondence that the Ministry has provided to, and received from the Housing Expert Advisory Group.*

57 documents have been found to be within scope of your request and 44 are released to you. Some information has been withheld under the following sections of the Act:

Section of Act	Reason to withhold
9(2)(a)	To protect the privacy of natural persons.
9(2)(f)(iv)	To maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.
9(2)(g)(i)	To maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or employees of the Ministry.

The documents are detailed in the attached document schedule.

We are withholding 10 documents in full under section 9(2)(f)(iv) of the Act, to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.

We are refusing three documents under section 18(d) of the Act on the grounds that the information is already publicly available. The document titles are listed in the attached document schedule with links to where they can be found publicly.

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold information under section 9 of the Act is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review of my response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website at: [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz).

As part of our ongoing commitment to openness and transparency, the Ministry proactively releases information and documents that may be of interest to the public. As such, this response, with your personal details removed, may be published on our website.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'Hilary Joy', written in a cursive style.

Hilary Joy

**General Manager, Housing Market and Urban Performance**  
**Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development**

## Annex A: Document schedule

Documents released – HUD2025-006934			
	Date	Document	Section of the Act applied
1	3 - 10 July 2024	Emails from the Ministry to the HEAG: requesting input on government's role in urban development	9(2)(a), 9(2)(f)(iv)
2	3 - 11 July 2024	Emails from the Ministry to the HEAG: requesting input on infrastructure funding settings	9(2)(a), 9(2)(f)(iv)
3		Powerpoint: infrastructure funding settings	9(2)(f)(iv)
4	12 July 2024	Email from the HEAG to the Ministry: NZAE paper and powerpoint	9(2)(a)
5		Powerpoint: housing error cost NZAE powerpoint	Release in full
6		Paper: error cost approach to housing supply	Release in full
7	5 - 15 July 2024	Emails from the Ministry to the HEAG: incentives meeting and pre-reading	9(2)(a)
8	(Sent 15 July 2024) 26 June - 5 July 2024	Attachment: emails between the HEAG and the Ministry – response to incentives questions	9(2)(a), 9(2)(f)(iv)
9		Powerpoint: Build for Growth – financial incentives HEAG group discussion	9(2)(f)(iv)
10	16 July 2024	Meeting notes: meeting on incentives workstream	9(2)(f)(iv)
11	3 -16 July 2024	Emails between the HEAG and the Ministry: further responses to incentives questions	9(2)(a), 9(2)(g)(i)
12	3 - 23 July 2024	Emails between the Ministry and the HEAG: feedback on infrastructure funding settings	9(2)(a)
13	23 July 2024	Feedback: infrastructure funding settings	9(2)(f)(iv)
14	5 August 2024	Email from the Ministry to the HEAG: 5 August 2024 meeting	9(2)(a)
15	5 August 2024	Meeting notes: 5 August 2024 meeting	9(2)(f)(iv)
16	3 - 11 September 2024	Emails between the Ministry and the HEAG: feedback on Going for Housing Growth targets and intensification provisions	9(2)(a), 9(2)(g)(i)
17		Policy paper: Going for Housing Growth – price indicators	Release in full
18		Policy paper: detailed design of housing growth targets	Release in full
19		Policy paper: NPS-UD intensification changes	Release in full
20	19 September 2024	Draft briefing: HUD2024-005265 - Going for Housing Growth – car parking options	Release in full

21	16 -19 September 2024	Emails from the HEAG to the Ministry: feedback on housing growth targets and price indicators	9(2)(a)
22	(sent 19 September) 18 September 2024	Feedback: Going for Housing Growth – price indicators	Release in full
23		Feedback: detailed design of housing growth targets	Release in full
24		Feedback: NPS-UD intensification changes	Release in full
25		Feedback: draft briefing HUD2024-005265 - Going for Housing Growth – car parking options	Release in full
26	7 October 2024	Email from the Ministry to the HEAG: requesting input on future development strategy and responsiveness policy changes	9(2)(a)
27		Policy paper: future development strategy and responsiveness policy changes in the NPS-UD	Release in full
28	30 September – 16 October 2024	Emails between the Ministry and the HEAG: feedback on phase 3 RM reform	9(2)(a)
29	16 October 2024	Feedback: Policy paper - future development strategy and responsiveness policy changes in the NPS-UD	Release in full
30		Feedback: Cabinet paper - replacing the Resource Management Act 1991	Release in full
31	30 September – 21 October 2024	Emails between the Ministry and the HEAG: feedback on mixed-use policy	9(2)(a)
32		Policy paper: Going for Housing Growth mixed use	Release in full
33	21 October 2024	Feedback: policy paper – Going for Housing Growth mixed use	Release in full
34	29 October – 4 November 2024	Emails between the Ministry and the HEAG: requesting further input on draft cabinet paper	Release in full
35		Draft Cabinet paper: Going for Housing Growth – improving infrastructure funding and financing to support urban growth	9(2)(f)(iv)
36	4 November 2024	Feedback: Draft Cabinet paper – Going for Housing Growth – improving infrastructure funding and financing to support urban growth	9(2)(f)(iv)
37	14 November 2024	Email from the HEAG to the Ministry: housing affordability and economic productivity paper	9(2)(a)

38	29 November 2024	Email from the HEAG to the Ministry: the HEAG advising Minister Bishop on health and RM reform	Release in full
39		Document: advice on health and resource management reform	Release in full
40	17 December 2024	Email from the HEAG to the Minister: advice for phase 2 reforms	9(2)(a)
41	17 – 18 December 2024	Emails between the HEAG and the Ministry: advice for phase 2 reforms to the Minister	Release in full
42	3 - 4 February 2025	Emails between the HEAG and the Ministry: timeframe for finalising NPS-UD updates	9(2)(a)
43	14 – 19 February 2025	Emails between the Ministry and the HEAG: development levy zones meeting and requesting input	9(2)(a)
44	17 February 2025	Meeting notes: meeting with Stuart Donovan on development levy zones 17 February 2025	9(2)(f)(iv)

**From:** [Natalie Nienaber](#) on behalf of [David Hermans](#)  
**To:** ["Marko Garlick"](#); ["Counsell, Kevin"](#); ["Eric Crampton"](#); ["Stuart Shepherd"](#); ["Stuart Donovan"](#); ["McCracken, Malcolm"](#)  
**Cc:** [David Hermans](#); [Cathy Steel](#)  
**Subject:** Infrastructure Funding and Financing tools  
**Date:** Wednesday, 10 July 2024 10:03:00 am  
**Attachments:** [Draft briefing Govt role in Urban Development July 2024 for agency comment.docx](#)  
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Kia ora HEAG members,

This email seeks your views on our initial advice around the Government's role in urban development and use of urban development authorities.

We'd welcome any written views from you on this material and the questions below, followed by an opportunity to meet and discuss, particularly if we have any subsequent questions.

### Background

The Government is looking for Kāinga Ora to focus its efforts on its social housing landlord role, which raises consequential questions about the role Kāinga Ora currently plays as government's urban development agency, what those functions look like in the future, and where else they might sit (if anywhere). Considering those questions involves interrogating the policy rationale for government intervention in enabling, catalysing and/or delivering urban development - i.e. an active role beyond establishing the system and investment settings which is the main focus of GfHG.

This also links with:

- The commitment in the National Party Going for Housing Growth manifesto to consider the use of urban development authorities to support infrastructure and growth in transport corridors.
- Other work that is underway on a first principles review to reset investment in housing and urban development.

s 9(2)(f)(iv)

- [Redacted]
- [Redacted]
- [Redacted]

s 9(2)(f)(iv)

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

We are keen to test our thinking with you to inform this briefing and further advice to the Minister between now and November.

**Questions** (to prompt thinking; you don't have to follow these slavishly):

1. Do you have any feedback on the briefing? Are we missing critical areas?
2. Do you have any feedback on the economic case for use of an urban development agency? Have we captured the key market failures, market limits or government failures in the intervention logic in Annex D?
3. s 9(2)(f)(iv)
4. Do you have any feedback on the objectives, principles or functions for an urban development entity or entities?
5. Are you aware of international examples where a government role in enabling, facilitating or delivering urban development has been impactful and successful?

**Feedback**

We would appreciate your feedback by **Monday, 15 July** if possible. Apologies for the tight timeframe but this advice is due to the Minister by 18 July so we are working at pace.

If a meeting is required to further discuss this work, please let me know your availability the week of 22-26 July. This is after this briefing will have gone to the Minister but likely to be useful to inform subsequent advice.

Kind regards,

David

**Natalie Nienaber** on behalf of **David Hermans, Chief Advisor - Policy**

Business Assistant | Auckland  
Policy

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**From:** David Hermans

**Sent:** Wednesday, July 3, 2024 1:03 PM

**To:** Marko Garlick ; Counsell, Kevin ; Eric Crampton ; Stuart Shepherd ; Stuart Donovan ; McCracken, Malcolm

**Cc:** Hilary Joy

**Subject:** Upcoming discussion topics

Kia ora HEAG members

I said I would follow up with an indicative forward programme of topics. Here's what it's looking like over the next two months.

The dates below are when we are likely to get you material and questions for discussion and feedback, rather than when we might meet subsequently (which would be guided by your availability).

Topic	Schedule
Incentives for councils	Current
Infrastructure Funding and Financing tools	Week of 8 July (next week)
Role of govt in urban development*	Week of 15 July
Next stage design of Housing Growth Targets and intensification provisions etc.	August (likely second half)

\* NB – A bit of context about this topic: As you will likely know, the Govt is looking for Kāinga Ora to focus its efforts on its social housing landlord role, which raises consequential questions about its role as government's urban development agency, what that function looks like in the future, and where it should sit (if anywhere). Considering those questions involves interrogating the policy rationale for government intervention in enabling, catalysing and/or delivering urban development (i.e. beyond establishing the system and investment settings) and we'd like your views on that.

In addition, I will be able to update you tomorrow morning on the outcome of the recent GfHG Cabinet decisions.

Ngā mihi,

David

**David Hermans** (he/him)

Chief Advisor Auckland | Policy Group

[david.hermans@hud.govt.nz](mailto:david.hermans@hud.govt.nz) | Phone: +64 9 953 6419 | Mobile: s 9(2)(a)

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**From:** [Daniel Lawrey](#)  
**To:** [Marko Garlick](#); [Counsell, Kevin](#); [Eric Crampton](#); [Stuart Shepherd](#); [Stuart Donovan](#); [McCracken, Malcolm](#)  
**Cc:** [David Hermans](#); [Hilary Joy](#); [Jane Keane](#); [Keith Miller \(Guest\)](#)  
**Subject:** RE: Going for Housing Growth - Infrastructure Funding Settings  
**Date:** Thursday, 11 July 2024 5:54:21 pm  
**Attachments:** [Infrastructure Funding Settings powerpoint \(8 July 2024\).pdf](#)  
[image005.png](#)  
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Kia ora koutou,

Following on from David's email about about upcoming items for the Housing Expert Advisory Group, please see attached a slide deck on Infrastructure Funding Settings. This material was originally developed for a recent discussion on direction of travel with Minister Bishop, and we are keen to get the HEAG's views as we move into the next phase of work.

Please note that the slides are specific to the Infrastructure Funding Settings workstream that focuses on (i) establishing requirements about how councils fund growth infrastructure, and (ii) changes to specific council funding tools (development contributions and targeted rates). It sits alongside other workstreams on Improving the IFF Act, and Value Capture.

We would appreciate any written feedback by **COB Thursday 18 July** (and please feel free to contact us if there are any concerns with this timeframe). Please send any feedback to David Hermans.

Ngā mihi,

Daniel

**Daniel Lawrey** (he/him)

Principal Policy Advisor | Housing Supply and Affordability

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**From:** David Hermans

**Sent:** Wednesday, July 3, 2024 1:03 PM

**To:** Marko Garlick [s 9\(2\)\(a\)](#); Counsell, Kevin

[\[redacted\]](#); Eric Crampton [\[redacted\]](#); Stuart

Shepherd [\[redacted\]](#); Stuart Donovan [\[redacted\]](#)

McCracken, Malcolm [\[redacted\]](#)

**Cc:** Hilary Joy <[Hilary.Joy@hud.govt.nz](mailto:Hilary.Joy@hud.govt.nz)>

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**David Hermans** ([he/him](#))

Chief Advisor Auckland | Policy Group

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**Te Tūāpapa Kura Kāinga**  
Ministry of Housing and Urban Development



**Te Tari Taiwhenua**  
Internal Affairs

# Going for Housing Growth: Infrastructure funding settings workstream

8 July 2024

**Te Kāwanatanga o Aotearoa**  
New Zealand Government



# Background

In March, you agreed to the scope and objectives of the Going for Housing Growth workstream on infrastructure funding settings. This workstream includes establishing requirements for councils to fund growth infrastructure through rates on levies on new development, and improvements to development contributions and targeted rates (i.e. council funding tools).

## Objectives for this work

1. Enabling the growth-related costs of infrastructure to be better recovered from developers (or owners of new houses) by providing adequate funding and financing tools;
2. Improving incentives to zone land for additional housing and invest in infrastructure to facilitate additional housing supply;
3. Improving incentives to develop land in the near-term instead of 'land banking'; and
4. Encouraging development that makes efficient use of infrastructure.

## Targeted testing

Officials have undertaken targeted testing with council subject matter experts, development sector stakeholders and Māori housing stakeholders on problem definition.



# Purpose of this slide pack

We want to test your comfort with emerging options for changes to development contributions and targeted rates in advance of targeted testing with stakeholders on options in late July, and policy advice by the end of August.

## Key questions for Ministers following discussion with officials:

- We are likely to recommend shifting development contributions to a levy approach to better enable full cost recovery.

*Are you comfortable with officials exploring converting development contributions to levies with stakeholders?*

*Or would you prefer officials simply look at options for refining development contributions?*
- s 9(2)(f)(iv)

[Redacted]

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- Targeted rates could be used as a complementary tool alongside development contributions to achieve 'growth pays for growth'.

*Are you comfortable with officials continuing to explore options for targeted rates refinements with stakeholders?*
- The current funding system is highly enabling with choices left to local government. Mechanisms for direct Government intervention in local authority funding decisions will be challenging to design.

*How far do you wish to go in having the ability to direct Council funding practices?*
- We propose focusing on funding tools now, with work on financing being deferred to the future if necessary. Officials will keep a watching brief.

*Are you comfortable with this approach?*



# Why the present system isn't delivering



# Development contributions settings do not support the full recovery of growth costs

## 197AA Purpose of development contributions

The purpose of the development contributions provisions in this Act is to enable territorial authorities to recover from those persons undertaking development a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term.

... development contributions should be determined ... in a way that avoids over-recovery of costs allocated to development contribution funding:

Councils are only authorised to recover a "fair equitable and proportionate portion" of the growth costs of infrastructure, and only where developments "require" new or additional assets or assets of increased capacity.

To charge development contributions, councils must:

- determine and document what will be required far in advance of development, and
- finance the growth costs and fund any non-growth costs.

These settings can help deliver infrastructure when there is predictable, geographically restrained growth, with unrestrained funding and financing capacity. This is not the context we are working in now.

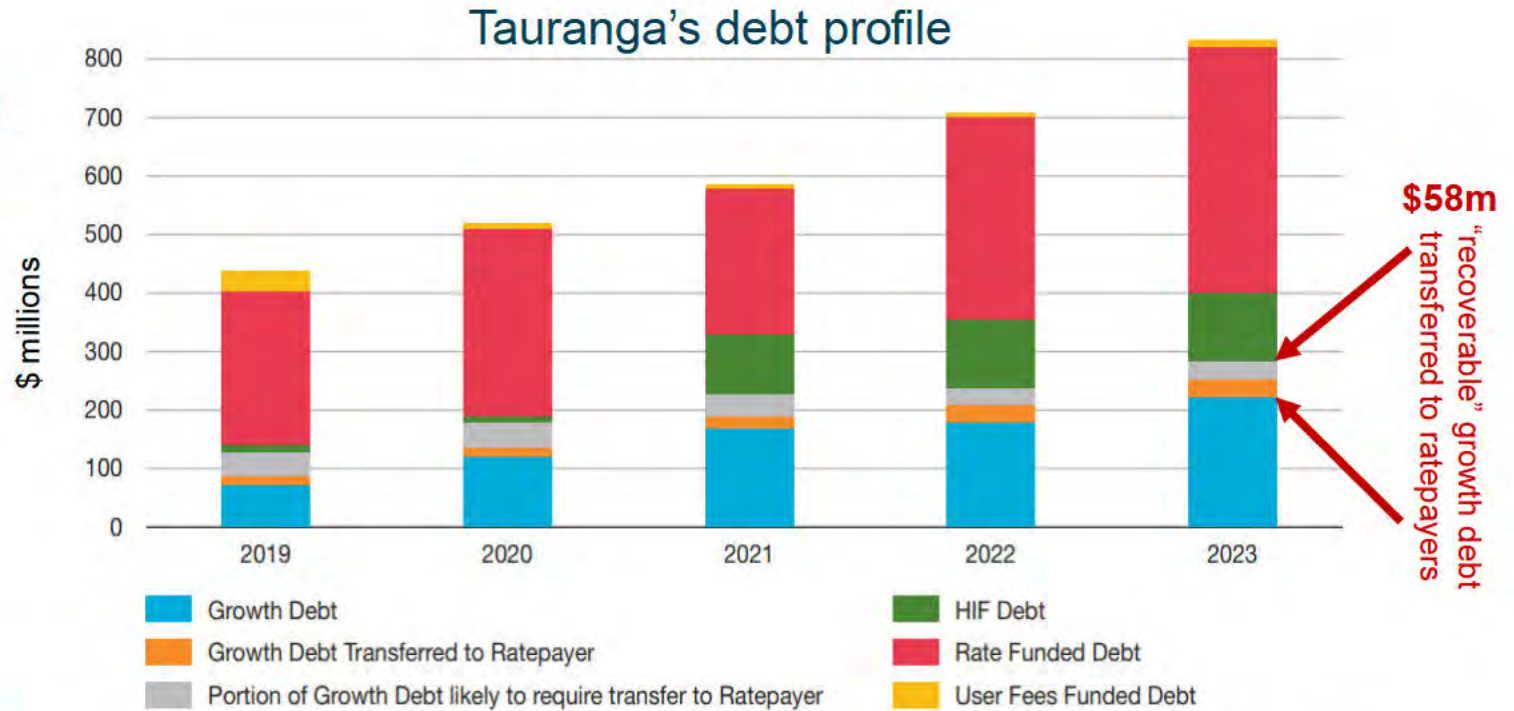


# Ratepayers pick up the tab for some growth debt

Development contributions can only recover for growth that is predictable (and financeable). This limits the infrastructure costs that councils can expect to recover.

Even councils who pursue the fullest possible cost recovery find some of the “recoverable” debt will end up being paid by ratepayers.

Tauranga provide this breakdown of council debt in their 2022/2023 annual report which shows the spread of growth and non-growth debt (rate and user fees funded debt).



A lot of the rate funded debt (pink) is for infrastructure projects that would have been for growth if it were funded and financed earlier. Now that growth has happened, these projects are considered backlog/level of service and the costs fall on all ratepayers.

# Growth expenditure consumes council finance

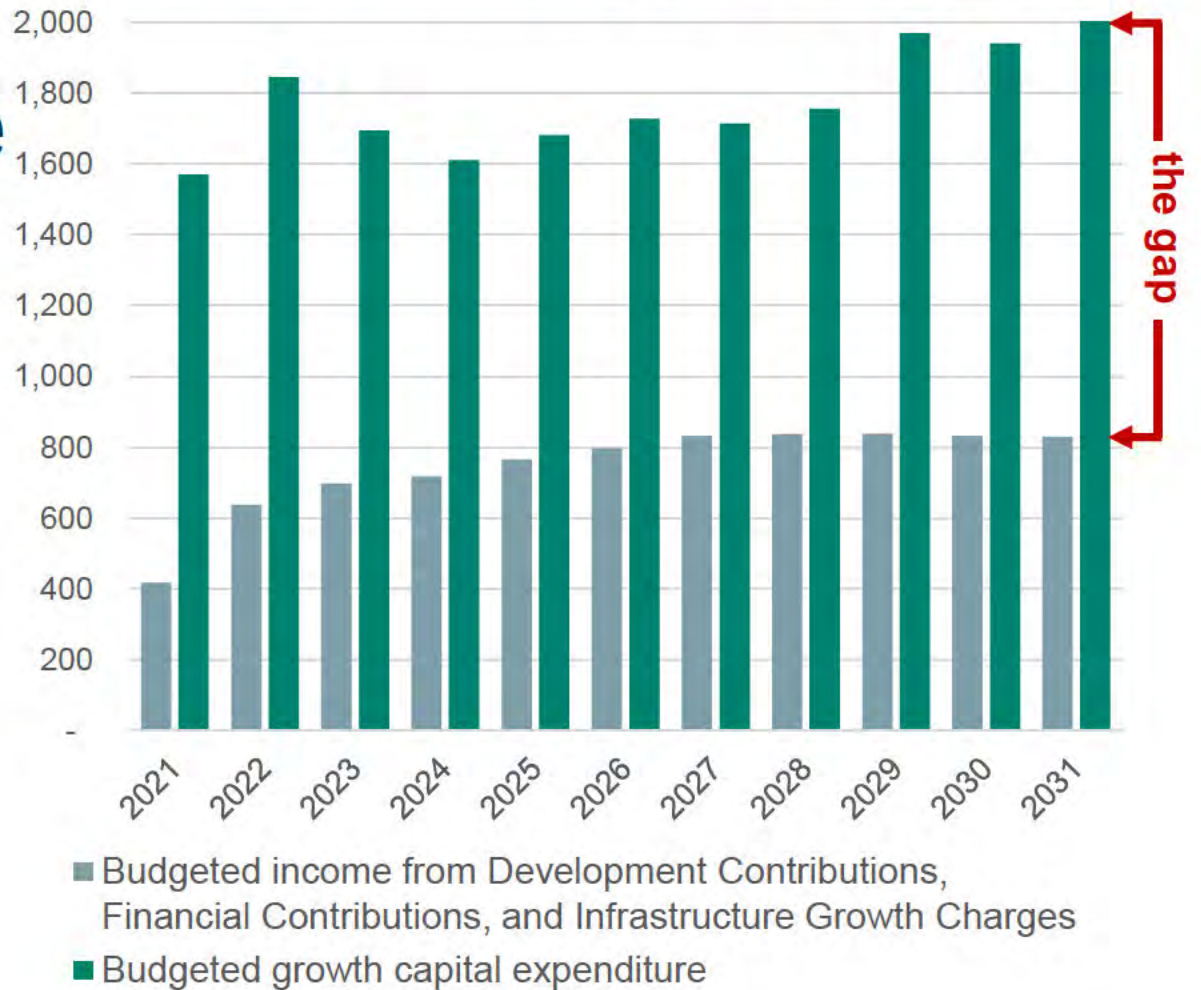
There is a gap between what councils expect to invest in growth infrastructure and what they expect to recover from growth charges in the coming years.

The gap between income and expenditure is attributable to two things:

1. Under-recovery – as covered in the next slide.
2. Timing – the significant lag between the investment in infrastructure and the completion of the development which it supports. This could be several decades.

We don't know how much of the gap is under-recovery and how much is timing. But either way, territorial authorities must finance the difference.

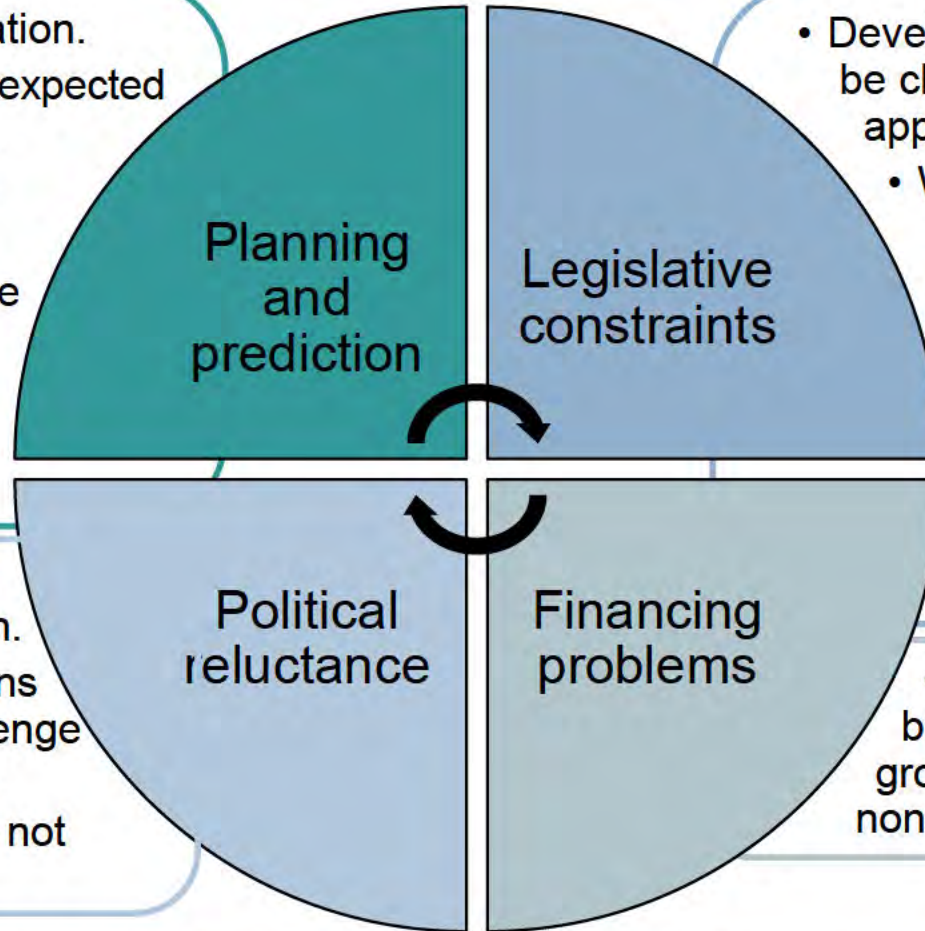
**Budgeted capital expenditure for growth vs expected income from growth charges for all councils (LTP data)**



# There are a lot of reasons for under-recovery

- Construction/infrastructure cost inflation.
- Land prices can increase more than expected when land acquisition is necessary.
- Intensification means the pace and spread of growth is unpredictable.
- Councils provide infrastructure to the maximum probable density, but developers choose lower density.
- The over-recovery ban means policies are set to under-recover.

- Councils want to keep development contributions low to incentivise growth.
- Councils set development contributions at levels that developers won't challenge or at levels similar to other councils.
- Councils agree to remissions but do not provide funds to offset these.



- Development contribution schedules can't be changed on the basis of consent applications received.
- Where consents are lodged as part of a private plan change, infrastructure hasn't been planned.
- Projects may need significant amendment as a growth area develops.
- Third party funding cannot be targeted to council costs.
- Crown exemptions.

- Development contributions can only be charged on projects where the growth portion can be financed and the non-growth portion can be funded.



s 9(2)(f)(iv)



# Options being considered



# A range of options are being explored to address issues with development contributions

Cost-recovery based charge	Levy based-charge		
Refinements to development contributions legislation to better recover costs and improve functioning	Development levy based on estimated growth-related infrastructure costs per catchment/area	Development levy based on estimated growth-related infrastructure costs across entire town/city	Development levy based on a percentage of the development cost
Charges are required to have a rational link between the new infrastructure investments and the fees the developers are being asked to pay.	This model still draws a link to the increased infrastructure demand but does so using a more standardised method than the strict 'cost recovery' model. The charge is not directly linked to the actual cost of the infrastructure.		

We consider that refinements to development contributions legislation could help to address some of the key issues identified, but tweaks to the current model are likely to only go so far in delivering on the objectives for this workstream.



# We are likely to recommend shifting development contributions to a levy approach...

**Would you prefer that officials simply look at options for refining development contributions?**

**Or are you comfortable with officials exploring converting development contributions to levies?**

**Do you have any concerns with us testing the levy option with stakeholders?**

We expect levies to be contentious with developers.

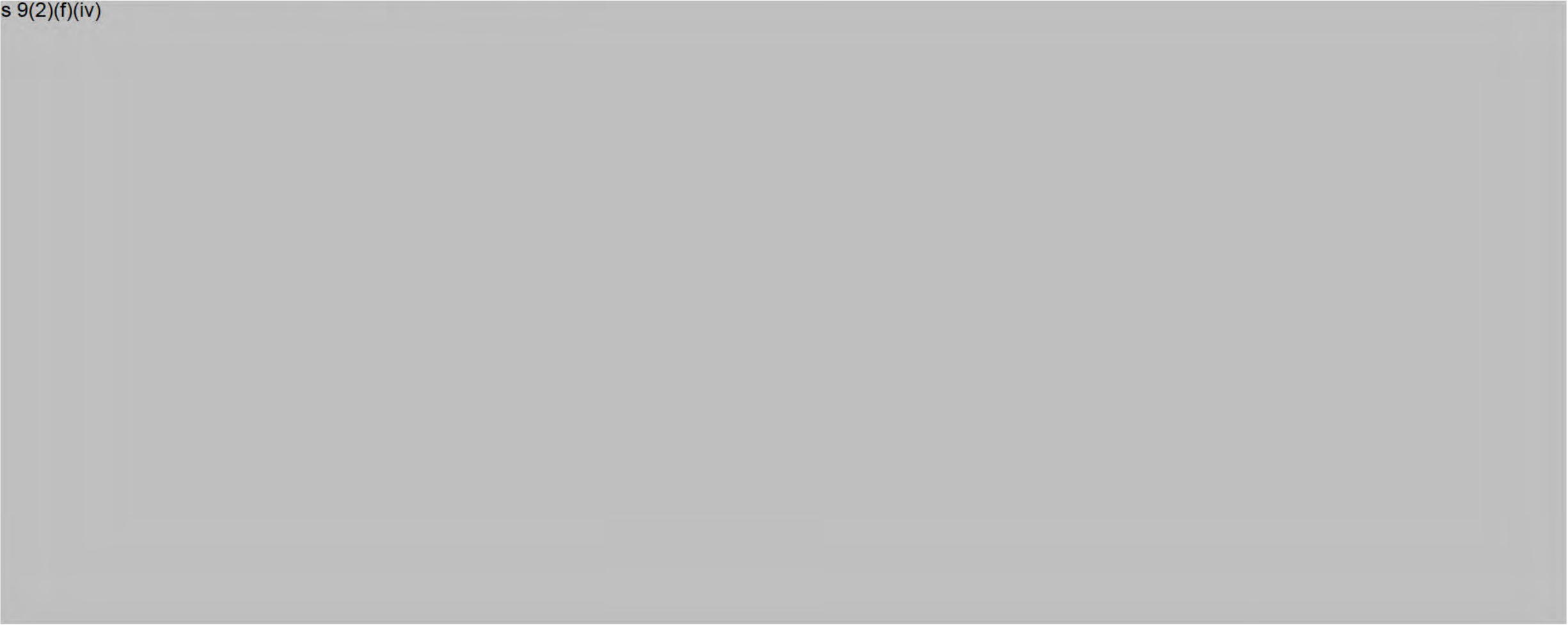
We consider converting development contributions from a user charge to a levy is likely the best approach to enabling greater cost recovery. A levy would give councils more flexibility to support development to go ahead in places or at a pace that is not foreseen in their planning.

Other benefits	Risks to manage
<ul style="list-style-type: none"><li>➤ Lower local authority cost to prepare policies</li><li>➤ May help lift debt caps</li></ul>	<ul style="list-style-type: none"><li>➤ Risk of unintended consequences because it's a novel approach</li><li>➤ Raises issues of oversight of levy use</li><li>➤ Might be characterized as a tax on development</li></ul>





s 9(2)(f)(iv)



# We are also likely to recommend changes to targeted rates

## Are you comfortable with officials continuing to explore options for targeted rates refinements with stakeholders?

Targeted rates could be used as a complementary tool alongside development contributions to achieve 'growth pays for growth'. We think it's important to give councils as many useful tools as possible to meet this objective.

Unlike development contributions, which are collected up front as a lump sum, targeted rates are collected in smaller portions (annually) over a longer timeframe (e.g. across the life of the infrastructure asset). This changes the way in which councils would hold the growth debt on their balance sheets, but could still contribute to 'growth paying for growth' in the long run.

Legislative refinement to targeted rates could incentivise councils to use them for the growth costs of infrastructure. Refinements to targeted rates could also allow for the use of **levy-based value capture**.

To recover the growth costs of infrastructure, we would look to refine both lists of options councils are required to work within under current legislation to set a targeted rate:

- Identify the **category of ratable properties** it wants to target
- And then determine the **factors upon which the value** of the targeted rate is calculated.

# Changes will also be needed to require councils to implement government policy

## How far do you wish to go in having the ability to direct Council funding practices?

The Going for Housing Growth policy is to **require** councils to fund growth-related infrastructure needed for new development from rates and levies applied to the new development, instead of being subsidised by other communities (e.g. ratepayers).

The current funding system is highly enabling with choices left to local government. Mechanisms for direct Government intervention in local authority funding decisions will be challenging to design.

### Options:

1. Do nothing – councils continue to choose funding tools in consultation with their community.
2. Statutory direction – enforcement left to existing mechanisms (Part 10 LGA oversight and judicial review);
3. Transparency and central monitoring;
4. Modified existing intervention powers;
5. Formal reporting to ministers and ministerial approval of funding policies.

# Outstanding matters



# The ability to finance investment may become a risk in the future, but water services changes need to play out first

**We propose focusing on funding tools now, with work on financing being deferred to the future if necessary. Officials will keep a watching brief.**

## **Are you comfortable with this approach?**

- For high growth councils over half the identified growth infrastructure is for water services;
- New arrangements will allow water services entities substantially more balance sheet leverage than councils. This will enable greater investment in water services for growth;
- Removing water services debt from council balance sheets will release some debt capacity for other growth investment; and
- LGFA is proposing bespoke arrangements for high growth councils enabling debt/revenue ratios of up to 350% (up from 280%)



# We are doing further work to consider impacts of potential changes on development viability

**Are you comfortable for officials to explore potential transitional/phasing options with stakeholders?**

Developers have raised concerns that increases to development contributions could negatively impact on the viability of their developments.

We did initial modelling in Auckland, the Tauranga metro area<sup>1</sup> and the Hamilton metro area,<sup>2</sup> looking at average infrastructure costs and land prices. This work indicated that the differences between the costs of growth infrastructure and the rural-urban differential are sufficiently high that some increases to infrastructure costs could be absorbed in land prices without significantly affecting development.

However, in reality changes to development contributions could still have an impact on developers' balance sheets, particularly if they have already purchased land. We will be doing further work to test the impacts of potential changes in other parts of the country, and consider how to best manage the transition.

<sup>1</sup> Incorporating Tauranga City Council and parts of Western Bay of Plenty District Council

<sup>2</sup> Incorporating Hamilton City Council and parts of Waipa District Council

# Next steps

Testing options with the Housing Expert Advisory Group – mid July

Targeted stakeholder testing on options – late July

Advice to Ministers – end of August

Cabinet decisions – November 2024

Legislation introduced – June 2025



**From:** [Counsell, Kevin](#)  
**To:** [David Hermans](#); [Peter Nunns](#); [Chris Parker \[TSY\] \(Guest\)](#); [Stuart Donovan](#) s 9(2)(a);  
[Stuart Shepherd](#); [Eric Crampton](#); [Marko Garlick](#); [McCracken, Malcolm](#)  
**Subject:** NZAE paper on housing growth uplift  
**Date:** Friday, 12 July 2024 8:52:15 am  
**Attachments:** [Housing error cost NZAE presentation 030524.pptx](#)  
[Error cost approach to housing supply final for NZAE 170624.pdf](#)

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Hi David, Peter, Chris, and HEAG members

For your interest (and some of you have already seen this), last week I presented a paper at the NZAE conference on the asymmetric welfare costs of errors in setting zoning housing capacity, and how this can justify adding a margin/uplift to the demand forecasts used to set zoned capacity. I think I mentioned this at one of the HEAG meetings a while back (and we loosely incorporated the point in our written advice), as it has relevance to the GfHG targets workstream.

The paper and my slides from the presentation are attached (the paper is also up on SSRN here: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4884770](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4884770)). It is a working paper at this stage, and I'm working on incorporating some comments from conference participants (thanks Peter and Stuart D!) and submitting it for publication later in the year, but the core principles are unlikely to change.

Please feel free to share this around - [@David Hermans](#), there may be others at MHUD who this is of interest to?

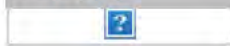
Kevin

**Kevin Counsell**

Director

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# Zoning for housing supply: modelling the asymmetric welfare costs of errors in demand forecasts

3 July 2024

Kevin Counsell, Director

Presentation to the 64<sup>th</sup> Annual Conference of the New Zealand Association of Economists, Wellington

# Asymmetry in error costs: a simple example

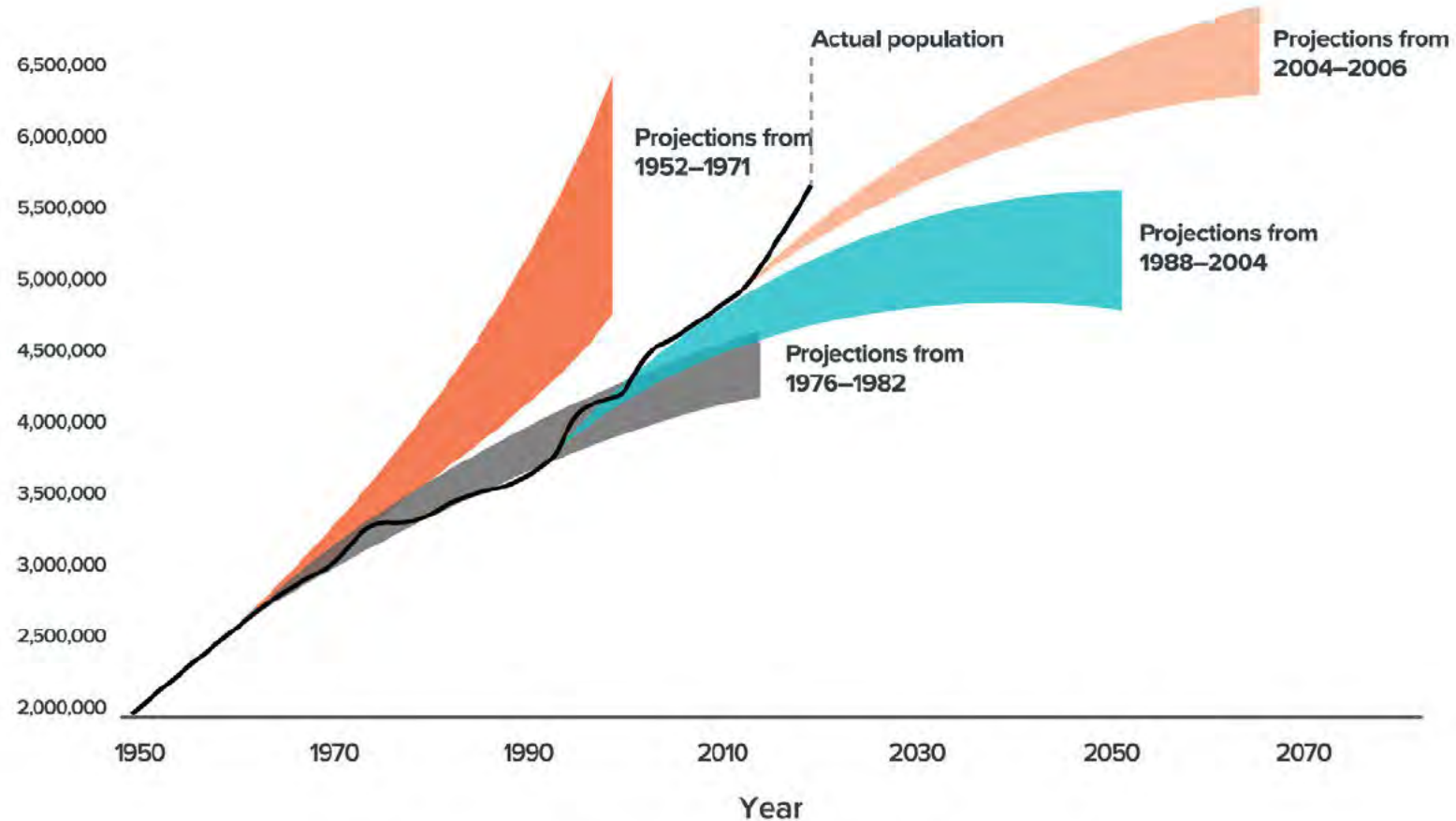
	Type I error/false positive	Type II error/false negative
Error	Fail to cross the road, when it was actually safe to do so	Cross the road, when it was actually not safe to do so
Cost of error	Small time delay (low error cost)	Injury and potential loss of life (high error cost)

# Zoning for housing supply

- Local councils set zoned capacity for future housing supply
- Typically use population/household growth forecasts, translated to an estimate of future number of dwellings required
- But population forecasts are inherently uncertain – risk of error in setting zoned capacity

*"Trying to predict the future is like trying to drive down a country road at night with no lights while looking out the back window" – Peter Drucker*

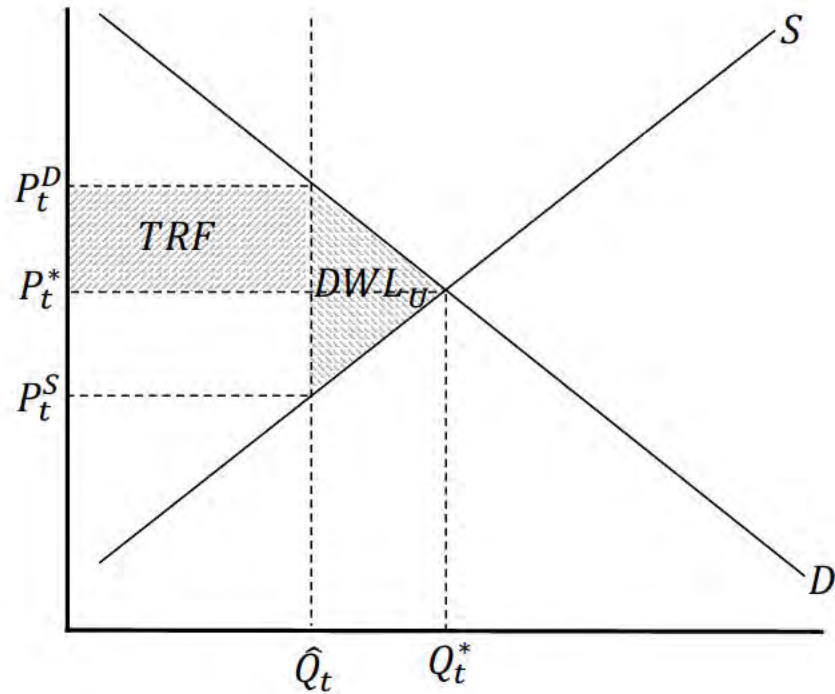
# Uncertainty in population forecasts



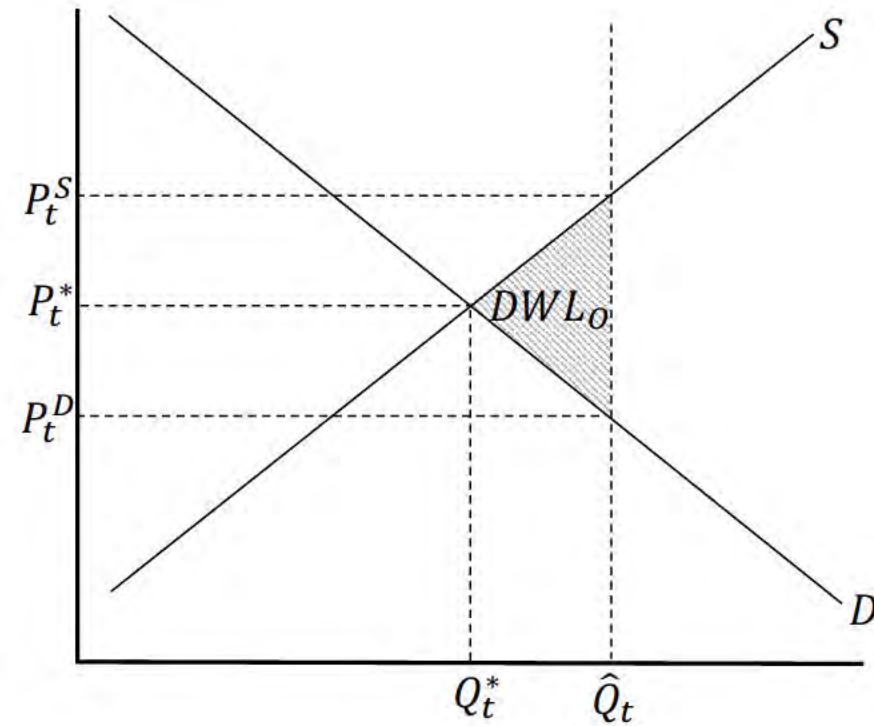
Source: Figure 19 of New Zealand Infrastructure Commission (2022)

# A simple model of the error costs

## Under-zoning



## Over-zoning



# The costs of errors in setting zoned capacity

Costs of under-zoning:  
zoning 'too little' land for demand

Costs of over-zoning:  
zoning 'too much' land for demand

Deadweight loss from unmet housing needs ( $DWL_U$ )

Deadweight loss from resource misallocation ( $DWL_O$ )

Avoided cost of public infrastructure ( $INFRA$ )

Additional cost of public infrastructure ( $INFRA$ )

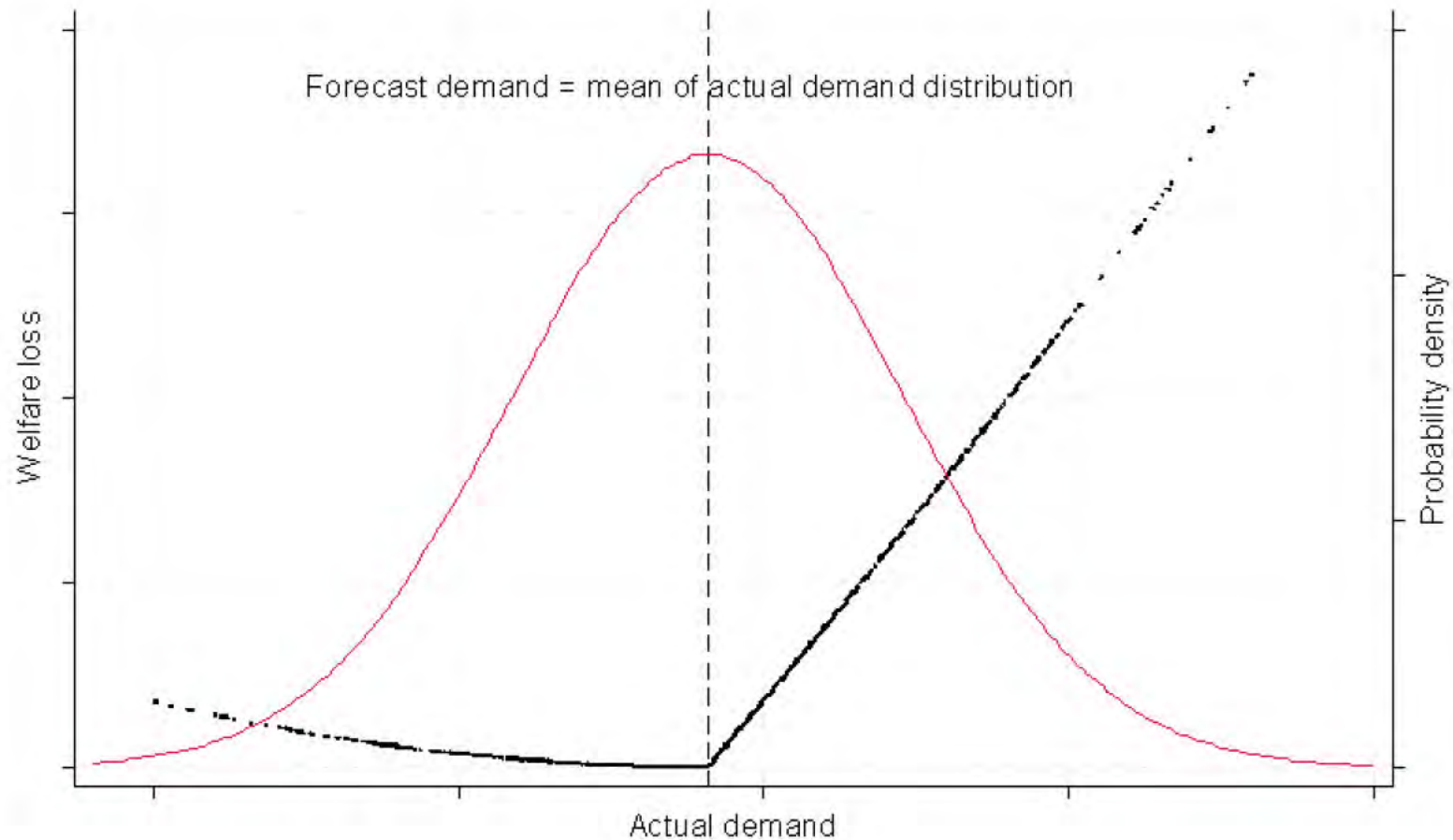
Foregone agglomeration economies ( $AGGLOM$ )

Avoided congestion externalities ( $CGSTN$ )

Distortionary effects of high house prices e.g., intergenerational wealth transfers, labour misallocation, social costs of homelessness ( $TRF$ )

# Asymmetry in the welfare cost of errors

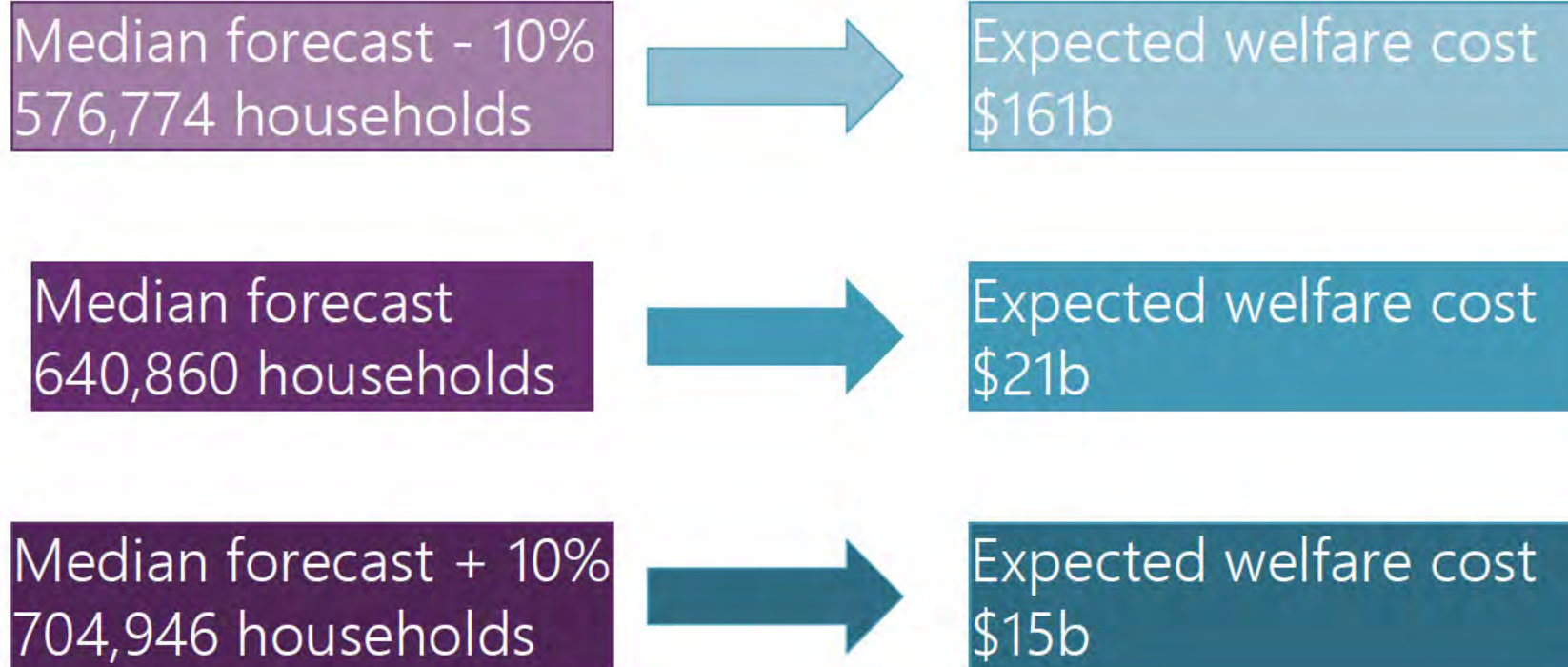
$$L_U(Q_t^*, \hat{Q}_t) = DWL_U + TRF + AGGLOM - CGSTN - INFRA \text{ if } \hat{Q}_t \leq Q_t^*$$
$$L_O(Q_t^*, \hat{Q}_t) = DWL_O + INFRA \text{ if } \hat{Q}_t > Q_t^*$$



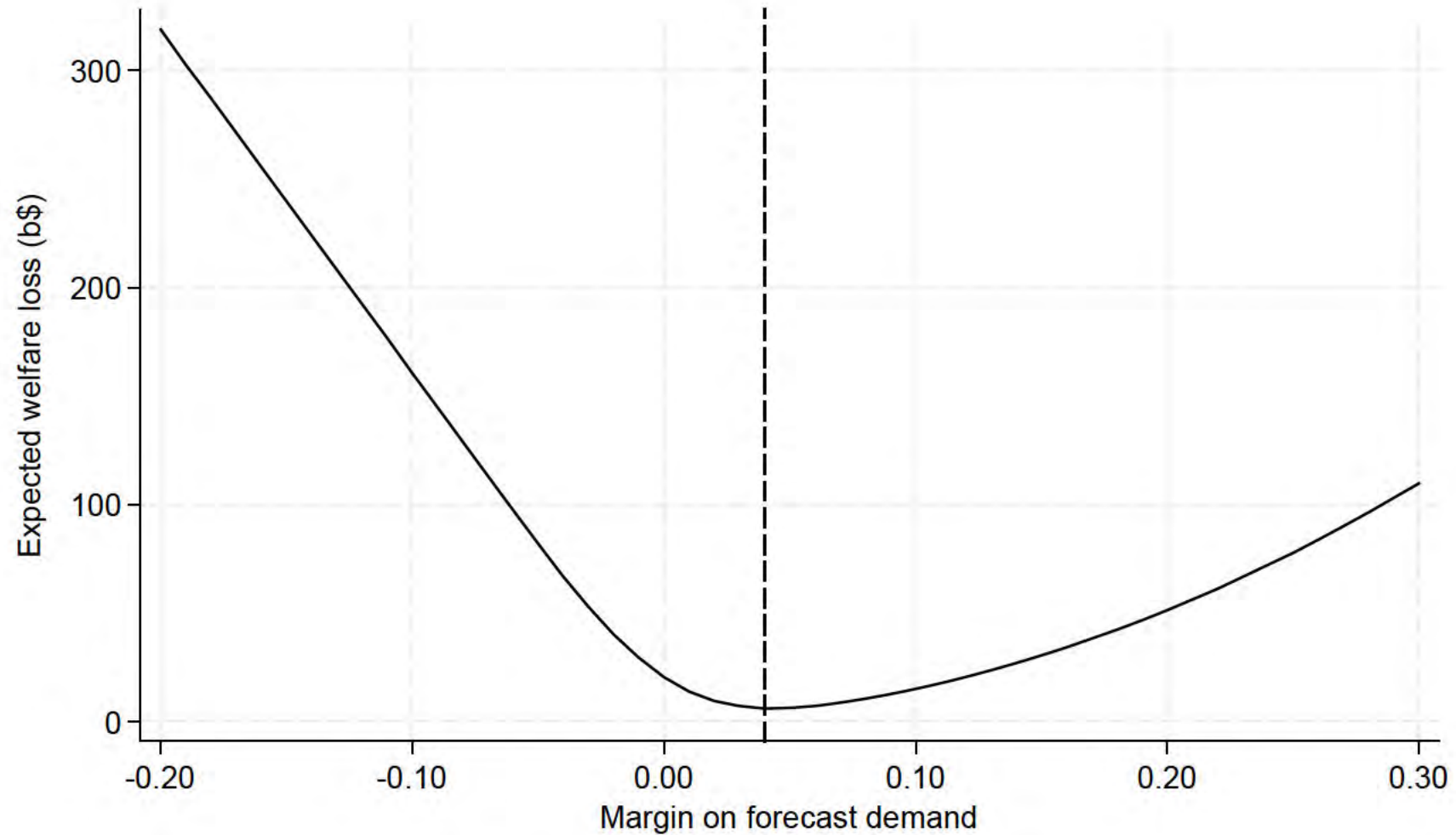
# An illustrative example using Monte Carlo simulation

Parameter	Value
Current Auckland households	569,950
Forecast Auckland households in ten years	640,860
Current median Auckland house price	\$1,000,000
Housing demand elasticity	-0.516
Housing supply elasticity	0.876
Auckland annual GDP	\$199,883m per year
Agglomeration elasticity	0.076
Congestion costs	\$4,762 per household per year
Infrastructure costs	\$2,335 per household per year
Discount rate	5%

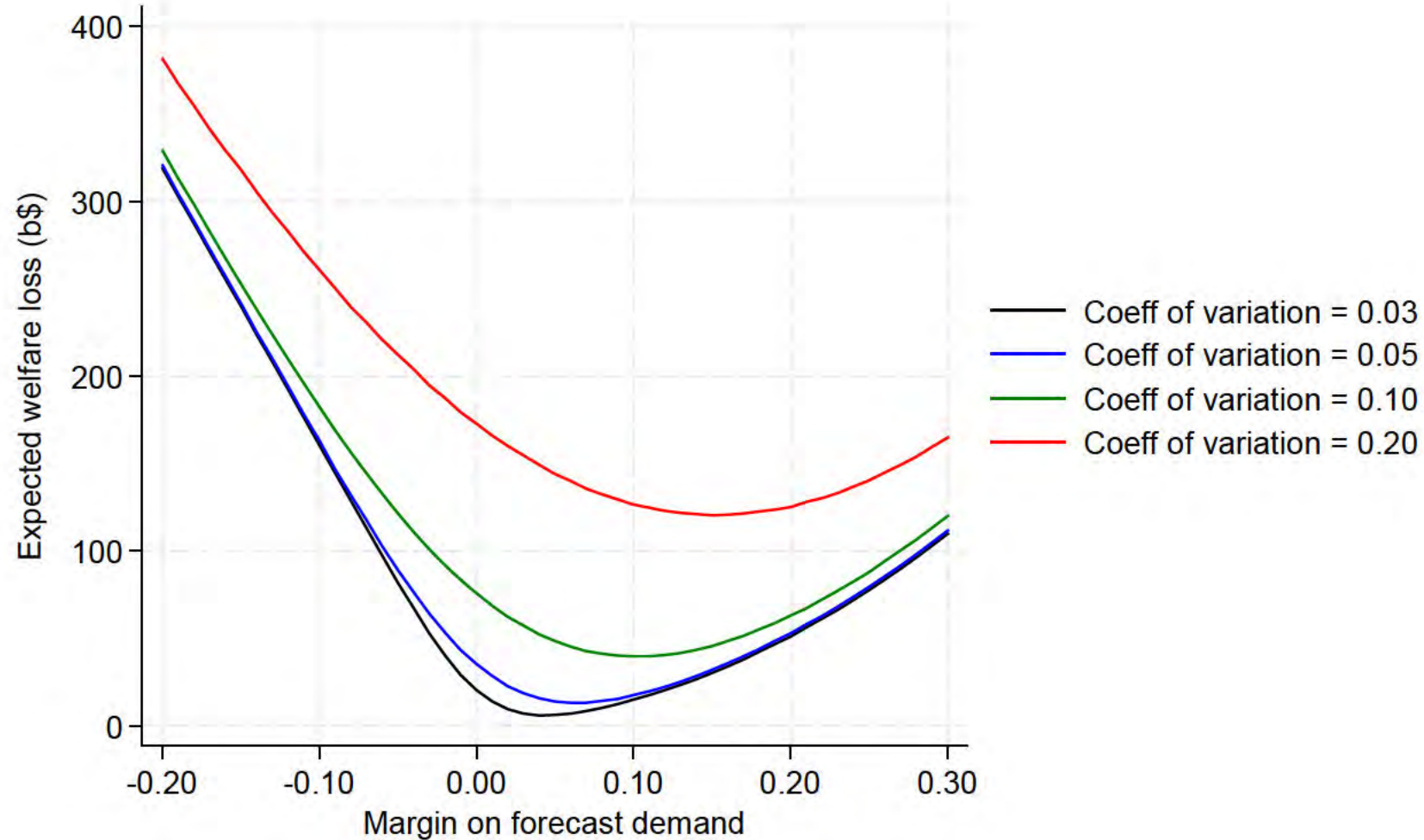
# Erring on the side of caution



# Minimising the expected cost of error



# Sensitivity testing the variation in the demand distribution

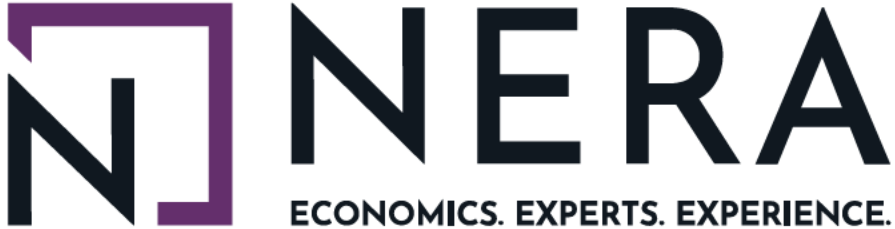


# The main points

Setting zoned housing capacity based on population forecasts creates a risk of error

The costs of error are asymmetric: costs of under-zoning are materially greater than the costs of over-zoning

Add a margin to population forecasts to err on the side of caution and minimize expected error costs



ECONOMICS. EXPERTS. EXPERIENCE.

# **Zoning for housing supply: modelling the asymmetric welfare costs of errors in demand forecasts**

Kevin Counsell, Director, NERA\*

Paper presented to the 64<sup>th</sup> Annual Conference of the New Zealand Association of Economists, 3-5 July 2024, Victoria University of Wellington

## **Abstract**

Faced with persistent concerns over housing affordability, often attributed to historical zoning restrictions that limit new subdivisions or the redevelopment of existing sites, local councils are confronted with the task of zoning sufficient new housing supply to provide for future demand for housing. These zoning decisions are typically based on forecasts of future population growth in an area, from which are derived forecasts of housing demand growth, to ensure sufficient land is made available for new residential housing to meet that growth. However, predictions of future housing demand growth are inherently uncertain, introducing a risk of 'regulatory error' in setting zoning capacity. In this paper, I explain why the welfare costs of this regulatory error are likely to be asymmetric: the harm to welfare from underestimating demand and zoning 'too little' is likely to be materially greater than the welfare costs of overestimating demand and zoning 'too much'. Drawing on a similar asymmetric error cost framework used in setting the cost of capital for regulated utilities, I develop a simple model of the welfare cost asymmetry for zoning. Using Monte Carlo simulation and illustrative housing supply and demand parameters for Auckland, I show how the asymmetry in welfare costs can justify an uplift or margin applied to forecast demand. That is, it is better to err on the side of caution by adding a margin to forecast demand, to mitigate the risk of relatively larger welfare costs from under-zoning. By being 'generous' in the amount of zoned housing capacity that councils make available, this would also mitigate the risks of exacerbating ongoing housing affordability concerns.

\* I acknowledge the helpful comments on Lew Evans.

## 1. Introduction

Housing affordability has been one of the leading concerns in New Zealand, and indeed in many other developed countries, over the better part of the last twenty years. Real house prices in New Zealand increased by 180% from 2000 to 2020, the highest increase across 28 countries for which housing-market indicators are tracked (by The Economist, 2021). The nominal price of a median house in New Zealand grew from approximately three times the nation's median income in 2002 to a factor of seven by 2020 (Counsell, 2021). Similar phenomena are observable elsewhere in the world. For example, from 2000 to 2020, real house prices in Australia, Canada, Norway and Sweden all increased by more than 100%, while prices in Britain, Columbia, France and South Africa increased by at least 90% (The Economist, 2021).

One of the oft-attributed causes of increasing house prices is the lack of responsiveness of the supply-side to rising demand, including zoning restrictions that limit new subdivisions or the redevelopment of existing sites (Nunns, 2021). In New Zealand, zoning decisions are made by local councils, typically involving some form of demand modelling to assess future demand for housing, from which councils seek to set sufficient zoned capacity to provide for this demand. In practice, councils often estimate demand using relatively simplistic modelling techniques to forecast population and household growth in future time periods, with these forecasts then translated into an estimate of the future number of residential dwellings required in the relevant region.

However, like any predictions of the future, forecasts of future population and household growth are inherently uncertain. Forecasts can either overshoot or undershoot actual population growth, often by material amounts, and uncertainty in the key inputs to population forecasts (such as migration) can lead to substantial forecast variation across even relatively short time scales. This uncertainty introduces a risk of 'regulatory error' in estimating the demand for housing, and thus in setting the amount of zoned capacity. If zoned housing capacity is set equal to forecast demand, but actual demand turns out to be much lower than forecast, then 'too much' land has been zoned for housing (over-zoning). On the other hand, if actual demand turns out to be much higher than forecast, then 'too little' land will have been zoned to meet that demand (under-zoning). An error in either direction gives rise to an associated welfare cost. Under-zoning will result in a welfare cost from insufficient housing supply and unmet housing needs, while over-zoning will lock land into a residential housing use, when it may have an alternative, higher value, use.

In this paper, I will explain why the welfare costs of this regulatory error are likely to be asymmetric: the harm to welfare from underestimating demand and zoning 'too little' is likely to be materially greater than the welfare cost of overestimating demand and zoning 'too much'. I explain how this asymmetry in welfare costs can be addressed by applying an uplift or margin to forecast demand. That is, once forecast housing demand has been determined, the result is increased by a specific percentage margin, and zoned capacity is set based on that uplifted demand assessment (rather than the original, lower, assessment). The intention of this margin is to err on the side of caution and mitigate the risk of setting demand, and therefore the amount of zoned capacity, 'too low', thereby also mitigating the risk of the relatively larger welfare costs that arise from under-zoning. A similar framework has precedent in regulatory price setting determinations to set the cost of capital for regulated utilities, where a small margin is often applied to the cost of capital to mitigate the relatively larger welfare costs that can come from under-estimating this parameter.

Drawing on this asymmetric error cost framework, I develop a simple model that can be used to assess the welfare costs of regulatory error in estimating housing demand. The model balances the welfare costs from under-zoning, which include the deadweight loss from unmet housing needs and foregone agglomeration economies from a smaller city size, against the welfare impacts from over-zoning, which include the deadweight loss of land misallocation. Using Monte Carlo simulation and illustrative housing supply and demand parameters for Auckland, I show how the asymmetry in welfare costs does indeed justify a margin being applied to forecast demand. For the specific parameters that I use, the simulation results suggests that a margin in the range of 4%-15% can be applied to forecast demand to reflect the asymmetric costs error in estimating that demand, with the most appropriate point in this range depending on the volatility of future population growth. These results are intended to be illustrative, and the calculation of the precise margin may warrant more complex modelling and/or detailed parameter assessment. Nonetheless, these results support the need for councils to err on the side of caution in their assessment of future housing demand and thus zoned capacity, so as to mitigate the risks of exacerbating ongoing housing affordability concerns.

The remainder of this paper is structured as follows. In the next section, I discuss the uncertainty in population forecasts, and how this can lead to regulatory error in estimating housing demand and thus setting zoned capacity. Section 3 discusses the welfare consequences from this regulatory error, in respect of both under- and over-zoning, and sets out the argument for why these welfare costs are likely to be asymmetric. In section 4, I build a model using a simple supply-demand framework to evaluate the welfare consequences of under- or over-zoning. Section 5 parametrizes this model with housing supply and demand parameters for Auckland, and uses Monte Carlo simulation to estimate a margin to apply to forecast demand to address the asymmetric welfare costs of regulatory error. Section 6 provides concluding comments.

## **2. Regulatory error in forecasting housing demand**

Local councils in New Zealand are responsible for setting zoning requirements in their district, which involves identifying areas of land to be set aside to provide for future housing supply. This can include areas of 'greenfield' housing supply, which is land that is not currently zoned for residential living (e.g., conversion of rural areas on the edges of cities), or 'brownfield' supply (also often referred to as 'urban intensification'), where new housing capacity is provided within existing residential areas. In the latter case, this may be through either development on vacant lots or open spaces, or through 'upzoning' – allowing more houses and/or higher building heights on existing residential sites.

In setting zoned capacity, the National Policy Statement on Urban Development 2022 (NPS-UD) requires councils to make an assessment of housing demand and supply. In particular, the NPS-UD requires that councils prepare, every three years, a "housing and business development capacity assessment" (HBA),<sup>1</sup> which incorporates forecasts of the demand for additional housing in the relevant council district in the short-term (the next 3 years), the medium-term (the next 3-10 years) and the long-term (the next 10-30 years). Councils must then provide sufficient zoned housing capacity to meet that expected demand for housing over those short-term, medium-term and long-term periods.

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<sup>1</sup> Only councils defined in the NPS-UD as "tier 1" and "tier 2" (effectively, the councils associated with more populous urban areas) are required to prepare an HBA.

In concept, any estimate of the demand for housing should account for the endogeneity of supply and demand. That is, supply and demand for housing are jointly determined, and will adjust in response to relative price changes (among other factors). Setting a given amount of housing capacity through zoning may result in changes in housing demand, as house prices adjust to equilibrate supply and demand, and the available housing supply is rationed accordingly.

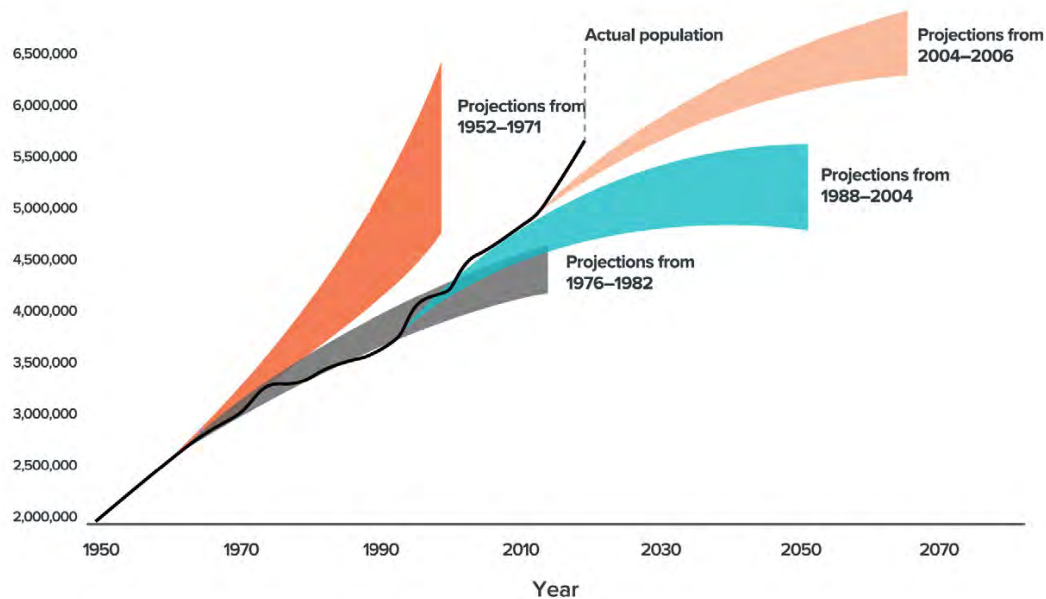
However, in practice, councils' estimates of demand implicitly assume that housing demand is exogenous. In New Zealand, the approach taken by most councils is to use forecasts of population and/or household growth, and to translate these forecasts to an estimate of the future number of residential dwellings required in the relevant region (Ministry for the Environment, 2016). While there are varying degrees of sophistication in the actual implementation of this approach (e.g., by breaking down demand for different dwelling types), ultimately the approach taken still utilises population and/or household growth as the starting point. For example, in its HBA for 2023, Auckland Council utilised population and household forecasts to estimate demand for housing in the Auckland region by family structure, age and income bands. In aggregate, it was estimated that the total households in the Auckland region would grow from 569,950 in 2022 to, for example, 589,310 by 2025, requiring sufficient zoned capacity to provide for an additional 19,360 dwellings over this time period (Balderston et al, 2023).

Similar approaches to setting zoned capacity based on demand forecasts are also undertaken elsewhere in the world. For example, in England, the National Planning Policy Framework requires local authorities to undertake a "housing needs assessment" to determine the minimum number of homes needed over a five-year period (Department for Levelling Up, Housing & Communities, 2023). This assessment starts by utilising household growth forecasts for the relevant area, then makes various adjustments to account for factors such as affordability and growth in city centres. In Queensland, Australia, the state government utilised 25-year population projections to help inform dwelling supply targets over this time period (Queensland Government, 2023). In the US, various states use population forecasts to ensure an adequate supply of zoned land for housing, with a specific example being in Oregon where population forecasts are used to provide sufficient land for housing and commercial needs for the next twenty years (Sullivan, 2016).

Of course, like any prediction of the future, forecasts of population and household growth are inherently uncertain. Figure 1, sourced from the New Zealand Infrastructure Commission (2022), compares New Zealand's actual population with population projections made by Statistics New Zealand, from various time periods. This illustrates that projections often under or over forecast population, often by a significant margin. For example, population projections made for the 1952 to 1971 time period materially over-estimated the actual population over this period, while the 1988-2004 projections systematically under-estimated the actual population. Population projections can also change materially when re-evaluated within a short timeframe, particularly for forecasts made into the far distant future. For example, Statistics New Zealand's population projections released on 31 March 2021 showed a projected population for Auckland in 2048 of 2,302,900, while updated projections released on 12 December 2022 showed a 2048 Auckland population projection of 2,114,000.<sup>2</sup> This is a decrease in the forecasts through to 2048 of 8%, despite only an approximate 20-month lag between when the projections were released.

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<sup>2</sup> Statistics New Zealand subnational population projections, sourced from NZ.Stat, accessed 31 May 2024.

**Figure 1: Actual population compared with population projections**

Source: Figure 19 of New Zealand Infrastructure Commission (2022)

This inherent uncertainty in population and household growth introduces a risk of 'regulatory error' in forecasting demand as a means of setting zoning capacity. Population and household growth forecasts can be used to forecast housing demand, with zoned capacity set based on that demand forecast. However, if actual demand turns out to be much lower than forecast, then 'too much' land has been zoned for residential housing relative to actual demand. On the other hand, if actual demand turns out to be much higher than forecast, then 'too little' land will have been zoned to meet that demand.

With this error comes an associated welfare cost. Under-zoning, or zoning 'too little' land for demand, will result in insufficient housing supply. This will lead to a lower household population (relative to where zoning equals actual demand), with a resulting deadweight loss from unmet housing needs, as well as lost agglomeration economies (offset by some avoided congestion and public infrastructure costs) from a smaller city size, and costs associated with higher housing prices. On the other hand, while zoning 'too much' land for demand will create a deadweight loss associated with resource misallocation and some additional public infrastructure costs, the totality of the welfare costs from over-zoning are likely to be much smaller than those arising from under-zoning, leading to an asymmetry in the costs of error. I elaborate on these different costs, and the associated asymmetry in the welfare function, in the next section of this paper.

One way to address this asymmetry is to apply a margin or uplift to forecast demand. That is, after having estimated forecast demand for housing over a certain time period, the estimate is increased by a specific percentage margin. Zoned capacity is then set based on the uplifted demand assessment with the margin applied, rather than the original, lower, demand assessment. Applying a margin mitigates the risk of forecasting demand, and accordingly setting the amount of zoned capacity, at a level that is 'too low' relative to actual demand. The intention is to err on the side of caution to mitigate the risk of the relatively larger welfare costs from under-zoning.

A similar framework, based on the asymmetric costs of regulatory error, has precedent elsewhere, specifically through its use in price setting determinations for regulated monopolies. These

determinations involve a regulator (such as the New Zealand Commerce Commission) setting the price charged by a monopoly utility provider, for example, in electricity distribution, gas transmission, or telecommunications. The regulated price will include an allowance for the utility's cost of capital, based on the regulator's estimate of the weighted average cost of capital (WACC). However, the estimated WACC is just that, an estimate, and this may be higher or lower than the 'actual' WACC, giving rise to a risk of regulatory error and an associated welfare cost from this error. The welfare costs from setting the WACC 'too low' include underinvestment by the regulated utility, since it is not recovering its actual cost of capital on investment. The welfare costs of setting the WACC 'too high' arise from higher prices to consumers and a resulting deadweight loss. For some regulated industries, the welfare costs of underestimating the WACC are found to be materially greater than the welfare costs of overestimation. To reflect this, regulators often apply an uplift or margin to the estimated WACC, to address these asymmetric welfare costs (see New Zealand Commerce Commission (2023) for a recent application).

### **3. The welfare costs of under- and over-zoning**

In setting zoned capacity, a council is setting the amount of land that can accommodate future demand for housing. If the council sets this at a level that is 'too low' relative to actual demand, then actual housing development would likely occur up to the binding supply constraint set by the amount of zoned capacity. That is, housing developers will build where there is expected demand for their development, up to the level of zoned capacity, which (by definition) will be below what actual demand would have otherwise been. Household take-up of developed homes will also occur, but again will be capped, below what actual take-up would have otherwise been but-for the zoning constraint.

It is established in the economics literature that zoning, and housing regulations more generally, can reduce the number of housing units and increase prices, having adverse effects on welfare (Gyourko and Molloy, 2015). Indeed, under-zoning would lead to fewer houses and upward pressure on house prices. Thus, one component of the welfare cost of under-zoning will be the deadweight loss arising from the supply constraint: there will be some households whose willingness to pay for housing exceeds the costs of supply, yet the binding supply constraint prevents those households from meeting their housing needs.

Consider the contrary position, where a council zones 'too much' capacity relative to actual demand. Developers might build up to the level of zoned capacity, although actual demand will be below this level and the result is an 'over-build', where too much housing is built relative to demand. Over-building results in a deadweight loss triangle due to the misallocation of resources (Glaeser, 2017).

It is plausible, however, that developers are more responsive (than councils) to market conditions and only build up to the level of actual demand; that is, while there is over-zoning, there is no over-building. This could arise if the lead time for developers to build ahead of demand is shorter than that for councils in zoning ahead of demand. For example, councils may need to set sufficient zoned capacity to meet forecast demand in 30 years' time, but developers are only likely to be building to meet demand in the next few years, and can thus better determine if there will be sufficient demand for their development. Unlike councils, developers also have their capital at stake, so may be more reticent to undertake a new development if there is a risk of over-building.

Furthermore, housing development is costly to reverse, and housing demand and the returns to development are uncertain, and this gives rise to a valuable option to delay development (Guthrie, 2010). Depending on the magnitude of this development option (which Guthrie (2010) shows is affected by, for example, the volatility of demand), developers may not over-build. Rather, development would be delayed until demand is sufficiently strong such that the returns from development outweigh the value of the option.

In any event, even if there is only an over-zoning, and not an over-building, there may still be an associated welfare cost, at least for greenfield zoning. While developers may build up to the level of actual demand, there will be some remaining greenfield capacity that is zoned for residential housing use, but for which there will be no demand. That is, over-zoning relative to demand will lock land into a residential housing use, when it may have an alternative, higher value, use, thus creating a deadweight loss associated with the resource misallocation. The same deadweight loss would not necessarily be present for brownfield zoning, at least not to the extent that it relates to brownfield land which is already zoned residential and therefore does not have an alternative higher-value use.

The deadweight losses that arise from either under- or over-zoning could be relatively symmetrical (although this depends on the extent of over-build and greenfields versus brownfields zoning). However, there are likely to be additional welfare costs from under-zoning that will not arise in respect of over-zoning. In particular, the provision of housing supply can result in welfare effects in secondary markets, specifically agglomeration economies (Rosenthal and Strange, 2020). Agglomeration economies arise when the clustering of economic activity from increases in city size generates positive externalities by way of increased productivity and/or increased consumption opportunities. By zoning 'too little' land for demand, there will be a welfare cost from the foregone agglomeration economies that would have otherwise been achieved from the larger city size associated with the actual level of demand.

From the over-zoning perspective, however, a welfare cost from agglomeration economies is not present. If forecast demand turns out to be higher than actual demand, and 'too much' land is zoned, housing take-up of the zoned land will only reach the level of actual demand. That is, the city size will be capped at the level of actual demand, and therefore agglomeration economies will be at the same level as they would if there was no regulatory error (i.e., if forecast demand equals actual demand), implying no associated welfare cost.

As well as positive externalities arising from departures of zoned capacity from actual demand, there may also be negative externalities, and these will also be asymmetric. Cities generate negative externalities, such as through increased congestion, overshadowing or blocked views, and the loss of open space (see, generally, Duranton and Puga, 2004). If zoned capacity is set below the actual level of demand, then the actual city size will be 'too low', but this will avoid some cost associated with the additional congestion that would have otherwise occurred. Intuitively, a smaller city size yields less congestion and crowding, and therefore fewer externalities.

On the other hand, if zoned capacity is 'too high', any negative externalities associated purely with the population size will be no different than they would be if the regulatory error was zero: as with the positive agglomeration externalities, household take-up is capped at the level of actual demand, and thus there would be no additional population-related congestion externalities beyond that which would be achieved at the actual level of demand. There may, however, be

some additional negative building-related externalities associated with over-building, to the extent that this occurs. For example, if over-building occurs, then there may be some additional externalities from overshadowing or blocked views.

The provision of zoned capacity may also involve some associated public infrastructure costs. Indeed, in setting zoned capacity, councils often need to ensure that the capacity is 'infrastructure-ready', and may incur some sunk investment costs associated with, for example, transport and water infrastructure. In some instances, however, these costs can be levied on developers, such as through 'developer contributions' that seek to internalise infrastructure costs with the developer. To the extent that there are public infrastructure costs, these are likely to be symmetric across under- and over-zoning: public infrastructure costs will be avoided in the former case, while over-zoning will result in some additional public infrastructure costs.

Zoning too little capacity to meet actual demand can also have implications for housing affordability, as restrictions on housing supply are likely to push up house prices. This does not necessarily have welfare implications, as higher prices reflect a transfer of surplus from buyers to sellers. However, Glaeser and Gyourko (2018) identify other distortionary effects of high house prices, including intergenerational wealth transfers (with higher house prices disproportionately benefiting older generations of homeowners) and labour misallocation with associated negative gross domestic product (GDP) impacts (higher house prices limit the ability for workers to shift to areas of higher productivity and wages). Quigley and Raphael (2001) find that housing affordability can lead to homelessness, which has associated social costs. In addition, poor housing affordability may create costs for central government in addressing homelessness concerns or overcrowding more generally, such as through the provision of temporary housing, with an associated deadweight cost of taxation.

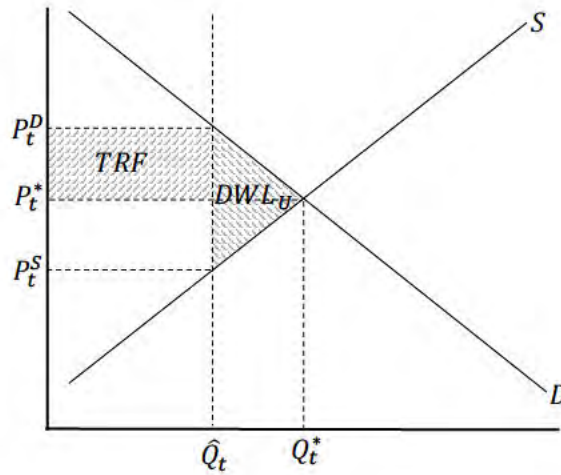
In summary, the welfare costs of zoning 'too little' capacity to meet demand include the deadweight costs of under-supply, foregone agglomeration economies (net of foregone congestion externalities and infrastructure costs), and additional distortions arising from high house prices. This contrasts with the welfare costs of zoning 'too much' relative to actual demand. These costs cover the deadweight costs of vacant land or land that is locked into a lower value land use, additional public infrastructure costs, and potentially some additional congestion externalities associated with over-build. The costs of over-zoning will also be mitigated if there is limited over-build and relatively more brownfield zoning. Accordingly, the welfare costs of regulatory error are likely to be asymmetric: the costs from underestimating demand and zoning 'too little' land for housing are likely to be materially greater than the costs of overestimating demand and zoning 'too much'.

#### **4. Modelling the error cost framework**

To apply this error cost framework to zoning, I specify a simple static model of supply and demand for housing, as illustrated in Figure 2. The model is intended to be relatively simple, as a means of illustrating the concepts, rather than attempting to precisely determine the welfare costs. For example, the model does not account for how welfare costs may vary over time as population growth varies relative to zoned capacity. It also does not account for the endogeneity of supply and demand, as discussed earlier. Supply and demand are both assumed to be linear, and from the present day through to some future period  $t$  there is a 'true' or 'actual' level of demand for

housing (measured by the number of households) given by  $Q_t^*$ , at which the market clears and prices are equal to  $P_t^*$ .

**Figure 2: Simple housing supply and demand model with under-zoning**



A local council's task is to forecast the future demand for housing, at which it sets zoned capacity. However, because future demand is unknown there is a risk that the council will either under- or over-zone. In Figure 2 I illustrate the case of under-zoning, where the council forecasts demand for housing through to period  $t$  at  $\hat{Q}_t$  households, but this is 'too low' relative to the actual level of demand. This will result in unmet housing needs, where some households cannot live in their preferred location, and a deadweight loss ( $DWL_U$ ), given by the shaded deadweight loss triangle and calculated as:

$$DWL_U = \frac{1}{2}(Q_t^* - \hat{Q}_t)(P_t^D - P_t^S)$$

where  $P_t^D$  and  $P_t^S$  are, respectively, the price on the demand curve and the price on the supply curve corresponding to the forecast level of demand.

Under-zoning also results in higher housing prices: if the level of supply is fixed at  $\hat{Q}_t$ , then prices are pushed above their equilibrium level, to  $P_t^D$ . This can give rise to housing affordability concerns, which has various costs, as discussed in the previous section. As a relatively simple way of reflecting the costs of high house prices, I include as a cost the transfer from consumers to producers. This transfer (TRF) is the shaded rectangle in Figure 2, which is calculated as:

$$TRF = \hat{Q}_t(P_t^D - P_t^*)$$

The additional welfare costs of under-zoning from foregone agglomeration externalities (due to a city size that is 'too small' relative to actual demand) can be modelled by utilizing an agglomeration elasticity ( $\epsilon$ ), which is an estimate of the elasticity of productivity with respect to city size, to determine the percentage loss of productivity associated with a smaller city size. Following the approach taken by the New Zealand Transport Agency (2023) in its methodology for transport

appraisal, the percentage loss of productivity is applied to (annual) GDP to determine the total welfare loss from agglomeration (AGGLOM). That is:<sup>3</sup>

$$AGGLOM = GDP_t \left[ \left( \frac{Q_t^*}{\hat{Q}_t} \right)^\varepsilon - 1 \right]$$

Under-zoning also avoids congestion costs, including various externalities associated with increased population density, such as overshadowing or blocking the views of neighbours, increased traffic congestion, increased noise, adverse environmental impacts, and the loss of open space. The relationship between household demand and congestion externalities is likely to depend on each externality, but for simplicity I assume that the welfare costs of congestion (CGSTN) scale linearly with household demand by a factor  $\beta$ . That is:

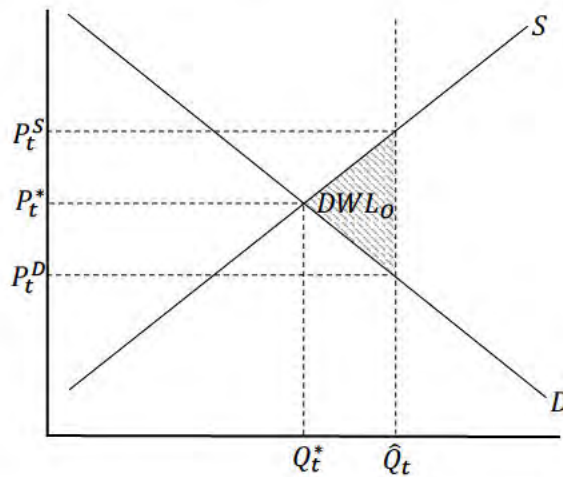
$$CGSTN = \beta(Q_t^* - \hat{Q}_t)$$

Similarly, I incorporate any avoided public infrastructure costs from under-zoning by assuming these costs scale linearly with household demand by a factor  $\gamma$ . That is:

$$INFRA = \gamma(Q_t^* - \hat{Q}_t)$$

Consider now the alternative scenario where the council has zoned 'too much' land relative to actual demand. As illustrated in Figure 3, this yields a situation where the forecast level of demand,  $\hat{Q}_t$ , is greater than the actual level of demand at  $Q_t^*$ .

**Figure 3: Simple housing supply and demand model with over-zoning**



As discussed in the previous section, the welfare cost associated with this scenario is the deadweight loss arising from resource misallocation, where land zoned for residential housing could have otherwise been allocated to an alternative, higher value use. The welfare cost is the shaded deadweight loss triangle in Figure 3, calculated as:

<sup>3</sup> This equation is typically applied using population or employment densities, while the approach here uses household densities. The implicit assumption is that the household size (population per household) is equivalent for both actual and forecast household demand.

$$DWL_O = \frac{1}{2}(\hat{Q}_t - Q_t^*)(P_t^S - P_t^D)$$

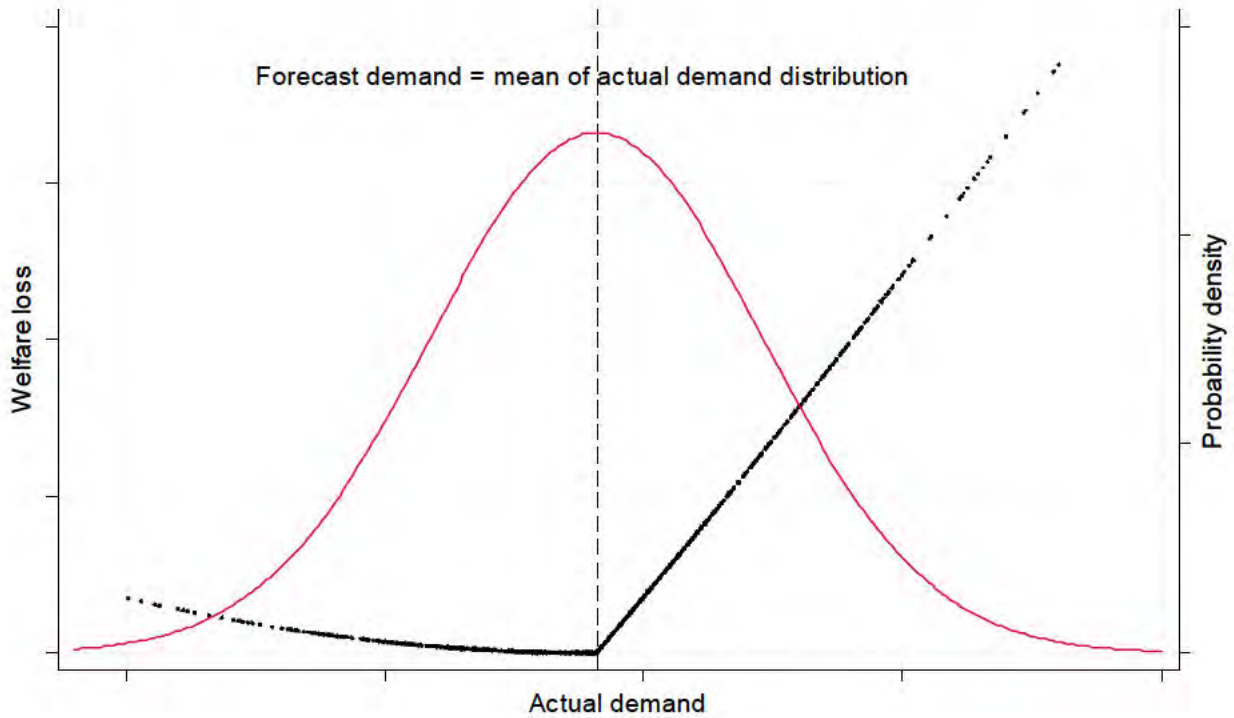
For this simple model, I assume that over-build by developers does not occur, for the reasons set out earlier, including that the value of the development option is sufficiently material to mitigate any over-build. Thus, there are no building-related congestion externalities. There may, however, be some additional public infrastructure costs associated with over-zoning (assuming any infrastructure costs are not levied on developers), and these are given by the equation for *INFRA* set out above.

Taking account of the costs of both under-zoning and over-zoning, I specify the following 'loss function', reflecting the costs associated with a departure of forecast demand from actual demand, as follows:

$$\begin{aligned} L_U(Q_t^*, \hat{Q}_t) &= DWL_U + TRF + AGGLOM - CGSTN - INFRA \text{ if } \hat{Q}_t \leq Q_t^* \\ L_O(Q_t^*, \hat{Q}_t) &= DWL_O + INFRA \text{ if } \hat{Q}_t > Q_t^* \end{aligned}$$

It is important to note also that the actual demand for housing is a random variable. That is, future population growth is uncertain and stochastic, and thus the resulting (actual) demand for housing will also be of a stochastic nature. However, it can be assumed that this randomness is nonetheless subject to some distribution, and Figure 4 illustrates the case where the actual demand for housing is drawn from a normal distribution with mean  $\mu$  and standard deviation  $\sigma$ , showing the resulting probability density function  $f(Q_t^*|\mu, \sigma)$ . Also shown is a stylistic example of an asymmetric loss function,  $L(Q_t^*, \hat{Q}_t)$ . Assuming that forecast demand is set equal to the mean of the actual demand distribution, it can be seen that as actual demand becomes greater than forecast demand (i.e., when there is under-zoning), the welfare cost increases. As actual demand falls below forecast demand (i.e., over-zoning), this welfare cost increases, although this increase is not symmetrical with under-zoning. That is, welfare costs increase at a faster rate with under-zoning than they do with over-zoning. In addition, the overlaid probability distribution shows that relatively smaller welfare costs are likely to occur with much greater probability than relatively larger welfare costs.

**Figure 4: Illustration of asymmetric welfare loss with probability distribution**



To reflect the differing probabilities, an “expected loss function” can be calculated, by weighting the loss function by the probability distribution. That is, the expected loss is given by:

$$\begin{aligned}
 EL(Q_t^*, \hat{Q}_t) &= \int_{-\infty}^{\infty} L(Q_t^*, \hat{Q}_t) \cdot f(Q_t^* | \mu, \sigma) \\
 &= \int_{\hat{Q}_t}^{\infty} L_U(Q_t^*, \hat{Q}_t) \cdot f(Q_t^* | \mu, \sigma) + \int_{-\infty}^{\hat{Q}_t} L_O(Q_t^*, \hat{Q}_t) \cdot f(Q_t^* | \mu, \sigma)
 \end{aligned}$$

In the next section I numerically solve this expected loss function using Monte Carlo simulation, and draw out the implications for the treatment of the asymmetry in the loss function.

**5. An illustrative example using Monte Carlo simulation**

To illustrate the application of the above model, I use Monte Carlo simulation to estimate values for actual housing demand taken from a normal distribution, and calculate the resulting welfare loss. This approach follows that of Dobbs (2008) and Dobbs (2011), who uses a similar methodology to illustrate the asymmetry in the welfare loss from setting the WACC for a regulated utility. I emphasize that the various parameter values I use in this example are for illustrative purposes only. While I have chosen what I consider to be appropriate parameter values, I make no strong claims that they are ‘the best’ values, and further analysis might suggest more preferable alternatives.

I utilize actual and forecast household data for Auckland, drawn from Auckland Council’s September 2023 HBA (Balderston et al, 2023). Key parameters and sources are shown in Table 1. I start by calibrating the current (March 2023) supply and demand curves, using data on the number

of households in Auckland (569,950), the median house price (\$1,000,000), and estimates for the elasticity of supply and elasticity of demand (0.876 and -0.516 respectively).

I then use a demand forecast, being the forecast demand in the medium scenario in the Auckland Council HBA for the medium-term (the next ten years i.e., to the start of 2033), of 640,860 households. I assume that actual demand is normally distributed with a mean equal to 640,860 households and a standard deviation of 19,226. The standard deviation is calculated based on a coefficient of variation (the ratio of the standard deviation to the mean) of 0.03, which I have inferred from the percentile distribution of Statistics New Zealand's national population projections. The 2022-base population projections are for New Zealand's population to reach 5,564,400 by 2033 in the 50<sup>th</sup> percentile, and (for example) a 75<sup>th</sup> percentile of 5,679,200. Assuming the population is normally distributed, this implies a standard deviation of approximately 171,343,<sup>4</sup> or a coefficient of variation of 0.03.<sup>5</sup> I note, however, that population projections are likely to be more volatile at a sub-national level, and there may also be more uncertainty if forecasting over a longer time period. Accordingly, I also sensitivity test higher standard deviations (using coefficients of variation of 0.05, 0.1 and 0.2).

I run a Monte Carlo simulation involving  $n=1$  million drawings from the aforementioned normal distribution, providing me with 1 million normally distributed values for actual demand ( $Q_t^*$ ). Assuming forecast demand is equal to the mean of that normal distribution (i.e.,  $\hat{Q}_t = 640,860$ ), I first use the calibrated supply curve to calculate the price on the supply curve at forecast demand,  $P_t^S$ , and the equilibrium price at actual demand,  $P_t^*$ . Using the latter price, I calibrate a new demand curve based on actual future demand, which has the same slope as the (current) calibrated demand curve and a new intercept term. This also allows me to determine the price on the demand curve at forecast demand,  $P_t^D$ . This gives me the relevant prices and quantities from Figure 2 and Figure 3 from which to calculate the transfer and deadweight losses associated with under- or over-zoning.

To calculate the welfare cost from a loss of agglomeration economies from under-zoning, I use the equation for *AGGLOM* set out in the previous section, with an agglomeration elasticity of 0.076 and GDP of \$199,883m (see Table 1 for sources). Since GDP is an annual measure, this gives an annual welfare cost, and therefore for consistency with the transfer and deadweight loss calculations (which, given they are based on the house price, are expressed in present value terms), I convert the perpetual stream of agglomeration costs to a present value using a 5% discount rate.

To calculate the avoided congestion costs from under-zoning, I utilize a value of \$4,762 per household per year. This value is estimated in a cost-benefit analysis of urban development regulations (PWC, 2020), for the total costs of congestion across a range of categories (e.g., congestion, loss of open space, air quality and freshwater quality). That same study also provides an estimate of the costs of public infrastructure, of \$2,335 per household per year. As with the agglomeration costs, I convert the annual congestion and infrastructure costs to a perpetual stream of costs using the 5% discount rate.

---

<sup>4</sup> Based on the 75<sup>th</sup> percentile of the normal distribution being approximately 0.67 standard deviations from the mean.

<sup>5</sup> I assume that the median population, 5,564,400, is equal to the mean. Accordingly, the ratio of the standard deviation of 171,343 to the mean of 5,564,400 is approximately 0.03.

**Table 1: Auckland housing parameters used in Monte Carlo simulation**

Parameter	Value	Source
Current Auckland households	569,950	Balderston et al (2023), March 2023 households medium scenario, p.iv
Forecast Auckland households in ten years	640,860	Balderston et al (2023), medium-term households forecast, p.iv
Current median Auckland house price	\$1,000,000	Median house price for Auckland in March 2023, <a href="https://www.interest.co.nz/charts/real-estate/median-price-reinz">https://www.interest.co.nz/charts/real-estate/median-price-reinz</a> , accessed 27 May 2024
Housing demand elasticity	-0.516	Hyslop et al (2019), Table 8
Housing supply elasticity	0.876	PWC (2020), Table 24
Auckland annual GDP	\$199,883m per year	Statistics New Zealand regional GDP at current prices for Auckland, year to March 2023 (\$148,732m), assumed to grow at 3% per annum
Agglomeration elasticity	0.076	Maré and Graham (2009), Table 5.3
Congestion costs	\$4,762 per household per year	PWC (2020), Table 7, sum of greenfield high scenario excluding infrastructure costs
Infrastructure costs	\$2,335 per household per year	PWC (2020), Table 7, greenfield high scenario for infrastructure costs
Discount rate	5%	New Zealand Treasury default social discount rate

Using the above parameter values, I calculate the total welfare costs of under-zoning (if actual demand is greater than forecast demand) or over-zoning (if actual demand is less than forecast demand). I do so for each of the  $n=1,000,000$  draws of actual demand from the normal distribution, by comparing each draw of actual demand with the forecast demand of 640,860 households. The expected value is then calculated as the average welfare cost, averaged across the 1,000,000 draws. For example, in this calculation where forecast demand is set equal to the mean of actual demand, at 640,860 households, I calculate that the average welfare cost from under- or over-zoning is equal to approximately \$21b.

I then repeat the above calculation by applying a different margin to the forecast demand. For example, using a 10% margin, forecast demand would be set at  $640,860 \times 10\% = 704,946$ . For 1 million draws of actual demand from a normal distribution, a higher level of forecast demand will yield differences in the different components of the welfare cost, and therefore a different value for the overall expected welfare cost. I calculate the expected welfare cost for different margins, ranging from -20% through to +30%, at 1% increments.

In Figure 5 I illustrate how the expected welfare loss varies for different values of the margin on forecast demand. The solid line shown is the expected welfare loss, calculated using the parameters in Table 1, for different values of the margin on forecast demand. If there is a negative

margin on forecast demand i.e., erring on the low side in setting forecast demand (and therefore zoned supply), then there are large welfare costs e.g., over \$300b for a -20% margin. As the margin increases, the expected welfare loss falls. However, the expected welfare cost is not minimized at zero; rather, in this particular scenario, the expected welfare cost is minimized when the margin is 4% (the vertical dotted line). This reflects the asymmetric nature of these welfare costs: a small margin (in this case, 4%) means that there is a greater chance that forecast demand (and therefore zoned supply) is greater than actual demand, avoiding the risk of high welfare costs from under-zoning relative to actual demand. However, this only happens up to a point: as the margin increases, the welfare costs again start to increase, as the increasing gap between forecast and actual demand leads to increasing deadweight costs of over-zoning.

**Figure 5: Expected welfare loss as a function of the margin on forecast demand**

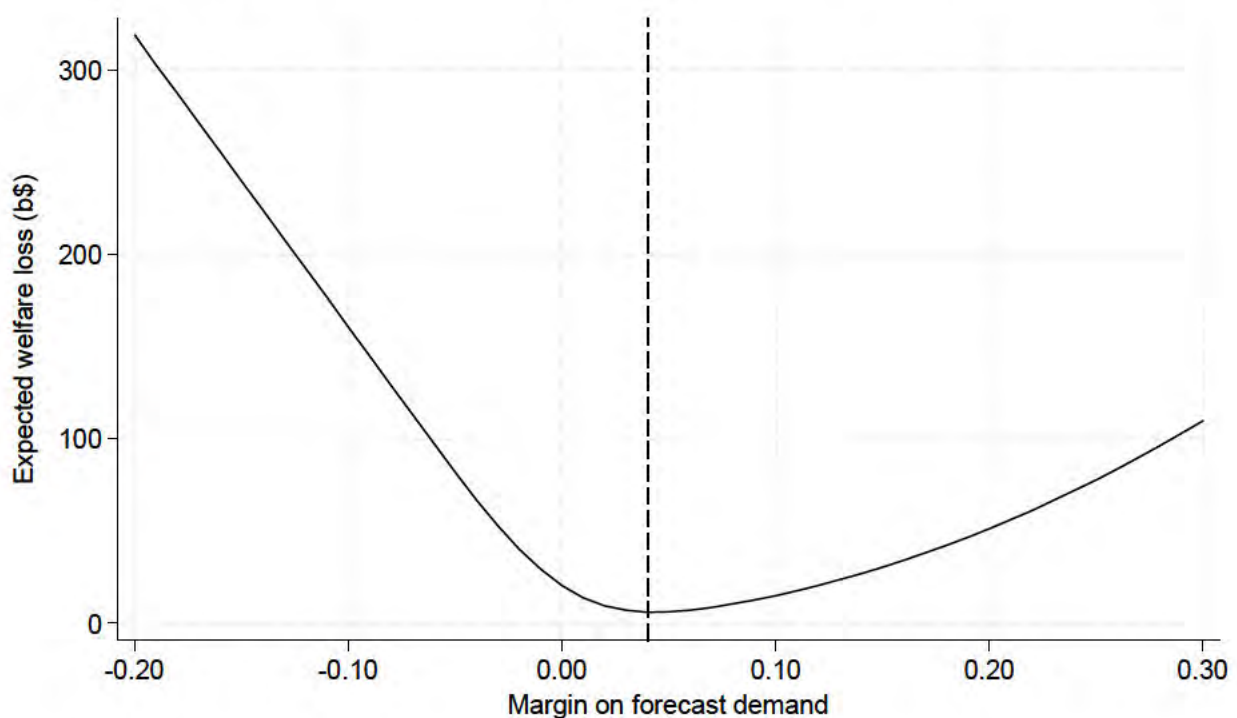
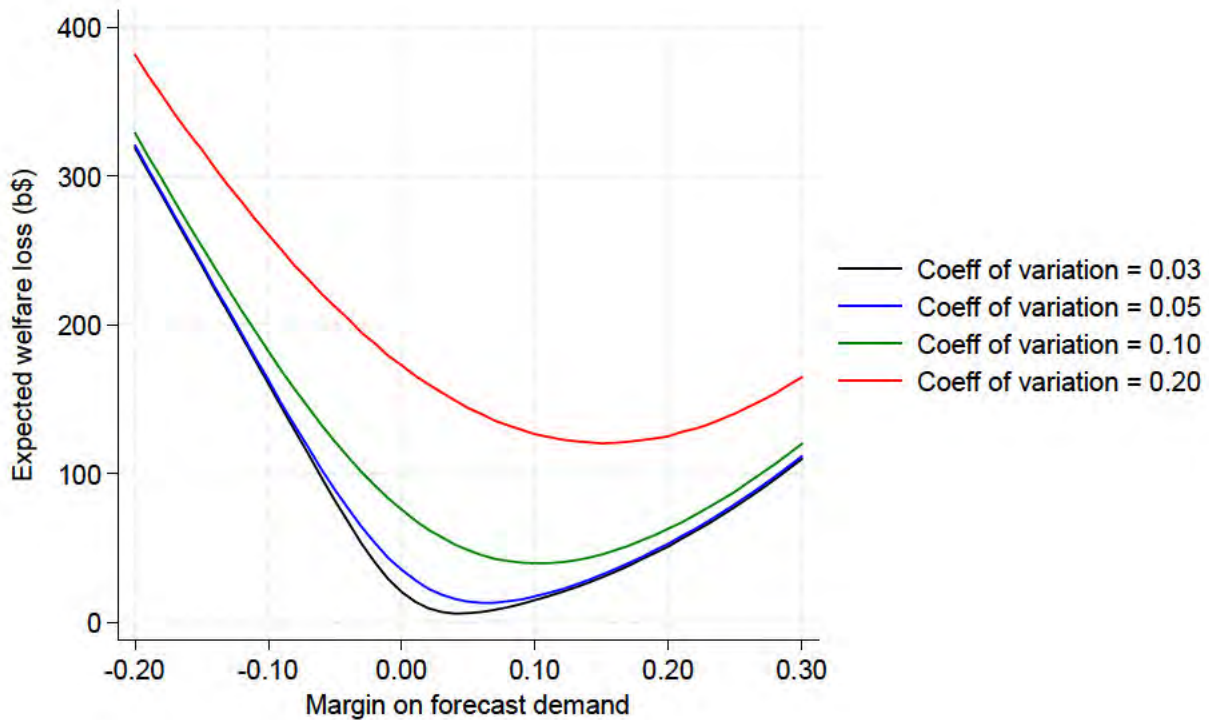


Figure 5 suggests that, for the specific parameters used, the application of a small (e.g., 4%) margin to forecast demand would be appropriate to reflect the asymmetric costs of error in demand forecasts. However, this margin may differ if population estimates are found to be more highly volatile, which may be the case if forecasting population at a more disaggregated regional level or over a longer timeframe. Figure 5 assumed that the standard deviation of actual demand was based on a coefficient of variation of 0.03. In Figure 6 I show the expected welfare loss for this base case of 0.03 and three sensitivities on the coefficient of variation used to derive the standard deviation of actual demand, set at 0.05, 0.10 and 0.20 respectively. Figure 6 shows that, as the volatility of actual demand increases, the margin at which the expected loss is minimized (the lowest point on each curve) also increases. In particular, from Figure 6, the margin at which the expected welfare loss is minimized is 6%, 10% and 15% for each of the 0.05, 0.10 and 0.20 coefficient of variation scenarios respectively. Intuitively, if actual demand is considered to be highly volatile, then there is a greater risk of large welfare losses from under-zoning, so it is appropriate to apply a larger margin to forecast demand as a means of mitigating this risk.

**Figure 6: Expected welfare loss as a function of the margin on forecast demand, with coefficient of variation sensitivities**



## 6. Conclusions

Local councils play a crucial role in housing markets, effectively acting as the 'supply-side', while not in respect of physically building new housing, at least in the provision of zoned land upon which that housing can be built. Typically, councils establish the quantum of land to zone for future housing based on forecasts of population and household growth in their district. Of course, the future cannot be known with absolute certainty, and thus in using any sort of forecast there is a risk of regulatory error. Councils may zone 'too little', if it turns out that the actual demand for housing exceeds their forecasts, or zone 'too much', if the forecasts ultimately fall below actual demand. With this error comes an associated welfare cost, from either unmet demand or an excess of zoned land.

In this paper I have argued that the welfare cost is likely to be asymmetric: the costs of zoning 'too little' are material, including unmet housing needs, foregone productivity benefits and costs associated with high house prices, and are likely to outweigh any resource misallocation costs that arise from zoning 'too much'. This asymmetry can justify an uplift/margin being applied to demand forecasts used to set zoned housing capacity, so as to 'err on the side of caution' by, if anything, zoning more land than would otherwise be suggested by the demand forecast. Using a simple model and illustrative parameters for forecast housing demand in Auckland in the next ten years, I find that a small margin of a 4% uplift to forecast demand may be sufficient to minimize the costs of regulatory error. However, if future demand is considerably more volatile, then a higher margin would be justified, potentially of up to 15%. I emphasize, however, that these results are illustrative only: the calculation of the precise margin may warrant more complex modelling and detailed parameter assessment.

A margin applied to forecast demand would thus be a means of erring on the side of caution in setting the quantum of zoned capacity. However, this margin would not account for other factors that risk leading to an undersupply of housing capacity. For example, many councils focus only on setting zoned capacity based on population/household forecasts, and do not account for income growth, which the literature finds leads to increased demand for housing (Liu, 2019). Changes in household size may also alter housing demand, with trends towards smaller household sizes implying that a given population forecast would require a greater number of houses (albeit that some councils do attempt to incorporate changes in household size in their forecasts). Forward-looking demand estimates also tend to ignore any pre-existing housing shortage, or changes to the existing housing stock from, for example, demolitions. Accounting for these factors, which go beyond any regulatory error in forecasts, would require an even greater margin on zoned capacity to mitigate the risk of under-zoning.

It is also worth noting that forecasts of demand for housing made under the NPS-UD in New Zealand do already allow for a "competitiveness margin" to be applied, of 20% in the short-term and medium-term, and 15% in the long-term. This margin is intended to "support choice and competitiveness". That is, the intention appears to be to ensure there is an over-supply of housing, encouraging competition and lowering prices. This approach implicitly assumes that the supply of housing is set correctly based on demand forecasts; that is, it does not address the asymmetric costs of regulatory error. Thus, any margin added to forecast demand to address the latter would need to be over-and-above any margin added to provide for "choice and competitiveness".

The importance of incorporating margins and seeking to zone a sufficiently large quantum of housing capacity is underscored by ongoing housing affordability problems, often attributed to limited supply-side responsiveness, and the resulting material social costs that these problems generate. Understanding the welfare implications of under-zoning versus over-zoning, and the materially higher cost of the former relative to the latter, provides a strong basis for being especially 'generous' in the amount of that zoned housing capacity that councils make available.

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**From:** [Natalie Nienaber](#)  
**To:** "Marko Garlick" s 9(2)(a); "Counsell, Kevin"; "Eric Crampton"; "Stuart Shepherd"; "Stuart Donovan"; "McCracken, Malcolm"; Chris Parker [TSY] (Guest); [peter.nunns@tewaihanga.govt.nz](mailto:peter.nunns@tewaihanga.govt.nz); [Graham.Campbell@tewaihanga.govt.nz](mailto:Graham.Campbell@tewaihanga.govt.nz); [Lesley Baddon - MFE](mailto:Lesley.Baddon-MFE); [David Shamy](#); [Daniel Lawrey](#); [Roseanne Grant](#); [Richard Deakin](#)  
**Subject:** RE: HEAG – Incentives Discussion (GfHG)  
**Date:** Monday, 15 July 2024 2:46:00 pm  
**Attachments:** [image001.png](#)  
[image003.png](#)  
[image005.png](#)  
[image007.jpg](#)  
[HEAG Build for Growth 16 July.pdf](#)  
[FW GfHG - Financial Incentives.msg](#)  
[RE GfHG - Financial Incentives.msg](#)  
[GfHG Minister Meeting 18 May - incentives.pdf](#)  
[HUD2024-004208 GfHG improving incentives and build for growth policy - initial advice 14 June.pdf](#)  
[GfHG - Financial Incentives FINAL.pdf](#)  
[image009.png](#)  
[image010.png](#)  
[image011.png](#)  
[image012.jpg](#)

Kia ora koutou,

David Shamy has prepared the attached presentation for tomorrow's workshop. Other material to be referred to in this workshop (attached):

- Briefing material (Going for Housing Growth: Improving Incentives and Build for Growth Policy - Initial Advice with table)
- Feedback from HEAG on Financial Incentives

Agenda:

Item	Time
Context and your feedback	5 min
Problem definition	20 min
Impact	20 min
Allocation and metrics	20 min
Constraints on spending	20 min
Recap and next steps	5 min

The agenda is a guideline to guide the discussions.

Ngā mihi,

**David Hermans**

Chief Advisor | Policy Group

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-----Original Appointment-----

**From:** David Hermans

**Sent:** Friday, July 5, 2024 9:16 AM

**To:** David Hermans; 'Marko Garlick'; 'Counsell, Kevin'; 'Eric Crampton'; 'Stuart Shepherd'; 'Stuart Donovan'; 'McCracken, Malcolm'; Chris Parker [TSY] (Guest);

[peter.nunns@tewaihanga.govt.nz](mailto:peter.nunns@tewaihanga.govt.nz); [Graham.Campbell](mailto:Graham.Campbell); [Lesley Baddon - MFE](#); [David Shamy](#); [Daniel Lawrey](#); [Roseanne Grant](#); [Richard Deakin](#)

**Subject:** HEAG – Incentives Discussion (GfHG)

**When:** Tuesday, 16 July 2024 3:00 pm-4:30 pm (UTC+12:00) Auckland, Wellington.

**Where:** Microsoft Teams Meeting

Kia ora koutou,

Let's meet to discuss some of the work/thinking that has been done on Incentives within the GfHG Programme.

Pre-reading will be shared a little closer to the time.

Please get in touch with Natalie Nienaber [Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz), if you have any questions.

Cheers,

David

---

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---

**From:** [Stuart Donovan](#)  
**To:** [David Hermans](#); [David Shamy](#)  
**Cc:** [Marko Garlick](#); [Counsell, Kevin](#); [Stuart Shepherd](#); [Eric Crampton](#); [McCracken, Malcolm](#)  
**Subject:** RE: GfHG - Financial Incentives  
**Date:** Friday, 5 July 2024 7:05:10 pm  
**Attachments:** [GfHG - Financial Incentives FINAL.pdf](#)

---

Hi David and David (cc HEAG),

Thanks for your patience – please find attached some comments from HEAG on the question of financial incentives,

HEAG found this subject to be interesting but challenging and we'd be keen to discuss it further with HUD at a convenient time.

In terms of your final question on successful examples: We are aware of similar schemes in Australia and the Netherlands but have not had sufficient time / resources to ascertain whether they're *successful*.

Best,  
Stuart & HEAG

P.s. Note our usual disclaimer: The document was pulled together quite quickly and it's possible that we've accidentally misinterpreted others' comments during editing.

---

**From:** David Hermans <David.Hermans@hud.govt.nz>  
**Sent:** Wednesday, June 26, 2024 4:56 PM  
**To:** Marko Garlick s 9(2)(a) [redacted]; Counsell, Kevin [redacted]; Stuart Shepherd [redacted]; Stuart Donovan [redacted]; Eric Crampton [redacted]; McCracken, Malcolm [redacted]  
**Cc:** David Shamy <David.Shamy@hud.govt.nz>  
**Subject:** FW: GfHG - Financial Incentives

Kia ora koutou HEAG members,

As I previously signalled, this email seeks your views on our initial advice around financial incentives for councils (otherwise known as the Government's 'Build for Growth' policy).

Consistent with how you want to operate, we'd welcome any written views from you on this material and the questions below, followed by an opportunity to meet and discuss, particularly if we have any subsequent questions.

### **Background**

Earlier this month HUD provided the Minister of Housing with initial advice on financial incentives for councils to enable housing and growth (see attached brief to the email, along with

a summary one pager).

- The paper outlines how the Government’s wider Going for Housing Growth programme will improve incentives, and then focuses on initial advice on a direct financial incentive for councils and communities to support growth and facilitate more housing (called ‘Build for Growth’).
- A Build for Growth fund was a manifesto commitment from National and coalition commitment between Act and National (investigating sharing a portion of GST on new builds with Councils). A speech by the Minister for Housing earlier this year summarises his interest in this area:

*...too many councils are either ambivalent about growth or actively hostile to it. I want to shift the dial away from that so that councils and communities share in the benefits of growth. In the coming months we will be looking at the best mechanism to give effect to our “Build for Growth” policy, where Councils gain a financial windfall from new housing.” - Minister of Housing, 27 February 2024, Speech to the Wellington Chamber of Commerce*

- The paper outlines core criteria for assessing options on a financial incentive (para 33) and key design questions we need to work through between now and October, when a decision would need to be made about whether to proceed with a Budget bid.

- **s 9(2)(f)(iv)**  
[Redacted text block]

- We are eager test our thinking further with you to inform further advice to the Minister in August.

**Questions** (to prompt thinking; you don’t have to follow these slavishly):

1. Do you have any feedback on the briefing? Are we missing critical areas?
2. Do you agree with the criteria outlined in para 33 for how we should assess options?

s 9(2)(f)(iv)

5. What would be the best way to ensure the funding is used to support objectives? What type of investments would support GfHG objectives and/or align with criteria on Para 33?
6. Are you aware of international examples of financial incentives (i.e., transfers between central and local government) that have been impactful and successful?

#### **Feedback**

We would appreciate your feedback by **Monday, 5 July** if possible.

If a meeting is required to further discuss this work, please could you indicate your availability for the week of 15-19 July for an online afternoon session.

Kind regards,

David

PS – we also noted that Joey Shannon **s 9(2)** has provided some perspectives on this work recently, and makes some useful points: [\(36\) Playgrounds of National Significance – Using GST share to fund community infrastructure in fast growing suburbs | LinkedIn](#)



**Te Tūāpapa Kura Kāinga**  
Ministry of Housing and Urban Development

# Build for Growth – financial incentives

Housing expert advisory group discussion

April 2024





# Agenda

Item	Time
Context and your feedback	5 min
Problem definition	20 min
Impact	20 min
Allocation and metrics	20 min
Constraints on spending	20 min
Recap and next steps	5 min





# Context

- Pre election and coalition commitments to investigate providing financial dividend to Councils to encourage growth (GST/new builds/ or some other measure)

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**Te Tūāpapa Kura Kāinga**  
Ministry of Housing and Urban Development

# Recap and next steps



# Housing Expert Advisory Group: Meeting on Incentives Workstream

## Summary notes

16 July 2024

### Attendees

HOUSING EXPERT ADVISORY GROUP	OFFICIALS
<ul style="list-style-type: none"><li>• Kevin Counsell</li><li>• Eric Crampton</li><li>• Marko Garlick</li><li>• Malcolm McCracken</li><li>• Stuart Shepherd</li></ul>	<ul style="list-style-type: none"><li>• Lesley Baddon, Auckland Regional Lead, Ministry for the Environment</li><li>• Peter Nunns, Director, Economics, Te Waihanga Infrastructure Commission</li><li>• David Hermans, Chief Advisor, Ministry of Housing and Urban Development (HUD)</li><li>• David Shamy, Principal Advisor, Planning and Infrastructure, Ministry of Housing and Urban Development (HUD) [Facilitator]</li><li>• Rosie Grant, Policy Advisor, Ministry of Housing and Urban Development (HUD)</li><li>• Chris Parker, Principal Advisor, Housing and Urban Growth, Treasury</li><li>• Graham Campbell, Principal Economist, Te Waihanga New Zealand Infrastructure Commission</li></ul>

**Apologies:** Stuart Donovan

### Item 1: Context and previous feedback

- HUD officials provided a brief overview:
  - That the Government has committed to investigating options to incentivise councils and communities as part of Going for Housing Growth (GfHG) programme, including sharing a portion of GST

- Of the June HUD briefing and the feedback from the Minister of Housing
- Of the HEAG's written feedback on the briefing note
- Of the policy proposals we are considering
- Of the next steps, including a further briefing with policy recommendations to be provided to the Minister of Housing in August

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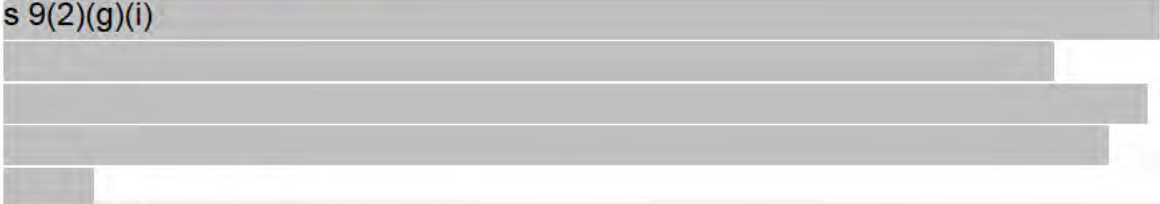
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**From:** [David Hermans](#)  
**To:** [Eric Crampton](#); ["Marko Garlick"](#); ["Counsell, Kevin"](#); ["Stuart Shepherd"](#); ["Stuart Donovan"](#); ["McCracken, Malcolm"](#)  
**Cc:** [Cathy Steel](#)  
**Subject:** RE: Infrastructure Funding and Financing tools  
**Date:** Tuesday, 16 July 2024 9:57:00 am  
**Attachments:** [image001.png](#)  
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**From:** Eric Crampton  
**Sent:** Tuesday, July 16, 2024 9:35 AM  
**To:** David Hermans ; 'Marko Garlick' ; 'Counsell, Kevin' ; 'Stuart Shepherd' ; 'Stuart Donovan' ; 'McCracken, Malcolm'  
**Cc:** Cathy Steel  
**Subject:** RE: Infrastructure Funding and Financing tools

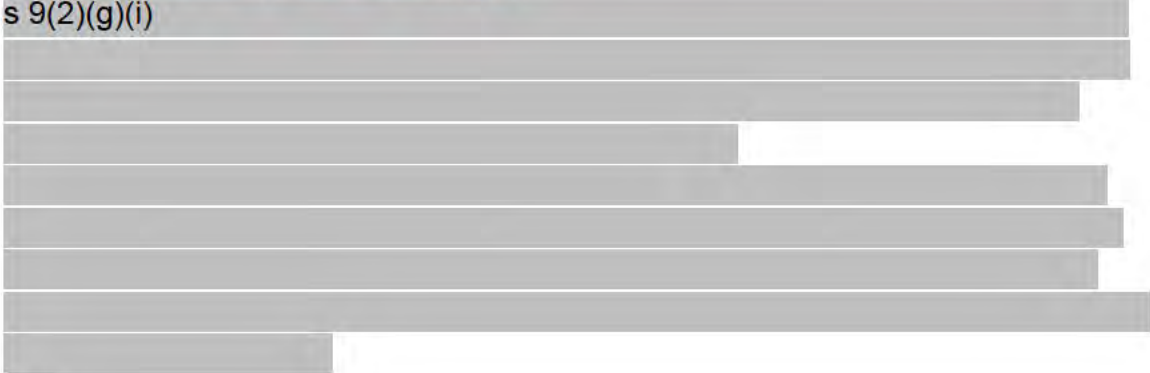
Thanks David, will also look forward to our chat later on.

Marko has since noted how Japan uses UDAs with landowner consent for redevelopment. A supermajority of owners agree; they get proportionate equity in the new project. The land gets reconfigured to add value and the prior owners share in the uplift (which gives them a reason to want the project in the first place).

<https://www.asiapathways-adbi.org/2019/11/land-readjustment-in-japan-beyond-the-myth-of-japanese-consensus-and-harmony/>

<https://documents1.worldbank.org/curated/zh/481571569562840686/pdf/Land-Readjustment-in-Japan-Case-Study.pdf>

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Best,  
Eric

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**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Sent:** Tuesday, July 16, 2024 9:27 AM

**To:** Eric Crampton s 9(2)(a) 'Marko Garlick'  
'Counsell, Kevin' <>; 'Stuart  
Shepherd' 'Stuart Donovan'  
'McCracken, Malcolm'

**Cc:** Cathy Steel <[Cathy.Steel@hud.govt.nz](mailto:Cathy.Steel@hud.govt.nz)>

**Subject:** RE: Infrastructure Funding and Financing tools

Thanks Eric. There's some good challenge and thoughts in here. We'll absorb and let you know if/when we'd like to discuss anything.

In the meantime, look forward to this afternoon's discussion.

Cheers

David

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**From:** Eric Crampton s 9(2)(a)

**Sent:** Monday, July 15, 2024 2:59 PM

**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>; 'Marko Garlick'  
'Counsell, Kevin' <>; 'Stuart  
Shepherd' 'Stuart Donovan'  
'McCracken, Malcolm'

**Cc:** Cathy Steel <[Cathy.Steel@hud.govt.nz](mailto:Cathy.Steel@hud.govt.nz)>

**Subject:** RE: Infrastructure Funding and Financing tools

Hi all,

Here are our initial notes on the work on government's role in urban development; will look forward to discussing.

Thanks,

Eric Crampton

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**From:** Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)> **On Behalf Of** David Hermans

**Sent:** Wednesday, July 10, 2024 10:04 AM

**To:** 'Marko Garlick' s 9(2)(a) 'Counsell, Kevin'  
<>; Eric Crampton 'Stuart  
Shepherd' 'Stuart Donovan'  
'McCracken, Malcolm'

**Cc:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>; Cathy Steel  
<[Cathy.Steel@hud.govt.nz](mailto:Cathy.Steel@hud.govt.nz)>

**Subject:** Infrastructure Funding and Financing tools

Kia ora HEAG members,

This email seeks your views on our initial advice around the Government's role in urban development and use of urban development authorities.

We'd welcome any written views from you on this material and the questions below, followed by an opportunity to meet and discuss, particularly if we have any subsequent questions.

## Background

The Government is looking for Kāinga Ora to focus its efforts on its social housing landlord role, which raises consequential questions about the role Kāinga Ora currently plays as government's urban development agency, what those functions look like in the future, and where else they might sit (if anywhere). Considering those questions involves interrogating the policy rationale for government intervention in enabling, catalysing and/or delivering urban development - i.e. an active role beyond establishing the system and investment settings which is the main focus of GfHG.

This also links with:

- The commitment in the National Party Going for Housing Growth manifesto to consider the use of urban development authorities to support infrastructure and growth in transport corridors.
- Other work that is underway on a first principles review to reset investment in housing and urban development.

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We are keen to test our thinking with you to inform this briefing and further advice to the Minister between now and November.

**Questions** (to prompt thinking; you don't have to follow these slavishly):

1. Do you have any feedback on the briefing? Are we missing critical areas?
2. Do you have any feedback on the economic case for use of an urban development agency? Have we captured the key market failures, market limits or government failures in the intervention logic in Annex D?
3. s 9(2)(f)(iv)
4. Do you have any feedback on the objectives, principles or functions for an urban development entity or entities?
5. Are you aware of international examples where a government role in enabling, facilitating or delivering urban development has been impactful and successful?

### Feedback

We would appreciate your feedback by **Monday, 15 July** if possible. Apologies for the tight timeframe but this advice is due to the Minister by 18 July so we are working at pace.

If a meeting is required to further discuss this work, please let me know your availability the week of 22-26 July. This is after this briefing will have gone to the Minister but likely to be useful to inform subsequent advice.

Kind regards,

David

**Natalie Nienaber** on behalf of **David Hermans, Chief Advisor - Policy**

Business Assistant | Auckland

Policy

[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz) | Phone: +64 9 953 6432 | s 9(2)(a)

[www.hud.govt.nz](http://www.hud.govt.nz) | Level 7, 45 Queen Street, Auckland

**From:** David Hermans

**Sent:** Wednesday, July 3, 2024 1:03 PM

**To:** Marko Garlick s 9(2)(a) Counsell, Kevin

<>; Eric Crampton Stuart

Shepherd Stuart Donovan

McCracken, Malcolm

**Cc:** Hilary Joy <[Hilary.Joy@hud.govt.nz](mailto:Hilary.Joy@hud.govt.nz)>

**Subject:** Upcoming discussion topics

Kia ora HEAG members

I said I would follow up with an indicative forward programme of topics. Here's what it's looking like over the next two months.

The dates below are when we are likely to get you material and questions for discussion and feedback, rather than when we might meet subsequently (which would be guided by

your availability).

Topic	Schedule
Incentives for councils	Current
Infrastructure Funding and Financing tools	Week of 8 July (next week)
Role of govt in urban development*	Week of 15 July
Next stage design of Housing Growth Targets and intensification provisions etc.	August (likely second half)

\* NB – A bit of context about this topic: As you will likely know, the Govt is looking for Kāinga Ora to focus its efforts on its social housing landlord role, which raises consequential questions about its role as government’s urban development agency, what that function looks like in the future, and where it should sit (if anywhere). Considering those questions involves interrogating the policy rationale for government intervention in enabling, catalysing and/or delivering urban development (i.e. beyond establishing the system and investment settings) and we’d like your views on that.

In addition, I will be able to update you tomorrow morning on the outcome of the recent GfHG Cabinet decisions.

Ngā mihi,

David

**David Hermans** ([he/him](#))

Chief Advisor Auckland | Policy Group

[david.hermans@hud.govt.nz](mailto:david.hermans@hud.govt.nz) | Phone: +64 9 953 6419 | s 9(2)(a)

[www.hud.govt.nz](http://www.hud.govt.nz) | Level 6, Tower Centre, 45 Queen Street, Auckland 1010, New Zealand



**From:** [David Hermans](#)  
**To:** [Eric Crampton](#); [Daniel Lawrey](#); [Marko Garlick](#); [Counsell, Kevin](#); [Stuart Shepherd](#); [Stuart Donovan](#); [McCracken, Malcolm](#)  
**Cc:** [Hilary Joy](#); [Jane Keane](#); [Keith Miller \(Guest\)](#)  
**Subject:** RE: Going for Housing Growth - Infrastructure Funding Settings  
**Date:** Tuesday, 23 July 2024 1:50:00 pm  
**Attachments:** [image001.png](#)  
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Thanks Eric and team. Once again, much appreciated. We will read, absorb and get back to you with next steps.

Cheers

David

---

**From:** Eric Crampton

**Sent:** Tuesday, July 23, 2024 12:07 PM

**To:** Daniel Lawrey ; Marko Garlick ; David Hermans ; Counsell, Kevin ; Stuart Shepherd ; Stuart Donovan ; McCracken, Malcolm

**Cc:** Hilary Joy ; Jane Keane ; Keith Miller (Guest)

**Subject:** RE: Going for Housing Growth - Infrastructure Funding Settings

Dear Daniel, David, and team,

Thank you for the opportunity to provide comment on the work on infrastructure funding settings.

Our notes are attached, along with a report by Robin Oliver that we cited but that is no longer readily available online.

We note that, due to time zones and travel, Stuart Donovan has had less input into this round of advice than he might have wished; he may wish provide further comment later.

Best,

Eric Crampton

---

**From:** Daniel Lawrey <[Daniel.Lawrey@hud.govt.nz](mailto:Daniel.Lawrey@hud.govt.nz)>

**Sent:** Thursday, July 11, 2024 5:54 PM

**To:** Marko Garlick s 9(2)(a) Counsell, Kevin

Eric Crampton Stuart Shepherd Stuart Donovan

McCracken, Malcolm

**Cc:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>; Hilary Joy <[Hilary.Joy@hud.govt.nz](mailto:Hilary.Joy@hud.govt.nz)>; Jane Keane <[Jane.Keane@hud.govt.nz](mailto:Jane.Keane@hud.govt.nz)>; Keith Miller (Guest) <[keith.miller@dia.govt.nz](mailto:keith.miller@dia.govt.nz)>

**Subject:** RE: Going for Housing Growth - Infrastructure Funding Settings

Kia ora koutou,

Following on from David's email about about upcoming items for the Housing Expert Advisory Group, please see attached a slide deck on Infrastructure Funding Settings. This material was originally developed for a recent discussion on direction of travel with

Minister Bishop, and we are keen to get the HEAG's views as we move into the next phase of work.

Please note that the slides are specific to the Infrastructure Funding Settings workstream that focuses on (i) establishing requirements about how councils fund growth infrastructure, and (ii) changes to specific council funding tools (development contributions and targeted rates). It sits alongside other workstreams on Improving the IFF Act, and Value Capture.

We would appreciate any written feedback by **COB Thursday 18 July** (and please feel free to contact us if there are any concerns with this timeframe). Please send any feedback to David Hermans.

Ngā mihi,

Daniel

**Daniel Lawrey** (he/him)

Principal Policy Advisor | Housing Supply and Affordability

Phone: +64 4 830 6932

[daniel.lawrey@hud.govt.nz](mailto:daniel.lawrey@hud.govt.nz)

[www.hud.govt.nz](http://www.hud.govt.nz) | Level 8, 7 Waterloo Quay, Pipitea, Wellington 6011

**From:** David Hermans

**Sent:** Wednesday, July 3, 2024 1:03 PM

**To:** Marko Garlick s 9(2)(a) Counsell, Kevin

Eric Crampton Stuart

Shepherd Stuart Donovan

McCracken, Malcolm

**Cc:** Hilary Joy <[Hilary.Joy@hud.govt.nz](mailto:Hilary.Joy@hud.govt.nz)>

**Subject:** Upcoming discussion topics

Kia ora HEAG members

I said I would follow up with an indicative forward programme of topics. Here's what it's looking like over the next two months.

The dates below are when we are likely to get you material and questions for discussion and feedback, rather than when we might meet subsequently (which would be guided by your availability).

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Infrastructure Funding and Financing tools	Week of 8 July (next week)
Role of govt in urban development*	Week of 15 July
Next stage design of Housing Growth Targets and intensification provisions etc.	August (likely second half)

\* NB – A bit of context about this topic: As you will likely know, the Govt is looking for Kāinga Ora to focus its efforts on its social housing landlord role, which raises consequential questions about its role as government's urban development agency, what that function looks like in the future, and where it should sit (if anywhere). Considering those questions involves interrogating the policy rationale for government intervention in enabling, catalysing and/or delivering urban development (i.e. beyond establishing the system and investment settings) and

we'd like your views on that.

In addition, I will be able to update you tomorrow morning on the outcome of the recent GfHG Cabinet decisions.

Ngā mihi,

David

**David Hermans** ([he/him](#))

Chief Advisor Auckland | Policy Group

[david.hermans@hud.govt.nz](mailto:david.hermans@hud.govt.nz) | Phone: +64 9 953 6419 | Mobile: **s 9(2)(a)**

[www.hud.govt.nz](http://www.hud.govt.nz) | Level 6, Tower Centre, 45 Queen Street, Auckland 1010, New Zealand



# Going for Housing Growth – Infrastructure Funding Settings

## Notes from the Housing Economics Advisory Group

Thank you for the opportunity to provide comment on the Infrastructure Funding Settings slide deck dated 8 July 2024.

### Problem Definition

Councils have experienced urban growth as a cost to be mitigated through their zoning and consenting powers rather than as a benefit to be sought.

Councils do not directly share in the benefits of urban growth, though they do achieve a larger ratings base that can support a larger budget.

Historically, New Zealand's towns funded the infrastructure necessary to support growth through special ratings districts whose contributions paid off the debt that was issued to pay for the project.<sup>1</sup>

Special ratings districts cannot easily fund infrastructure bonds for councils near their debt limits unless that debt is structurally separate from council's main balance sheet. The required payback period of under three years for councils near their overall debt limits makes levies unaffordable.

And a general presumption in favour of spreading costs across ratepayers over a shorter period rather than spreading them among the infrastructure's beneficiaries over time builds generalised opposition to growth.

Improved infrastructure funding and financing tools enabling beneficiaries of infrastructure to fund that infrastructure over its lifespan through user charges and/or targeted rates or other uplift charges removes an impediment to urban growth and new housing.

With or without improved infrastructure funding tools, new developments whether brownfield or greenfield will need to contribute toward common costs. A water network extension to serve one new subdivision can serve later-comers; a trunk pipe upgrade to serve brownfield intensification can serve other follow-on development.

HUD identifies a shortfall in development contributions relative to the cost of infrastructure needed to facilitate growth, resulting in costs falling on ratepayers more broadly.

HUD notes the potential for additional failures where new developments can avoid infrastructure charges by attaching directly onto the state highway network, which does not charge development contributions. This can, but does not necessarily, lead to inefficiencies.

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<sup>1</sup> See, for example, Crampton 2023. "Funding the Future: the case for special purpose bonds." <https://www.nzinitiative.org.nz/assets/DMSDocuments/Funding-the-Future-The-case-for-special-purpose-bonds.pdf>

The HEAG notes a potential parallel kind of failure in 'growth pays for growth' initiatives. If existing developments are not charged to the beneficiaries of their infrastructure, 'growth pays for growth' could discourage development. 'Renewals pay for renewals' could be a useful complement.

## Problem Context

Roading and water infrastructure are substantial contributors to costs facing councils in accommodating growth. Both are under current review.

When an area of land is converted to an urban environment, or when an existing urban environment is intensified, the additional population demands a range of services incremental to what was hitherto the case. Most of those services are delivered within a market economy and there is no need for the developer to take responsibility for ensuring such services are in place, albeit that the developer may set aside some land for such services, but on a commercial basis (e.g. for a supermarket and town centre). Such services include the supply of food, health and medical services, telecommunications, electricity and gas, pre-school, primary, secondary and tertiary education, IT services, and so forth.

At the other end of the spectrum, a range of services (at least currently in NZ) are not fully priced (i.e. to recover all costs to supply) to the consumer. These services include roading access to and from the development footprint to neighbouring urban areas, stormwater services in the catchment, water and wastewater services, and parks and recreation areas. In the absence of business models to recover the costs of supply from consumers, currently Councils are left to socialise these costs over the ratepayer base.

Infrastructure funding and financing along the lines set out in this slide pack is one way, and an important way, to address this shortfall in meeting the costs to supply these services. However, it is not the only way, for example in water and wastewater services it is conceivable that these businesses will over time price their services to recover most if not all their costs to supply and thereby be less reliant on development contributions or levies to support their capital requirements. The supply of electricity distribution services underwent this transition in the 1990s and these distribution service companies are now well-capitalised stand-alone businesses.

This wider context of differing ways to fund and finance infrastructure services is an important frame within which development contributions or levies need to be considered, and particularly so at a time when Government is reviewing the business and revenue models for water, wastewater and road transport.

The pending reforms in water and wastewater will also likely result in a shift in the entity imposing and collecting development contributions or levies (with respect to water and wastewater) from Councils to stand-alone utilities regulated by the Commerce Commission. Electricity distribution businesses already do this by charging developers an upfront fee for each electricity connection provided in a development and these fees are included in their regulated revenue base. Under this approach the problem to be solved through development contributions or their alternatives reduces to the extent that the supplier is able (or willing) to recover their full costs in their service charges.

Similarly, transport reform may yet see a shift to some combination of a universal RUC, tolls, and congestion charging to sheet most roading costs to road users. Were the government to consider the model recommended in the 1998 Better Transport, Better Roads proposal, the roading costs of urban growth would similarly reduce to a commercial decision for regional council-owned roading companies.<sup>2</sup>

Thus the extent of the problem that the GfHG initiatives need to solve depends on complementary decisions made in water reform and in roading reform. In the absence of those reforms, or in their implementation periods (which may well be many years), the more pressure the GfHG initiatives will need to bear.

## Proposed solutions

### *Levy regime and observations on its design*

HUD suggests shifting to a levy regime rather than development contributions.

We agree that the development contribution framework is in need of review. Councils and/or water companies need to be able to flexibly charge for unrecovered infrastructure costs. However, they will typically be monopoly suppliers and therefore will be able to exercise pricing power, which suggests the need for checks on the quantum charged and that there is a nexus between the development and the infrastructure costs being recovered. The cost-building block methodology used by the Commerce Commission for electricity, gas, airports and telecommunications businesses provides useful examples as to how to design such checks.

HUD suggests setting general rules for levy-setting that would tie levies to broader measures of growth-related infrastructure costs, whether across a catchment or across the entire town or city. There are likely to be significant trade-offs between the precision of the cost calculations at any point in time and stability of pricing through time and over a wider area.

We are hesitant about these kinds of restrictions in combination with restrictions on how councils might use growth-encouragement payments from central government. There are winners and losers from development, and larger groups that may see themselves as losers from development. Councils that are constrained against using the tools available to strike bargains that effect compensation to those seeing themselves as losers can instead shift to opposing new housing on behalf of existing residents.<sup>3</sup>

At the same time, smaller councils may find the administrative and transaction costs of a levy system too high relative to development contributions. It is reasonable that central government could play a role in promoting and disseminating best practice.

A potentially more useful constraint on levied charges would be to make council utility monopolies more contestable.

In electricity lines applications, the ‘prudent discount’ regime is intended “to help ensure that the transmission pricing methodology does not provide incentives for the uneconomic bypass of existing grid assets.” In other words, if a power user could build its own set of transmission

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<sup>2</sup> See “Better Transport Better Roads”, 1998. <https://www.beehive.govt.nz/feature/better-transport-better-roads>

<sup>3</sup> We recommend Judge Glock’s 2023 piece “Growing the Coalition for Growth” on some of these kinds of tradeoffs. <https://worksinprogress.co/issue/growing-the-growth-coalition/>

lines at a cost less than Transpower would charge, Transpower should offer a discount to that user.

Similarly, new developments could have the option to provide their own services and, if the cost of those services is below what would be charged by the relevant council provider, a similar discount could apply. While undercharging for growth is a current problem, overcharging is also a potential problem. That problem could be limited by setting discount requirements comparable to those in electricity. In that case, councils could retain the right to tell the developer to go ahead and build their own system – if they cannot provide the service at the cost that the developer believes is feasible.

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We note a potential parallel problem that has not been considered, and to which we alluded earlier in this paper.

Consider two possible sites for new development.

At brownfield site A, the main pipes have three decades of life left in them. Users do not pay a cost of capital on those pipes, which were funded out of general rates. Nor do they pay a targeted rate into a sinking fund covering depreciation. A new apartment tower at that site will require a minor upgrade to the existing network, which can be charged to the new development. But ongoing depreciation and renewals are expected to be covered by general rates.

At brownfield site B, long-deferred maintenance means the pipes need to be renewed regardless. Any new connection triggers the required renewal. The full cost of network extension, operating expenditure, maintenance and eventual renewals will be covered by a targeted rate on B.

A developer will have incentive to choose site A even in the case where development at site B would be more efficient. And the same kind of problem would obtain when considering infill expansion on rates-funded networks versus greenfield development that must cover all of its own costs.

The problem obtains when growth must pay for growth, but renewals and operating expenses on existing sites are subsidised through rates.

The Infrastructure Commission recently examined the viability of tolled roading. They concluded that where new toll roads are only allowed where a non-tolled road is a viable alternative, tolls could only realistically fund new roads in places where roads are cheap to build, where at least 40,000 trips per day could be expected, and where road users would save at least 20 minutes by using the tolled road.

However, tolled roads would be more viable under comprehensive road user charging.

A similar problem could here apply in the absence of renewals-pays-for-renewals.

### *Targeted rates*

A review of targeted rates is good, especially to enable value capture. We note Robin Oliver's report for the Productivity Commission in 2016 (attached) is useful in understanding betterment taxes which are used more widely in the US. It's not clear whether the current Rating Act / Local Government Act allow for such a sophisticated rate calculation.

### *Possible missing piece - allocation of risk + first-mover problems*

We earlier noted risk allocation and first-mover issues as potential problem to the extent that they cannot be made commercial decisions for appropriately regulated road and water utilities.

Councils need to be taken out of the risk that they're over-investing too soon in a new urban area. Ie, putting in too large of a pipe in a new development for the benefit of subsequent developments, but that take longer to eventuate and start paying rates. Underinvesting is generally borne by the residents or developer as sections or homes can't sell if the new wastewater pump system is seriously underbuilt. The risk is asymmetric.

Councils avoiding this risk encourage big contiguous developments that don't have a risk of second movers (eg. Drury), this may also cause illogical and inefficient investment where each patchwork development doesn't form a logical road network to say run a bus through (see parts of Queenstown). This problem may partially be addressed through better structure planning and road design.<sup>4</sup>

HUD could reform the IFF Act and enable the Municipal Utility District style approach where a new development builds the large pipe or wider arterial road or full stopbank in exchange for having the right (and risk) of charging subsequent developments for use and access or has an agreement with the council for reallocation of DC or Levy revenue from those developments in future. The higher cost rests with the new residents via a targeted rate and that rate is reduced when the next connecting development occurs. The prospect of new developments *reducing* existing residents' rates should encourage support for new adjacent developments. There are of course issues of pricing power, council engineering standards, etc to work through. Greater transparency of pricing should drive better infrastructure design and staging.

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<sup>4</sup> See McCracken, 2023. Creating better outcomes in greenfield areas.

<https://betterthingsarepossible.substack.com/p/creating-better-outcomes-in-greenfield>

**From:** [Natalie Nienaber](#) on behalf of [David Hermans](#)  
**To:** [Stuart Donovan](#) s 9(2)(a) [Marko Garlick](#) [Counsell, Kevin](#)  
[Stuart Shepherd](#) [McCracken, Malcolm](#)  
[Eric Crampton](#) [Chris Parker \[TSY\] \(Guest\)](#);  
[Keith Miller \(Guest\)](#); [Lesley Baddon - MFE](#); [peter.nunns@tewainanga.govt.nz](mailto:peter.nunns@tewainanga.govt.nz); [Jess Ranger \[EXTERNAL\] \(transport\)](#) <[J.Ranger@transport.govt.nz](mailto:J.Ranger@transport.govt.nz)>; [Daniel Lawrey](#); [Colin Lynch](#)  
**Subject:** Discussion - GfHG Infrastructure Funding Settings and other Urban Development topics

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Kia ora koutou

We'd like to discuss the Housing Expert Advisory Groups (HEAG) feedback on GfHG Infrastructure Funding Settings, to also discuss other Urban Development topics if the time allows.

Please find attached documents for pre-reading:

1. Slideshow sent to HEAG on Infrastructure Funding Settings

2a) comment from HEAG

2b) attached report by Robin Oliver that was cited but that is no longer readily available online.

Ngā mihi,

David

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# Meeting with the HEAG on Infrastructure Funding Settings, 5 August 2024

## Key discussion topics

### Allocation of risk and first mover problems

HEAG members noted that risk allocation and first mover issues are potential problems. There could be benefits in developers having the option of delivering new infrastructure assets required to service local development (either on their own balance sheet or via an IFF Act levy) with the ability to receive development contributions from subsequent second mover developers.

This would reduce risks to the council of full development not eventuating in a timely manner and move this risk to developers who are better placed to take on this risk. In addition, if expectations are set well in advance, it should affect the price the developer pays for the land in the first place.

### Contestability

The advantages of a contestable model for infrastructure provision, where developers have the option to fund and deliver trunk infrastructure upgrades themselves, was discussed. Voluntary development agreements (which are available in the existing system), and the Milldale model (which the IFF Act is based on) were mentioned as examples of effective developer-led infrastructure delivery. However, it was noted these models only work where new assets service a limited number of developers, when costs to be recovered have widespread benefits shared between a large number of developers contestability evaporates.

### Ensuring appropriate checks on use

The need for checks on development contributions, as councils/water services providers are monopoly suppliers, was raised. Discussion among HEAG members focused on how the Commerce Commission cost-building blocks methodology or benchmarking of costs provide potentially useful examples of how to design checks to mimic competitive business practice in the open market.

There was also discussion of how you manage differences of views between what developers think is necessary in terms of quality of infrastructure and what councils think is necessary. Councils need to be clear about the quality/standard of infrastructure required. Beachlands was discussed as an example, flagging the complexities here and the difference in standards.

§ 9(2)(f)(iv)

### Use of targeted rates

HEAG members expressed support for broader use of targeted rates as a growth funding tool, and surprise that it hadn't been used more extensively. There was some discussion of how greater use of targeted rates as opposed to development contributions could impact on council financing (as income would come in over time, rather than upfront).

## Next steps

Addressing current first mover problems is an issue we are actively investigating further; this had been raised as a concern by stakeholders in targeted testing on the problem definition. We are also considering mechanisms to ensure effective checks and oversight of development contributions. § 9(2)(f)(iv)

**From:** [Marko Garlick](#)  
**To:** [David Hermans](#)  
**Cc:** [Eric Crampton](#); [Stuart Donovan](#); [Stuart Shepherd](#); [Counsell, Kevin](#); [McCracken, Malcolm](#); [Natalie Nienaber](#)  
**Subject:** Re: HEAG update [further papers attached]  
**Date:** Wednesday, 11 September 2024 7:28:58 pm  
**Attachments:** [image002.png](#)  
[image003.png](#)  
[image004.jpg](#)  
[image001.png](#)

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Hi David

Agree with including an option that has better parking management but still without MPRs.

It may be worth highlighting:

1. We are in a transitional phase. It is taking time for councils to adjust their policies and practices to manage excess curbside demand in new areas. I would expect that community pushback to reduce once councils have time to respond and implement new parking rules.
2. Some councils are doing better than others. WCC has decided to proactively change their parking policy in advance of their new District Plan being operative and more density. See changes to Newtown and Berhampore residents parking which have been consulted on and are progressively being implemented. Auckland Council however has been very slow to implement (or not at all) new parking rules in places with rapid housing growth like Te Atatu Peninsula or Avondale.

Thanks  
Marko

On Wed, 11 Sep 2024 at 4:57 AM, David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)> wrote:

Hi Eric – yes, it is possible, and agree it is needed. We are doing that now.

Cheers

David

---

**From:** Eric Crampton [s 9\(2\)\(a\)](#)  
**Sent:** Wednesday, September 11, 2024 12:45 PM  
**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>; Stuart Donovan  
**Cc:** Stuart Shepherd [\[redacted\]](#); Counsell, Kevin [\[redacted\]](#)  
McCracken, Malcolm [\[redacted\]](#); Natalie Nienaber  
<[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>; Marko Garlick [\[redacted\]](#)  
**Subject:** RE: HEAG update [further papers attached]

Apologies. I should have said – is it possible for the initial advice to Ministers to have a non-status-quo option that provides for better parking management without reinstating parking minima? That option could then have its own evaluation among the others.

Eric

---

**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Sent:** Wednesday, 11 September 2024 12:40 pm  
**To:** Eric Crampton s 9(2)(a) [redacted] Stuart Donovan [redacted]  
**Cc:** Stuart Shepherd [redacted] Counsell, Kevin [redacted]  
McCracken, Malcolm [redacted] Natalie Nienaber  
<[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>; Marko Garlick [redacted]  
**Subject:** RE: HEAG update [further papers attached]

I agree Eric – that’s my feedback also. First-best is actually managing the parking directly, and I want that to come through in the advice. At this point it isn’t a Cabinet paper; rather initial advice for ministers to discuss.

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**From:** Eric Crampton s 9(2)(a) [redacted]  
**Sent:** Wednesday, September 11, 2024 12:31 PM  
**To:** Stuart Donovan [redacted] David Hermans  
<[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Cc:** Stuart Shepherd [redacted] Counsell, Kevin [redacted]  
McCracken, Malcolm [redacted] Natalie Nienaber  
<[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>; Marko Garlick [redacted]  
**Subject:** RE: HEAG update [further papers attached]

Is it within-scope for the cabinet paper to advance other options under b that might provide direction for councils enabling better parking management (for example, the options that Marko canvassed)?

If this is coming out of community concerns around poor outcomes in their neighbourhoods, options that address those concerns shouldn’t be limited to parking minima.

I worry that if Ministers see the status quo as failing, and the only options are around parking minima, they will choose one of those options if alternatives providing for better parking management at lower cost aren’t presented.

Eric

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**From:** Stuart Donovan s 9(2)(a) [redacted]  
**Sent:** Wednesday, 11 September 2024 12:27 pm  
**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Cc:** Stuart Shepherd [redacted] Counsell, Kevin [redacted]  
Eric Crampton [redacted] McCracken, Malcolm [redacted]  
[redacted] Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>; Marko  
Garlick [redacted]  
**Subject:** RE: HEAG update [further papers attached]

Righto, “it’s as simple and as difficult as that” .

.s

---

**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Sent:** Wednesday, 11 September 2024 10:26 AM  
**To:** Stuart Donovan s 9(2)(a)  
**Cc:** Stuart Shepherd; Counsell, Kevin; Eric Crampton; McCracken, Malcolm; Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>; Marko Garlick  
**Subject:** RE: HEAG update [further papers attached]

s 9(2)(g)(i)

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**From:** Stuart Donovan s 9(2)(a)  
**Sent:** Wednesday, September 11, 2024 12:19 PM  
**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Cc:** Stuart Shepherd; Counsell, Kevin; Eric Crampton; McCracken, Malcolm; Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>; Marko Garlick  
**Subject:** RE: HEAG update [further papers attached]

Hi David (cc Heag),

Thanks for this and I think the direction of the paper / recommendations looks reasonable.

Apologies for ignorance but I still don't really grasp the background, e.g. the paper mentions there have been anecdotal comments, but no references are provided.

Is there anything more tangible, e.g. council submissions, conference presentations? Just trying to better understand the context because I really didn't expect this to come back ...

Best,

Stuart.

---

**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Sent:** Wednesday, 11 September 2024 8:02 AM  
**To:** Marko Garlick s 9(2)(a)  
**Cc:** Stuart Donovan; Stuart Shepherd; Counsell, Kevin; Eric Crampton; McCracken, Malcolm; Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>  
**Subject:** RE: HEAG update [further papers attached]

Thanks Marko – please find the draft paper attached. All of your comments below are pertinent. I've also started reviewing the draft as I write, and I think we need more in here about the need to strengthen and support the non-RM-system levers for managing parking, as

you note below.

I know I just sent you a bunch of material yesterday, but this one has a nearer due date. If you're able to get views on this one by the end of the week, that would be much appreciated.

We are particularly interested in (unsurprisingly) how we can strengthen the arguments for retaining the existing requirements. But beyond that, and thinking pragmatically, which of the options would be the 'least cost' in terms of tangible impacts on housing supply and affordability?

Cheers

David

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**From:** Marko Garlick s 9(2)(a)  
**Sent:** Wednesday, September 11, 2024 7:17 AM  
**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Cc:** Stuart Donovan; Stuart Shepherd; Counsell, Kevin; Eric Crampton; McCracken, Malcolm; Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>  
**Subject:** Re: HEAG update [further papers attached]

Thanks David (cc HEAG) for those further papers.

On MPRs - given the tight deadline for a briefing to the Minister on that topic, grateful if you could provide us with a draft briefing or similar to enable us to make focussed comments?

I've also put some of my initial thoughts below on MPR options.

Thanks

Marko

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Fundamentally MPRs are a blunt and inefficient way to manage excess demand for parking. However, the ban on MPRs means that councils are moving from a paradigm of reducing excess parking demand through throttling density and mandating MPRs, to managing that externality more directly. This has brought the processes and tools that councils have for managing parking into sharp focus. But the move from unallocated curbs to managed ones with mechanisms like time limits and residential permits is contentious.

Ultimately residential street space allocation is quintessentially a matter for local councils to manage. Govt's role should be ensuring that councils have appropriate tools and guidance to do so.

Problems with moving to managed parking mechanisms:

- *Efficacy*: the parking restrictions need to actually work to reduce parking to an efficient level.

*Local buy in:* Locals need to perceive that they are better off from the new arrangement to mitigate perceptions of a 'revenue grab'.

- *Transitional issues:* there will be winners and losers from changes. Some people who had a high-tolerance for searching for curb space or a low value on their time may need to park further away or forgo a vehicle once they face the true cost of parking outside their property.

Govt has some options to assist councils to transition to managing parking more directly. Central guidance and highlighting best practice is also a useful option.

**Sufficiently high fines.** Fines need to be high enough to dissuade illegal parking and for councils to receive sufficient income for enforcement to be at least revenue neutral. Anecdotally, fines are currently so low that people choose to risk or pay the fine than pay for parking. In residential parking areas, councils lose money by enforcing those areas so rarely police them. Councils need sufficiently high fines to invest in workforce and capital (ANPR vehicles) to enforce parking rules.

The Minister for Transport recently announced a CPI adjustment to fines in the Land Transport (Offences and Penalties) Amendment Regulations 2024. This is welcome, however:

- o These fines ought to at least be inflation-adjusted going forward or else will erode in real terms over time.

- o The efficient fine is not necessarily tied to inflation but the quantum that will ensure an average 90-ish% occupancy on a street. This will differ markedly in each city and within each part of the city. Auckland Council is considering drafting a local bill for councils to set fines locally. Govt could consider progressing such a bill. A quicker change could be simply adjusting up fines in city centres.

- o My anecdotal understanding is that the structure of fines in the Land Transport (Offences and Penalties) Regulations is particularly poor for residential permit / coupon parking areas. Wardens are only able to charge small amounts in a single sweep and require a double sweep to prove more than 30 mins overstaying. Given the small sums involved this is often not economical.

**Performance-based parking prices.** My understanding is that councils need to re-consult with the public every time they want to do small adjustments to existing parking time limits, residential parking permit prices, and adjusting street allocation. This involves a high transaction and political cost. Govt could consider streamlining minor changes, for example, by allowing councils to consult initially with a capped adjustment up / down annually on the relevant mechanism done with only notices to the affected street.

**Hypothecation and Parking Benefit Districts (PBDs).** Malcolm has recently written a [great piece](#) on this concept to ensure local buy-in to new schemes. Parking fees, if set correctly, are a Pigouvian tax so the revenues are incidental and are pure public benefit - councils should be willing to use this revenue to support buy-in. Govt should ensure councils are not hindered by legislation / regulation in setting up and administering PBDs.

**Transferability of permits.** Councils may find that politically viable residents

permit changes require doing things like giving each lot at least 2 carparks of the street's allocation, or grandfathering in historically generous allocations. As streets densify, this may lead to some properties holding many permits despite not valuing them highly compared to newcomers. Govt should ensure councils are not hindered from allowing residents to sell residents permits to new developments – this may require legislative change to clarify a property right nature of a parking permit.

Lastly, if Govt felt it had to reintroduce councils' ability to set MPRs, that ability should only be for areas *outside* of NPS-UD Policy 3 areas (ie, not in city, metro, town, local centres and walkable catchments).

On Tue, 10 Sept 2024 at 00:39, David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)> wrote:

Thanks Stuart – good thoughts, and prima facie agree with all that. s 9(2)(g)(i)

Anyhow - please find attached **the two additional papers** that I signalled in my previous email. These have been provided to me by the team working on them, and I haven't had a chance to provide my own feedback yet. But in the interests of time I wanted to get these to you all to digest.

We are seeking your feedback ideally **by 18 September**, to inform a briefing due 2 October. Please let me know if you need more time, as there is some flex there.

We welcome your feedback on any aspect of the two papers, but particularly seek your feedback on one aspect of the Housing Growth Targets paper on feasibility modelling – the section titled 'adjustments to costs and prices' (page 36).

Please note that the papers have been drafted for multiple audiences (including other agencies, and eventually targeted sector engagement) and so you do not need to address each question in the 'key questions' sections (though you may choose to).

Ngā mihi nui,

David

---

From: Stuart Donovan s 9(2)(a)

**Sent:** Thursday, September 5, 2024 3:41 PM

**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Cc:** Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>; Marko Garlick

McCracken, Malcolm

Stuart Shepherd

Eric Crampton

Counsell, Kevin

s 9(2)(a)

**Subject:** RE: HEAG update

Hi David (cc HEAG),

Thanks for this update – lots happening!

In case it helps to get some early feedback, I thought I'd provide some preliminary comments on three areas:

- *Detailed housing growth targets.* As mentioned previously, HEAG supports the shift to high population forecasts (“projections”). That said, we don't think this will adequately address persistent under-provision of housing, as it's not sufficiently large to overcome the combined effects of income growth, falling household size, and demolitions. For this reason, we'd welcome ideas / options on complementary changes that would serve to improve the accuracy of housing growth targets.
- *Details of intensification requirements.* For me, the key question here is the definition of strategic transport corridors, which presents the main opportunity to offset MDRS optionality. I personally liked the two-band frequency approach proposed before, even if I would drop the peak requirement due to its interaction with vehicle capacity. Having reflected on this some more, I think one could keep it very simple by relying on average headway 7am – 7pm on weekdays:
  - 12 min – Minimum 6 storeys
  - 12-30 min – Minimum 3 storeys
- *Minimum parking requirements.* Not sure of the background here, but I would note that MPRs are an inefficient and indirect way to address parking management problems. In fact, I'd argue MPRs don't address it at all. Instead, it seems more efficient to empower councils and residents to manage the demand for parking / enforce the rules. Recent moves to increase penalties for infringements will help, although further reforms could provide councils with more flexibility and clarity around residential parking permits. I would strongly advise against options that involved the reinstatement (partial or full) of Councils' ability to set MPRs. I also feel like wavering on MPRs would undercut the rationale the Minister has advanced in support of GfHG proposals to remove dwelling / balcony requirements.

As always, these are only preliminary comments – I look forward to reading / discussing / deliberating more in due course.

Best,

Stuart.

---

**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Sent:** Tuesday, September 3, 2024 12:22 PM

**To:** Marko Garlick s 9(2)(a) Counsell, Kevin

Stuart Donovan

Stuart Shepherd

Eric Crampton

McCracken, Malcolm

s 9(2)(a)

**Cc:** Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>

**Subject:** HEAG update

Kia ora HEAG members,

Hope you are all doing well. It's been a few weeks since we last corresponded, and I have a few things to cover in this email:

### **Further GfHG papers**

As I noted to you a few weeks ago, we had planned to seek your views on our next-stage design thinking for the GfHG Housing Growth Targets and intensification provisions.

The first request is to seek your views and feedback on the attached policy paper that progresses our thinking on the use of price indicators, as part of the Going for Housing Growth land-use pillar. Specifically: how to give effect to Cabinet decisions from June 2024 to "set new requirements that price indicators (such as urban fringe land price differentials) do not deteriorate (and ideally improve) over time". Essentially, we are looking for your general views on the framing and analysis in this paper (do you agree, how can we strengthen etc.), rather than seeking views on specific questions.

This will feed into a briefing that we are providing to the Minister by 2 October, and so we are looking for your feedback on this by **17 September** if possible.

Within the next week I will also send you two further policy papers which will inform the same briefing note:

- Details of Housing Growth Targets
- Details of intensification requirements

These will feed into the same briefing to the Minister that is due on 2 October. Ideally, we would be looking for your feedback on these other papers by 17 September also. But once you receive the material, please let me know if this presents a problem given your other time commitments.

Finally, we are also preparing a briefing on the minimum car-parking requirements in the NPS-UD. You will likely be aware that there has been a bit of 'noise' about the impact on some existing communities of more intensive housing where car-parking isn't otherwise being well managed (in lieu of the long-standing approach of managing it through the housing/RM system). This briefing has been requested by Ministers and will explore options to address this, should they choose to. The advice is an adjunct to the main GfHG work programme, but I know you all have an interest in this topic and valuable perspectives, and so we will share this with you also later this week. Unfortunately this is on a tighter timeframe, due to the Minister on 19 September.

### **Future schedule/topics**

Beyond the core GfHG work programme above, I also want to signal that we will likely seek your views over the next few months on the following topics:

- s 9(2)(g)(i)

s 9(2)(g)(i)

This will incorporate our thinking on the role of government in urban development that we have previously discussed with you.

- You will also be aware that the Government has a commitment to **replace the Resource Management Act** with a new system – i.e. thinking beyond the current changes (‘described as Phase 2’) and looking to ‘Phase 3’. The Ministry for the Environment is managing that work, but HUD will be closely involved. It is likely that some form of EAG will also be established by MfE to support that work, and my expectation is that there will be appropriate opportunities for you, as HEAG, to engage in that process also, should you wish to. There is still a bit to sort out here, but I thought it appropriate to signal this now, and I can talk with you in more detail about your potential role soon.

### **Invoicing**

As mentioned, I also just wanted to clarify our expectations about you invoicing for your time. By and large this has been working well, but I know some of you had some questions. Our expectation is that we remunerate you appropriately for the time you spend engaging with our feedback requests, including reading time, time spent communicating with each other on our requests, and for any meetings we organise. I am also comfortable with you discussing this amongst yourselves for each request, to be consistent (e.g. billing for the same amount of reading or meeting time).

However, I recognise that for some requests some of you may spend more time than others engaging with the material, due to your availability or the nature of your specific expertise, or because one of you ends up holding the pen on written feedback. On that basis we expect to see those different time commitments reflected in your invoices. And again, I am comfortable you discussing this amongst yourselves. The kind of times being billed to date seem broadly consistent with our expectations, but please let me know if you think any of our future requests would require significantly more work and time commitment than usual.

Thank you once again, and reach out if any further questions. I am always happy to chat.

Ngā mihi nui,

David

**David Hermans** ([he/him](#))

Chief Advisor | Policy Group

[david.hermans@hud.govt.nz](mailto:david.hermans@hud.govt.nz) | Phone: +64 9 953 6419 | Mobile: s 9(2)(a)

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# Policy paper – Price indicators

## Introduction

1. This paper sets out HUD and MfE’s current thinking on how to give effect to Cabinet decisions from June 2024 to “set new requirements that price indicators (such as urban fringe land price differentials) do not deteriorate (and ideally improve) over time” as part of the Going for Housing Growth land pillar. It will be used to inform further advice to Minister Bishop in October, as well as the development of the discussion paper on changes to the National Policy Statement on Urban Development.

## Executive Summary

2. We propose to consult in a discussion paper on a proposal for the government to measure a range of price indicators:
  - a. Specific price efficiency indicators will be measured to inform a holistic assessment of compliance with the new regulatory requirement relating to price indicators in the NPS-UD:
    - I. Urban fringe land price differentials
    - II. Price-cost ratios
    - III. Land concentration control indicators
  - b. Other indicators will be measured to provide *context* when assessing compliance with the new regulatory requirement relating to price indicators in the NPS-UD:
    - I. Interest rates
    - II. Population growth
    - III. Building consents per 1000 by typology
    - IV. Change in rental affordability.
3. We propose that the discussion document consults on two options regarding the framing of the new price indicators requirement in the NPS-UD (with no indicative preferred option):
  - a. Option 1: Price efficiency indicators do not deteriorate over time (with deterioration being assessed holistically, not on an individual metric basis)
  - B. Option 2: Price efficiency indicators improve over time until the point at which they are consistent with competitive urban land markets (with improvement and consistency with competitive urban land markets being assessed holistically, not on an individual metric basis)
4. We propose that the discussion document consults on a preferred option of not including specified price indicators in the NPS-UD, but outlines the types of indicators that are likely to be measured (as per Proposal 1) and signals an intent (subject to resourcing) for central government to publish guidance on what indicators will be measured, and how they will be measured.

5. We propose to signal an intent in the discussion document for central government to produce short guidance (subject to resourcing) setting out (in general terms) how central government will respond to non-compliance with price indicator requirements. In reality, government is only likely to take a compliance response to a council's price indicators not complying with the new requirements in the NPS-UD when:
  - a. A collective range of price indicators is deteriorating or not improving, rather than just one indicator;
  - b. The deterioration or lack of improvement is significant, not marginal;
  - c. The deterioration or lack of improvement is sustained over the medium-to-long-term, not just transitory; and
  - d. A qualitative 'check' has been undertaken to understand what may be driving non-compliance with requirements, including whether factors are inside or outside of a council's control.
6. We propose that the discussion document consults on price indicator requirements applying to Tier 1 and 2 councils.
7. At this point, we propose that the discussion document is silent as to whether price indicator requirements are framed as an objective or a policy in the NPS-UD.

#### **Context/decisions already made**

8. On 24 June 2024 Cabinet "agreed to set new requirements that price indicators (such as urban fringe land price differentials) do not deteriorate (and ideally improve) over time."
9. The Going for Housing Growth Cabinet paper noted:
  - a. *It is important that development capacity requirements are also informed by indicators of how land markets are functioning, such as measures of urban fringe land price differentials or price-cost ratios. I propose to set new requirements that price indicators do not deteriorate (and ideally improve) over time as a measure of how well land markets are functioning, accompanied by the enforcement powers for central government discussed below.*
  - b. *There are some complexities associated with putting such a requirement in place. For example, further work is needed to design price indicators that can accurately reflect the impact of land supply (as opposed to other factors) on prices, and on measuring urban fringe differentials for territorial authorities without significant non-urban areas. There are also costs and capability issues associated with regularly measuring these indicators. Officials will undertake more work to address these and other issues before any new requirements are introduced.*
10. The introduction of this requirement reflected concerns from some stakeholders and officials about the limitations of quantity-based development capacity requirements. A number of options were suggested, including an approach fully based on price efficiency indicators (rather than quantity-based) which would include automatic price triggers that require more development capacity being released where urban fringe land price differentials exceed certain thresholds.
11. The RIS considered two price-indicator related options:

- a. Option 1C: Use price indicators in regulation as an automatic trigger for the release of development capacity: Instead of a quantity-based development capacity requirement, the NPS-UD would specify thresholds using a set of chosen price indicators (such as measures of urban fringe land price differentials). If these thresholds were breached, indicating that local land markets are not functioning well, councils would be automatically required to undertake a plan change process to provide additional development capacity.
  - b. Option 1D: Housing Growth Targets, supported by a requirement that price indicators may not deteriorate over time (in line with the Cabinet decision). Councils would need to ensure that price indicators (such as urban fringe land price differentials) do not deteriorate (and ideally improve) over time. Unlike Option 1C, there would not be an automatic response if price indicators were deteriorating. However, central government would have access to a range of tools under the RMA to respond to deteriorating indicators, including the ability to require a plan change to be prepared as a way of releasing more development capacity.
12. The RIS ultimately favoured Option 1D on the basis that it balances the benefits associated with taking a quantity-based approach that improves on current requirements, with the benefits associated with having price indicators as a 'check' on development capacity requirements. HUD and MfE considered Option 1D to be much more implementable than Option 1C as it would preserve discretion for central government to consider the context behind price indicators rather than trigger an automatic and blunt response.
  13. Price indicators will be progressed through the National Direction process, and result in changes to the NPS-UD.

## **Issue identification**

### *Problem definition*

14. The purpose of having development capacity requirements is to promote competitive urban land markets in which there is an abundance of development opportunities at all times, and these are provided in a way that doesn't artificially constrain growth or inflate house prices.
15. While there is a reasonable degree of consensus around this objective, it is not always clear ex-ante how much capacity is needed to achieve this objective, or how best to measure whether this objective is being achieved.
16. Quantity-based development capacity requirements (such as requiring 30 years of development capacity) are the current basis for setting development capacity requirements. They have some core strengths, including that they are relatively tangible and easily understood. However, they have a number of limitations. This includes:
  - a. Councils may understate demand for housing or overstate feasible capacity, and it may not always be apparent when they have done this.
  - b. Quantity-based requirements are ultimately arbitrary and may be set at insufficient levels that do not lead to lower land prices or competitive urban land markets.

- c. Markets are dynamic in a way that is not fully factored into quantity-based approaches: Demand may increase in areas with lower house prices and reduce in markets with higher prices – this essentially makes the requirements to provide development capacity more stringent for councils with more affordable housing, and more lenient for councils with less affordable housing.
  - d. The modelling required to identify feasible development capacity is complex and costly to produce, and is undertaken on an individual development basis, rather than as part of a whole-of-economy general equilibrium model.
17. Price indicators such as rural-urban differentials or price-cost ratios can be used as a diagnostic tool of how well markets are performing. They can also be used to directly or indirectly trigger or inform the release of development capacity.
18. The key advantage of setting indicator-based development capacity requirements is that – where effectively designed – the capacity requirement is dynamic and responsive to market signals. However:
- a. Price indicators require careful interpretation and are not always suited to a blunt policy response – no single price indicator can ‘tell the story’ of housing and land markets, and often price indicators will reflect factors other than the restrictiveness of zoning (e.g. the availability of infrastructure)
  - b. Measuring price indicators – such as rural-urban differentials – is costly and time-consuming, and there are data lags involved in measurement
  - c. The current planning system does not provide a mechanism for fast release of development capacity in response to price indicators.

### *Objectives and criteria*

19. The overall objective of Going for Housing Growth is to improve housing affordability and increase competition in urban land markets by significantly increasing the supply of developable land for housing, both inside and at the edge of our urban areas.
20. The specific objective of price indicator requirements is to complement the Housing Growth Targets by providing a ‘check’ on whether the development capacity being enabled is sufficient to achieve the Going for Housing Growth objective.
21. The criteria for assessing options for the design of price indicator provisions of the NPS-UD are:
- a. **Effectiveness** at providing a ‘check’ on whether the development capacity being enabled is sufficient to achieve the Going for Housing Growth objective.
  - b. **Flexibility** to carefully interpret and respond to the price indicator, including to avoid perverse outcomes or blunt policy responses.
  - c. **Clarity of obligations** for councils – the ‘rules of the game’, including the price indicators to be measured, and the approach central government will take in responding to indicators, is as clear as can be.
22. There are trade-offs between the flexibility and clarity of obligations objectives.

## Connections/dependencies

### *Existing NPS-UD provisions*

23. Requirements relating to price indicators are linked with the following provisions of the NPS-UD:
- a. Objective 2: Planning decisions improve housing affordability by supporting competitive land and development markets.
  - b. Policy 1(d): Planning decisions contribute to well-functioning urban environments, which are urban environments that, as a minimum support, and limit as much as possible adverse impacts on, the competitive operation of land and development markets
  - c. Implementation section 3.11: When making plans, or when changing plans in ways that affect the development of urban environments, local authorities must: use evidence, particularly any relevant HBAs, about land and development markets, and the results of the monitoring required by this National Policy Statement, to assess the impact of different regulatory and non-regulatory options for urban development and their contribution to: (iii) achieving well-functioning urban environments; and (iv) meeting the requirements to provide at least sufficient development capacity.
  - d. Implementation section 3.23: Every HBA must include analysis of how the relevant local authority's planning decisions and provision of infrastructure affects the affordability and competitiveness of the local housing market. The analysis must be informed by:
    - i. market indicators, including:
      1. (i) indicators of housing affordability, housing demand, and housing supply; and
      2. (ii) information about household incomes, housing prices, and rents; and
    - ii. price efficiency indicators

### *Previous NPS-UDC provisions*

24. The NPS-UDC also included provisions relating to price indicators:
- a. OB1: A robustly developed, comprehensive and frequently updated evidence base to inform planning decisions in urban environments.
  - b. OC2: Local authorities adapt and respond to evidence about urban development, market activity and the social, economic, cultural and environmental wellbeing of people and communities and future generations, in a timely way
  - c. PB7: Local authorities shall use information provided by indicators of price efficiency in their land and development market, such as price differentials between zones, to understand how well the market is functioning and how planning may affect this, and when additional development capacity might be needed.

- d. PC3: When the evidence base or monitoring obtained in accordance with policies PB1 to PB7 indicates that development capacity is not sufficient in any of the short, medium or long term, local authorities shall respond by: a) Providing further development capacity; and b) enabling development

### *GfHG Interdependencies*

25. Key interdependencies are with:
  - a. the Housing Growth Targets, which will set quantity-based requirements for development capacity to complement price indicator-based development capacity requirements
  - b. the new ability for central government to direct councils to use a streamlined planning process in the event of non-compliance with development capacity requirements

### **Option/s identification and analysis**

26. The option set has been narrowed to options within the scope of the Cabinet decision. That means the following options are deemed out of scope:
  - a. Using price indicators as a diagnostic tool only
  - b. Using price indicators as price triggers that automatically result in the release of additional development capacity when a threshold is breached.
27. Options are considered in relation to the following issues:
  - a. Issue 1 – What indicators are measured
  - b. Issue 2 – Framing of requirement
  - c. Issue 3 – Whether any particular indicators are specified in the NPS-UD
  - d. Issue 4 – How the government responds to price indicators
  - e. Issue 5 – Spatial application of requirements
  - f. Issue 6 – Mechanism.

### *Issue 1: What indicators are measured*

28. As set out above, no one price indicator can ‘tell the story’ of housing and land markets, and often price indicators will reflect factors other than the restrictiveness of zoning.
29. It is critical that a range of market and price indicators are measured to tell the story of housing and land markets.
30. HUD already measures or aggregates a range of general indicators. This includes building consents, public and transitional housing numbers, and housing support numbers.<sup>1</sup>
31. For the purposes of the new price indicators requirement in the NPS-UD, we are proposing to measure a package of three price indicators, rather than a single

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<sup>1</sup> <https://www.hud.govt.nz/stats-and-insights/the-government-housing-dashboard/public-homes>

indicator, as a package provides a more complete picture of how well particular markets are functioning. These are:

- a. Urban fringe land price differentials
- b. Price-cost ratios
- c. Land concentration control indicators.

32. These indicators collectively provide useful information on any outward constraints on growth, constraints of intensifying land use, and a key structural condition for competition (the number of land owners that may or may not be willing to bring land to market).

33. These indicators are explained further below.

INDICATOR	WHAT IT SHOWS	RATIONALE FOR INCLUSION	LIMITATIONS OF MEASURE
<p><b>Urban fringe land price differentials</b></p>	<p>Measures the price of land inside an urban boundary relative to the price of land outside the boundary. A high ratio, appropriately corrected for the cost of developing rural land, suggests that house prices could be reduced by easing the constraints to develop across the city (including at the fringe).</p>	<p>Strong stakeholder interest in this measure.</p> <p>Methodology well developed, although more than one method available to calculate it.</p> <p>This metric is likely to be measured in the future by external stakeholders, but given the potential for a lack of nuance in measurement or interpretation it is important that HUD undertakes the measurement.</p> <p>Can show in a spatial way whether and where there are constraints to development – i.e. can look at parts of the boundary.</p>	<p>Very data intensive and sensitive to data errors.</p> <p>Data/policy implementation lags (valuations occur 3 yearly, may have removed regulatory constraint but sector takes time to take advantage of ability to build).</p> <p>Easily misinterpreted as showing the cost of regulation, including because:</p> <ul style="list-style-type: none"> <li>• May not account for the impacts of infrastructure provision on land prices</li> <li>• Upzoning may increase ratios</li> <li>• Difficulty identifying an appropriate boundary</li> </ul> <p>Requires a lot of knowledge about the circumstances of each council to interpret sensibly.</p>

<p><b>Price-cost ratios</b></p>	<p>Measure of house prices to the cost of constructing a new dwelling. When the number and size of infrastructure-serviced sections can be easily altered to meet demand, and there is a construction sector capable of developing those sections, land should be a small component of the cost of a home and the price of a home should mostly reflect the cost to build it. Where the number or size of sections cannot be easily altered, then as demand rises the land proportion of the cost of a home would also increase. A high ratio suggests there are frictions or regulations that make it difficult for developers to build new dwellings in response to demand.</p>	<p>Methodology well developed</p> <p>Very easy to calculate – data is readily available, timely, and ‘clean’ (use consent data rather than valuations).</p> <p>Can point to specific constraints to be identified at the sub-regional level (but requires sensible interpretation beyond this e.g. as to whether this reflects amenity effects or under-development).</p>	<p>Some TAs effectively have no rural areas – the urban fringe is in the neighbouring TA’s jurisdiction.</p> <p>Data lags (may have removed regulatory constraint but sector takes time to take advantage of ability to build).</p> <p>Can still be misinterpreted – for example:</p> <ul style="list-style-type: none"> <li>• Sensitive to interest rate changes</li> <li>• Does not account for changes in amenities</li> <li>• When analysing entire towns or cities, the PCR is dominated by older residential properties and does not accurately reflect the land efficiency of new dwellings</li> <li>• Assumes that every residential lot is developed to its maximum potential, which is not the case.</li> </ul>
<p><b>Land concentration control indicators<sup>2</sup></b></p>	<p>Identifies the extent of land ownership for undeveloped residential land. Shows land ownership as a percentage of that available, and by location, which can help understand how competitively land is held. For example, a</p>	<p>Well-recognised structural measure of competition. Indicator of the potential likelihood that capacity will be developed.</p>	<p>Simplistic. Concentration of ownership does not necessarily indicate land markets are uncompetitive (and vice versa).</p> <p>Further work needed to understand ability to produce this metric at scale.</p>

<sup>2</sup> <https://environment.govt.nz/assets/Publications/Files/signals-of-under-capacity-consultant-report.pdf>

	<p>situation where there are larger tracts of land but only a handful of owners would have a lower index score as opposed to an area with a higher ratio of properties and landowners which would have a higher index score. A higher index score generally indicates better competitiveness of land holdings.</p>		
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34. In addition to the three indicators that will be measured and form the core of the assessment of compliance with the new regulatory requirement relating to price indicators in the NPS-UD, four other indicators will be tracked to provide context when assessing compliance with the new regulatory requirement relating to price indicators in the NPS-UD. These are:
- a. Interest rates
  - b. Population growth
  - c. Building consents per 1000 by typology
  - d. Change in rental affordability
35. Collectively, these measures represent drivers of the extent to which land markets are competitive, as well as in some cases reflecting the ultimate outcome of competitive markets.
36. These indicators are explained further below

INDICATOR	RATIONALE FOR INCLUSION
<b>Interest rates (specific rate to be determined)</b>	<p>Interest rate variations may affect land prices and therefore provide context for changes in e.g. urban fringe land price differentials.</p> <p>More broadly, interest rates provide context for broader housing market outcomes. Interest rates affect demand for housing and subsequently the price, as well as influencing the feasibility of development.</p>
<b>Population growth (specific measure to be determined)</b>	<p>Population growth may affect land prices and therefore provide context for changes in e.g. urban fringe land price differentials.</p>

	More broadly, population growth provides context for broader housing market outcomes. Population growth affects demand for housing and subsequently the price.
<b>Building consents per 1000 by typology</b>	All else equal, we would expect more competitive urban land markets to result in increased rates of construction (measured through building consents per population). Building consents focus on one of the key outcomes sought, and therefore serve as a 'reality check' on the price efficiency indicators. They are also useful to signal whether the construction sector is working at capacity.
<b>Change in rental affordability</b>	All else equal, we would expect more competitive urban land markets to result in an increase in rental affordability. Rental affordability is a better measure of competitive urban land markets than house prices, which are materially affected by factors such as interest rates.

37. Annex 1 sets out price efficiency indicators that have been considered, but discarded, for monitoring as part of the regulatory requirement.

<p><b>Proposal 1:</b></p> <p>Discussion document consults on a proposal for the Government to measure a range of price indicators.</p> <p>Specific price efficiency indicators will be measured to inform a holistic assessment of compliance with the new regulatory requirement relating to price indicators in the NPS-UD:</p> <ul style="list-style-type: none"> <li>• Urban fringe land price differentials</li> <li>• Price-cost ratios</li> <li>• Land concentration control indicators</li> </ul> <p>Other indicators will be measured to provide <i>context</i> when assessing compliance with the new regulatory requirement relating to price indicators in the NPS-UD:</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Population growth</li> <li>• Building consents per 1000 by typology</li> <li>• Change in rental affordability.</li> </ul>
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*Issue 2: Framing of requirement*

38. The Cabinet paper recommendation relating to price indicators was framed as “set new requirements that price indicators (such as urban fringe land price differentials) do not deteriorate (and ideally improve) over time”.
39. There are options regarding how this policy intent is drafted into the NPS-UD. This includes whether to frame the requirement as indicators not deteriorating, or as indicators improving.

40. If the requirement is framed as price indicators not deteriorating, there are questions about:
  - a. Whether this requirement is ambitious enough, particular if price indicators are not reflective of competitive urban land markets at present
  - b. How to accommodate natural market fluctuations that could result in price indicators deteriorating over the short-term. This could be addressed through referring to 'price indicators not deteriorating over time'<sup>3</sup>.
41. If the requirement is framed as price indicators improving, there are questions about how long they need to improve for – i.e. what 'state' they need to reach. This could be achieved through a requirement that 'price indicators improve until they are consistent with competitive urban land markets', with this assessment being through a holistic assessment of the suite of indicators being measured.
42. Both the NPS-UDC and NPS-UD use the language of 'price efficiency indicators'. For consistency, it is proposed to carry this language across.
43. Framing indicators around not deteriorating versus improving has different advantages and disadvantages, and there is a case for consulting on both options. The first option is arguably more consistent with the Cabinet recommendation, but both are arguably within scope of the Cabinet decision, and the second is arguably more consistent with the objective of setting price indicator requirements (as discussed above).

**Proposal 2:** Discussion document consults on two options regarding the framing of the new price indicators requirement in the NPS-UD (with no indicative preferred option):

- Option 1: Price efficiency indicators do not deteriorate over time (with deterioration being assessed holistically, not on an individual metric basis)
- Option 2: Price efficiency indicators improve over time until the point at which they are consistent with competitive urban land markets (with improvement and consistency with competitive urban land markets being assessed holistically, not on an individual metric basis)

*Issue 3: Whether any specific indicators are included in the NPS-UD*

44. The price indicators requirement could be framed in the abstract (i.e. without specific price indicators referenced). Alternatively, one or more price indicators (see the list under Issue 1) could be specifically referenced in the NPS-UD.
45. Referencing one or more price indicators in the NPS-UD would provide more clarity for councils and other stakeholders as to the 'rules of the game'. It could also arguably be marginally more effective at achieving competitive urban land markets, as it would set out specific measures against which council performance will be assessed.
46. However, setting out specific indicators in the NPS-UD would:

<sup>3</sup> Placing a specific time scale on the requirement is difficult, as different measures operate and cycle across different time horizons (for example, interest rates cycle on a different time scale to population growth).

- a. Reduce flexibility over what is measured, and potentially prevent new measures that are developed over time from ‘counting’ until further amendments are made to the NPS-UD.
  - b. Effectively bind HUD to produce a set of metrics until the NPS-UD is further amended.
  - c. Potentially not add significant clarity as to the ‘rules of the game’ if not accompanied by detail as to their measurement.
  - d. Potentially create issues if some price indicators are not well-suited to some territorial authorities (for example, measures of urban fringe land price differentials for councils without significant rural land), and this is not able to be identified in advance of finalising changes to the NPS-UD.
47. The complexity associated with the different price indicators that exist and their measurement leans against including specific price indicators in a revised NPS-UD. However, it is important to provide councils and other stakeholders with information about what price indicators will be measured and how they will be measured.

**Proposal 3:** Discussion document consults on a preferred option of not including specified price indicators in the NPS-UD, but outlines the types of indicators that are likely to be measured (as per Proposal 1) and signals an intent (subject to resourcing) for central government to publish guidance on what indicators will be measured, and how they will be measured.

*Issue 4: Government response*

48. As set out above, no one price indicator can ‘tell the story’ of housing and land markets, and often price indicators will reflect factors other than the restrictiveness of zoning. It is important, therefore, that:
- a. A range of price indicators, rather than just a single indicator, are measured (see Issue 1 above); and
  - b. The Government’s response to price indicators is informed by the range of indicators, rather than the performance of any one indicator, as well as by a full understanding of what is inside and outside of councils’ control.
49. As above, Cabinet has ruled out any ‘automatic’ response to price indicators that do not meet a specified threshold. This means that any government response to price indicators will be discretionary.
50. Where councils are not complying with the price indicator requirements, there will be scope for central government to take enforcement action. This includes the existing RMA powers (e.g. to require councils to undertake a plan change, or to appoint a person to perform a council’s functions under the RMA), as well as the agreed new specific power for central government to direct the use of the streamlined planning process.
51. In reality, government is only likely to take a compliance response to a council’s price indicators not complying with the new requirements in the NPS-UD when:
- a. A collective range of price indicators is deteriorating or not improving, rather than just one indicator

- b. The deterioration or lack of improvement is significant, not marginal
  - c. The deterioration or lack of improvement is sustained over the medium-to-long-term, not just transitory
  - d. A qualitative 'check' has been undertaken to understand what may be driving non-compliance with requirements, including whether factors are inside or outside of a council's control.
52. The government's compliance response will also be affected by central government resourcing. It is likely that over the near-term there will only be limited resource available for monitoring council compliance with price indicator requirements or taking compliance action.
53. The government's compliance response cannot be specified in advance in the NPS-UD. However, there is a strong case for providing guidance setting out how central government will respond to non-compliance with price indicator requirements (in general terms) – Essentially this is a compliance and enforcement framework – when will central government take compliance and enforcement action, and what tools will it use in which circumstances?<sup>4</sup>

**Proposal 4:** We signal an intent (subject to resourcing) to produce short guidance setting out (in general terms) how central government will respond to non-compliance with price indicator requirements.

*Issue 5: Spatial application*

54. The Cabinet paper is silent on the spatial application of the price indicator requirements.
55. However, it is logical that price indicator requirements would apply to Tier 1 and 2 councils, in line with:
- a. The requirement to prepare an HBA
  - b. The proposed application of the Housing Growth Targets
56. Different indicators may have different spatial applicability. For example, urban fringe differentials may be less relevant for territorial authorities without significant non-urban areas. Measuring a range of indicators rather than just one will help to address this issue.

**Proposal 5:** Discussion document consults on price indicator requirements applying to Tier 1 and 2 councils

*Issue 6: Mechanism*

57. Price indicator requirements could be framed as either an objective, or a policy, in the NPS-UD.
58. Quality Planning<sup>5</sup> describes an objective as a statement of what is to be achieved through the resolution of a particular issue. Objectives clearly state what is aimed for

<sup>4</sup> For example, see: [https://comcom.govt.nz/data/assets/pdf\\_file/0030/62589/Enforcement-Response-Guidelines-October-2013.pdf](https://comcom.govt.nz/data/assets/pdf_file/0030/62589/Enforcement-Response-Guidelines-October-2013.pdf)

<sup>5</sup> <https://www.qualityplanning.org.nz/node/610>

in overcoming the issue or promoting a positive outcome, or what the community has expressed as being desirable in resolving an issue. Objectives tend to be positively worded and need to be clear enough to provide targets that policies seek to achieve.

59. In contrast, policies are the course of action to achieve or implement the objective (i.e. the path to be followed to achieve a certain, specified, environmental outcome). Policies are a course of action which could be either flexible or inflexible, broad or narrow. Policies of a directive nature, where little discretion is intended to be exercised, include words such as 'shall' or 'must'. For policies where it is intended to provide some flexibility discretion, use words like 'should' or 'may'. Policies are implemented through methods (often plan rules) so policies need to be worded to provide clear direction to those making decisions on rules and those implementing methods.
60. The stylized intervention logic is as follows:



61. As such, while competitive urban land markets are clearly an objective, and zoning requirements in the NPS-UD are clearly a policy (e.g. Policy 3 requires councils to enable heights of at least six storeys in certain areas), the price indicator requirements could either be framed as a policy or objective. As this is primarily a drafting rather than a policy matter, the discussion document can remain silent on the form of the requirement if need be.

**Proposal 6:** Discussion document is silent as to whether price indicator requirements are framed as an objective or a policy.

### Impact analysis

62. The table below analyses the choices under Issues 2 and 3 against the objectives set out above. Options are compared *within* issue, not *across* issues.

#### Example key for qualitative judgements:

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- 0 about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

	Status quo	Issue 2: Framing of requirement		Issue 3: Inclusion of specific indicators	
		Indicators improve	Indicators do not deteriorate	Indicators specified in NPS-UD	Indicators not specified in NPS-UD
<b>Effectiveness</b>	0	++	+	+	+
<b>Flexibility</b>	0	0	0	--	0
<b>Clarity of obligations</b>	0	+	++	0	-
<b>Overall assessment</b>	0	+	+	-	0

### Implementation

63. The new price indicators requirement should be able to be implemented from the point at which the revised NPS-UD is issued (i.e. mid-2025).
64. As mentioned above, guidance on price indicators will be critical, particularly if – as proposed – specific price indicators are not included in the NPS-UD.

### Monitoring, compliance and enforcement

65. Price indicators will be measured by HUD's System Intelligence team.
66. The price indicators will be used to understand whether the broader Going for Housing policy programme is achieving its intended outcomes.
67. Ongoing work by the Housing Technical Working Group should inform whether the indicators being measured remain appropriate, and if not, how measures can be improved or what alternative indicators can be used.
68. Where councils are not complying with the price indicator requirements, there will be scope for central government to take enforcement action. This includes the existing RMA powers, as well as the agreed new specific power for central government to direct the use of the streamlined planning process.

## Annex 1: Price indicators we are not proposing to measure as part of the new NPS-UD requirements

69. We have considered, but at this point discarded the following measures from forming part of the suite of indicators being measured as part of the NPS-UD requirement. This does not mean these measures are not useful, but simply that for one or more reasons are not a priority for inclusion in the initial set of indicators to be measured. Staying silent in the NPS-UD itself on the specific measures to be indicated (as proposed under Issue 3) provides more scope for additional indicators to be included in the suite of measures over time.

INDICATOR	WHAT IT SHOWS	COMMENT
<b>Land cost per floor area ratios<sup>6</sup></b>	<p>The ratio of land price to the maximum permissible floor area ratio determined by local land use regulations captures the effects of policy changes on both the extensive (quantity) and intensive (price) margins of land costs. This makes it highly responsive to relaxations in land-use regulations that enable intensification, such as upzoning, because these policies primarily act on the extensive margin by reducing the amount of land required to build a dwelling. It also means that the indicator can be used to assess the effects of policies that operate on the intensive margin, such as the relaxation of urban growth boundaries.</p>	<p>Better accounts for the impacts of upzoning than other metrics. However:</p> <ul style="list-style-type: none"> <li>• Methodology not well developed.</li> <li>• Laborious as need parcel level data for each council, as well as needing each district plan digitalised and closely analysed to understand available floor area under zoning rules.</li> <li>• Could be influenced by upzoning that isn't going to be taken up in practice.</li> </ul>
<b>Upzoning premiums<sup>7</sup></b>	<p>Examines changes in the redevelopment premium (value of replacing an existing residential structure with a more intensive one) that is inherent in property values from upzoning changes. In a well-functioning market, relaxing zoning rules should increase vacant land prices equally to land with houses on it.</p>	<p>Metric only useful to monitor specific policy changes</p> <p>Very data intensive and council specific</p> <p>Not easily applicable across New Zealand.</p>

<sup>6</sup> <https://www.auckland.ac.nz/assets/business/our-research/docs/economic-policy-centre/urban-and-spatial-economics/Measuring%20the%20cost%20of%20land%20inputs%20to%20housing%20construction1.pdf>

<sup>7</sup> [https://workresearch.aut.ac.nz/\\_data/assets/pdf\\_file/0010/535096/Effect-of-upzoning.pdf](https://workresearch.aut.ac.nz/_data/assets/pdf_file/0010/535096/Effect-of-upzoning.pdf)

<p><b>Extensive vs intensive land values<sup>8</sup></b></p>	<p>The extensive price of land (land with a house on it) is compared to the intensive price (additional vacant land i.e. backyard) the value of land in determining an existing house package. In well-functioning land markets there should be no systemic difference between the intensive and extensive value of land.</p>	<p>Theoretically contested.  Data intensive.  Methodology not well-defined.  Model specification will influence results (currently only locational variables are view and distance to CBD)  Likely to show impacts of long-past regulations rather than recent changes to regulatory stringency.</p>
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<sup>8</sup> <https://repec.canterbury.ac.nz/cbt/econwp/1801.pdf>



# Policy paper – Detailed design of Housing Growth Targets

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## Introduction

1. The purpose of this document is to record the policy thinking and options analysis undertaken by HUD and MfE on designing Housing Growth Targets (Targets) and necessary changes to the National Policy Statement on Urban Development (NPS-UD) to implement these. It will be used to inform further advice to Minister Bishop in October, as well as the development of the discussion paper on changes to the NPS-UD.
2. We welcome feedback on any of the proposals set out in this paper.

## Executive summary

### Context and status-quo

3. The Government has agreed to set Targets that will require Tier 1 and 2 councils to live zone 30 years of development capacity in their district plans. While Cabinet has set the high-level details, there are still a range of choices and detailed decisions required to put in place Targets.
4. Under the status-quo, Tier 1 and 2 councils are required to provide sufficient development capacity to meet demand plus a competitiveness margin over the short (0-3 years), medium (3-10 years) and long-terms (10-30 years) in urban environments. This capacity must be plan-enabled, infrastructure-ready, feasible, and reasonably expected to be realised. Critically, not all of this capacity needs to be live zoned in an operative district plan.
5. Relative to the status-quo, Targets will replace this existing requirement to provide for sufficient development capacity in urban environments by requiring councils to 'live-zone' sufficient capacity in an operative district plan in the short-term to meet long-term demand (as opposed to the current staggered approach across the medium and long-terms).
6. The primary objective for these policy changes is to improve housing affordability and increase competition in urban land markets by significantly increasing the supply of developable land for housing, both inside and at the edge of our urban areas. At a practical level, the Medium Density Residential Standards (MDRS) are already requiring councils to live-zone substantial development capacity, so a key role of the Targets is to retain (and in some cases extend) the quantity of capacity councils are enabling in light of the MDRS becoming optional for councils.



7. In developing proposals for the detailed design of Targets, our key aims for technical policy design have been to ensure that the NPS-UD is fit for purpose to implement Targets, and that relevant requirements are viable for councils to give effect to.

## Where do Targets apply, and how are they determined?

8. There is currently variability in the demand projections councils use to inform the development capacity they enable. Given the unlevel playing field this creates, and the asymmetric costs associated with enabling too little versus too much development capacity, Cabinet has agreed that councils will need to use 'high' demand projections to inform their Targets.

### *Geographic scale of Targets*

9. We propose that each relevant council would have their own Target. However, because there may be legitimate reasons that not all projected growth can be accommodated within a council's boundary, councils would be able to transfer part of their Target to another adjacent council if agreed to in writing by all relevant parties. As with the status-quo, Targets would only apply within urban areas that constitute part of an 'urban environment'.

### *Growth projections*

10. We are proposing to require councils to use a set methodology for determining their Targets, using modified Stats NZ SA2 high-growth household projections provided on HUD's website. Councils would need to apply a dwellings-to-households ratio when calculating their Target, to reflect factors such as dwellings used as holiday homes. On top of the high-growth projections, councils would be required to apply a 20% contingency margin (currently known as the competitiveness margin), to account for considerations such as projected household sizes being influenced by current house prices.

### *Business land*

11. The NPS-UD sets development capacity requirements for both housing and business land. With a shift to live-zoning 30 years of development capacity for housing, we are considering whether a similar change is also needed for business land, or whether the requirement to plan (but not necessarily zone) for 30 years of business land in a Future Development Strategy is sufficient.

## How is development capacity defined?

### *Plan-enabled capacity*

12. As with the status-quo, the first requirement for development capacity to count towards Targets is that it is plan-enabled. This currently means that residential development in a particular area is deemed either 'permitted', 'controlled', or 'restricted discretionary' in a district plan. We propose to retain this general approach. At a technical level, we



are proposing some minor amendments to the NPS-UD to more explicitly outline expectations on how this is assessed by councils (such as specifying the types of standards that must be incorporated into modelling).

### *Feasible capacity*

13. The NPS-UD currently requires councils to ensure that capacity is not only plan-enabled, but also feasible. Cabinet has agreed to carry this approach over to Targets, as not requiring capacity to be feasible would substantially weaken the quality of the capacity enabled by the Targets through the risk of councils meeting Targets with capacity in locations and of typologies that are highly unlikely to be built.
14. In terms of how feasibility is modelled, we are proposing to strengthen current requirements by requiring councils to publish modelling methodologies / inputs / assumptions, tightening criteria for inputs that should be included in modelling, and allowing for use of averaged values over a number of years in some modelling inputs to mitigate swings in modelled feasible capacity across market cycles.
15. A key question we are still working through is whether all capacity should need to be modelled according to current prices and costs (as under the National Policy Statement on Urban Development Capacity 2016) or with allowance for reasonable adjustments to current prices and costs (as under the NPS-UD 2020). The former approach has been criticised by some practitioners as impossible to achieve in practice and/or for embedding a bias towards greenfield development into models (as greenfield development is less reliant on land value increases to become feasible). The latter approach has been criticised as allowing councils to rely on increasing land and house prices to drive feasibility, which would be contrary to policy objectives to improve housing affordability.

### *Replacing 'reasonably expected to be realised' capacity with 'realistic' capacity*

16. In addition to being plan-enabled and feasible, at present capacity also needs to be 'reasonably expected to be realised'. This is intended to account for factors such as owners of existing brownfield sites not wanting to redevelop their sites, even if it would be feasible to do so. However, this requirement has proven highly challenging for councils to implement and is arguably incompatible with the policy intent of 'flooding the market'. Given this, we are proposing to remove the requirement for capacity to be reasonably expected to be realised.
17. However, we are proposing to maintain elements of this assessment in a clearer and simpler new 'realistic' test. This could involve excluding from capacity assessments sites with current land uses that are unlikely to change (such as schools and places of worship), reflecting practical factors that make development impractical (such as site shape and slopes), and the incorporating the impact of non-planning and non-financial constraints, such as covenants.



*Infrastructure-ready capacity*

18. While councils will be required to live zone 30 years of development capacity for housing, it is infeasible for all of this capacity to be serviced by infrastructure in the short-term. Instead, Cabinet has agreed to maintain the current staggered approach across the short, medium and long-terms to infrastructure-readiness requirements, in which short-term demand for housing needs to be supported by trunk water and roading infrastructure that is in place, medium-term demand for housing needs to be supported by trunk infrastructure that is planned for and funded, and long-term demand needs to be supported by infrastructure that is planned for in an Infrastructure Strategy.
19. Currently, infrastructure to support medium-term demand for housing needs to be funded in a council Long-Term Plan (LTP). Cabinet has agreed to broaden this out, to reflect other sources of funding such as the Infrastructure Funding and Financing Act, developer agreements, or central government funding sources. We are testing the exact details of these other funding sources, and how 'committed' these need to be.
20. Councils take a range of approaches to assessing whether capacity is 'infrastructure ready' at present. We are proposing to improve the quality of these assessments by setting a minimum standard for these assessments, including by requiring councils to model capacity against total growth enabled, rather than considering the potential of the infrastructure network to service each potential development in isolation. We also propose requiring greater transparency on modelling inputs and methodologies.
21. While requiring councils to use high-growth projections (as a minimum) to determine demand is appropriate for land use zoning, it creates challenges for infrastructure. In particular, it may result in some councils needing to plan for funding / financing / delivering infrastructure for a greater level of growth than they consider to be likely over the medium-term in their LTPs, in potential conflict with other statutory obligations. This risks effectively forcing some councils to either over-charge development contributions (if they use these) or to subsidise growth through other revenue streams. We are considering whether councils should instead be able to use whatever projections they consider most likely for the infrastructure they are funding in their LTPs, and where this differs from the high-growth projections they are using for land use zoning purposes, requiring them to identify (but not fund) what infrastructure would be needed to service this gap, with estimates of costs.
22. One option under the Local Water Done Well is for councils to shift their water assets into community trusts that sit outside of council control. This may make it difficult for councils to meet obligations to ensure that development capacity is adequately serviced by water infrastructure. On the other hand, exempting councils that adopt a community trust model from the obligation to ensure capacity is serviced by adequate infrastructure would create a fundamental disparity between the requirements applying to councils based solely on the form of water entity they adopt. We are considering the best approach to this issue.



23. Councils have a legitimate interest in managing constraints on infrastructure networks. Failure to manage constraints can have significant adverse consequences. There are a range of tools councils can use including zoning, infrastructure triggers<sup>1</sup>, infrastructure assessments (e.g. as part of a resource consent), site specific requirements, and demand management measures. We propose that councils can use, at their discretion, essentially any infrastructure constraint management approach as long as capacity is permitted, controlled, or restricted discretionary. However, one residual issue we are working through is whether – when an infrastructure trigger is in place – capacity needs to be permitted, controlled, or restricted discretionary *now*, or only when the infrastructure trigger has been satisfied, to count towards Targets.

### Monitoring, reporting, and implementation

24. Councils are currently required to produce Housing and Business Development Capacity Assessments (HBAs) every three years. With the shift to a requirement to live-zone for 30 years of capacity, we are considering whether this requirement should be retained, or whether they could be prepared in full every six years, with an interim update in the intervening three years, in line with the approach taken for Future Development Strategies.
25. For councils that opt-out of the MDRS, central government will have a formal role in checking compliance with Targets before they can remove or alter the MDRS. For subsequent plan changes, and for councils that retain the MDRS, central government will have a more discretionary role in checking compliance with Targets. However, it will be much easier to assess compliance with requirements than at present, as we propose to require councils to provide information about capacity in a standardised summary, and to provide all underlying inputs and assumptions to central government. Where central government identifies non-compliance with requirements, it will have a number of informal and formal compliance and enforcement tools at its disposal.

### Key questions

26. Key questions that we would like feedback on are included in the detailed analysis further in this document, along with the context for each. The questions are:

#### **Where do Targets apply, and how are they determined?**

- Do you agree with our proposed methodology for councils to determine their Targets?
- Do you agree with our proposal for Targets to apply to settlements within urban environments, as per the status-quo?

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<sup>1</sup> An infrastructure trigger (often implemented as deferred zoning) involves a district plan that restricts development until either a specific infrastructure project or specified infrastructure service levels have been met. For example, the district plan may state that residential development is non-complying, but once a specified project is delivered the activity status may change to restricted discretionary or controlled. No further plan change is required for the development to proceed.



- Do you agree that Targets should be set for each council, but with an ability to transfer part of their Targets amongst themselves, if all relevant parties agree?
- Do you agree with our package of proposals on the projections that councils should use to determine their Targets?
- Do you agree that the competitiveness margin should be retained for Targets but reframed as a contingency margin, at the 20% rate?
- Do you think that Targets should also be set for business land? And if so, do you have a view on how the key questions on this could be resolved?

### **Feasibility**

- Do you agree that councils should be able to use an average of recent costs and prices in feasibility modelling?
- Should feasibility modelling for Targets compliance use current costs and prices, or should some adjustments be enabled?
- If adjustments should be enabled, should this just be to land values per m<sup>2</sup> or to a wider range of inputs?
- Are there other ways of achieving the intent of feasibility through the NPS-UD?

### **Reasonably expected to be realised capacity**

- Do you agree that we should replace a requirement for capacity to be reasonably expected to be realised with a new assessment of whether capacity is realistic?
- If so, what factors should be considered in this new assessment?

### **Projects that can be counted for assessing infrastructure-ready capacity**

- Do you agree with the list provided in paragraph 214 of what would (and would not) count towards being infrastructure-ready over the medium-and long-term?

### **Are high-growth projections suitable for infrastructure requirements?**

- Do you agree that there is an issue with requiring councils to plan for and fund infrastructure than aligns with high-growth projections, and if so, how could it best be addressed?

### **Potential implications of Local Water Done Well**

- In addition to the potential options identified in paragraph 225, are there any other options that may address this issue?
- What would be the best method for addressing this issue?

### **Methodology requirements for assessing infrastructure-ready capacity**

- How could the requirements for infrastructure-ready modelling be tightened to achieve greater consistency across councils and improve quality, while being viable for councils to implement and suitable for Targets implementation?
- Which of the above options should we adopt?



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## Background and context

27. The National Party's Going for Housing Growth manifesto commitment in the 2023 election included a plan to establish Targets that require Tier 1 and 2 councils to zone land for 30 years' worth of housing demand immediately. This is now government policy under the Government's coalition agreements.
28. The objectives for this policy include ensuring well-functioning and competitive urban land markets by providing an abundance of development opportunities – reducing upward pressure on housing and land prices and removing regulatory barriers to housing supply.
29. Relevant policies under the status-quo are discussed below. We note that while Targets would set a baseline for the level of development capacity that is 'sufficient' to meet demand for Tier 1 and 2 councils (replacing existing housing bottom lines), other requirements around intensification and development capacity provision by typology and location will remain (with some modification, such as better enabling mixed-use development and changes to policy 3).

## Relevant/equivalent policies under the status-quo

30. The National Policy Statement on Urban Development (NPS-UD) provides direction to councils on a range of housing and urban development policies. The NPS-UD categorises most of New Zealand's councils into three Tiers, with requirements under the NPS-UD varying across the Tiers.
31. Tier 1 and 2 councils are listed in tables 1 and 2 below. Tier 3 councils are not listed in the NPS-UD, meaning potential Tier 3 councils are required to self-assess whether they meet the criteria and then comply with relevant policies. The criteria for a council to be a Tier 3 under the NPS-UD is that their territory includes part or all of an urban environment that is not a Tier 1 or 2 urban environment.
32. An urban environment is any area of land (regardless of size, and irrespective of local authority or statistical boundaries) that:
  - Is, or is intended to be, predominantly urban in character; and
  - Is, or is intended to be, part of a housing and labour market of at least 10,000 people
33. In practice, an urban environment is a city or major town and some of its adjacent settlements. The NPS-UD identifies the cities/major towns that form the core of Tier 1 and 2 urban environments, but relevant councils have self-identified which satellite towns/settlements are included within these urban environments.
34. This means that not all urban areas/settlements within a council's territory will be part of an urban environment under this definition. For example, Waikato District Council



has identified its urban environment as including Ngāruawāhia and Huntly (among others), but not Raglan.

*Table 1: Tier 1 local authorities*

Tier 1 urban environment	Tier 1 local authorities
Auckland	Auckland Council
Hamilton	Waikato Regional Council, Hamilton City Council, Waikato District Council, Waipā District Council
Tauranga	Bay of Plenty Regional Council, Tauranga City Council, Western Bay of Plenty District Council
Wellington	Wellington Regional Council, Wellington City Council, Porirua City Council, Hutt City Council, Upper Hutt City Council, Kāpiti Coast District Council
Christchurch	Canterbury Regional Council, Christchurch City Council, Selwyn District Council Waimakariri District Council

*Table 2: Tier 2 local authorities*

Tier 2 urban environment	Tier 2 local authorities
Whangārei	Northland Regional Council, Whangarei District Council
Rotorua	Bay of Plenty Regional Council, Rotorua District Council
New Plymouth	Taranaki Regional Council, New Plymouth District Council
Napier Hastings	Hawke’s Bay Regional Council, Napier City Council, Hastings District Council
Palmerston North	Manawatū-Whanganui Regional Council, Palmerston North City Council
Nelson Tasman	Nelson City Council, Tasman District Council
Queenstown	Otago Regional Council, Queenstown Lakes District Council
Dunedin	Otago Regional Council, Dunedin City Council

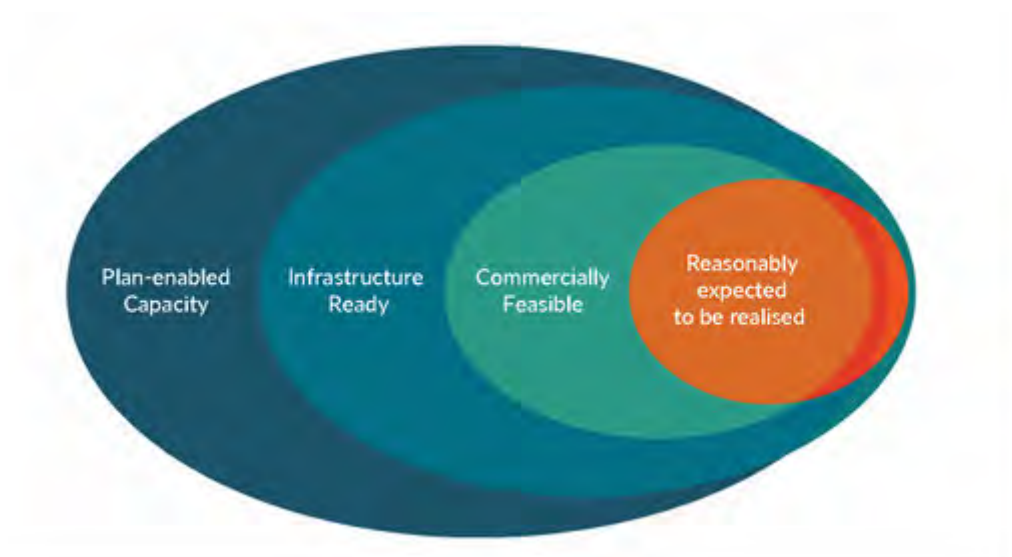
35. Policy 2 requires Tier 1, 2 and 3 local authorities to provide **sufficient development capacity** to meet demand (plus a competitiveness margin) over the short (0-3), medium (3-10) and long-terms (10-30). In order to be sufficient to meet expected demand for housing, the development capacity must be all of the below:

- **Plan-enabled.** Plan-enabled capacity is theoretical capacity (i.e. what is allowed to be built under a council's district plan) – it is not subjected to an assessment of whether it would be feasible to develop in practice.
- **Infrastructure-ready.** This means plan-enabled capacity that is (or will be, depending on the time horizon) serviced with sufficient trunk water and transportation infrastructure to support development.



- **Feasible and reasonably expected to be realised.** Plan-enabled capacity is considered feasible if a developer could build that capacity at a sufficient profit (based on factors like market prices, construction costs, location, typology etc.). Reasonably expected to be realised capacity is a subset of plan-enabled, infrastructure-ready, and feasible capacity reflecting that, for a range of reasons, not all commercially feasible areas will be fully developed or reach their maximum potential density.
  - For Tier 1 and 2 local authorities, supported by an appropriate **competitiveness margin** (an extra margin of development capacity intended to support choice and competitiveness in housing and business land markets).
36. Furthermore, these councils must ensure that they are providing sufficient development capacity to meet demand by typology and location (i.e. for attached and detached dwellings, in both existing and new urban areas).
37. In addition to requirements under the NPS-UD, sections 30(1)(ba) and 31(1)(aa) of the RMA require regional and territorial councils to provide sufficient development capacity for housing and business land to meet demand.
38. Not all capacity that is plan-enabled will be infrastructure-ready, commercially feasible, or reasonably expected to be realised, as shown in **Figure 1**.
39. In addition to the requirement to provide sufficient development capacity, councils must also comply with the NPS-UD's intensification requirements (policies 3 and 5) and (in the case of Tier 1 councils and Rotorua) the MDRS.

*Figure 1: Distinction between different forms of capacity*



40. 'Plan-enabled', 'infrastructure-ready', and 'commercially feasible' mean different things over different time horizons, as set out in Table 3 below.



Table 3: Current development capacity definitions over various timeframes

Time horizon	Plan-enabled	Infrastructure-ready	Feasible	Reasonably expected to be realised	Competitiveness margin
<b>Short-term (0-3 years)</b>	Development capacity is on land that is <b>zoned for housing in an operative district plan</b>	There is <b>adequate existing development infrastructure</b> to support the development of the land	Capacity is <b>commercially viable</b> to a developer based on the <b>current relationship between costs and revenue</b>	The amount of plan-enabled, infrastructure-ready and feasible development capacity that a council assesses is <b>likely to be built over the short, medium and long-terms.</b>	Expected demand + <b>20%</b>
<b>Medium-term (3-10 years)</b>	Either the above applies, or otherwise development capacity is on land that is <b>zoned for housing in a proposed district plan</b>	Either the above applies, or otherwise funding for adequate development infrastructure to support development of the land is identified in a <b>Long-Term Plan</b>			
<b>Long-term (10-30 years)</b>	Either the above applies, or otherwise development capacity is on land <b>identified by for future urban use or urban intensification in a Future Development Strategy (FDS)</b> or any other relevant plan or strategy	Either the above applies, or otherwise the development infrastructure to support the development capacity is identified in the local authority's <b>Infrastructure Strategy</b> (as required as part of its Long-Term Plan)	Capacity is <b>commercially viable</b> to a developer based on the current relationship between costs and revenue, or <b>on any reasonable adjustment to that relationship</b>		Expected demand + <b>15%</b>

41. Tier 1 and 2 local authorities are required to assess their demand and development capacity for housing and business land every three years in their Housing and Business Development Capacity Assessments (HBAs). Producing HBAs is optional for Tier 3 local authorities.
42. The NPS-UD requires Tier 1 and 2 councils to set housing bottom lines based on their projected demand for housing plus the relevant competitiveness margin from their most recent HBA and reflect these in their district plans and regional policy statements.



43. Where a council's HBA identifies that it is not providing sufficient capacity over the short, medium or long-term, it must notify the Minister for the Environment, outlining the reasons and the steps it will take to address the shortfall.

## Problem definition

44. The development capacity requirements of the NPS-UD (and National Policy Statement on Urban Development Capacity before this) were a significant step forward in requiring councils to provide development capacity. However:
- The Going for Housing Growth manifesto expresses concern that the requirement to only have three years of land live-zoned for housing leads to 'drip-feeding' of capacity (in practice plans provide for much more than three years of live-zoned capacity, including through NPS-UD policy and the MDRS). This means that plan changes are often required to bring forward, or live zone, development capacity identified to meet demand in the medium to long-term, often only after infrastructure has been committed or put in place,
  - While policy 3 has the effect of adding to the total development capacity enabled, it has more impact in some urban areas than in others. For example, it will have less impact in urban areas without rapid transit, or in areas that do not define themselves as having a city or metropolitan centre, than in urban areas with these features. Therefore, policy 3 alone cannot be relied on to provide sufficient development capacity in all Tier 1 urban environments.
  - Even where current requirements are collectively contributing to more competitive urban land markets, where councils chose to opt-out of the MDRS, this could result in substantial reductions in development capacity without further interventions.
  - Current policy provides for discretion in how councils undertake HBAs. This makes it difficult for central government to compare across HBAs or have confidence in the conclusions of capacity assessments:
    - i. Most councils do not currently publish all their modelling inputs and assumptions,
    - ii. Councils have taken different approaches to how they interpret and apply current requirements, resulting in outputs that are inconsistent and difficult to compare across councils,
    - iii. Councils currently have discretion to determine which population projections they use to inform capacity requirements, providing the ability to plan for lower levels of population growth than may eventuate, and
    - iv. Some councils have not fully complied with NPS-UD requirements to date (such as not completing infrastructure-ready assessments).
45. The design of Targets provides an opportunity to address these issues. While the key use of HBAs is currently to help councils understand the impact of their decisions on



development markets, the use of HBAs for Targets means that their role as a mechanism for compliance becomes more important. This makes the issues above more important to address.

## Objectives for change

46. The primary objective of Going for Housing Growth is to improve housing affordability and increase competition in urban land markets by significantly increasing the supply of developable land for housing, both inside and at the edge of our urban areas.
47. The secondary objective is to support well-functioning urban environments. This secondary objective broadly covers matters such as supporting competitive land and development markets, improving access to employment, education and services, and assisting with emissions reduction.
48. In giving effect to these overarching objectives, key criteria for determining appropriate design details include:
  - Requirements should be focused on ensuring the objectives of the Going for Housing Growth Programme are met.
  - Requirements should ensure that evidence bases are robust and meet a minimum quality level. This would enable decision-makers to have greater confidence in the assessments,
  - Requirements should ensure that evidence bases are more consistent across councils. This would help with results being comparable (e.g. to allow central government to know where capacity is sufficient across New Zealand) and ensure decisions (e.g. to allow councils to opt out of MDRS requirements or for central government to decide to intervene in local planning processes) are made equitably,
  - Requirements should result in assessments that are easy to understand and contain (and emphasise) information of a nature and level of detail that is useful to decision-makers,
  - Requirements should result in assessments that are right-sized and ideally able to be met by councils without commissioning consultants (if they so choose),
  - Requirements should take advantage of existing models and practices and only change where the benefit outweighs the impact on councils and

## Cabinet decisions to date

49. Cabinet has previously agreed:
  - to set Housing Growth Targets for Tier 1 and 2 councils that replace or amend relevant current provisions of the NPS-UD 2020;
  - to meet Housing Growth Targets, councils must provide development capacity to provide for at least 30 years of development capacity at any one time;



- to count towards Housing Growth Targets, development capacity must be ‘live zoned’ (enabled in an operative district or unitary plan) and assessed as being feasible to develop;
  - to meet Housing Growth Targets, development capacity must be supported by
    - to meet short-term demand, adequate existing development infrastructure;
    - to meet medium-term demand, either the above applies, or adequate development infrastructure that is identified in a long-term plan or equivalent document, funded through a levy under the Infrastructure Funding and Financing Act 2020, subject to a development agreement, or subject to funding from central government;
    - to meet long-term demand, either the above applies, or adequate development infrastructure that is identified in an Infrastructure Strategy;
  - to set prescriptive rules and guidance for how councils calculate matters such as demand and development capacity; and
  - to amend the NPS-UD to introduce a standing requirement for councils to provide HBAs, and relevant underpinning data and assumptions, to central government.
50. Cabinet has also agreed that changes to introduce Targets will be made through the integrated national direction process, through amendments to the NPS-UD.

## **Where do Targets apply, and how are they determined?**

### **Process for determining and publishing Targets**

51. Under the status-quo, Tier 1 and 2 councils are required to set housing bottom lines based on their projected demand for housing plus the relevant competitiveness margin, and then reflect these in their district plans and regional policy statements. We propose to replace this requirement with Targets due to the crossover in purpose and function.
52. Under this change, Tier 1 and 2 territorial authorities would be responsible for determining and publishing their Targets in their district plans, and for providing sufficient development capacity to meet these. Regional councils would be responsible for including these Targets in their regional policy statements, and for enabling/supporting territorial authorities to comply with their Targets.
53. Including Targets within district plans and regional policy statements (as per the equivalent in the status-quo) will maintain a useful ‘hook’ for future decision-making by local government to help ensure that any decisions do not prevent a council from complying with its Target.
54. Targets would need to be incorporated into district plans and regional policy statements using the process set out in section 55 of the RMA (i.e. without needing to follow a process set out in Schedule 1), in line with the current approach for housing bottom lines.



## Proposed methodology for a council to determine its Target

55. We are proposing a number of prescriptive changes from the status-quo to how demand for housing is determined for Targets, discussed in subsequent sections. Due to these changes, we consider it necessary to proscribe the methodology for councils to determine their Targets, for which we recommend the following:

*(total projected households - current households) \* dwellings to household ratio  
\* contingency margin.*

56. Each component of this proposed methodology (and other options considered) is discussed further in the following sections.
57. It is important to note that a council's Target would be the minimum baseline of development capacity that it needs to provide. Councils would not be prevented from choosing to provide capacity in excess of their Target. Furthermore, the requirements of policies 3, 5 and the MDRS (where councils opt to retain it) may result in some councils providing more development capacity than required to meet their Targets.
58. **Questions for consultation:**
- Do you agree with our proposed methodology for councils to determine their Targets?

## Geographic scale of Targets

*Should Tier 3 councils be in scope of the policy?*

59. The Going for Housing Growth manifesto refers to setting Targets for Tier 1 and 2 councils. However, questions have been raised as to whether Tier 3 councils should also be in scope of this policy. These are areas of the country that tend not to experience high levels of growth, with relatively lower housing pressures than in Tier 1 and 2 councils.
60. We recommend not applying Targets to Tier 3 councils, as per the Government's signalled policy intent. Other NPS-UD policies will continue to apply in these areas (such as policy 5 and the requirement on councils to provide sufficient development capacity by typology and location to meet demand in urban environments, alongside section 31(1)(aa) of the RMA), which should ensure there is a sufficient supply of development capacity in Tier 3 urban environments. The assessments required under the Targets will be relatively resource-intensive and may be overly onerous on Tier 3 councils.
61. If Targets are not applied to Tier 3 councils, this could be reviewed at a later date. In addition, we are reviewing the Tier framework and may potentially reclassify some Tier 3 councils as Tier 2 if they meet particular criteria.



*Should Targets be set at a regional, TA, or sub-TA level?*

62. There are choices about the geographic scale at which Targets should be applied for councils in scope of the policy. Options are to set Targets:
- For the total aggregate demand of all relevant areas across council boundaries for those councils that share jurisdiction over an urban environment, meaning multiple councils would share a single Target,
  - For the total aggregate demand of all relevant areas within a council's territory, meaning each council would have a separate, single Target,
  - Individually for each relevant urban area/settlement within a council's jurisdiction, meaning some councils would have multiple Targets, and
  - By another geographic unit determined by a council (i.e. Housing market, council ward, suburb, local board level in Auckland).
63. We recommend setting Targets for the total aggregate demand of all relevant areas within a council's territory. Targets could be set at a more granular level, however this would:
- be much more complex for councils to determine their Targets (as opposed to total aggregate demand for all relevant areas within a council's territory),
  - provide councils with less discretion on how to plan for growth,
  - result in use of less reliable demand projections to inform Targets, as when projections get into more granular levels these become more uncertain and unreliable, and
  - would be somewhat redundant given the NPS-UD's requirement to provide sufficient development capacity by typology and location, as well as the specific intensification requirements set out in Policy 3 for Tier 1s.
64. However, we recommend that councils can transfer some of their Target to other councils in the same urban environment, where they all agree in writing. Council feedback to date has been heavily in favour of setting targets at a regional level where councils share jurisdiction over an urban environment, on the basis that:
- Some councils consider they cannot accommodate 30 years of growth within their boundaries; and
  - The process for altering council boundaries is very resource intensive and time consuming.
65. We do not support setting Targets at a regional level (instead of individual Targets that councils can transfer between themselves with agreement), as there is significant scope for councils to:



- Fail to reach agreement about where to provide capacity, particularly where a council wants to opt out of the MDRS, which would require complying with its Target. This may incentivise some councils to seek to minimise their Target to make it easier to opt-out. This would be a particular issue where all or the majority of councils with jurisdiction over an urban environment want to opt out of the MDRS; or
- Not enable sufficient intensification and instead allocate a significant share of their growth away from more urban TAs towards less desirable areas in other less urbanised TAs that fall within the urban environment

66. However, we recognise that there may be instances where councils cannot provide 30 years of feasible development capacity within a Territorial Authority boundary. We consider that an ability to reallocate capacity by agreement provides an outlet to reflect this possibility, and that the need for mutual agreement should guard against inappropriate reallocation of capacity.
67. Mutual agreement would be required prior to publishing Targets in their respective plans and would need to be revisited and recommitted to each time Targets are updated. We tentatively recommend that the relevant regional council also needs to agree, however we suggest that this question is raised in the discussion document.

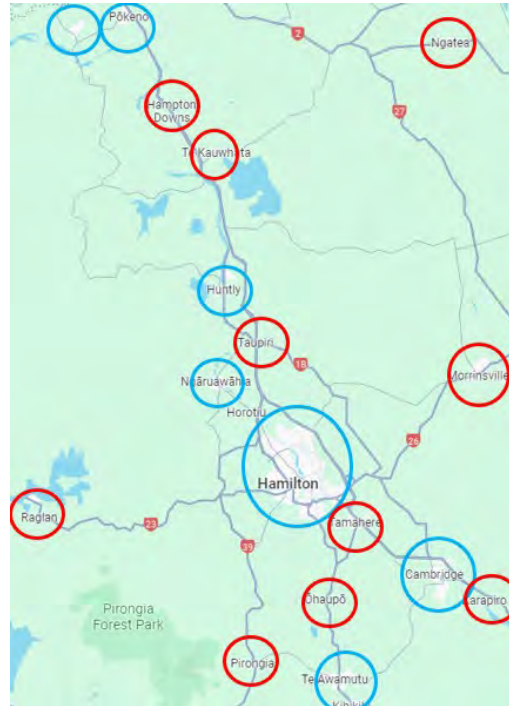
*What areas within TAs are covered by Targets?*

68. Regardless of whether a Target is set at a regional, TA, or sub-TA level, we need to determine which areas within a TA count towards a Target. The Going for Housing Growth manifesto proposes that Targets apply to all Tier 1 and 2 councils. However, this leaves a question as to where Targets will apply within (or across) the jurisdiction of these councils. We have considered applying Targets to:
- urban areas/settlements within a Tier 1 urban environment (the status-quo),
  - to all urban areas within a council's jurisdiction (even where these do not form part of the urban environment), or
  - to all urban and rural areas within a council's jurisdiction.
69. The image below distinguishes between urban areas/settlements that do and do not form part of the urban environments. The urban areas in the blue circles are deemed to form part of the greater Hamilton urban environment (as identified by local councils). The urban areas in red do not form part of the urban environment.
70. We recommend that Targets apply to urban areas/settlements within a Tier 1 or 2 urban environment (the status-quo), as these are the areas that function as a single housing and employment market. It also enables councils to determine which areas are relevant, as they are best placed to understand the functioning of their urban systems.
71. While Targets could apply to all urban areas/settlements, these will tend to have lesser housing demand than those urban areas/settlements within urban environments.



Providing an abundance of development capacity in Tier 1 and 2 urban environments should enable more people to live in these places, reducing future demand for housing outside of urban environments. Councils should be well placed to appropriately plan for growth outside of urban environments.

Figure 2: Towns within greater Hamilton's urban environment (within blue circles) as determined by local councils



**72. Questions for consultation:**

- Do you agree with our proposal for Targets to apply to settlements within urban environments, as per the status-quo?
- Do you agree that Targets should be set for each council,
- but with an ability to transfer part of their Targets amongst themselves, if all relevant parties agree?

*Determination of urban environments*

73. The NPS-UD provides high-level direction to Tier 1 and 2 councils on how to determine their urban environments through a definition<sup>2</sup>. However, councils have significant discretion in how to interpret and apply the definition. A substantial portion of the NPS-UD policies only apply to urban environments. Therefore, how councils determine the extent of these can have significant implications for policy outcomes and regulatory requirements.

<sup>2</sup> Urban environment means any area of land (regardless of size, and irrespective of local authority or statistical boundaries) that: is, or is intended to be, predominantly urban in character; and is, or is intended to be, part of a housing and labour market of at least 10,000 people.



74. Concerns have been raised that some councils have not correctly identified all settlements that are within their urban environments. Further concerns have been raised that some non-Tiered councils have not identified urban environments (therefore not identifying themselves as a Tier 3 council with associated relevant regulatory requirements) in part due to the ambiguity in the definition of urban environments.
75. We propose to issue new guidance for councils to clarify policy intent and support them to identify their urban environments, subject to resourcing.

## Growth projections

76. Councils are currently able to determine which growth projections they consider most likely, which has resulted in a range of approaches being used. Current requirements also focus on determining the projections which are 'most likely' to eventuate, which may implicitly discourage use of higher projections.
77. This requirement mirrors a similar provision in the Local Government Act that requires councils to use the 'most likely' projection to inform development of infrastructure funding in their long-term plans. It is important to note that the level of growth a council plans for will have financial implications, which may incentivise choosing a lower projection as the 'most likely' level of growth than would realistically be expected.
78. There is a need to ensure that demand projections are reliable and consistent for use in Targets. The current flexibility that councils have to determine growth projections would have several disadvantages if used to determine Targets:
- Councils currently anticipate and plan for differing levels of growth, meaning the relative level of development capacity councils need to provide to meet Targets may vary. This may result in inequitable requirements across councils,
  - Comparing projections between councils can be difficult due to variations in their approaches, and
  - Councils may be incentivised to choose lower population projections to reduce the amount of development capacity and infrastructure they need to provide to meet Targets.

### *Source of projections to inform demand*

79. There are several options regarding which projections could be used to set Targets;
- Enabling councils to choose the most likely projections (status-quo),
  - Using Statistics New Zealand (Stats NZ) growth projections, or
  - Preparing bespoke demand modelling specifically for setting Targets.
80. As discussed above, we consider that the status-quo is not fit for purpose and should not be maintained for Targets. Furthermore, we consider that it would be unnecessary



for the government to develop or commission a new set of projections using bespoke modelling (particularly given that Stats NZ, a government agency, already undertakes this work).

81. We recommend using Stats NZ projections when setting Targets.
82. It is important to note that through this approach, the government would be prescribing use of a particular projection as a *baseline* to set Targets. If a council considered that the prescribed projection was too small (for whatever reason), they would have full discretion to use a higher projection to set their Target. While this is similar to the status-quo and maintains an element of inconsistency across councils, this change would ensure that no council could choose a lower projection than the baseline to result in a lower Target.

#### *High versus medium projections*

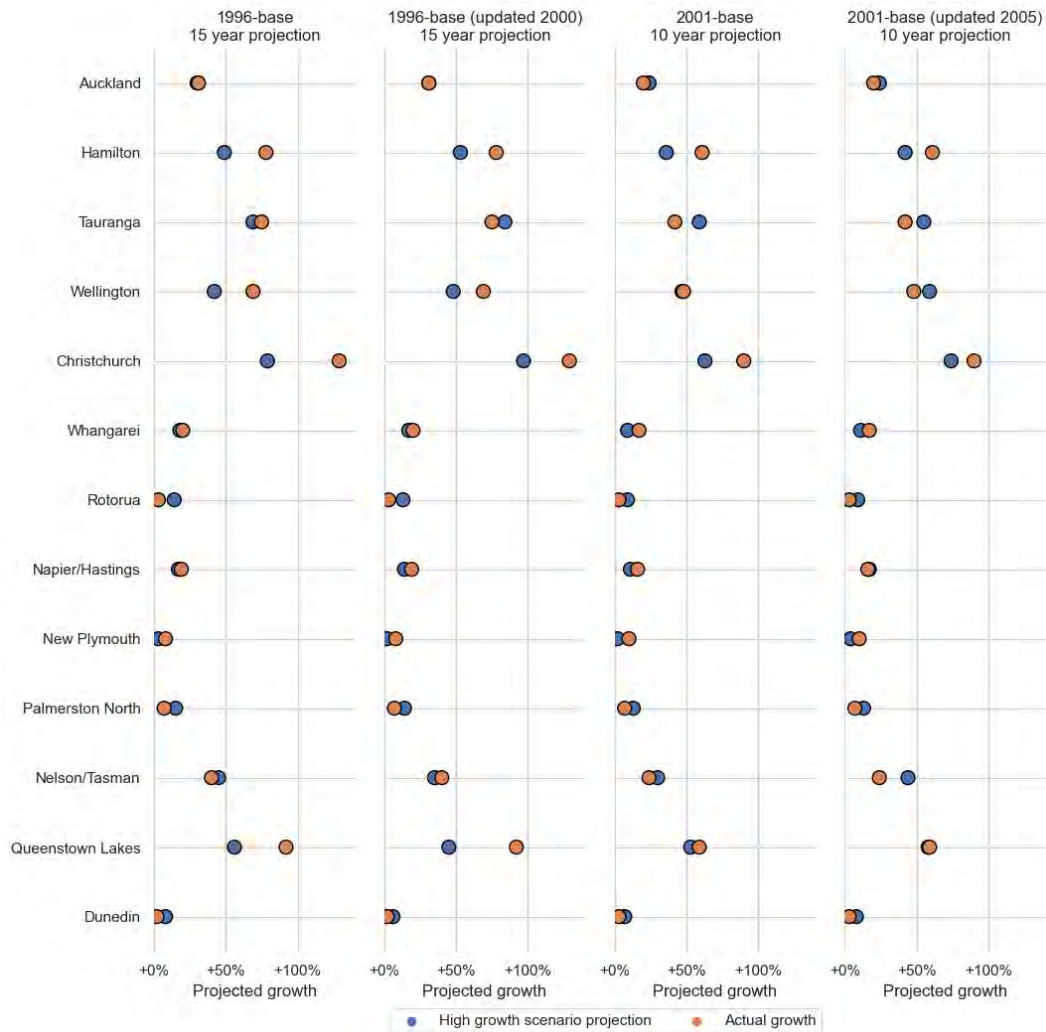
83. Stats NZ release three sets of population projections at different geographic scales (e.g. SA2 units, territorial authority areas, and regional council areas), based on low, medium, and high-growth scenarios.
84. There are concerns that Stats NZ medium-growth projections (and to a lesser extent, high-growth projections) often underestimate the growth that has eventuated. To reflect this, along with the greater impacts of underestimating growth compared to overestimating growth, we recommend the use of Stats NZ high-growth projections.
85. A representation of the accuracy of four historic Stats NZ projections, for Tier 1 and 2 urban environments, is provided below<sup>3</sup>. Note we do not currently have data for how these projections track across a 30 year time period.

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<sup>3</sup> The four projection datasets are based on available data.



Figure 3: Accuracy of four historic Stats NZ projections



86. While even Stats NZ high-growth projections may potentially underestimate growth for some areas over some time periods, this would be mitigated by:
- Councils being free to provide capacity over and above their Target if they consider the Stats NZ high projections are insufficiently ambitious,
  - Councils reassessing their Targets every three years with the latest data, meaning that if projections for one round of Targets are lower than actual growth trends this will be adjusted in subsequent rounds of Targets,
  - Applying a contingency margin, which will require councils to provide for a level of development capacity in excess of projected demand, and
  - The requirements for price efficiency indicators to improve or not deteriorate over time will still apply if the capacity being provided is insufficient to promote competitive urban land markets.
87. There are also risks with overestimating growth projections, as this can result in additional infrastructure costs, with potential financial issues for councils and other



infrastructure providers if the growth does not eventuate. While this risk may be less significant than the risks of underestimating growth projections, it becomes more significant as the growth assumptions increase. We discuss this issue further below.

### *Household versus population projections*

88. Assuming our recommendation for using Stats NZ projections is progressed, there are options on what series to use;
- Population projections (predicted growth in residents in a given area), and
  - Household projections (predicted growth in households in a given area).
89. Household projections reflect that not all of the population live within ‘households’ (under the Stats NZ definition). For instance, it excludes people living in ‘non-private dwellings’ – short or long-term communal or transitory type accommodation usually available for reasons of employment, study, special need, legal requirement, or recreation<sup>4</sup>.
90. Household projections are determined by factors such as total population, population demographics (e.g. age and ethnicity), and living-arrangement-type propensities (the likelihood that people will fall within different family and household situations). Household projections incorporate changes within the existing population (e.g. the aging population) as well as changes resulting from expected population growth (such as migration).
91. We recommend using household projections for determining Targets, as they:
- Do not include the portion of the population living in non-private dwellings,
  - Do not require as much further analysis by councils to be converted into demand for dwellings as population projections, and
  - Would result in greater consistency across councils (as it avoids differing approaches being taken to converting projected population growth to household growth).

### *Addressing concerns with projected household sizes*

92. Feedback on policy design of Targets from the Housing Expert Advisory Group (HEAG) established by the Minister for Housing highlighted a concern that the household size projections from Stats NZ are not suitable for use in Targets. Their key concern was that these projections are based on historic and current system settings (e.g. the historic trend of insufficient housing supply and high prices). The HEAG also highlighted that as incomes rise and housing supply is increased, average household sizes would fall, as more people could afford to live in a smaller household, more people could afford holiday homes, and people could afford larger homes.

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<sup>4</sup> While setting Targets with household projections would exclude the segment of the population not living in ‘households’, the types of dwellings these people live in are broadly beyond the intended scope of Targets.



93. As assessments of overall demand and capacity for homes is based on the quantity of homes, rather than the floorspace of homes, demand for additional floorspace would not impact on Targets. However, it may be an important factor in considering the sufficiency of housing capacity for different types of homes, which is an existing NPS-UD requirement.
94. We acknowledge that household size is in part driven by current levels of house prices, rather than being exogenously determined. However, developing appropriate adjustments to incorporate these factors would rely on either crude assumptions or complex analysis that is beyond the capabilities of most councils. Furthermore, we understand through consultation with Stats NZ that, while they accept there is merit to this feedback, they consider that demographics are (and will continue to be) a much more significant driver of household sizes.
95. Options to respond to this feedback are:
- Use Stats NZ high-growth household projections without specific further adjustments for household size, accepting the limitation of this incorporating larger household size projections than are likely to eventuate,
  - Modify our proposed methodology to incorporate reduced Stats NZ household size projections in some form, such as reducing high-growth household size projections by a given margin (e.g. 15%), or
  - Procure bespoke household size projections that better account factors mentioned in the HEAG's feedback.
96. We recommend using Stats NZ's projections without any further adjustment to the household size methodology. We consider any modifications to Stats NZ's household size projections would be arbitrary and not based on robust methodology, while producing bespoke projections would be costly (and likely not possible under the current fiscal environment).
97. We recommend that, instead of an adjustment or a bespoke projection, a contingency margin is applied to demand projections to factor in the potential issues discussed above, any other potential causes of underestimating growth, and the asymmetric risks associated with underestimating and overestimating growth. This is discussed further in another section below.
98. Overall, the potential issues above would be mitigated by:
- Councils needing to redefine Targets every three years within their HBAs, meaning that any changes to demand projections (including household sizes) will be reflected in Targets,
  - The overarching policy intent behind this policy being to flood the market with development capacity, meaning there is an abundance of opportunities for the market to deliver new homes at any one time. The use of 30 years is a rough



approximation of a large amount of demand rather than a specific point with intrinsic meaning,

- Application of a contingency margin, which will provide an extra ‘buffer’ of development capacity, mitigating the risk of projections being lower than the growth that eventuates, and
- The benefits of the simplicity involved with using Stats NZ household projections as they are, particularly in light of the widespread concern about the existing complexity of HBAs.

*Projection scale*

99. Stats NZ produces projections at multiple geographic scales, including for territorial authority areas and SA2 units.
100. The most straightforward options for determining Targets are using;
  - Subnational projections based on territorial authority areas,
  - SA2 projections, as produced and publicly released by Stats NZ,
  - SA2 projections with bespoke adjustments made by Stats NZ, and
  - A combination of subnational projections and SA2 projections, using the urban proportion approach.
101. Subnational projections used as is would not be consistent with our recommendation for Targets apply to urban environments, as in most cases councils have some population within their territory outside of urban environments.
102. Stats NZ have advised that high-growth SA2 projections, as currently produced, are not suitable for aggregating into larger areas (such as urban environments), as they are only intended to be used individually. If all SA2 projections for a council are aggregated together, this results in a larger number than the relevant subnational projection. The average difference is a 50% increase when aggregating SA2s compared to looking at the subnational total.
103. Stats NZ have indicated that could procure bespoke SA2 projections that can be aggregated into larger areas and would be suitable for use in Targets.
104. An alternative option would be to use the proportion of existing SA2 projections that are within the relevant area (e.g. urban environment) and apply this proportion to projections for the relevant territorial authority areas (the ‘urban proportion approach’).<sup>5</sup>

<sup>5</sup> A worked example (using test values) is provided below:

Projected household growth for council area	100,000
Aggregated household growth of SA2s across council area / SA2s within urban environment	150,000 / 120,000
Proportion of aggregated household growth within urban environment	80% (120,000 / 150,000)



105. We recommend using SA2 projections with bespoke adjustments made by Stats NZ to inform Targets, as they are more flexible in how they can be applied to different geographic areas (such as urban environments). If bespoke projections turn out to be impractical, the urban proportion approach would be the next best option.
106. If bespoke SA2 projections are used, they will need to be procured every three years to inform Targets. While councils could individually procure this data themselves, this would be inefficient compared to central government procuring the data once and sharing it with councils.
107. From discussions with Stats NZ, we understand that the timelines for releasing various new relevant datasets from the 2023 Census are not yet finalised, but are considered likely to be:
- Subnational population: end of 2025,
  - Subnational household: end of 2026,
  - SA2 population: late 2026, and
  - SA2 household: end of 2026.
108. We note that the next round of SA2 projections, based on data from the 2023 census, is unlikely to be available in time for the first round of Targets. This will mean projections based on data from the 2018 census will need to be used to set the initial Targets. 30 year projections from the first year of implementation (likely 2025/26) can still be produced with the 2018 census data, however, these will be less accurate than if produced with new data from the 2023 census.

#### *Applying a dwellings to household ratio*

109. The application of a dwelling to household ratio would ensure that Targets reflect total demand for housing, including housing that is vacant at any given point in time, or that is used for holiday homes or for short-term rental accommodation. If these additional homes were not catered for, we would continue to see insufficient housing supply to meet demand, placing ongoing upwards pressure on housing prices.
110. We therefore propose to require councils to derive appropriate dwellings to household ratios from census data.
111. The ratio is determined using census data by dividing the total number of occupied and unoccupied private dwellings in a given area by the number of households in occupied private dwellings in that area.
112. While this approach reflects the dwellings to households ratio at a current point in time (census day), it does not reflect possible changes over time. We recommend allowing councils to use a higher dwellings to households ratio if they wish. While this approach

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Estimated growth within urban environment	80,000 (100,000 x 80%)
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may mean that councils do not factor in the potential for the dwellings to households ratio to increase over time (for instance, in response to increasing incomes), the use of a contingency margin (discussed below) is a simple and appropriate way to mitigate this risk.

**113. Questions for consultation:**

- Do you agree with our package of proposals on the projections that councils should use to determine their Targets?

### Contingency/competitiveness margin

114. Councils are currently required to add a competitiveness margin onto their growth projections when determining sufficient development capacity. This was intended to enable an efficient and competitive housing market by providing a buffer over the minimum amount of capacity required to service growth. The competitiveness margins are 20% for the short-term (0-3 years) and medium-term (3-10 years) terms and 15% for the long-term (10-30 years).
115. Requiring councils to provide sufficient development capacity in the short-term for 30 years' of growth (without a competitiveness margin) would be a much stronger requirement than the current requirements in Policy 2 (including the competitiveness margin), although in some cases the Targets may require less capacity than the status-quo when the MDRS and Policy 3 of the NPS-UD are factored into status-quo requirements. As the 30 year Targets have a similar purpose and stronger impact than the competitiveness margin, they effectively negate the need for the margin in terms of its original intent.
116. However, there are other justifications for retaining a margin on top of projections:
- Even high population projections can undershoot actual demand
  - Household projections may not account for the impact of potential improvements to housing affordability on household sizes
  - The dwelling to household ratios prepared by councils may be insufficient, for example due to the potential for increases in incomes to cause greater demand for holiday homes.
117. While the purposes of Targets and the competitiveness margin overlap, we are proposing to retain a margin but reframe it as a 20% contingency margin on top of Targets. This would help to mitigate the inherent uncertainty of projections and ensure that the planning system supports well-functioning urban land markets (resulting in downward pressure on land prices and disincentivising land-banking). It also reflects the asymmetric risk of underestimating growth compared to overestimating growth. This is effectively a different purpose from the current competitiveness margin.



118. A 20% margin is ultimately arbitrary. However, one recent paper recommended a margin of between 4 and 15% to adjust for uncertain demand projections.<sup>6</sup> A 20% margin is therefore likely to be sufficient for erring on the side of caution, particularly in conjunction with the use of high-growth projections.
119. **Questions for consultation:**
- Do you agree that the competitiveness margin should be retained for Targets but reframed as a contingency margin, at the 20% rate?

### Should Targets include additional components, such as housing affordability?

120. We have considered whether additional levels of detail should be applied to Targets, such as breaking Targets down by housing typology (e.g. standalone/attached housing), price point, and development type (greenfield/brownfield), or including a requirement around housing affordability.
121. While there may be merit to some additional levels of detail in Targets, we consider it would be neither practical nor appropriate for the Government to set this level of detail. Furthermore, we consider that the existing requirement in the NPS-UD for councils to provide sufficient development capacity to meet demand by typology and location (in addition to policies 3 and 5, and the MDRS) is sufficient for this purpose and negates a need for a numerical Target at this level.
122. The NPS-UD currently requires councils to assess the impacts of their planning decisions and infrastructure provision on the affordability and competitiveness of the local housing market.
123. The definition of feasible for the purposes of meeting Targets could be reformed to include a requirement that development capacity provided is broadly affordable to the market. However, while planning does influence affordability over time:
- What is 'affordable' is subjective – arguably, any housing that can be sold is 'affordable' to someone,
  - At prevailing market prices it may not be feasible for developers to profitably provide sufficient capacity at prices deemed to be 'affordable', and
  - Councils are not ultimately responsible for the exact typologies and price points offered by developers.
124. Nonetheless, housing affordability should still be considered. We consider it would be appropriate to maintain the existing requirements in the NPS-UD for this, with councils examining this within the wider assessment of their compliance with Targets.

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<sup>6</sup> Counsell, K. (2024). *Zoning for housing supply: modelling the asymmetric welfare costs of errors in demand forecasts*. Retrieved from: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4884770](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4884770)



## Should Targets also be set for business land?

125. A question has been raised about whether, with the introduction of Targets, councils should also be required to live zone 30 years of business land. There are concerns that if this does not occur, business land (particularly industrial) may be crowded out by land zoned for housing.
126. FDSs should have identified business land opportunities to meet demand over 30 years which could help to mitigate this concern. However, FDSs are generally high-level strategies, so may not sufficiently identify the land needed for businesses at a sufficiently granular, sub-regional level to protect necessary business land.
127. Further work is planned to assess how the changes proposed in this paper may impact on business land capacity assessments. For example, it may be desirable to require high-growth household projections to be used in assessing business land demand, however this demand is also driven by a range of other inputs (such as employment, gross output, and age-specific population projections). Requiring high-growth household projections may conflict with these other inputs.
128. Furthermore, in the context of persistent competition issues in the grocery sector, driven in part by difficulties for prospective new entrants to acquire suitable sites for large-format grocery stores, MBIE has suggested that the NPS-UD should be amended to require councils to assess demand and development capacity for business land at a more granular level in HBAs, including specifically isolating demand for and supply of large-format retail sites.<sup>7</sup> There are potential difficulties with such an approach, including how councils model demand at such a specific level. We propose to continue to consider this option. We note that councils would also need to maintain a degree of discretion on this assessment as business needs / economies vary between places.
129. Key questions that need to be resolved include:
  - Whether the same approach should be taken for business land as to housing (i.e. to set a Target involving live zone 30 years of development capacity), or whether the status-quo approach of development capacity is sufficient.
  - If business Targets are to be set:
    - What granularity the targets should have (e.g. whether sectors should have separate targets)
    - How the targets should be determined

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<sup>7</sup> Currently, councils are only required to distinguish between capacity for commercial, retail, and industrial uses, however guidance recommends that councils consider smaller subsectors depending on the size and nature of their markets.



- How changes to infrastructure-ready assessment requirements, and other changes being made to the NPS-UD, would impact on business land requirements
- Whether changes are required to the granularity of business land capacity assessments (i.e. further requirements to consider certain subsectors).

**130. Questions for consultation:**

- Do you think that Targets should also be set for business land? And if so, do you have a view on how the key questions on this could be resolved?

## Respective roles of central and local government in calculating Targets

131. We recommend that the NPS-UD requires councils to use a set of household projections provided on HUD's website, which will be updated over time. This will provide data for the total projected households in each single year, including current households, at an SA2 level. These components of determining Targets are discussed in subsequent sections.
132. Councils would be required to take the published SA2 projections for their area and aggregate them up into what they determine as their urban environment. As central government does not hold detailed spatial data on the extent of urban environments, and local government have a more thorough understanding of these environments, it is appropriate that this stage (and therefore the wider process for establishing specific targets) sits with councils. Councils would then apply an appropriate ratio of dwellings to households (as discussed above) and the 20% contingency margin to establish their specific Target.

## How is development capacity defined?

133. For the purposes of compliance with Targets, Cabinet has agreed that development capacity be defined as plan-enabled, feasible, and infrastructure-ready (with some modification from the status-quo). However, there are a range of detailed design choices below this level. Each component of the proposed definition is discussed in the following sections, including other options considered and rationale for the various components of this proposal.

### Plan-enabled capacity

134. Plan-enabled capacity is the first element of development capacity. It is also the easiest for councils to assess, as there are fewer interpretation issues and fewer assumptions, while the inputs are more certain. Our goal is to ensure that Targets implementation by councils is consistent and robust regarding assessments of plan-enabled capacity.



135. This section considers whether the overall policy settings relating to what counts as ‘plan-enabled’ are suitable for continued use in Targets, and whether the technical settings relating to how plan-enabled capacity is modelled need to be clarified or reformed.

#### *Overall policy settings*

136. The definition of development capacity in the NPS-UD states that capacity must be based on the zoning, objectives, policies, rules, and overlays that apply in the relevant proposed and operative RMA planning documents. However, the requirement to be considered plan-enabled is based solely on the activity status of the development on the land in question, which must be permitted, controlled, or restricted discretionary (and not discretionary, non-complying or prohibited). These activity statuses are largely ordered in terms of decreasing certainty that development will be enabled.
137. In restricting the activity statuses that can count towards the NPS-UD’s development capacity requirements, the intent is to strike a balance between:
- Requiring councils to zone more capacity for housing, and only counting activity statuses that are more likely to facilitate housing development; while
  - Recognising that there are legitimate reasons that councils may need to impose conditions on development or decline development (such as infrastructure constraints), and that not all of these can be identified or address upfront at the district plan stage (either by excluding these areas from being zoned for housing or imposing upfront rules in the district plan).
138. Allowing ‘restricted discretionary’ activities to count towards the development capacity requirements of the NPS-UD does however create issues where the council ‘restricts’ its discretion to a wide range of matters. In such instances, restricted discretionary status may not be materially more facilitative of housing development than ‘discretionary’ status, and not provide developers or the broader market with significant upfront certainty as to whether development may proceed.
139. Given this, we have considered whether capacity should only count towards the Targets if development is classed as permitted or controlled. However, on balance, we propose to retain status-quo settings. This is because:
- Some councils are likely to need to live zone a significant amount of additional capacity over a short period of time to comply with Targets. The need to undertake this live zoning exercise at speed may mean that – even more than under current settings – they do not have time to identify all land that is not suitable for development or impose rules in the district plan.
  - Some environmental effects may only be able to be effectively addressed through site-level responses at the resource consent stage and not through controls in a district plan.



- If councils can only treat development as permitted or controlled, they may seek to impose so many conditions on resource consents for controlled activities that the developments may not be able to be delivered in practice, undermining the certainty provided by controlled activity status.
- If councils cannot decline development on the basis of infrastructure status, they may impose other forms of infrastructure constraints management that provide even less certainty. This issue is discussed further below.

140. Activity statuses and how much discretion councils retain as part of the consenting process is expected to be considered in Phase 3 of the RM reforms.

#### *Technical modelling settings*

141. The activity status is set through rules (often specific to the relevant zoning and overlays), but not (directly) through objectives or policies. Councils do not incorporate all rules and overlays in their analysis of plan-enabled development capacity due to the technical complexities involved. Instead, they generally incorporate the rules and overlays that are most likely to have a material impact on the development capacity. This is a reasonable and pragmatic approach.
142. We are not aware of widespread issues with how councils have assessed plan-enabled capacity. However, there have been issues raised about councils not considering the effects of overlays on development potential. This contravenes existing requirements, but may be due to some ambiguity in these requirements<sup>8</sup>. We propose amending clause 3.4(2) of the NPS-UD to clarify the requirement for overlays to be considered.
143. In order to increase the consistency of assessments, we also propose minor amendments to explicitly set out:
- Specifying types of standards that must be incorporated into modelling (at a minimum). For instance, this may say that calculations of how many units can be developed on a site must consider all standards that restrict height, site coverage, yield, or setbacks,
  - Specifying that assessments for brownfield areas must be done at a property-level (which they usually are, although one council has instead applied a density assumption at a block level), and
  - Specifying that councils must outline their inputs and assumptions. Guidance could provide detail on the types of inputs and assumptions that should be provided. Examples could include:

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<sup>8</sup> Clause 3.4(1) of the NPS-UD states that development capacity is plan-enabled if it is 'zoned' for housing. While clause 3.4(2) states that land is 'zoned' for housing if it is a permitted, controlled, or restricted discretionary activity, the use of the word 'zoned' appears to have been interpreted as only relating to zone provisions.



- i. How unusable space has been removed, e.g. how much land is set aside for stormwater management, roads, and landscaping, how much floorspace is set aside in vertically separated developments for shared spaces, and
- ii. What standards and overlays are incorporated into the assessment.

*Potential issue with Greenfield rezoning and rateable values*

144. An issue around local government rating policies has been raised in initial engagement discussions with practitioners and councils. Zoning is used as a key indicator of developability by valuers, so large sites that are zoned Residential are likely to be given a high rateable value, even if there are overlays or other restrictions that mean that the site can't be developed (for instance, because it can't be serviced with development infrastructure).
145. Requiring 30 years' of development capacity to be zoned immediately may mean that councils provide significantly more zoned development capacity that cannot be built on until infrastructure is provided, which may take a long time. The rateable value of impacted properties would increase significantly, meaning that the amount of rates that the landowners pay would also increase significantly. This raises an issue of fairness, given that the landowners are not able to develop their sites but would pay substantial rates as if they could.
146. This problem may be mitigated by valuers adjusting their assumptions about what something being zoned for residential development means, if there is greater use of infrastructure triggers or other forms of infrastructure constraints management in the future. This may mean, for example, that valuers need to focus more on the conditions and controls in district plans rather than just looking at the headline zone of a parcel of land. It may also be mitigated by MfE/HUD talking to valuers or working with LINZ to update their rating revaluations handbook to increase their awareness of the need to contextualise zoning when valuing properties.

## Feasibility

147. Cabinet has agreed that feasibility will continue to be included within the definition of development capacity. This would help ensure that the development capacity enabled is commercially viable to deliver. Not including feasibility within the definition of development capacity would substantially weaken Targets, and risk councils meeting Targets with capacity in locations and of typologies that are highly unlikely to be built (e.g. large-scale apartment buildings on a city's urban fringe).
148. Councils generally model the feasibility of developing plan-enabled capacity on a given site by comparing the total likely costs of a development with expected revenue. If modelling shows that a developer would have a sufficient profit margin (usually at least 20%), then that development is considered feasible.
149. Costs included in feasibility modelling are often based on data such as land purchase price, construction costs, materials, consenting, on-site infrastructure and earthworks,



driveways, financial and/or development contributions, project managers, legal fees, architects, real estate agents, Geotech, and surveyors. Revenue included in feasibility modelling is generally derived from data such as land value, new build values, suburb price adjustments, slope/aspect adjustments, and sale prices.

150. Key issues (real or perceived) raised around the assessment of feasibility (both under the status-quo, and moving forward for Targets) include;
- Councils do not take a standardised approach to methodologies, assumptions and inputs to this modelling,
  - The general lack of transparency on modelling assumptions and inputs, combined with no independent verification of HBAs, may result in a poor quality of modelling,
  - The risk that the first round of Targets will come before policy changes for ‘growth pays for growth’ are in effect, meaning modelling will use some development contribution inputs that do not reflect full cost recovery,
  - The use of current prices and revenues (required by the NPS-UD for short and medium-term capacity) means that the impact of existing housing shortfalls on house prices may be a precondition for some of the modelled feasible capacity,
  - The ability for councils to make upwards adjustments in costs and revenues when determining feasibility of long-term capacity can mean that that some feasible capacity may be based on increasing house prices,
  - The values of modelling inputs can fluctuate year to year, which can have substantial impacts on modelling outputs, and
  - Feasibility modelling is undertaken on a site by site basis, rather than reflecting a full general equilibrium model of a city, region, or nation’s housing market.
151. Each of these issues are discussed below, alongside potential solutions and mitigations.

### *Standardisation*

152. Broadly, councils appear to largely be taking a consistent approach to modelling feasibility in HBAs. However, it is not entirely clear that the inputs into these models (i.e. the relevant data and assumptions needed to assess feasibility) are consistent across councils. A lack of consistency in modelling methodology and/or inputs across councils risks undermining central government’s confidence that Targets are being complied with, and limiting the ability to compare and contrast compliance across councils.
153. Assessing the extent to which councils take a consistent approach to feasibility modelling inputs is difficult, due to varying degrees of transparency across councils on the inputs and assumptions used in modelling (transparency is discussed in more detail below). For example, Auckland and Christchurch have released detailed information on their inputs and assumptions while Hamilton appears to have released



information on construction costs only and Tauranga does not appear to have released their inputs.

154. The NPS-UD currently states that councils 'may use any appropriate method' to assess the feasibility of development capacity. However, most councils are using the approach of estimating the costs, revenue, and profit margin of development options and considering those that meet a certain profit margin as feasible.<sup>9</sup> We recommend that the NPS-UD is amended to require this approach to be used. This would ensure assessments are robust and consistent.
155. Feasibility modelling could be further reformed to achieve greater standardisation by prescribing the inputs and assumptions that should be used in modelling. However, prescribing the inputs into modelling risks producing less reliable outputs if not carefully designed and well tested with councils.
156. Another method for achieving greater standardisation would be preparing new technical guidance for councils on how to model feasibility. This would be more detailed than the existing guidance, which is very high level on feasibility modelling. New guidance would help councils with modelling feasibility in future HBAs, and it would outline the government's expectations for how councils model feasibility.
157. We propose to develop new guidance (subject to resourcing), which would state that there are two key options for assessing the likely costs of development options:
  - Collating data on individual costs, such as construction costs, demolition costs, legal costs, etc. and using these to assess the overall cost of development options. This is a common and thorough approach but requires many assumptions and datasets to be sourced and kept up-to-date. It can also lead to debates about individual figures, and
  - Using building data from the relevant areas to estimate the overall costs of development. For instance, councils could look at the average construction value included in building consent applications within their jurisdiction for standalone homes, townhouses, and apartments. Councils would then apply a multiplier to reflect development costs not covered by the values listed in building consent applications. This may be less robust than considering individual costs, but is simple to undertake, simple to update, and uses data that is typically good quality. This is similar to the approach used in the price-cost ratios and the guidance could use the analysis undertaken by HUD for the development and review of those ratios.
158. **Questions for consultation:**
  - Do you have a view on this proposed guidance to councils on assessing the likely costs of development?

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<sup>9</sup> Some councils have used an improvement ratio instead to calculate feasibility, which may not meet the current definition of feasible.



### *Transparency*

159. As outlined above, there are currently varying degrees of transparency across councils on their inputs and assumptions in feasibility modelling. If left unaddressed, this would make it difficult for the government (or anybody else) to review council compliance with Targets.
160. While there is an existing requirement<sup>10</sup> for councils to outline and justify the methods, inputs, and assumptions used to arrive at their estimates, compliance with this requirement to date has been poor.
161. Cabinet has already agreed to expand the existing requirement by amending the NPS-UD to introduce a standing requirement for councils to provide HBAs, and relevant underpinning data and assumptions, to central government.
162. To give effect to this, we propose that councils should be required to clearly detail their modelling methodologies, inputs and assumptions, and make all relevant data and information available when reporting on their compliance. Engagement with a range of consultants has indicated that there are no commercial sensitivity or intellectual property issues with making this available. Greater transparency on these factors would enable anyone, including government, to assess them to verify that modelling is robust, credible, and suitable.

### *Adjustments to costs and prices*

163. The purpose of considering the feasibility of development capacity under the proposed Targets system is to ensure that, to be counted towards Targets, some confidence can be had that a developer might deliver on the identified development capacity. Feasibility calculations are usually undertaken by developers on a site-specific basis, whereas the feasibility assessments undertaken citywide for NPS-UD purposes are, by necessity, approximations that act as a high level filter on plan-enabled capacity.
164. A key question is whether all development capacity should be feasible to deliver straight away or whether it is adequate that some development capacity may become feasible over time.
165. The NPS-UD currently requires feasibility modelling to be based on current costs and revenue for determining short and medium-term capacity. This means that modelling is based on current house prices, which in some cases may be unaffordable to many people and/or artificially inflated by supply constraints. House prices are effectively an input into modelling rather than an output, therefore modelling does not consider the impacts of increased development capacity provision on the price of housing.
166. While this can be concerning (i.e. feasible capacity in Auckland Council's 2023 HBA had a modelled average sale price for new dwellings of \$1.6m), we do not recommend requiring feasibility modelling at lower/more affordable prices, as detaching modelling

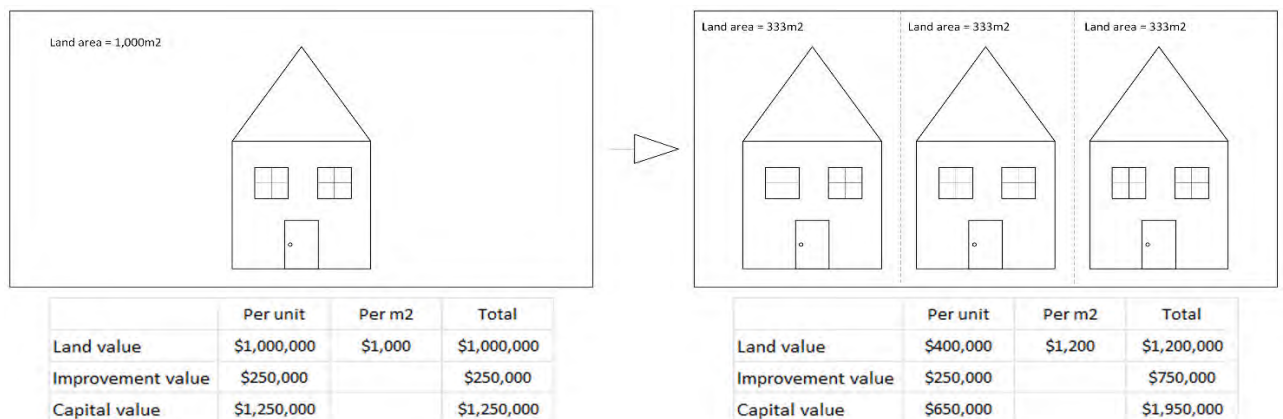
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<sup>10</sup> Clause 3.26(1)(b) of the NPS-UD



from actual market conditions is contrary to the intent of feasibility modelling (which is to determine whether developments would be attractive for developers to undertake).

167. In long-term feasibility modelling (for years 11-30 of an HBA), councils were initially required under the NPS-UDC to use modelling based on current prices, in line with short-to-medium-term requirements. However, the NPS-UD discussion document noted that some councils and consultants have been critical about the requirement to use current costs and revenues to assess feasibility in the long-term, given the significant uncertainties over this 30-year timeframe. Furthermore, modelling long-term feasibility based on current costs and revenue was considered unrealistic and would significantly under-estimate feasible capacity as increased house and/or land prices over time result in more capacity becoming feasible (as developers are better able to profit from potential developments, particularly for intensification in areas where land value increases signal greater market demand to live in a given location).
168. To reflect these issues, this was changed under the NPS-UD so that councils could make reasonable adjustments to costs and revenue assumptions to account for market changes over time. As a result, some councils have extrapolated long-term trends in their assumptions, including changes in land value, improvement value, and construction costs. These adjustments make more developments feasible in the models, as land values generally increase faster than improvement values and construction costs. This is particularly significant for brownfield capacity, where redevelopment of a site requires the potential value uplift from increasing the density to outweigh the loss of the existing improvement value (i.e. the demolition of existing buildings).
169. During engagement, some practitioners argued that requiring current prices and costs would likely incentivise councils to provide for a greater proportion of greenfield development than they otherwise would. Brownfield intensification relies on high land values (per m<sup>2</sup>) for sale prices to outweigh the costs of a greater level of development, whereas greenfield developments can occur on sites with lower land values (per m<sup>2</sup>) due to the lower investment (relative to land area) and often low levels of sunk costs in the existing land uses. As greenfield developments are less dependent on increasing land values, holding land values static would effectively warp outcomes in favour of greenfield development. This may achieve compliance with the Targets, but may result in greater levels of development capacity being provided in greenfield areas solely on the basis of constraints on modelling assumptions rather than strategic decision-making reasons.
170. Making long-term adjustments may mean that feasible capacity is sometimes reliant on land value increases that **appear** to be contrary to the intended impact of the NPS-UD (i.e. that increased development capacity will have a downwards impact on house prices). However, relying on land value per m<sup>2</sup> increases is different from relying on house price increases, as land values per m<sup>2</sup> can increase while house prices stay constant or decline, as the land value is shared across more units (as outlined in the image below).



171. As cities grow, land values per m<sup>2</sup> for existing areas generally increase due to the limited amount of land in each location and the increase in demand arising from growth. In the absence of constraints (such as restrictive planning controls), this usually results in land being used more intensively over time. Not accounting for the increase in land value per m<sup>2</sup> would mean that the more intensive future uses may not be shown as feasible in modelling, despite being a natural and expected evolution of urban development.
172. The other potential policy issue that has been raised around factoring in increasing land values per m<sup>2</sup> over time is that some development capacity will not be feasible to develop straight away, which appears contrary to the policy intent to ‘flood the market’ with development opportunities. Maintaining adjustments to long-term feasibility modelling would therefore likely require maintaining the status-quo where the assessment of feasibility of development capacity is staggered across the short, medium and long-terms.
173. Requiring feasibility to be entirely based on current prices and costs is appropriate in terms of considering the amount of capacity available at a specific point in time, and would be consistent with the government’s intent to flood the market with development opportunities. However, during engagement practitioners argued that it would be neglectful of the practicalities of the development market, in which location and time are important elements.
174. During engagement, it was suggested that only the best development capacity will be feasible at any point in time, as that capacity has a premium over less desirable development capacity, so will get a higher revenue with the same costs. Over time, the best capacity is used up and the next best capacity becomes the best, feasible capacity.
175. This is particularly true on the urban/rural fringe, where infrastructure costs are generally linked to the distance between the development site and the existing infrastructure network. Capacity that borders the urban area will consequently have lower costs (and be more feasible) than capacity further away.
176. As a result of these issues, there is a risk that it would be impossible for councils to comply with a Target that requires 30 years of feasible development capacity based on current prices and costs. This could be somewhat mitigated by enabling a process for



bespoke responses and solutions for councils that cannot comply despite their best efforts but could still undermine the integrity of the Targets.

177. There is an option to require councils to model feasibility across a range of price scenarios (e.g. different growth rates across various timeframes) to help identify how much feasible development capacity they would have under these various scenarios. However, a single price scenario would still need to be the main one that determines whether Targets are met, and it is uncertain how the additional scenario tests would be used and whether it would justify the additional regulatory burden.
178. Summary of the key factors is outlined in the table below.

OPTION	PROS	CONS
<b>Current costs and prices</b>	<ul style="list-style-type: none"> <li>• Would enable immediately available development opportunities, better achieving policy objective of shifting away from carefully sequenced growth to instead ‘flood the market’</li> </ul>	<ul style="list-style-type: none"> <li>• May be impossible to achieve.</li> <li>• Would reduce ability for councils to respond to Targets through intensification.</li> <li>• Feasible development may not be immediately infrastructure-ready, reducing benefits of it being immediately feasible.</li> </ul>
<b>Adjustments enabled</b>	<ul style="list-style-type: none"> <li>• Would reflect the reality of development markets.</li> <li>• Would meet policy intent of feasibility to act as a filter on plan-enabled development capacity to ensure it is likely to be plausible (at a high level)</li> </ul>	<ul style="list-style-type: none"> <li>• Relies on increasing land values per m<sup>2</sup>, which could manifest in increasing property prices, which would be counter to policy objectives to improve affordability.</li> <li>• Compliance with Targets would enable some capacity to be feasible in the long-term, not immediately.</li> </ul>

179. **Questions for consultation:**

- Should feasibility modelling for Targets compliance use current costs and prices, or should some adjustments be enabled?
- If adjustments should be enabled, should this just be to land values per m<sup>2</sup> or to a wider range of inputs?
- Are there other ways of achieving the intent of feasibility through the NPS-UD?



### *Averaging costs and prices over time*

180. There have been issues with short-term fluctuations in development costs and land/house prices having very significant impacts (both up and down) on the amount of development capacity that is considered feasible when modelling is undertaken. These fluctuations are unrelated to planning issues and can reduce the perceived integrity and usefulness of development capacity assessments.
181. We recommend enabling councils to use an average of recent costs and prices (e.g., over the past 1-3 years) when determining the 'current' costs and prices to mitigate impacts of short-term market fluctuations unrelated to planning decisions. This proposal was supported by all practitioners during engagement and better reflects the ways in which developers model feasibility in the real world.
182. **Questions for consultation:**
- Do you agree that councils should be able to use an average of recent costs and prices in feasibility modelling?
  - Do you have a view on what timeframe should be used for determining these averages?

### *How to treat development contribution inputs*

183. We have been considering how feasibility modelling of development capacity could take into account the government's intent for 'growth to pay for growth' (i.e. for the infrastructure costs of a development to be fully recovered through development contributions).
184. When the first round of HBAs will be due for councils to demonstrate compliance with their Targets it is not yet clear unlikely that councils will have amended their development contributions policies to reflect the policy direction for development to pay the full costs of associated growth infrastructure.<sup>11</sup>
185. If feasibility modelling in these HBAs relies on the existing development contribution policies, there is a risk that this will overstate the future level of feasible development capacity that councils are providing, compared to modelling based on a full cost recovery approach. However, this risk may be somewhat mitigated by increases in development contributions theoretically being reflected in land prices. If developers are considered to be price-takers rather than price-setters (i.e. the price they sell dwellings for is fixed based on market conditions), then increases in development costs are likely to result in developers being willing to pay less for land, reducing the price of land.

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<sup>11</sup> Changes to the NPS-UD are expected to be in place by mid-2025. Timings for plan changes and the preparation of HBAs demonstrating compliance is still to be determined, but one plausible outcome is that plan changes may need to be notified, alongside HBAs, from 2027. Policy changes from central Government are expected to be in place from mid 2027, but it is not yet clear if this will be in time for the modelling required as part of HBAs.



186. We note that the purpose of feasibility modelling is to determine whether a potential development would be attractive to a developer to deliver. For this purpose, using the costs that they would currently incur is appropriate for short or medium-term capacity, however it may be less appropriate for capacity that is identified for infrastructure servicing in the long-term. This is discussed further in the section below on adjustments to costs and prices used in feasibility modelling.
187. We are unlikely to be able to design a specific, ‘blanket’ requirement for councils to modify their feasibility modelling to reflect full cost recovery. This is because;
- The cost of growth infrastructure will vary between and within cities due to varying levels of existing infrastructure capacity and varying costs for different types of infrastructure, depending on what would be needed to service a development, and
  - The level of under-recovery differs between councils, some almost recover full costs while others under-recover by a substantial margin.
188. We consider a hybrid approach would be most appropriate for addressing this issue in the first round of compliance. This could involve requiring councils to model feasibility using development contribution inputs and encouraging adjustments to reflect their best estimate of full cost recovery when assessing future development capacity. Furthermore, this issue will be resolved in the medium-term as development contributions policy changes will be in place by the second round of Targets compliance.
189. Alternatively, the government could opt for the status-quo, where feasibility modelling is generally based on using existing development contributions as inputs. This would involve the potential risk that some councils may comply with the first round of Targets (and possibly opt out of the MDRS), while possibly no longer complying in the second round of Targets due to likely increased development contributions from government policy changes. This risk may somewhat be mitigated by the disincentive for councils to remove development capacity if they know they are likely to need more capacity again after the following capacity assessment. It is also mitigated by other NPS-UD requirements, such as the existing or proposed intensification requirements.
190. **Questions for consultation:**
- Which of the options discussed above would best address this issue?

*The static site-by-site nature of feasibility modelling*

191. Feasibility modelling has been critiqued on the basis that it is undertaken on a site-by-site basis using static costs and prices, with the impact of one development on the market not taken into account when assessing the feasibility of the next development.
192. This may limit the effectiveness of HBAs in reflecting the functioning of housing markets as a whole.
193. However, there are also benefits and mitigations associated with the site-by-site nature of feasibility modelling:



- It leverages the existing feasibility models of private developers, meaning the inputs and assumptions used may be more accurate than those used in macroeconomic models,
- It may be easier and less costly to develop and maintain site-by-site feasibility models than macroeconomic models,
- While feasibility models are static, feasibility modelling will be required at least once every three years, meaning that they will be updated semi-frequently to reflect the current state of housing markets, and
- The requirement for price efficiency indicators to not deteriorate over time may mitigate the impact of static feasibility modelling.

194. Given this, we do not propose to mandate a shift away from the current site-by-site approach to feasibility modelling.

### Replacing 'reasonably expected to be realised' capacity with 'realistic' capacity

195. Councils are currently required to assess the amount of development capacity that is 'reasonably expected to be realised'. The purpose of this requirement is to ensure that councils are providing sufficient development capacity that is likely to be built, rather than 'on paper' capacity that cannot / is unlikely to be delivered (even if assessed as feasible). For example, even if a brownfield site could feasibly be redeveloped to a higher capacity, the current occupant may not wish to redevelop it.
196. Modelling of this is highly speculative and councils have significant discretion on the methodology for it. Including reasonably expected to be realised capacity within the definition of development capacity risks some councils having more realistic Targets than others due to variations in modelling methodologies and assumptions across councils.
197. During engagement, practitioners unanimously considered that implementation of the current requirements has been significantly problematic. This is a result of the ambiguous purpose of the requirements and the lack of any methodology that practitioners considered could be used to produce reliable results.
198. Furthermore, assessments of capacity that is reasonably expected to be realised are arguably inconsistent with the policy intent to flood the market with an abundance of development capacity opportunities (not ensuring a specific number of sites / level of capacity is developed). Councils would continue to monitor delivery of new houses, particularly through the NPS-UD's requirement to monitor their housing markets quarterly (and publish findings annually).
199. Given the issues with the current 'reasonably expected to be realised' requirements, we propose to remove this requirement (while still allowing councils to assess this, if they choose to). However, there are aspects of the test that we propose to retain. In particular, recent housing capacity assessments are generally incorporating good



assumptions on whether capacity is realistic. We propose including an explicit requirement that capacity is realistic. This would apply to all stages (plan-enabled, feasible, and infrastructure-ready) of the assessments. We propose that the high level requirements sits in the NPS-UD, with explanation and examples provided through guidance. Further work is required to refine the factors that would sit in guidance, however they could include:

- Determining how many units a site could yield where no maximum unit rules apply,
- Considering current land uses that are unlikely to change, such as schools, places of worship, etc.,
- Considering practical factors that make development impractical, such as site shape, slopes, etc.,
- Impact of non-planning and non-financial constraints, such as covenants,
- Requiring non-private space to be removed from development capacity (such as space for corridors, etc. in apartment buildings, and
- That market dynamics and demand at a city-level will impact on site-level decisions on development typologies.

200. Removing the current ‘reasonably expected to be realised’ requirement would have a significant impact on calculations of overall development capacity. The average impact of the requirement on long-term capacity was a 38% reduction in overall capacity for the latest round of housing capacity assessments. However, in most instances this is likely to be outweighed by the impact of requiring the use of high-growth projections and to provide 30 years of development capacity up front.

201. **Questions for consultation:**

- Do you agree that we should replace a requirement for capacity to be reasonably expected to be realised with a new assessment of whether capacity is realistic?
- If so, what factors should be considered in this new assessment?

## Infrastructure-readiness (and other infrastructure-related matters)

### *Short-term infrastructure requirements*

202. Under the status-quo, councils are required to provide sufficient development capacity at any one time to meet short-term demand. To count toward the sufficiency requirement in the short-term, this capacity must be serviced by three waters and roading network infrastructure to the extent that they are controlled by a local authority or council controlled organisation – i.e. development ready. The intent of this was to ensure that at all times there were plenty of build-ready opportunities for development as infrastructure required for development is built over time.



203. In shifting towards the Targets, and the requirement to live zone for 30 years of capacity, there is a spectrum of options for what proportion of infrastructure needs to be in place now for the associated development capacity to count towards the Targets. There is a trade-off between:
- providing sufficient supply of build-ready sites and confidence of future supply, and
  - the (significant) cost of over-supplying infrastructure in advance of when it is needed.
204. These options are:
- No specific requirement for capacity to be serviced by infrastructure,
  - Status-quo - at least three years of development capacity must be serviced by infrastructure 'in the ground' if it is to count towards the Targets,
  - Nominal amount more than three years and less than thirty years,
  - Sliding requirement (e.g. 3 years in 2027, but 4 years by 2030), and
  - 30 years of development capacity must be serviced by infrastructure 'in the ground' if it is to count towards the Targets.
205. It would likely be unviable to require councils to provide sufficient infrastructure in the short-term to service 30 years' of housing demand, or materially increase requirements relative to the status-quo, as this would come with a significantly high cost and the construction sector would lack capacity to deliver all this infrastructure in such a short timeframe. Given this, and the likelihood that long-term demand for housing will not manifest in the short-term, we do not recommend including this as a requirement in Targets.
206. Given these considerations, Cabinet has agreed to maintain the status-quo for short-term infrastructure requirements.

#### *Medium to long-term infrastructure requirements*

207. Under the status-quo, the requirements for development capacity to be infrastructure-ready vary across the medium and long-terms:
- In the medium-term, to count towards development capacity requirements, capacity needs to either be serviced by infrastructure in the ground now, or necessary infrastructure to service that capacity is identified for funding and delivery in a council's Long-Term Plan, and
  - In the long-term, capacity needs to either be serviced by infrastructure in the ground now, or necessary infrastructure to service that site is identified for funding and delivery in a council's Long-Term Plan, or necessary infrastructure is identified in a council's Infrastructure Strategy.



208. The key issues with the status-quo include:

- There is an implicit presumption that all trunk infrastructure will be funded and delivered by local government through traditional mechanisms. While – due to the number of developments serviced by trunk infrastructure and other considerations – local government will likely continue to deliver much of this infrastructure in the future, this presumption is too rigid and does not sufficiently provide for other sources of infrastructure funding. For example, the current definition does not count infrastructure being funded under the Infrastructure Funding and Financing Act (IFF), through developer agreements, or by central government, where these funding sources are not reflected in a Long-Term Plan.
- Infrastructure Strategies (and to a lesser extent, Long-Term Plans) do not provide sufficient certainty that infrastructure will be delivered at a given time (or at all), as projects are often not fully scoped, and the Strategies and Plans are subject to periodic reviews and changes.
- Even though feasibility assessments are expected to factor in developers' expected contributions towards infrastructure costs, there are coordination problems and non-growth costs associated with infrastructure projects which mean that, even if capacity which relies on new infrastructure is assessed as being feasible, the infrastructure (and thus the housing capacity) may not be delivered in practice.

209. Despite these limitations, current requirements have anecdotally served to get councils thinking about land use and infrastructure planning in a more integrated way.

210. Given these factors, there is a risk that HBAs will reach incorrect conclusions on development capacity provision if this involves uncertain infrastructure commitments and excludes infrastructure funded and financed by other means than currently considered in the status-quo.

211. There are two approaches to these issues, with two options under each approach:

- Approach 1: Accept limitations with infrastructure aspects of Targets and seek to address infrastructure issues in separate workstreams;
  - i. Option A: Remove the medium and long-term status-quo long-term plan and infrastructure strategy requirements.
  - ii. Option B: Retain and enhance existing requirements by enabling councils to consider a wider range of funding and financing mechanisms in the medium-term, such as development agreements, the Infrastructure Funding and Financing Act 2020, and central government funding.
- Approach 2: Use Targets as a mechanism to meaningfully improve infrastructure planning, funding, financing and delivery;



- i. Option C: The same as Option B, but infrastructure included in an Infrastructure Strategy doesn't count towards development capacity. This recognises that Infrastructure Strategies do not function as a meaningful signal as to whether infrastructure will be delivered in practice, and would seek to drive councils to meaningfully plan for more infrastructure over the short-to-medium-term. Option C would effectively be asking councils to deliver 30 years of infrastructure over a ten year horizon. Councils are unlikely to have the funding or capacity to deliver this, and it is also unlikely that they will have confidence that they would recover 30 years' worth of development contributions over a ten year period.
  - ii. Option D: Only count development capacity towards the Targets if supporting infrastructure is in place now, there is a development agreement in place, or if there is committed funding for support infrastructure from central or local government. Inclusion of a project in a Long-Term Plan or Infrastructure Strategy would not in itself be sufficient. This would be the most restrictive test for councils to meet, as neither development agreements nor central government funding commitments typically extend beyond the short-to-medium-term.
212. In practice, councils would be unlikely to be able to comply with Options C or D, and Option A presents risks of land-use and infrastructure planning taking place in isolation of each other.
213. Given this, Cabinet has agreed to Option B – essentially an 'enhanced status-quo'. This would allow for councils to count development capacity as infrastructure-ready in the medium-term (and, by extension, the long-term) by including essentially any commitment to fund and finance infrastructure from either the central government or the private sector. While this option does not fundamentally resolve the challenges associated with infrastructure planning highlighted above, it arguably strikes the best balance between a Target that can be complied with in practice, providing some level of confidence that infrastructure will be delivered, maintaining flexibility, and supporting some level of integration between land-use and infrastructure planning
214. A critical component of this change will be determining at what point non-council funding commitments can count towards medium-term infrastructure-ready capacity. Firm funding/financing agreements would likely be needed for this, as less firm funding commitments that can be withdrawn / changed are unlikely to provide sufficient certainty and confidence to count towards medium-term infrastructure-ready capacity. The table below sets out possible examples of what would, and would not meet the test for being 'committed'.

<b>POSSIBLE EXAMPLES OF WHAT MEETS THE TEST</b>	<b>POSSIBLE EXAMPLES OF WHAT DOES NOT MEET THE TEST</b>
Any investments specified in the current National Land Transport Plan or committed	Any investments set out in Regional Land Transport Plans that require central



in associated Regional Land Transport Plans	government funding and are not reflected in the current National Land Transport Plan
	Unfunded infrastructure priorities set out in Future Development Strategies or equivalent
Any infrastructure being funded via a Levy Order under the Infrastructure Funding and Financing Act 2020	Infrastructure being considered for a Levy Order under the Infrastructure Funding and Financing Act 2020
Necessary infrastructure to service any Specified Development Project established via Order in Council under the Urban Development Act 2020	Necessary infrastructure to service areas being considered for, but not yet approved as a Specified Development Project established under the Urban Development Act 2020
Any infrastructure investments with delivery (i.e. construction) funding specifically appropriated through central government budget processes	Infrastructure investments that have been funded to business case stage only
Proposed infrastructure subject to a formal development agreement between council and the developer as to what infrastructure will be delivered and what (if anything) the councils will contribute towards the cost of this infrastructure.	

215. **Questions for consultation:**

- Do you agree with the above list of what would (and would not) count towards being infrastructure-ready over the medium-and long-term?

*Are high-growth projections suitable for infrastructure requirements?*

216. There is a potential issue with requiring the use of a high-growth projection in determining how much growth infrastructure needs to be planned for (and usually funded through a long-term plan). Councils are required to set out their assumptions underpinning their development contribution policies<sup>12</sup>, long-term plans<sup>13</sup>, and infrastructure strategies<sup>14</sup>. For the infrastructure strategy, these assumptions must be based on the 'most likely scenario'. The quality of the assumptions in long-term plans are assessed by the Auditor-General<sup>15</sup>.

217. If councils are required to plan for (and usually fund) infrastructure to service more growth than they anticipate in the planning documents discussed above, they may be effectively forced to either over-charge development contributions (if they use these) or to subsidise growth through other revenue streams.

<sup>12</sup> Section 201(1)(b) of the Local Government Act (2002)

<sup>13</sup> Section 17 of Schedule 10 of the Local Government Act (2002)

<sup>14</sup> Section 101B(4) of the Local Government Act (2002)

<sup>15</sup> Section 94 of the Local Government Act (2002)



218. Possible solutions could involve:

- Requiring Targets to be set for plan-enabled and feasible development capacity using high-growth projections, while allowing for councils to use the projections that they consider to be most likely for infrastructure investment planning in their LTPs. If a council used medium-growth projections to inform their LTP, this could result in a gap of medium-term development capacity that the council has no plans to service with infrastructure. For this gap, we could consider requiring councils to identify what infrastructure would be needed to service this, with estimates of costs.
- Despite the issues raised above, mandating high-growth projections for investment anyway, and accepting that councils may find this difficult to reconcile with other statutory obligations or fund this level of growth.
- Rescind the Cabinet decision regarding medium- and long-term infrastructure requirements – essentially option a(i) set out above – there would be no requirement in the NPS-UD for plan-enabled capacity to be supported by planned or funded infrastructure beyond the short-term infrastructure requirements, although in practice councils would still fund infrastructure through Long-Term Plans and plan for infrastructure through Infrastructure Strategies (and Future Development Strategies).

219. For the avoidance of doubt, zoning for high-growth projections but only planning infrastructure for a lower level of growth is not a risk in terms of developments being serviced by insufficient infrastructure, as councils will be able to impose controls to manage this risk (discussed below).

220. **Questions for consultation:**

- Do you agree that there is an issue with requiring councils to plan for and fund infrastructure than aligns with high-growth projections, and if so, how could it best be addressed?

*Potential implications of Local Water Done Well on infrastructure-ready requirements*

221. For their infrastructure-ready assessments, councils are required to assess in detail only the development infrastructure which they control. For any 'additional infrastructure'<sup>16</sup> outside of their control, councils are required to be 'satisfied that the additional infrastructure to service the development capacity is likely to be available'.

222. This means that for transport and three waters infrastructure, councils are required to undertake in depth analysis and/or modelling to determine whether a site is serviced with sufficient infrastructure (or what level of investment is required to service it in future). However, for other types of infrastructure (which is vital to servicing homes), the requirements are significantly less rigorous.

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<sup>16</sup> This includes electricity and gas transmission and distribution networks, telecommunication networks, social infrastructure etc.



223. Under the Government's Local Water Done Well policy, councils will be able to transfer responsibility for upgrades, maintenance and investment in their three waters networks into a new entity, such as a Council Controlled Organisation (CCO) or a community trust.
224. Under the status-quo, CCOs already engage in assisting with preparation of HBAs (e.g. Watercare in Auckland). However, if a council progresses with a non-CCO option then there is a risk that this could lead to a weakening of infrastructure-ready assessments, and council planning processes to service development capacity with three waters infrastructure to support growth. A non-CCO entity, such as a community trust, would result in the local three waters network infrastructure falling outside of the definition of both development infrastructure and additional infrastructure in the NPS-UD.
225. Options for addressing this issue may include:
- Amending the definition of development infrastructure (alongside consequential changes to infrastructure-ready tests) to include non-CCO entities governing three waters network infrastructure. This would require a council to a) work with an entity it does not control for infrastructure capacity modelling purposes and b) (subject to decisions set out above) make councils reliant on a third-party for which they have little to no control delivering infrastructure for compliance with Targets.
  - Amending the definition of 'additional infrastructure' to include non-CCO entities governing three waters network infrastructure. This would create a much softer requirement for water infrastructure where controlled by non-CCOs, creating a disparity in requirements between councils with different water models. However, it would reflect the reality of the lack of influence these councils would have over water infrastructure, and place water on the same playing field as other infrastructure that is not within the control of councils.
  - Require councils to work collaboratively with providers of infrastructure they do not control to ensure growth can and will be adequately serviced, possibly through FDSs (note – councils should already be doing this as best practice for spatial planning), and
  - Through the legislation that enables councils to establish community trusts for their three waters infrastructure, require trusts to work with councils to produce HBAs, and to align their water infrastructure plans with relevant FDSs/NPS-UD requirements.
226. **Questions for consultation:**
- In addition to the potential options identified above, are there any other options that may address this issue?
  - What would be the best method for addressing this issue?



### *Assessment requirements*

227. We have undertaken a review of how councils are currently determining the extent of their infrastructure-ready capacity. This revealed significant variation in the approaches taken between councils. The approach taken by many councils has been inadequate, with many gaps, particularly for brownfield development capacity. This includes:
- Not assessing infrastructure-readiness at all (e.g. Wellington City),
  - Assessing infrastructure-readiness at an individual property level rather than the cumulative impact of growth (e.g. Christchurch),
  - Modelling whether infrastructure is (or will be) adequate for projected growth within each area and then considering all capacity within those areas as infrastructure-ready (e.g. Auckland), and
  - Modelling the cumulative impact of development capacity and incorporating budget into LTPs for the design of infrastructure solutions (e.g. New Plymouth, Dunedin)
228. There is a greater need for consistency and a minimum level of evidence/assessment required to justify findings around whether capacity is (or will be) infrastructure-ready.
229. For brownfield capacity, we recommend amending the NPS-UD to require infrastructure-ready capacity to be assessed based on a cumulative subset of plan-enabled, feasible capacity.
230. This approach would involve calculating and reporting on the amount of plan-enabled, feasible capacity that is infrastructure-ready, rather than the amount of plan-enabled capacity that is infrastructure-ready. This would better suit the practicalities of modelling infrastructure capacity, as modelling the total amount of plan-enabled capacity is unlikely to yield useful results given the commonly large amounts of plan-enabled capacity and the inclusion of capacity that is unlikely to be developed.
231. The recommended approach would also ensure that councils calculate their amount of infrastructure-ready development capacity based on the development capacity they have assessed as being plan-enabled and feasible. This ensures better integration between land use and infrastructure planning and would avoid infrastructure assessments being based on unrelated inputs<sup>17</sup>.
232. The recommended requirement for the infrastructure-ready capacity to be cumulative relates to the need to consider the aggregate amount of growth that is enabled rather than considering each potential development in isolation. For instance, if a street had 10 vacant sites that could each be developed with 5 homes and the necessary infrastructure could service a **total** of 5 additional homes along the street, the cumulative infrastructure-ready capacity would be 5 homes, compared to an

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<sup>17</sup> Such as in Auckland's HBA published in 2023, in which infrastructure-readiness was calculated based on projected growth rather than the amount of development capacity. The infrastructure-ready assessment also used different demand projections than the rest of the HBA. In many areas, the amount of capacity counted as infrastructure-ready exceeded the amount of development tested in the infrastructure assessments, reducing the reliability of the results.



infrastructure-ready capacity for 50 homes that would result from considering each development site as infrastructure-ready in isolation.

233. Based on engagement with subject matter experts to date, modelling is essential to reliably estimate the amount of infrastructure-ready capacity. Models can be large, costly, and complicated, but simple and affordable models can also be developed and used, such as through spreadsheets. However, the key expense and time requirements arise from the collection and maintenance of data inputs, which are needed to validate models. While some councils have robust datasets and models, others (particularly smaller councils) do not. The differences in capabilities and infrastructure data between councils may make it hard to come up with more specific requirements that are robust but achievable across the councils.
234. One option would be to require infrastructure-readiness to be based on modelling, with bespoke solutions developed with councils that could not comply with those requirements.
235. We recommend that the issue is raised in the discussion document with a specific associated question about how it should be resolved.
236. **Questions for consultation:**
- How could the requirements for infrastructure-ready modelling be tightened to achieve greater consistency across councils and improve quality, while being viable for councils to implement and suitable for Targets implementation?

#### *Infrastructure constraints management approaches*

237. Councils have a legitimate interest in managing constraints on infrastructure networks. Failure to manage constraints can have significant adverse consequences.
238. Councils have a wide range of tools for managing these constraints. This includes zoning, infrastructure triggers<sup>18</sup>, infrastructure assessments (e.g. as part of a resource consent), site specific requirements, demand management measures and better use of infrastructure funding and financing tools.
239. The intent of Targets is to significantly increase the supply of developable land for housing and improve land-use flexibility, essentially through removing zoning as a tool for managing infrastructure constraints. However, councils should still be able to manage infrastructure constraints appropriately through other means, ideally in a way that provides as much predictability for developers as to when land can be developed and when infrastructure will be provided.
240. Councils play a key role in signalling to developers which areas are serviced by infrastructure currently or are planned for future infrastructure investment, and the

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<sup>18</sup> An infrastructure trigger (otherwise known as deferred zoning) involves a district plan that prohibits or restricts development until either a specific infrastructure project or specified infrastructure service levels have been met. For example, the district plan may state that residential development is non-complying, but once a specified project is delivered the activity status may change to restricted discretionary or controlled. No further plan change is required for the development to proceed.



expected timing through Future Development Strategies, Long-Term Plans and Infrastructure Strategies.

241. Currently under the NPS-UD, capacity counts as 'plan-enabled' if development is permitted, controlled, or restricted discretionary. As discussed above, this leaves scope for councils to retain significant discretion through a resource consenting process, including as to infrastructure servicing, which may undermine upfront predictability for developers and land-use flexibility.
242. However, as discussed above, the alternative of only allowing capacity to count as plan-enabled if development is permitted (or permitted and controlled) would risk preventing councils from being able to appropriately manage infrastructure constraints, or otherwise incentivise them to use tools outside of the RM system with even less upfront predictability (e.g. refusing water connections).
243. Therefore, as discussed above, we propose that capacity can count as 'plan-enabled' towards Targets as long as capacity is permitted, controlled or restricted discretionary. Councils can manage infrastructure constraints essentially in any way they want to within this constraint.
244. One of the better ways to manage infrastructure constraints in terms of achieving Going for Housing Growth-related objectives is the use of infrastructure triggers. However, there are limitations to councils' use of infrastructure triggers at present – developers may be able to circumvent infrastructure triggers through resource consents that override the trigger in the district plan. In addition, there are currently no mechanisms in place to ensure councils are not requiring a standard of infrastructure in developments that may be more than what is necessary.
245. These and other issues could be addressed through a legislative framework for the use of infrastructure triggers. However, resource constraints and timings of RM Bill 2 mean it is no longer feasible to develop a legislative framework for infrastructure triggers in the near-term. This means councils will be able to use infrastructure triggers (as well as other means of managing infrastructure constraints), but subject to the limitations that currently apply to their use.
246. To assist councils with appropriate use of infrastructure constraints, we propose (subject to resourcing) to develop new guidance for councils on the various options available to them for managing infrastructure constraints, when these should be used, and how these would work alongside Targets implementation.

*Infrastructure triggers and activity status for capacity to count as plan-enabled*

247. As councils will have to provide a large amount of plan-enabled development capacity to meet the Targets, there may be areas that are rezoned in advance of being serviceable with infrastructure.
248. As discussed above, the overall policy intent is that residential development must be permitted, controlled, or restricted discretionary for capacity to count towards the



Targets. However, there is question about whether this should also be the requirement where an infrastructure trigger is built into the plan.

249. Under many existing planning frameworks that use infrastructure triggers, development is discretionary or non-complying until the triggers are met. This sends a signal to plan users that it is unlikely to be appropriate and enables a fuller consideration of any developments that occur before infrastructure is ready.
250. There are two choices about the activity status that counts towards Targets when an infrastructure trigger is in place:
- Capacity could count towards Targets if the future activity status (once triggers are met) is permitted, controlled or restricted discretionary. For example, capacity could count towards Targets if development is currently classed as non-complying, but the operative district plan states that the development will be restricted discretionary if specified infrastructure prerequisites are met.<sup>19</sup> While on the face of it more lenient than the option below, this option would still require councils to actively change their district plans to provide a pathway towards capacity being enabled. To enable the use of this system, the definition of plan-enabled capacity would need to be amended to reflect the future activity status of development in these areas (once triggers are met).
  - Capacity could only count towards Targets if both the current and future activity status (once triggers are met) is permitted, controlled or restricted discretionary. For example, development might be restricted discretionary now (with infrastructure being a key matter of discretion), but could change to being permitted once a specified infrastructure project is completed. While this is on the face of it more enabling than the above option, in practice it may have limited difference – in either case, development would likely not be allowed until the infrastructure trigger was satisfied.
251. **Questions for consultation:**
- Which of the above options should we adopt?

#### *Types of infrastructure covered by requirements*

252. Given Cabinet decisions for development capacity needing to be infrastructure-ready (either now or in the future) to count towards meeting Targets, there are choices regarding which types of infrastructure this requirement applies to. Currently, it applies to network infrastructure for three waters and land transport controlled by councils.

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<sup>19</sup> This could be viewed as more lenient than the status-quo in the sense that there is no explicit provision for discretionary, non-complying or prohibited activity status to currently count towards development capacity. However, there are ways in which capacity with such statuses can count towards current requirements at present. For instance, plans may have subdivision as a restricted discretionary activity if it meets a standard requiring infrastructure to be provided to the site, with a discretionary status for developments that fail to meet that standard. Even though the RD status is conditional, this would likely be counted as plan-enabled under the status-quo. If infrastructure triggers are framed in a way that enables the development to go ahead as a permitted, controlled, or restricted discretionary activity if standards are met, this could potentially meet the current definition of plan-enabled.



Together, this infrastructure constitutes “development infrastructure”, as defined in the NPS-UD.

253. Currently, there are also softer requirements for other forms of infrastructure known as ‘additional infrastructure’ – this includes electricity lines, gas pipelines, telecommunications networks, state highways, community infrastructure and public open space. The NPS-UD requires local authorities to be satisfied that these types of infrastructure to service development capacity is *likely* to be available. However, councils are not required to enable this infrastructure alongside zoning of land, because:
- Many of these forms of infrastructure are outside of council control; and
  - Many of these forms of infrastructure are able to ‘lag’ rather than ‘lead’ development – they can be delivered after housing is in place, unlike core water and roading infrastructure.
254. However, there are options to include additional forms of infrastructure as a minimum requirement.
255. The following high-level options exist:
- Status-quo: network infrastructure for three waters and land transport.
  - Status-quo, plus other forms of network infrastructure such as electricity and telecommunications. In engagement with councils, several have noted that there are issues relating to the availability of electricity distribution in particular, and that it should not be assumed that new developments can be serviced by electricity distributors.
  - Status-quo, plus additional forms of network infrastructure as well as community infrastructure such as schools and open space.
256. We propose retaining the status-quo, as it covers the core development infrastructure provided by councils.
257. Widening the types of infrastructure that must be planned for alongside zoning changes might help to ensure that development is not enabled without all forms of appropriate network and/or social infrastructure. However, as many of these forms of infrastructure are currently outside of the control of councils, this could create practical challenges and would require changes to the definition of development infrastructure in the NPS-UD to reflect it including infrastructure outside of councils’ control.
258. We are satisfied that the requirement for councils to be satisfied that other forms of infrastructure are likely to be available, coupled with proposals to strengthen Future Development Strategies (including their infrastructure components) are sufficient to support planning for other forms of infrastructure.



### *Infrastructure service levels*

259. Given Cabinet's decisions regarding retaining a requirement for three years of development infrastructure to be in place at all times, there are choices regarding what standards this infrastructure will need to meet for associated development capacity to count towards Targets.
260. Currently, the NPS-UD requires infrastructure to be 'adequate' to count towards current capacity requirements. Central government also sets other direct and indirect requirements on infrastructure, e.g. via Taumata Arowai's regulation of drinking water quality. There is a choice about whether central government sets alternative service levels for the purposes of Targets beyond the current requirement of 'adequate'.
261. There are the following choices regarding service levels for infrastructure to support Targets:
- No service level requirements for infrastructure for associated development capacity to count towards the Targets. This would be a less onerous requirements on councils, but may result in diminishing servicing levels (although this would likely be mitigated by other incentives/requirements for councils to provide adequate servicing levels),
  - Status-quo: infrastructure must be 'adequate' for associated development capacity to count towards the Targets. Local government already sets levels of service for their development infrastructure through their Long-Term Plans, subject to central government oversight in some areas (e.g. drinking water quality). These levels of service have been developed in consultation with local communities and consequently reflect their aspirations and expectations, and
  - Set higher service levels than under the status-quo. This would require significant work to develop appropriate service levels, and this is unlikely to be deliverable under current timeframes. It would also result in a more dispersed and complex range of service level requirements compared to the current system, as well as involving further central government intervening in local democratic matters regarding levels of service.
262. We recommend maintaining the status-quo as it would be more appropriate for infrastructure servicing levels to be decided at the local level, while retaining a flexible minimum ('adequate') ensures that planned future infrastructure provision is reasonable.

### **Monitoring, reporting, and implementation**

263. Tier 1 and 2 councils are currently required to prepare HBAs every three years and publish these. They are also required to publish results of their monitoring of demand, supply and affordability at least annually. Where they have insufficient capacity, they must immediately notify the Minister for the Environment. As set out above, Cabinet has now agreed to amend the NPS-UD to introduce a standing requirement for



councils to provide HBAs, and relevant underpinning data and assumptions, to central government.

## Frequency of assessments

264. The appropriate frequency of assessment is dependent on the uses of HBAs and how quickly the key inputs change.
265. Arguably, with a shift towards live zoning for 30 years of development capacity, there is less of a need to check how much capacity is enabled as frequently as under the status-quo, as for most councils there should be more capacity enabled than at present.
266. The key uses of HBAs and their regularity are:
- Plan changes – sporadic,
  - Future development strategies - every six years, review every three years,
  - Long-term plans - every three years, and
  - Infrastructure planning – ongoing.
267. The key inputs of HBAs and their regularity are:
- Growth projections - updated every two to three years,
  - Costs and prices – ongoing,
  - Planning controls – sporadic,
  - Property/development information (including take-up of development capacity since last assessment) – ongoing, and
  - Existing and planned infrastructure – ongoing.
268. To integrate with long-term plan and future development strategies, the main options would be to require HBAs to be undertaken:
- Every three years (as per the status-quo),
  - Every six years, or
  - Every three years, with a review/update every three years (matching requirements for future development strategies)
269. Requiring a HBA every three years would have the greatest regulatory burden, but would best ensure that information is up-to-date and reliable, and that changes to inputs that impact on the sufficiency of development capacity are picked up quickly. It would also help ensure that skills and experience are more likely to be retained between capacity assessments.



270. Requiring a HBA every six years would have the least regulatory burden, but the scale of change in key inputs would be significant and emergent issues with housing capacity may not be picked up promptly.
271. A balance between robustness and regulatory burden could be achieved by requiring a HBA every six years with a requirement to review key inputs every three years and update the HBA if necessary. This would complement the requirements around future development strategies and fit with long-term plan requirements, although alternating long-term plans may be based on older information.
272. We propose to consult on the above proposal.

### Response where a council does not have sufficient development capacity

273. Regardless of the standing frequency at which HBAs need to be prepared, if a council's HBA identifies that it does not have sufficient capacity to meet Targets and that the insufficiency is wholly or partly a result of RMA planning documents, it will be required to undertake a plan change to address this.
274. Currently, it is not technically a requirement for councils to prepare a subsequent capacity assessment as part of the plan change to confirm that the plan change (including any decisions or recommendations made by an independent hearings panel) will restore the council to compliance with the NPS-UD, although to date councils have generally prepared updated capacity numbers (but not necessarily a full HBA) as part of their plan changes. This means that councils may in fact be producing multiple capacity assessments within a three-year period.
275. We propose to consult on formalising a requirement for councils to prepare an updated assessment of capacity (but not a full HBA) as part of plan changes to remedy non-compliance with Targets. This assessment would incorporate decisions or recommended changes made by hearing commissioners.

### Central government monitoring and reporting

276. We have recently provided advice in the context of the development of Resource Management Amendment Bill 2, which proposes that councils opting out of the MDRS would need to provide sufficient information to the Minister to demonstrate the proposed planning instrument will provide enough feasible development capacity to meet Targets before they can proceed with a plan change to do so. This will not require councils to provide a full HBA to central government – just information relating to assessing the demand, capacity, and sufficiency of housing capacity. We have also presented options to the Minister for whether the Minister would have a role in checking compliance with Targets at the end of the plan change process before it takes effect. Decisions on these matters are pending.
277. We envisage that HUD and MfE would jointly undertake a light-touch assessment of whether the information provided by the council, including the methodology and inputs,



is sufficient to demonstrate that the council's plan change does or will comply with Targets.

278. These formalised steps will only relate to the first plan change process for councils opting out of the MDRS. There will be no formalised steps for subsequent plan changes, or for councils that choose not to opt out of the MDRS.
279. For these other plan changes, we expect that, when councils submit their HBA and underlying inputs and assumptions to central government (as Cabinet as agreed will be required), HUD and MfE officials will undertake a light-touch assessment of HBAs and underlying data to confirm compliance with requirements in the NPS-UD. However, unlike in relation to MDRS removal, these assessments will be discretionary and subject to resourcing.
280. Where an assessment indicates non-compliance with the NPS-UD requirements, this could trigger informal or formalised compliance and enforcement action where justified, and where resourcing permits. This includes enabling MfE/HUD/the Minister of Housing to initiate ad-hoc reviews of housing capacity assessments, along with a power of the Minister of Housing to require changes to an HBA where it has not been prepared in accordance with requirements.

## Format of reporting

281. In 2023, MfE and HUD published an executive summary template for councils to use in their HBAs if they wished.<sup>20</sup> This template outlined all required results/outputs in HBAs and was intended to assist readers by providing all relevant information in a single place.
282. This template was produced in response to concerns that, due to HBAs being long and technical documents, it can be difficult for readers to identify key information. In order to assist with making HBAs more accessible to readers (particularly people that are unfamiliar with HBAs), and to support central government to efficiently assess compliance with Targets, we consider it necessary to require councils to use the executive summary template moving forward, with some minor adjustments.
283. Furthermore, we recommend that example results are required in HBAs. These would provide worked examples for sample sites that outline the inputs and calculations that apply to determine how much capacity is plan-enabled and whether it is feasible. They would cover a range of different housing typologies.

## Implementation timings

284. Councils that opt out of the MDRS will need to implement Targets as part of the same plan change.

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<sup>20</sup> <https://environment.govt.nz/assets/publications/Executive-summary-template.pdf>



285. Decisions have not yet been made on implementation timeframes for councils that are not opting out for the MDRS to implement Targets, as the intent is to align implementation timeframes with other national direction.

## Guidance

286. Detailed technical guidance has been requested by a number of councils and was a recommendation of the review of the last round of housing capacity assessments.<sup>21</sup> Guidance and ongoing support would be helpful to councils and increase the likelihood that HBAs are robust and consistent. It would also increase the ability for councils to undertake HBAs in house, which would be more conducive to the thorough incorporation of the assessment and key insights into council programmes.
287. We propose to develop guidance, subject to resourcing constraints and other work programme priorities within MfE and HUD.

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<sup>21</sup> Summary review of Housing and Business Development Capacity Assessments, Principal Economics, December 2021

# Policy paper – NPS-UD Intensification changes

## Introduction

1. The purpose of this document is to record the policy thinking and options analysis undertaken by HUD and MfE on proposed changes to the intensification requirements of the National Policy Statement on Urban Development (NPS-UD). It will be used to inform further advice to Minister Bishop in October, as well as the development of the discussion paper on changes to the NPS-UD.
2. We welcome feedback on any of the proposals set out in this paper.

## Overview

3. Policy 3 of the NPS-UD sets out intensification requirements that apply to district plans in tier 1 urban environments. The table below sets out the current intensification requirements of policy 3:

WHERE	WHAT
<b>3(a)</b> – In city centre zones	Building heights and density to realise <u>as much development capacity as possible</u> , to maximise benefits of intensification
<b>3(b)</b> – In metropolitan centre zones	Building heights and density to reflect demand in those locations, and in all cases building heights of <u>at least 6 storeys</u>
<b>3(c)</b> – Within at least a walkable catchment of the following: <ul style="list-style-type: none"> <li>• existing and planned rapid transit stops</li> <li>• the edge of city centre zones</li> <li>• the edge of metropolitan centre zones</li> </ul>	Building heights of <u>at least 6 storeys</u>
<b>3(d)</b> – Within and adjacent to neighbourhood centre zones, local centre zones, and town centre zones (or equivalent)	Building heights and density <u>commensurate with the level of commercial activity and community services</u>

## Proposed changes

4. Cabinet has agreed to the following changes to these intensification policies:
  - Restore the scope of policy 3(d) to its pre-MDRS position of applying in all parts of tier 1 urban environments (other than those with a more specific intensification requirement).
  - Simplify the definition of rapid transit to address ambiguity in the current definition.
  - Requiring councils to enable intensification around strategic transit corridors. Councils will be responsible for determining these corridors, subject to criteria set by central government.

- Set minimum walkable catchment sizes within which councils must enable intensification. Minimum catchment sizes will vary based on the level of service provided by the type of centre or node.
- Requiring that the loss of development capacity through use of an unlisted qualifying matter (including special character) is offset by a direct and corresponding increase in development capacity elsewhere.

**5.** This note seeks feedback on options for giving effect to the above changes.

## Restoring the scope of Policy 3(d)

### Background

6. Prior to the introduction of the MDRS, policy 3(d) required tier 1 councils to enable heights and densities commensurate with levels of demand and/or accessibility to businesses and services across all of their urban areas (other than those with a more specific intensification requirement).
7. Policy 3(d) was narrowed when the medium density residential standards (MDRS) were introduced to only apply to areas within and adjacent to neighbourhood, local and town centre zones. This was because the MDRS arguably made the policy redundant outside of these centre zones. However, in making the MDRS optional, this rationale no longer applies, and Cabinet has agreed to return policy 3(d) to its original scope.

### Objectives

8. Return policy 3(d) to its original scope of applying in all locations of tier 1 urban environments (other than those covered by policies 3(a)-(c)).
9. This is intended to better support well-functioning urban environments than the status quo through:
  - providing direction to councils on how to allocate development capacity across their urban areas; and
  - supporting integration of transport and land-use.
10. As a secondary objective, the drafting of policy 3(d) should be clear and simple for councils to implement.

### Options

#### **Option 1 – Restore policy 3(d) to its pre-MDRS drafting.**

**Policy 3:** *In relation to tier 1 urban environments, regional policy statements and district plans enable:*

*(d) in all other locations in the tier 1 urban environment, building heights and density of urban form commensurate with the greater of:*

*(i) the level of accessibility by existing or planned active or public transport to a range of commercial activities and community services; or*

*(ii) relative demand for housing and business use in that location.*

#### **Option 2 – Heights and density commensurate with accessibility**

**Policy 3:** *In relation to tier 1 urban environments, regional policy statements and district plans enable:*

*(d) in all other locations in the tier 1 urban environment, building heights and density of urban form commensurate with the level of accessibility by existing or planned active or public transport to a range of commercial activities and community services.*

## Analysis

11. Restoring policy 3(d) to its original drafting (option 1) would align with the drafting of policy 5 (which applies to tier 2 and 3 councils). There is also existing MfE guidance on how to implement the original drafting of policy 3(d).
12. Despite this, determining the greater of “the level of accessibility...” or “relative demand...” is likely to be complex for councils and require significant analytic resource. While accessibility and demand are understandable at a high level, they are open to interpretation at a more detailed level and figuring out relativeness across the two criteria is very difficult. This could lead to councils adopting inconsistent approaches in implementing policy 3(d).
13. Focussing on just accessibility (option 2) would likely be simpler for councils to determine. Demand and accessibility are also likely to be highly correlated. As such, focussing on just accessibility is unlikely to have a significant impact on the application of policy 3(d).

## Questions/feedback

- What is your preferred option for restoring policy 3(d) to its original scope of applying in all locations of tier 1 urban environments (other than those covered by policies 3(a)-(c))?
- Are there any options we have overlooked?
- Any other feedback?

## Clarifying the definition of rapid transit

### Background

14. There was significant debate around whether particular transit services met the rapid transit definition during the plan changes to implement the NPS-UD. Most notably the Johnsonville line in Wellington.
15. To address the existing ambiguity and reduce debate in plan change processes, Cabinet has agreed to clarify the definition of rapid transit.

### Current definitions

16. **Rapid transit service** means any existing or planned frequent, quick, reliable and high-capacity public transport service that operates on a permanent route (road or rail) that is largely separated from other traffic.
17. **Rapid transit stop** means a place where people can enter or exit a rapid transit service, whether existing or planned.
18. For the purposes of the above two definitions, **planned** means planned in a regional land transport plan prepared and approved under the Land Transport Management Act 2003.

### Objectives

19. The purpose of this policy is to:
  - Clear up ambiguity (and debate) around what should be classified as a rapid transit service under the NPS-UD;
  - Futureproof the definition of rapid transit, so that it endures/remains relevant over time and can be used to identify future rapid transit services; and
  - Continue to require/encourage councils to consider their land use and transport planning together (i.e., integrate land use and transport planning). This is particularly relevant for the requirement to align intensification zoning with “planned” rapid transit.

### Proposal

20. To clear up ambiguity around the definition, whilst still future proofing for new rapid transit services, we propose to:
  - List the existing rapid transit services; and
  - Include a catch-all for planned rapid transit services.
21. For example – **Rapid transit service** means:
  - Eastern Line, Southern Line, Western Line, Onehunga Line,<sup>1</sup> Northern Busway, Eastern Busway (Auckland)
  - Kapiti Line, Melling Line, Hutt Valley Line, Johnsonville Line (Wellington); and
  - Any planned high-capacity and frequent public transport service that operates on a permanent route (road or rail) that is largely separated from other traffic.

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<sup>1</sup> These are proposed to be renamed as the East-West Line, Southern Line, and Onehunga-Western line once the City Rail Link becomes operative. We will seek to draft the NPS-UD to future-proof for these changes.

22. The proposed catch-all for planned services removes the existing requirements around quickness and reliability. We consider capacity, frequency and separation from other traffic are the key features of a rapid transit service with speed and reliability often a function of these factors.
23. In addition to the catch-all for planned services, we also intend to periodically update the list of existing services as and when new rapid transit services are constructed.
24. For the avoidance of doubt, the definition is not intended to capture infrequent inter-regional rail services such as Te Huia or the Manawatu and Wairarapa lines to Wellington. We may address this by clarifying the geographic extent of each line (for example, that stations on the Hutt Valley Line are only deemed rapid south of and including Upper Hutt station).

### **Definition of planned**

25. The definition of “planned” that applies to rapid transit services and stops would be relevant to the proposed catch-all for future rapid transit services. We are aware that the current definition may create some difficulties.
26. Even if a rapid transit stop is planned in a regional land transport plan (RLTP), there may still be uncertainty around the precise location of the stop. This could make determining the walkable catchment of a planned rapid transit stop difficult. Additionally, inclusion of a potential rapid transit service in the RLTP may only be for funding preliminary work (early business case, planning feasibility etc) and does not necessarily mean the project will proceed (e.g. LGWM, ALR).
27. A more appropriate trigger for upzoning around planned rapid transit could be at confirmation of the designation of a rapid transit stop. This is because:
  - The designation process provides a much higher level of certainty the project will proceed (due to resources need for the process and the consequential liability/commitment to property purchases).
  - It will usually provide the property specific level of detail necessary to calculate walking catchments from station locations. Prior to designation, station locations can shift around a reasonable amount (as we found in Drury and Dairy Flat).
28. However, there could be rare instances where new rapid transit services may be able to be provided within the scope of existing designation conditions (for example, the recent Rosedale Bus Station did not require a NOR). In these instances, an outline plan would likely be needed to consent new stations and potentially a reference to this (outline plan, consent or similar) could be incorporated into the definition. Periodically updating the listed rapid transit services could also provide an important backstop in these situations.

### **Questions/Feedback**

- What are your thoughts on the proposed new definition for rapid transit services?
- Are there any other current rapid transit services that we have not listed?
- Do you consider the catch-all for planned rapid transit services appropriate?
- What should be the appropriate trigger for requiring upzoning around a planned rapid transit stop?
- Any other feedback?

## Key Transit Corridors

### Background

29. Many areas well-served by public transport are not captured by the NPS-UD's intensification policies as they do not meet the definition of 'rapid transit'. This means that high density development is not always enabled in places of high accessibility and demand.
30. Given areas well-served by good quality public transport are often well-suited to intensification, Cabinet has agreed to require tier 1 councils to enable intensification around key transit corridors.<sup>2</sup> Councils will be responsible for determining these corridors, subject to criteria set by central government.
31. The Cabinet paper listed the following examples of potential key transit corridors:<sup>3</sup>
  - In Wellington, the main bus routes between Island Bay, the city centre, and Johnsonville; and between Karori, the city centre, and the Miramar peninsula;
  - In Auckland, Dominion Road, Mt Eden Road, and Sandringham Road; and
  - In Christchurch, the main route between Belfast and the city centre; between the Airport and central city; and between the Hornby, Riccarton, and the city centre.

### Objectives

32. The purpose of this policy is to:
  - Enable increased intensification in areas well-served by good quality public transport that does not meet the definition of rapid transit; and
  - Continue to require/encourage councils to consider their land use and transport planning together (i.e., integrate land use and transport planning).

### Issues

33. There are two main issues that need to be worked through to give effect to the policy:
  - What criteria should apply for identifying key transit corridors?
  - What upzoning requirements should apply around key transit corridors?

### Criteria for key transit corridors

34. We do not currently have a preferred option for the criteria for key transit corridors. This note seeks feedback on what the criteria should be.
35. The NPS-UD will need to define or include criteria for key transit corridors to give direction to councils on how to identify their strategic transit corridors. The criteria will need to be focussed on identifying areas that are well-served by good quality public transport and suitable for intensification.

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<sup>2</sup> The Cabinet paper used the term "strategic transit corridors". However, NZTA and MoT have subsequently provided feedback that this term is likely to cause confusion. The term 'strategic corridor' is already used in transport planning to refer to the top tier of corridors or services in a network hierarchy, (such as the state highway network or rapid transit services). Feedback is sought on an appropriate name for "key transit corridors".

<sup>3</sup> The list of potential corridors in the Cabinet paper was not intended to be exhaustive.

36. At a minimum, we expect any corridors that have a public transport classification of PT2 or “Spine” under NZTA’s [One Network Framework](#) should be classified as key transit corridors for the purposes of the NPS-UD. It is also likely to be appropriate for many corridors with a classification of PT3 or “Primary” to be classified as key transit corridors for the purposes of the NPS-UD.

*One Network Framework – Public Transport Classifications*

Class	Public Transport Service Level descriptor	Strategic Significance (Role in Public Transport Network)	Indicative vehicle volume (Bi-directional)	Indicative People Movement (Bi-directional)	Description
PT1	Dedicated	Strategically significant corridors where <b>rapid transit</b> services are operated, providing a quick, frequent, reliable, and high-capacity service that operates on a permanent route (road, rail, or sea lane) that is dedicated to public transport or largely separated from other traffic.	≥ 4 services per hour	≥1000 per day	Dedicated or largely separated public transport corridors provide for the fast and efficient movement of people by rapid transit. They only service public transport (except rail lines that can also provide a goods movement function under the freight mode).
PT2	Spine	Strategically significant corridors where many frequent services operate and <b>many different PT services merge together to create very high frequencies and overall passenger movement</b> . Any deficiencies on these corridors affect multiple services and large parts of an urban area.	≥ 20 services per hour	1000 to 10000+ per day	Spine corridors are where many public transport services operate on the same corridor, usually within city centres or near major transport interchanges as PT services converge. Much of the street space can be dedicated to public transport infrastructure, including significant space that could be utilised for bus stops.
PT3	Primary	Strategic corridors where <b>frequent public transport services operate, providing regular</b> services across most of the day, seven days a week.	≥ 4 services per hour	≥ 500 per day	Primary public transport corridors occur on the parts of the network where frequent service can be expected. This could be for part of route where the collection of services operating results in a better than 15-minute headway frequency of that part of the route. These corridors are more likely to be on major arterial roads.
PT4	Secondary	Corridors where <b>PT services operate at most times of day</b> , but less frequently. The main focus of PT services using these corridors is to provide basic access and coverage.	< 4 services per hour	100 to 1000 per day	Secondary public transport corridors occur in the parts of the network providing local access and coverage, but at reduced schedules. Routes typically traverse local streets and minor arterial roads
PT5	Targeted	Corridors where services only operate at certain times of the day (e.g., peak only) or for specific trip purposes (e.g., school buses only).	N/A	Variable	These services provide a basic level of access to public transport, but on a much-reduced schedule, typically only once a day return, such as school bus services, and long-distance commuter services, or at peak times only.

37. Criteria for key transit corridors should also be relative to the quality of public transport within each urban environment. Public transport service and frequency levels differ between our urban environments (e.g. Auckland and Wellington would typically have much higher levels of service than Tauranga and Hamilton). Setting criteria that reflects expected service levels of key transit corridors in Auckland or Wellington could lead to some urban environments not identifying any key transit corridors. Instead, it is intended that all tier 1 urban environments will be required to identify as key transit corridors the areas within that urban environment that are best-served by public transport.<sup>4</sup>
38. However, we would still likely expect (for example) Auckland to have a greater proportion of its urban area serviced by key transport corridors than (for example) Tauranga. Essentially, we are trying to balance:
- The current differentiation in service levels between different urban environments, which should be reflected to an extent in the key transport corridors identified; while
  - Also reflecting the interaction between land use and transport planning, and that upzoning along a corridor that is *relatively* less well-served than corridors in other urban environments can help drive population density to drive improvements in service levels over time.
39. Criteria included in the NPS-UD will likely need to be supplemented with guidance. Guidance could for example, refer to NZTA’s One Network Framework or accessibility indices to assist councils in identifying key transit corridors. However, guidance would not be binding and may not be followed by councils in all cases.

**Out-of-scope options**

40. Based on prior Cabinet and Ministerial decisions, the following options are not in scope:
- Explicitly listing key transit corridors; and
  - Highly prescriptive criteria that remove council choice in identifying key transit corridors. For example, setting bright-line frequency thresholds (i.e. a bus every 10 minutes).

<sup>4</sup> While we expect each tier 1 urban environment to identify and upzone key transit corridors, not all tier 1 *councils* will necessarily have key transit corridors. For example, key transit corridors for the Hamilton urban environment might be entirely contained within Hamilton City Council’s jurisdiction (and not within the jurisdiction of Waikato or Waipa District Councils).

## Options

41. The table below sets out some options for potential criteria for key transit corridors.

OPTION	ANALYSIS
<p><b>1 – Spine corridors</b></p> <p>Key transit corridors are existing or planned transit corridors (other than rapid transit) that:</p> <ul style="list-style-type: none"> <li>• Form a key part of an urban environment’s public transport network; and</li> <li>• Have very high public transport frequencies and overall passenger movement.</li> </ul>	<p>Criteria based on the PT2/Spine category in the One Network Framework.</p> <p>Option would have the fewest areas identified as key transit corridors. However, the areas that are identified are likely very suitable for higher levels of intensification.</p> <p>In some urban environments, spine corridors might be primarily contained within existing walkable catchments of city centre and metro centre zones. As such, little additional development capacity would be enabled.</p>
<p><b>2 – Spine plus primary corridors</b></p> <p>Key transit corridors are existing or planned transit corridors (other than rapid transit) that:</p> <ul style="list-style-type: none"> <li>• Form a key part of an urban environment’s public transport network; and</li> <li>• Have high public transport frequencies and regular services across most of the day, seven days a week.</li> </ul>	<p>Criteria based on the PT3/Primary category in the One Network Framework.</p> <p>Option would lead to more areas being identified as key transit corridors than option 1. However, there is a potential risk that some of these areas are less well-suited to higher levels of intensification.</p>
<p><b>3 – Accessibility</b></p> <p>Key transit corridors are existing or planned transit corridors (other than rapid transit) that:</p> <ul style="list-style-type: none"> <li>• Form a key part of an urban environment’s public transport network; and</li> <li>• Provide high levels of accessibility to a range of commercial activities and community services.</li> </ul>	<p>Accessibility analysis can consider a broader range of criteria (e.g. different modes, transfers between routes, accessibility to a range of destinations, travel times etc.) that reflect a public transport customer’s lived experience.</p> <p>May be a strong relationship between level of accessibility provided by a transit corridor and the demand for urban development around that corridor.</p> <p>Option would likely need to be supported by guidance on how to determine levels of accessibility.</p>

### **Planned key transit corridors**

42. It is intended that councils will need to upzone around planned key transit corridors. The current NPS-UD definition of “planned” refers to planned in a regional land transport plan (RLTP). This is unlikely to be appropriate for identifying future key transit corridors as RLTPs do not show public transport routes or frequencies.

43. Proposed changes to the definition of “planned” for the purpose of rapid transit services (e.g. relying on designations of a stop) are also unlikely to be suitable for identifying future key transit corridors. In many instances, key transit corridors will not require planning approval given they reflect service levels rather than infrastructure requirements.
44. Options for identifying planned key transit corridors could include when a future key transit corridor has been identified in a FDS or Regional Public Transport Plan (RPTP). This may necessitate changes to FDS requirements or RPTP guidelines respectively.

### Upzoning requirements for key transit corridors

45. We also do not currently have a preferred option for upzoning requirements for key transit corridors. Feedback is sought on what upzoning requirements should apply to key transit corridors.
46. The NPS-UD will need to set specific upzoning requirements for key transit corridors. Not setting specific requirements (i.e. letting councils determine heights and densities) would not practically differ from the proposed requirements under policy 3(d). As such, we consider it necessary to set specific upzoning requirements to give effect to the policy of enabling intensification around key transit corridors.
47. Upzoning requirements for key transit corridors will need to cover both building heights (e.g. high or medium density) and minimum sizes for walkable catchments of key transit corridors.<sup>5</sup>

### Density

48. There are three main options for density requirements around key transit corridors:
  - **High density** (e.g. 6 storeys) enabled within a walkable catchment.<sup>6</sup>
  - **Medium density** (e.g. 3 storeys) enabled within a walkable catchment
  - **Graduated density** (e.g. high density enabled within a small catchment and medium density enabled within a larger catchment).
49. The appropriate upzoning requirements for key transit corridors might depend on the criteria for identifying key transit corridors and how broadly the policy applies.
50. Some transit corridors that are likely to be identified as key transit corridors have comparable or better accessibility than many rapid transit services (e.g. Dominion Road). In addition, some councils (e.g., Auckland Council) already have some higher density zoning along likely key transit corridors. For these corridors, requiring councils to enable high density within the walkable catchment is likely appropriate.
51. If the key transit corridors policy applies more broadly, it is likely to also include corridors that, while still well-served public transport, have lower levels of accessibility than rapid transit services and may be better suited to medium density than high density development. Higher levels of intensification could adversely affect public transport services along these potential key transit corridors. Bus routes typically have limits to how much capacity they can add (e.g. too many buses operating on a route can adversely affect reliability and

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<sup>5</sup> Cabinet has agreed to set minimum walkable catchment sizes for policy 3(c). Setting minimum catchment sizes for strategic transit corridors would be consistent with this proposal.

<sup>6</sup> High density in this case refers to the density requirements applying to walkable catchments of rapid transit stops. If this is increased from 6 storeys (e.g. to 8 or 10 storeys), it is intended the same requirement would apply to both rapid transit and key transit corridors under this option.

journey times). Conversely, there is typically much more potential to increase capacity in response to demand along rapid transit routes.

52. If the key transit corridor policy is to apply more broadly, a medium density upzoning requirement may be more appropriate. This would still allow councils to zone for higher densities along the parts of their key transit corridors that are more suited to high density development. However, 3 storeys could end up functioning as a target with councils not zoning higher than the minimum, even though they might have otherwise. It could also result in a regression/loss of development capacity if councils choose to downzone key transit corridors that are currently zoned for high density.

### ***Multiple categories of key transit corridors***

53. It may be possible to have multiple categories of key transit corridors with differing intensification requirements applying to each category. For example, enabling high-density within a walkable catchment of “spine corridors” (option 1) and medium density within a walkable catchment of “primary corridors” (option 2).

### **Walkable catchments**

54. Possible minimum walkable catchment sizes for key transit corridors range from properties immediately adjacent to the corridor at the low end to 800m at the high end.
55. Councils have generally set walkable catchments of 800m (or 10 minutes) around their rapid transit stops. However, commuters are generally likely to walk further to access a rapid transit service than a bus service. As such, we consider that smaller minimum catchment sizes of either 200m or 400m are likely to be more appropriate for key transit corridors.
56. Along major transit corridors, the areas most attractive for development may be a block or two back from the corridor. People may prefer to minimise the impacts of negative externalities associated with major roads (e.g. noise, pollution) by having slightly longer walks to a bus stop. As such, if the walkable catchment is set too small there is a risk that the areas near the key transit corridor that are most suitable for development will not be upzoned.

### ***Where to measure catchments from?***

57. The NPS-UD will need to specify where to measure walkable catchments of key transit corridors from. There are three main options
- **Catchments are measured from the corridor itself** (e.g., 200/400m as walked from the edge of the legal boundary of the road reserve).

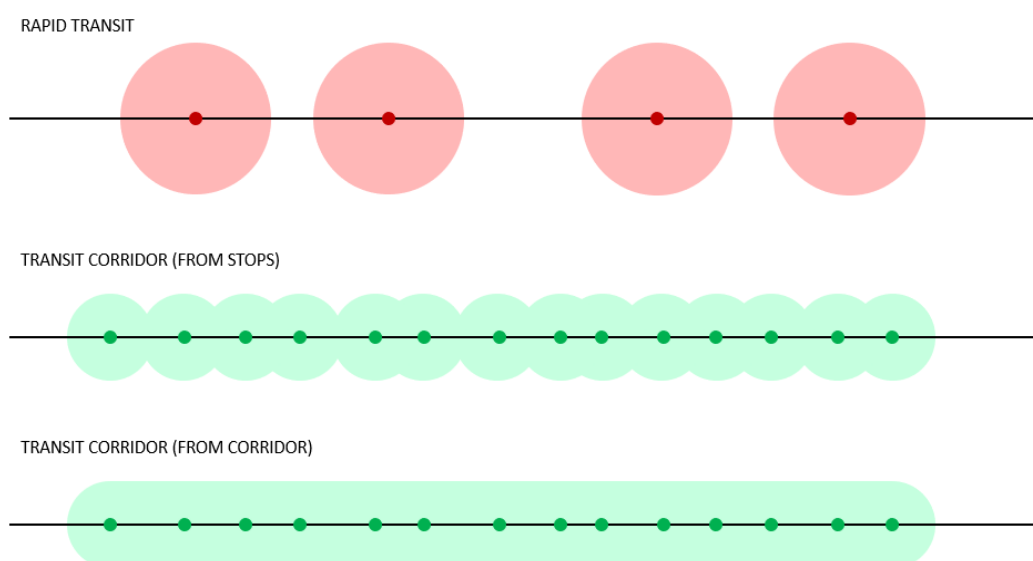
There may need to be some exceptions to this general approach. For example:

- i. If a ferry route has been identified as a key transit corridor, the catchment would need to be measured from the ferry stops.
  - ii. If a corridor has large gaps between stops, it may be appropriate to have gaps in the walkable catchment of the corridor.
- **Catchments are measured from stops along the corridor** (e.g., 200/400m as walked from a public transport stop).
  - **Council discretion** - Councils may choose whether to measure catchments from either the corridor itself or stops along the corridor.

For example - Councils must upzone within a walkable catchment of 200/400m from either:

- i. the edge of the legal boundary of the road reserve of the key transit corridor;  
or
- ii. public transport stops along a key transit corridor.

58. Zoning along transit corridors is fundamentally different to zoning around rapid transit stops. Zoning around rapid transit stops leads to a 'string of beads' pattern of urban development, where higher density zoning is concentrated around specific points (i.e., stations) to which people must walk to access a transit service. Zoning along corridors, which are predominantly serviced by buses, leads to a pattern of urban development where higher density zoning is concentrated along the entirety of the corridor, reflecting the fact that the transit service is readily accessible at smaller intervals (e.g., a series of bus stops that are much closer/more walkable distance than train stations).



59. In general, measuring catchments from the corridor itself will be more appropriate than measuring catchments from stop locations. Bus stops may move over time so there's a risk that catchments based on stops will become out of date. However, this is less of a concern if catchments for stops along the corridor overlap.
60. Despite this, there are circumstances where measuring catchments from stops will be more appropriate (e.g. ferries). This could be provided for by listing the circumstances in which councils must/may use stops rather than corridors to measure catchments from (option 1). However, identifying all circumstances in which using stop locations is appropriate may be difficult.
61. Council discretion (option 3) would allow for local nuance (e.g. a council could generally identify catchments from the edge of corridors but take a different approach where stops are more spaced out along the corridor). Guidance could still be used to encourage using the edge of corridors in most situations; however, councils would be free to ignore this guidance.

**Recommendation** – Provide councils discretion on whether to measure walkable catchments from the edge of the corridor or stops along the corridor.

## Application of qualifying matters to key transit corridors

62. The qualifying matters framework would apply to key transit corridors. For example, if part of a corridor has natural hazards that make higher densities inappropriate, a qualifying matter could be used to reduce the level of upzoning provided for in that part of the corridor. This will also ensure that the NPS policies are consistent with Part two of the RMA.

### Questions/feedback

- What is the most appropriate name for key transit corridors?

### Criteria

- What is your preferred option for the criteria for key transit corridors?
- Are there any options we have overlooked?
- Do you have any feedback on how to refine or improve any of the options?
- What should be the appropriate trigger for identifying and upzoning around a planned key transit corridor?
- Any other thoughts or feedback on criteria for key transit corridors?

### Upzoning requirements

- What density requirement should apply within a walkable catchment of key transit corridors (e.g. high or medium density)?
- Should different density requirements apply to different categories of key transit corridors (i.e. spine vs primary corridors)?
- What should be the minimum size for walkable catchments of key transit corridors?
- Where should the walkable catchments of key transit corridors be measured from (e.g., stops, edge of the road reserve, or council discretion)?
- Any other thoughts or feedback on upzoning requirements for key transit corridors

## Setting minimum walkable catchments

### Background

63. Tier 1 councils are required to enable heights of at least 6 storeys within a walkable catchment of city centre zones, metro centre zones and rapid transit stops. Catchment sizes were intentionally not prescribed so as to provide for local circumstances. However, this has led to significant debate about what is 'walkable', leading to costs and inefficiencies in the plan change process.
64. In response to this, Cabinet has agreed to set minimum walkable catchment sizes that councils must use. Catchment sizes would be based on the level of service provided by the type of centre or node (for example, there would be larger catchment sizes for city and metropolitan centres than around rapid transit stops).

### Objectives

65. The purpose of this policy change is to clear up ambiguity around the size of "walkable catchments" in the NPS-UD. This is intended to:
  - Help avoid unproductive debate around walkability and reduce inefficiencies in the plan change process.
  - Better support increased development capacity

### How to measure catchments

66. Walkable catchments can be calculated in terms of either time (how many minutes people walk to access a given amenity) or distance (how many metres people walk to access an amenity).
67. Given that people tend to walk at a certain speed (approx. 5 km/hr), walking time is broadly correlated with distance walked (5 mins walked is approx. 400m, 10 mins is approx. 800m etc).
68. Topographic factors, such as hills (inclines and declines), can impact this relationship between time and distance walked. Consequently, the size of walkable catchments can differ depending on whether they are measured in terms of time or distance walked.
69. Given the purpose of setting minimum catchment sizes is to reduce ambiguity, we propose catchments are set in terms of distance rather than time.

### Distance walked vs as the crow flies

70. Using distance as the metric for determining minimum walkable catchments could be based on either distance walked or distance as the crow flies. We propose catchments are based on distance walked.
71. While distance as the crow flies would be easy to map, in not considering street networks it does not reflect actual walkable catchments. For example, it may capture areas of low accessibility (i.e. areas on the other side of a train track) that do not form part of a centre zone or transit stop's true walkable catchment.

## Minimum catchment sizes

72. There are a range of options for minimum catchment sizes. These options are informed by the Ministry for the Environment's [guidance on understanding and implementing the intensification provisions of the NPS-UD](#), which includes specific guidance on identifying walkable catchments. The proposed options range from slightly smaller to slightly larger than MfE guidance:

- **Option 1 (small)**

- i. City centre – 800m
- ii. Metro centre – 400m
- iii. Rapid transit stops – 400m

- **Option 2 (medium)**

- i. City centre – 1,200m
- ii. Metro centre – 800m
- iii. Rapid transit stops – 800m

- **Option 3 (large)**

- i. City centre – 1,500m
- ii. Metro centre – 1,200m
- iii. Rapid transit stops – 1,200m

73. We recommend Option 2 (medium) as this broadly aligns with the catchment sizes that tier 1 councils have already identified through their intensification plan changes (see table on pages 19-20), as well as existing guidance.

74. Option 1 (smaller catchments) would create potential for regression from existing catchment sizes and the enablement of less development capacity close to amenities. As these minimums will typically be smaller than the true walkable catchments, it would also not achieve the policy intent of avoiding unproductive debate around walkability.

75. Option 3 (larger catchments) would increase development capacity, though additional enabled capacity located further away from amenities may not be commercially feasible (i.e., no impact on overall feasible development capacity). This option could also lack council and community buy-in.

## Questions/feedback


- Do you agree with setting minimum walkable catchments based on “distance walked”?
- What should be the minimum walkable catchments for city centre zones, metro centre zones and rapid transit stops respectively?
- Any other feedback?

## Maps


The following maps indicate the (approximate) spatial extent of the proposed options, across five Tier 1 councils (Auckland, Wellington City, Tauranga City, Hamilton City and Christchurch City).


# AUCKLAND

## CENTRES


CITY AND METRO 


## RAPID TRANSIT


STOPS 

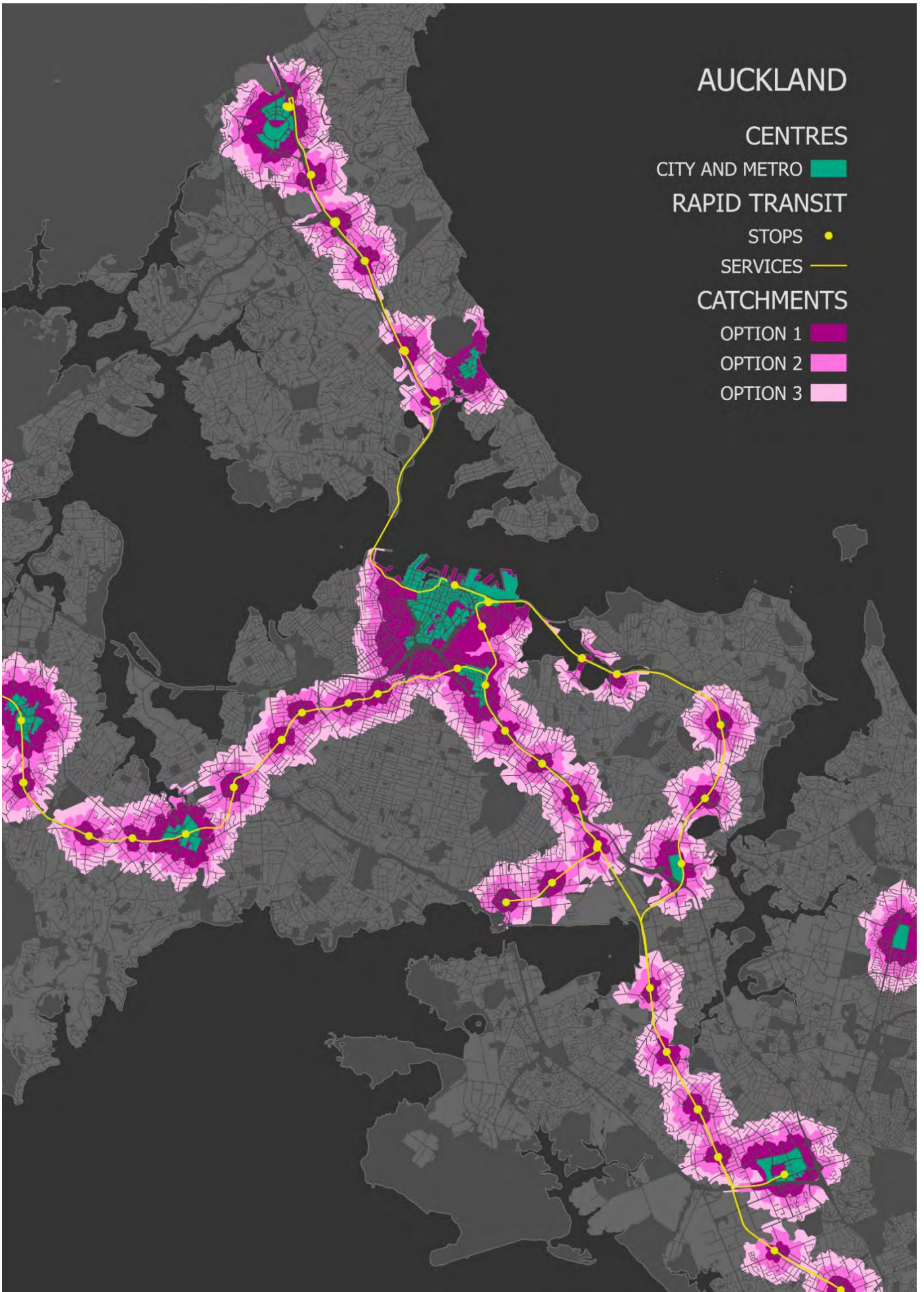
SERVICES 

## CATCHMENTS

OPTION 1 


OPTION 2 

OPTION 3 




# WELLINGTON

## CENTRES


 CITY AND METRO


## RAPID TRANSIT


 STOPS

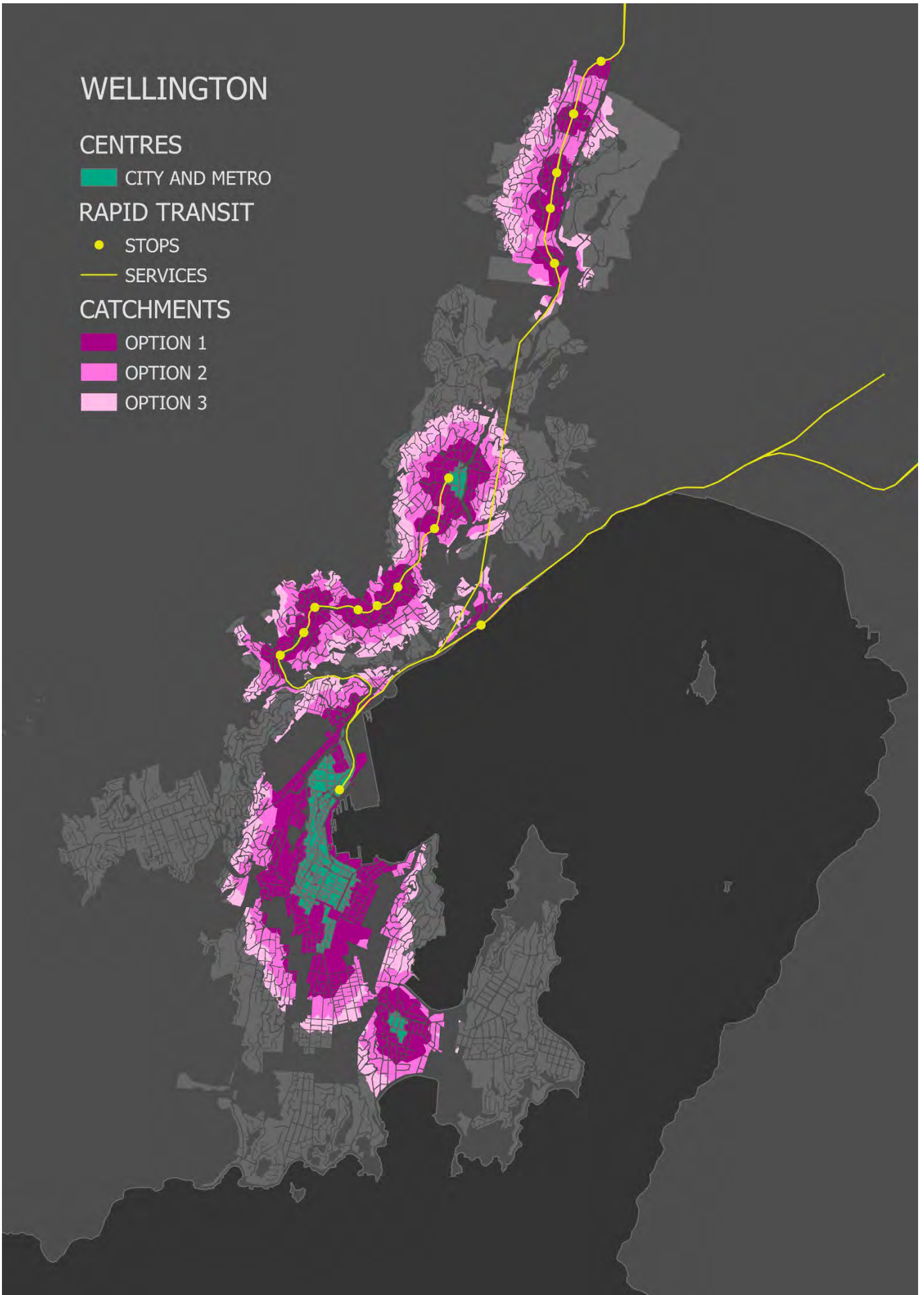
 SERVICES

## CATCHMENTS

 OPTION 1

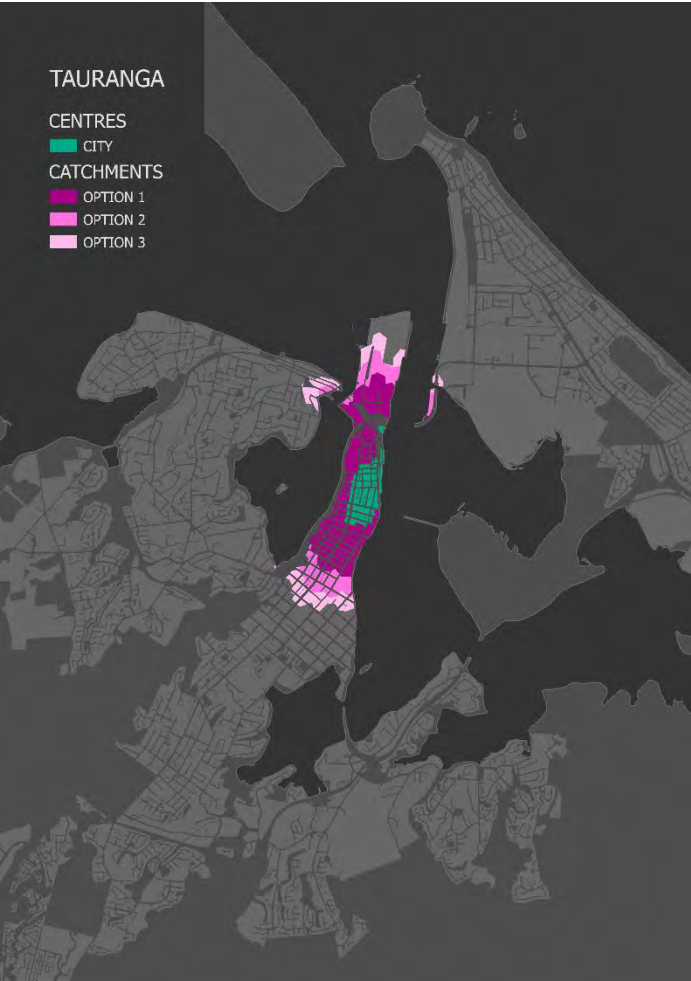
 OPTION 2

 OPTION 3



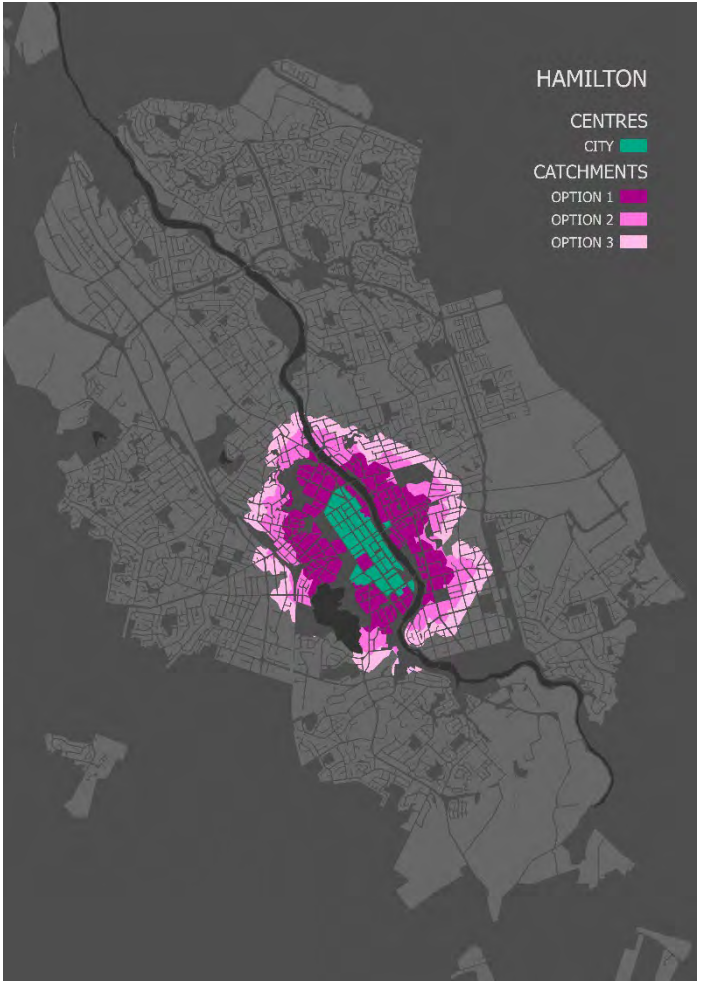
### TAURANGA

- CENTRES
- CITY
- CATCHMENTS
- OPTION 1
- OPTION 2
- OPTION 3



### HAMILTON

- CENTRES
- CITY
- CATCHMENTS
- OPTION 1
- OPTION 2
- OPTION 3



### CHRISTCHURCH

- CENTRES
- CITY
- CATCHMENTS
- OPTION 1
- OPTION 2
- OPTION 3



## Summary of existing walkable catchment provisions

Council	Metropolitan centres Policy 3(c)(iii)	City centres Policy 3(c)(ii)	Rapid transit stops Policy 3(c)(i)
<b>Auckland</b>	10 mins (approx. 800m) THAB (modified): max building height of 21m (approx. 6 storeys)	15 mins (approx. 1200m) THAB (modified): max building height of 21m (approx. 6 storeys)	10 mins (approx. 800m) THAB (modified): max building height of 21m (approx. 6 storeys)
<b>Tauranga CC</b>	None identified	1500m (approx. 15 mins) HDRZ: Graduated max building height of 16-27m (approx. 4-8 storeys)	None identified
<b>Western Bay of Plenty DC</b>	None identified		
<b>Hamilton CC</b>	None identified	800m (approx. 10 mins) HDRZ: max building height of 26m (approx. 8 storeys)	None identified
<b>Waikato DC</b>	None identified		
<b>Waipā DC</b>	None identified		
<b>Wellington CC</b>	10 mins (approx. 800m) HRZ: Max building height of 22m (approx. 6 storeys)	15 mins (approx. 1200m) HRZ: Max building height of 22m (approx. 6 storeys)	10 mins (approx. 800m) HRZ: Max building height of 22m (approx. 6 storeys)
<b>Kāpiti Coast DC</b>	400m (approx. 5 mins) HRZ: Graduated max building height of 21-36m (approx. 6-10 storeys)	None identified	Not identified

Council	Metropolitan centres Policy 3(c)(iii)	City centres Policy 3(c)(ii)	Rapid transit stops Policy 3(c)(i)
<b>Porirua CC</b>	800m (approx. 10 mins) HRZ: Graduated max building height of 22-36m (6-11 storeys)	None identified	800m (approx. 10 mins) HRZ: Max building height of 22m (6 storeys)
<b>Lower Hutt CC</b>	800m (approx. 10 mins) HDRAA: Max building height of 22m (approx. 6 storeys)	1200m (approx. 15 mins) HDRAA: Max building height of 22m (approx. 6 storeys)	800m (approx. 10 mins) HDRAA: Max building height of 22m (approx. 6 storeys)
<b>Upper Hutt CC</b>	None identified	10 mins (approx. 800m) HRZ: Max building height of 20m (approx. 6 storeys)	10 mins (approx. 800m) HRZ: Max building height of 20m (approx. 6 storeys)
<b>Christchurch CC</b>	None identified	1200m (approx. 15 mins) HRZ: Graduated max building height of 20-32m (approx. 6-10 storeys)	None identified
<b>Selwyn DC</b>	None identified		
<b>Waimakariri DC</b>	None identified		

## Changes to the qualifying matters framework

### Offsetting requirements for use of a non-listed qualifying matter

#### Background

76. Qualifying matters play an important role in ensuring local councils and communities can limit intensification in areas inappropriate for higher levels of intensification. They enable councils to meet the other objectives/purpose of the RMA (eg, provide for matters of national importance) and national direction tools. However, some 'other' qualifying matters (i.e. those not specifically listed in the RMA or NPS-UD) have been used extensively, such as 'special character' in Auckland and Wellington, or 'sunlight access' in Christchurch, to restrict density in locations of high demand and accessibility. This undermines the intent and impact of the NPS-UD.
77. In response to the extensive use of unlisted qualifying matters, Cabinet has agreed to "require that the loss of development capacity through use of an unlisted qualifying matter (including special character) is offset by a direct and corresponding increase in development capacity elsewhere" but did not make decisions on the details of this offsetting requirement.

#### Objectives

78. The key outcome sought from this policy change is that councils can limit intensification in those areas judged to be inappropriate for the levels of density specified in the NPS-UD due to non-listed qualifying matters; while preventing a net loss in housing.
79. This supports the primary objective outlined in the RIS to "...significantly increase the supply of developable land for housing" by ensuring there is no net loss from applying a qualifying matter.

#### Options

80. There are a range of options for where councils must offset the loss of development capacity through use of unlisted qualifying matters.

OPTION	ANALYSIS
<p><b>Status quo</b> No offsetting required from use of a qualifying matter. Use of a qualifying matter reduces the total capacity enabled in that area. 'Sufficient capacity' e.g., (complying with Housing Growth target) still needs to be provided.</p>	<p>Councils can use qualifying matters to restrict density in areas that are most suitable for it.</p>

OPTION	ANALYSIS
<p><b>Offset anywhere</b> Capacity lost through use of an unlisted qualifying matter must be offset elsewhere in plan, but there are no requirements on location for this offsetting. Offset must be feasible.</p> <p>Offset capacity would need to be on-top of growth target (otherwise would have the same impact as status quo)</p>	<ul style="list-style-type: none"> <li>• Capacity would be easily distributed</li> <li>• No requirements for the 'quality' of the capacity offset (beyond feasibility), which is likely to result in non-equivalent capacity (e.g., less likely to be developed?)</li> <li>• May incentivise greater use of unlisted qualifying matters relative to other options as it could be put in locations that are not as desirable/less likely to have backlash</li> </ul>
<p><b>Offset intensification area</b> Capacity lost through use of an unlisted qualifying matter must be offset in another 'high density intensification (policy 3) area.' This would result in intensification areas with greater than the minimum 6 storeys enabled.</p> <p>Offset capacity would likely still be within the growth target total (e.g., not in addition)</p>	<ul style="list-style-type: none"> <li>• Clear where offset capacity needs to be redistributed to</li> <li>• Some controls on the 'quality' of development capacity provided, although may not still be of equal quality (eg, could still allow for central capacity re-allocated to last train stop)</li> <li>• May provide some incentive to reduce use of unlisted QM</li> <li>• May be difficult to establish where additional capacity has actually been provided (e.g. council may claim location has 8 storey development enabled as a result of offsetting, but would in practice have always zoned 8 storeys)</li> </ul>
<p><b>Offset equivalent area</b> Capacity lost through use of an unlisted qualifying matter must be offset in an equivalent area.' Would need to define in the NPS-UD what an equivalent area is.</p> <p>Offset capacity would likely still be within the growth target total (eg, not in addition)</p>	<ul style="list-style-type: none"> <li>• Councils would need to determine what an equivalent area is (could be some ambiguity/gaming)</li> <li>• Most 'like-for-like' substitution of the quality of capacity</li> <li>• Likely to incentivise reduced use of unlisted QM as will still need to have difficult conversations with communities</li> <li>• May be difficult to establish where additional capacity has actually been provided (e.g. council may claim location has 8 storey development enabled as a result of offsetting, but would in practice have always zoned 8 storeys)</li> </ul>

## Options for equivalency

81. If offsetting is required in an “equivalent area”, there are a range of options for determining equivalency:

- Area with equivalent/approximate land values (eg, +/- 20%)
- Redistribution of capacity within the intensification area (e.g., a mix of density across the intensification catchment – 10 storeys instead of 6 in one part, to make up for some areas of single homes)
- Combination of the two above

## Questions/feedback

- What is your preferred option for where councils must offset the loss of development capacity from use of unlisted qualifying matters?
- Are there any options we have overlooked?
- How should “equivalent areas” be determined?
- Any other feedback?

# Strengthening requirements on decision makers to consider the impact of using qualifying matters

## Background

82. To use a qualifying matter as a reason for reducing density required by the intensification policies in the NPS-UD, the evaluation report (s32 report) needs to undertake analysis to:
  - Demonstrate why the particular area is subject to a qualifying matter, and why that is incompatible with the level of density required;
  - Assess the impact on the amount of development capacity enabled;
  - Assess the costs and broader impacts of imposing those limits.
83. If an 'unlisted' qualifying matter is proposed to be used, the s32 report also needs to:
  - Identify the specific characteristics that make the level of development required inappropriate; and justify this in light of the national significance of urban development and the objectives of the national policy statement; and
  - Include site specific analysis that identifies specific sites to which the matter relates, determines the appropriate spatial extent of the specific matter; and evaluate the appropriate range of options to achieve the greatest heights and densities directed by the intensification policy, while managing specific characteristics.
84. In some cases, government considers that councils preparing evidence for Independent Hearings Panels (IHPs) through Intensification Streamlined Planning Processes have not sufficiently justified the use of some qualifying matters, or properly undertaken a site specific analysis. In other cases, IHPs have not given sufficient consideration of these impacts in making recommendations.
85. To respond to this, Cabinet have agreed clarify that decision-makers must explicitly consider the process and evidentiary requirements in their decisions to use a qualifying matter to reduce density.

## Objectives

86. Ensure that decision-makers on plans explicitly consider the evidentiary requirements in section 3.33 of the NPS-UD when making decisions or recommendations on a plan.

## Proposal

87. Include a requirement in section 3.33 of the NPS-UD to the effect that decision-makers, and independent hearings panels/person making recommendations on plans, must consider the requirements set out in section 3.33 when making decisions, or preparing recommendations for decision-makers in relation to this matter. While this is already implicit in the requirements of section 3.33, making it explicit emphasises the intent.



## Briefing

GOING FOR HOUSING GROWTH: CAR PARKING OPTIONS			
<b>To Minister</b>	Hon Chris Bishop	<b>Portfolio</b>	Minister Responsible for RMA Reform; Minister of Housing
<b>Date</b>	19 September 2024	<b>Priority</b>	Medium
<b>Tracking number</b>	HUD2024-005265; MfE BRF-5288		
ACTION SOUGHT			
<b>Action sought</b>	Agree to the recommendations in this briefing. Forward this briefing to Hon Simeon Brown, Minister of Transport		
<b>Deadline</b>	TBC		
CONTACT FOR DISCUSSION			
Name	Position	Telephone	1st contact
[Name]	[Position]	[Number]	✓
[Name]	[Position]	[Number]	
OTHER AGENCIES CONSULTED			
[Full agency name], [(abbreviation)]			



<b>RECOMMENDED ACTIONS</b>	
It is recommended that you:	
1. Note that on 24 June 2024, Cabinet directed officials to explore options to enable better management of carparking [CAB-24-MIN-0228.01 refers].	<i>Noted</i>
2. Agree to either: a. Retain the current policy which prohibits councils from setting car parking minimums; OR b. Progress national direction change to allow councils to set car parking minimums with one of the following options: i. Option 1: Allow car parking minimums everywhere except Tier 1 councils ii. Option 2: Allow car parking minimums everywhere except where the NPS-UD requires councils to enable medium or high density development (i.e. in city centre zones, metropolitan centre zones, and within a walkable catchment of rapid transit stops, and any other specific areas where enabling medium or high density development is directed in the future) iii. Option 3: Reintroduce ability for councils to set car parking minimums everywhere	<i>Agree/Disagree</i>    <i>Agree/Disagree</i>  <i>Agree/Disagree</i>
3. Note that if you decide to progress an option to allow councils to set car parking minimums, we will provide further advice on the design of this approach, including options to set a maximum cap on the minimum number of car parks councils could require.	<i>Noted</i>
4. Agree that if you decide to progress an option in this briefing, it will be progressed via the resource management phase 2 national direction process.	<i>Agree/Disagree</i>



**Te Tūāpapa Kura Kāinga**

Ministry of Housing and Urban Development

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[Agency name]

[Position]

..... / ..... / .....

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Hon [Minister's name]

[Portfolio]

..... / ..... / .....

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Hon [Minister's name]

[Portfolio]

..... / ..... / .....



## Purpose

1. To seek a decision on options to change car parking minimum requirements in the National Policy Statement on Urban Development (NPS-UD).

## Background

2. Policy 11(a) of the NPS-UD removed the ability for tier 1, 2 and 3 councils to set minimum parking requirements (other than for accessible car parks) in their district plans. This policy was based on evidence that it would deliver substantial economic benefits and improve housing supply. It achieves this by shifting the provision of car parking from a heavily regulated approach to a market-led approach. The policy does not prevent developers from choosing to provide car parks in developments, and many still do.
3. Anecdotal concerns have been raised about developers providing fewer off-street car parks than the number of cars owned by residents in new developments, resulting in an increase in cars parked on the street and in some cases greater competition for parking spaces. We have also heard anecdotal concerns about a lack of on-street parking in some areas (which is unrelated to the NPS-UD).
4. On 24 June 2024, Cabinet directed officials to explore options to enable better management of carparking [CAB-24-MIN-0228.01 refers]. On 14 August 2024 we provided you with an aide-memoire on the rationale for removing car parking minimums, which identified work underway to improve carparking management [MfE: BRF-5117 | HUD: HUD2024-005137 refers]. You have subsequently requested further advice on options to change the rules around car parking minimums.
5. Prior to the removal of car parking minimums, council plans could have very detailed requirements for car parking minimums, with different minimums for different types and sizes of residential and commercial buildings.

## Rationale for removing car parking minimums

6. The MfE/HUD August aide-memoire outlined the rationale for removing car parking minimums. In brief:
  - a. the cost benefit analysis estimated that removing minimum parking requirements in five major urban centres would **result in a benefit-cost ratio of 8.6 to 1**<sup>1</sup>
  - b. the cost of constructing car parks in a new development can be high – for example, in Auckland outside the CBD, **basement parking construction costs may be \$90,000 – \$105,000 per car park**

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<sup>1</sup> Crow C. 2020. *Cost - Benefit Analysis for a National Policy Statement on Urban Development*. Prepared for the Ministry for the Environment by PricewaterhouseCoopers Consulting, New Zealand. Wellington: Ministry for the Environment. p 14.



- c. making the provision of off-street car parking optional **makes some developments more viable**, particularly those in higher density areas
  - d. **we are seeing evidence that the market is responding to demand** – for example, in Lower Hutt, car parking initially provision dropped to 0.4 car parks per unit after car parking minimums were removed and then increased to 0.6 per unit.
7. Given these benefits, our first best advice is to retain the existing policy that prevents councils from setting car parking minimums. This is a market-demand driven approach which avoids unnecessary red tape or regulation.

## **There is a range of options for allowing councils to set car parking minimums**

8. There is a risk that allowing any form of car parking minimums will result in higher development costs, less efficient land use, less competitive urban markets, fewer housing typology options, and car parking supply which is less responsive to actual demand. Collectively these risks could exacerbate, or slow the recovery from, the current construction sector downturn.

### **Councils could be enabled to set car parking minimums based on location**

9. We have analysed three options to amend the NPS-UD to allow councils to set car parking minimums in some cases based on location. These are (see **Annex A** for options analysis):
- a. Option 1: Allow car parking minimums everywhere except Tier 1 councils
  - b. Option 2: Allow car parking minimums everywhere except where the NPS-UD requires councils to enable medium or high density development (i.e. in city centre zones, metropolitan centre zones, and within a walkable catchment of rapid transit stops, and any other specific areas where enabling medium or high density development is directed in the future)
  - c. Option 3: Reintroduce ability for councils to set car parking minimums everywhere
10. If you want to allow some car parking minimums, our preferred option would be Option 1. This option preserves the prohibition on car parking minimums in high priority areas for land use efficiency, and in doing so, is likely to have the least negative impact on housing supply, affordability, and choice. Officials' initial preferred option in 2020 was to only require tier 1 councils to remove car parking minimums in large part because extending the policy to tier 1, 2 and 3 councils would be significantly different in scope to what was consulted on.<sup>2</sup> However, analysis in the CBA did support applying the

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<sup>2</sup> Ministry for the Environment and Ministry of Housing and Urban Development. 2020. *Recommendations and decisions report on the National Policy Statement on Urban Development*. Wellington: Ministry for the Environment and the Ministry of Housing and Urban Development. p 66.



policy more broadly<sup>3</sup> and after further analysis officials preferred applying the policy to these tiers as well.<sup>4</sup>

## Progressing any of the options in this briefing

11. If you decide to progress an option to allow councils to set car parking minimums, we will provide further advice on the design of this approach, including options to set a maximum cap on the minimum number of car parks councils could require.
12. If you wish to progress any of the options in this briefing, we recommend they should be progressed as part of the resource management phase 2 national direction process. This would require options to be included in a discussion paper for Cabinet consideration in December, alongside other proposed changes to the NPS-UD.
13. If you decide to progress with changes to car parking minimums, councils will need to make any plan changes through a standard RMA plan change process. This differs from the process they followed to remove carparking minimums, in which minimums were removed directly from plans without following a standard plan change process (for example, councils didn't need to consult with their communities on the removal of minimums or hold hearings). A standard plan change process will be necessary because councils would need to determine which minimums to (re)introduce to their plans (i.e. central government would not be dictating a specific minimum itself). This will also allow for public submissions and will give developers a warning about possible future changes to development rights.

## Consultation

14. Include this section if required.

## Next steps

15. If you decide to progress any of the options in this briefing, we will provide further advice **TBC**

## Annexes

Annex A: Options for changes to car parking minimums

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<sup>3</sup> The CBA defined the six major urban centres as Auckland, Hamilton, Tauranga, Wellington, Christchurch and Queenstown. Data was not available for Tauranga. Queenstown is not a Tier 1 council.

<sup>4</sup> Ministry for the Environment. 2020. National Policy Statement on Urban Development further evaluation report 2020 – Evaluation of changes made to the draft NPSUD post review by Ministers – A report under section 32AA of the Resource Management Act 1991. Wellington: Ministry for the Environment. p 10.

## Annex A: Options for changes to car parking minimums

### Options 1-3: Location based changes to car parking minimums

Options are compared to the status quo: councils cannot set car parking minimums (except for accessible parking).

Option	Impact on housing affordability, supply and choice	Impact on transport and car parking management	Impact on councils (workload and cost)
Option 1: Allow car parking minimums everywhere except tier 1 councils	<p>If applicable councils introduce minimum car parking requirements for new developments, this would have <b>moderate negative impacts</b> on housing supply, affordability, and choice.</p> <p>Would increase development costs, reduce efficiency of land use and reduce housing typology options in non-tier 1 councils.</p> <p>Targeted at preserving land efficiency in tier 1 councils, which are high priority for land use efficiency.</p> <p>Severity of impacts for non-Tier 1 councils will vary between different councils dependent on their particular circumstances.</p>	<p>Likely to have a <b>very minor impact</b> on the number of cars parked on streets.</p> <p>Off-street carparking would <b>very likely</b> have been provided in many of these areas even with no minimum car parking requirements.</p> <p><b>Moderate</b> risk of oversupply of car parking in some developments.</p> <p>Would not address how on-street parking is managed, added, or removed in Tier 1 areas.</p>	<p><b>Moderate.</b> Councils would need to decide whether to introduce car parking minimums in permitted areas. Would need to undertake plan change and analysis.</p>
Option 2: Allow car parking minimums everywhere except Policy 3 areas (i.e. in city centre zones, metropolitan centre zones, and within a walkable catchment of rapid transit stops, and any other areas added to Policy 3 in the future)	<p>If councils introduce minimum car parking requirements for new developments in permitted areas, this would have <b>high negative impacts</b> on housing supply, affordability, and choice.</p> <p>Would increase developments costs, reduce efficiency of land use and reduce housing typology options everywhere except in intensification areas.</p> <p>Most targeted at preserving land use efficiency in areas where there is the greatest need for land use efficiency.</p>	<p>Likely to have a <b>minor impact</b> on the number of cars parked on streets.</p> <p>Off-street carparking would <b>likely</b> have been provided in many of these areas even with no minimum car parking requirements.</p> <p><b>High</b> risk of oversupply of car parking in some developments.</p> <p>Would not address how on-street parking is managed, added, or removed in intensification areas.</p>	<p><b>Moderate.</b> Councils would need to decide whether to introduce car parking minimums in permitted areas. Would need to undertake plan change and analysis.</p>
Option 3: Reintroduce ability for councils to set car parking minimums everywhere	<p>If councils introduce minimum car parking requirements for new developments, this would have <b>very high negative impacts</b> on housing supply, affordability and choice.</p> <p>Would increase development costs, reduce efficiency of land use and reduce housing typology options everywhere.</p>	<p>Likely to have a <b>minor impact</b> on the number of cars parked on streets.</p> <p>Off-street carparking would <b>likely</b> have been provided in areas where there is demand even with no minimum car parking requirements.</p> <p><b>Very high</b> risk of oversupply of car parking in some developments.</p>	<p><b>Moderate.</b> Councils would need to decide whether to introduce car parking minimums. Would need to undertake plan change and analysis.</p>

**From:** [Stuart Donovan](#)  
**To:** [David Hermans](#)  
**Cc:** [Eric Crampton](#)  
**Subject:** RE: Update on papers  
**Date:** Thursday, 19 September 2024 10:15:46 am  
**Attachments:** [HEAG comments -- Housing growth targets \(FINAL\).docx](#)

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Hi David (cc Eric),

Apologies, I just realised the version of the housing growth targets comments I sent you still had some comments tracked. This was a mistake on my part.

If possible, then could you please delete that version and instead circulate the attached version instead, in which I have deleted the comments?

Best,

Stuart.

---

**From:** Stuart Donovan

**Sent:** Wednesday, 18 September 2024 9:53 PM

**To:** David Hermans

**Cc:** Stuart Shepherd ; Counsell, Kevin ; Eric Crampton ; McCracken, Malcolm ; Marko Garlick

**Subject:** RE: Update on papers

Hi David (cc HEAG),

Thanks for your patience, please find **attached** our comments on the two outstanding papers:

3) Housing growth targets

4) Price indicators

We hope these comments are useful and look forward to discussing further with people in due course.

Kind regards,

Stuart.

---

**From:** Stuart Donovan

**Sent:** Monday, 16 September 2024 9:30 AM

**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Cc:** Stuart Shepherd s 9(2)(a) [redacted] Counsell, Kevin

[redacted] Eric Crampton

[redacted] McCracken, Malcolm [redacted]

[redacted] Marko Garlick [redacted]

**Subject:** RE: Update on papers

Hi David (cc HEAG),

Please find **attached** HEAG's preliminary comments on *NPS intensification*. We look forward to discussing these matters further with HUD and others.

Still to follow shortly:

3) Housing growth targets

4) Price indicators

Any questions let us know, take care, and talk soon,

Stuart + HEAG

---

**From:** Stuart Donovan

**Sent:** Monday, 16 September 2024 7:47 AM

**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Cc:** Stuart Shepherd S 9(2)(a) [redacted] Counsell, Kevin

[redacted] Eric Crampton

[redacted] McCracken, Malcolm [redacted]

[redacted] Marko Garlick [redacted]

**Subject:** RE: Update on papers

Hi David (cc HEAG),

Further to the email below, please find attached HEAG's preliminary comments on minimum parking requirements. We look forward to discussing these with you.

Still to follow shortly:

- 2) NPS intensification
- 3) Housing growth targets
- 4) Price indicators

Any questions let us know, take care, and talk soon,

Stuart + HEAG

---

**From:** Stuart Donovan

**Sent:** Monday, 16 September 2024 6:41 AM

**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Cc:** Stuart Shepherd S 9(2)(a) [redacted] Counsell, Kevin

[redacted] Eric Crampton

[redacted] McCracken, Malcolm [redacted]

[redacted] Marko Garlick [redacted]

**Subject:** Update on papers

Morning David (cc HEAG),

Quick note to confirm that we'll be sending through our comments on the four papers later today in the following order:

- 1) parking
- 2) NPS intensification
- 3) Housing growth targets
- 4) price indicators

Apologies for not quite meeting the Friday deadline, but we're not far off.

Best,

Stuart

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# Use of price indicators policy paper: Housing Expert Advisory Group comments

18 September 2024

Topic	HEAG comment
<p><u>Proposal 1: What indicators are measured</u></p> <p>Package of:</p> <ul style="list-style-type: none"> <li>a. Urban fringe land price differentials</li> <li>b. Price-cost ratios</li> <li>c. Land concentration control indicators.</li> </ul> <p>Context from:</p> <ul style="list-style-type: none"> <li>a. Interest rates</li> <li>b. Population growth</li> <li>c. Building consents per 1000 by typology</li> <li>d. Change in rental affordability</li> </ul>	<p>HEAG agrees in principle with the different indicators proposed.</p> <p>However, we have some reservations with the use of land concentration control indicators. While they have historically been widely used in competition analysis, there has been less focus on them more recently as they depend crucially on the definition of the relevant market i.e., who is “in” and “out” of the measure. The indicators may also work poorly where indicators need to show substantial improvement over time, as the ‘lumpiness’ in development may result in contrary results.</p> <p>Government response to land concentration control indicators may be different from others, because it points to rather different issues. If highly concentrated ownership in areas where future development is expected seems likely to result in strategic play in land release, councils could be recommended to shift their ratings base from land plus capital to land alone. High concentration is not a problem in and of itself; fragmented parcel ownership is also often pointed to as a potential issue for redevelopment.</p> <p>We also recommend HUD extends its current work on fringe land price discontinuities to also test for effects at boundaries of areas subject to intensification requirements.</p>

<p><u>Proposal 2: Framing of requirement</u></p> <p>Consult with no indicative preferred option:</p> <p>Option 1: Price efficiency indicators do not deteriorate over time (with deterioration being assessed holistically, not on an individual metric basis)</p> <p>Option 2: Price efficiency indicators improve over time until the point at which they are consistent with competitive urban land markets (with improvement and consistency with competitive urban land markets being assessed holistically, not on an individual metric basis)</p>	<p>HEAG recommends identifying Option 2 as the preferred option in the consultation document. This is consistent with the ultimate GfHG agenda – competitive urban land markets that deliver enduring affordability. This also makes the political and legal case for enforcement easier as deterioration then becomes a clear breach of Option 2. This makes the exercise of enforcement powers that flow from a breach easier and would increase the case for more fulsomely using those powers (proportionate to the size of the breach).</p> <p>HEAG notes also the point raised in the paper that any improvement should be “significant, not marginal”. HEAG recommends that guidance be given on what constitutes a significant improvement in the indicators, to avoid it being left open to interpretation by councils. Relatedly, the point at which improvement is considered “consistent with competitive urban land markets” may also be difficult to define and subjective, so some guidance should be considered. For example, substantial systematic price discontinuities at zoning boundaries, unrelated to underlying land characteristics that may sometimes coincide with zoning boundaries, in circumstances when infrastructure is expected to be funded by its beneficiaries, can signal a shortage of the land zoned for the higher valued use.</p>
<p><u>Proposal 3: Whether any specific indicators are included in the NPS-UD</u></p> <p>The discussion document consults on a preferred option of not including specified price indicators in the NPS-UD, but outlines the types of indicators that are likely to be measured (as per Proposal 1) and</p>	<p>HEAG recommends including price indicators (per Proposal 1) as a non-exhaustive list in the NPS-UD - “may include but is not limited to”. There already exists sufficient measurement and interpretation ambiguity in each price indicator without the added ambiguity of not providing an indicative list into the NPS-UD. This added ambiguity will unnecessarily hinder the ability for timely and proportionate enforcement action.</p>

<p>signals an intent (subject to resourcing) for central government to publish guidance on what indicators will be measured, and how they will be measured.</p>	
<p><u>Proposal 4: Government response</u></p> <p>Signal an intent (subject to resourcing) to produce short guidance setting out (in general terms) how central government will respond to non-compliance with price indicator requirements.</p>	<p>HEAG has separately recommended, in relation to Housing Targets, that a failure to comply with the price indicator requirements (either deterioration or no improvement over time) would allow the Minister to increase the Contingency Margin above 20%. This power should be made explicit in the NPS-UD.</p> <p>An additional option is a provision for Cabinet to establish a Specified Development Project (SDP) under the Urban Development Act 2020 (UDA), taking planning and infrastructure powers off the local council (without their consent which is currently required) to fast track new infrastructure ready land supply in areas where the indicators have deteriorated or not substantially improved. This will be subject to an effective SDP process after a review of the UDA.</p>
<p><u>Proposal 5: Spatial application</u></p> <p>The discussion document consults on price indicator requirements applying to Tier 1 and 2 councils.</p>	<p>Agree.</p> <p>However, we note that it is possible to measure urban fringe differentials for territorial authorities without significant non-urban areas where the council boundary coincides with the boundary for residential urban zoning. In that case, the rural council may be the one in violation of the price indicator by failing to zone sufficient land for residential development.</p>
<p><u>Proposal 6: Mechanism</u></p> <p>The discussion document is silent as to whether price indicator requirements are framed as an objective or a policy in the NPS-UD.</p>	<p>We recommend price indicator requirements be made a Policy to give them political and legal weight (our understanding is that Policies are given more weight than Objectives). This is especially so if a failure to meet price indicator requirements forms a basis for the Minister to increase the Contingency Margin for the Housing Targets above 20% (as recommended above).</p>

<p><u>Other comments:</u></p>	<p>While Cabinet has ruled out automatic release of additional development capacity when a price-trigger threshold is breached, other options could obtain on such breach.</p> <p>Price Indicators could be connected to the responsiveness policy in the NPS-UD (3.8) as an additional factor that a council must have regard to for unanticipated or out-of-sequence developments under 3.8(2) could be whether that council has deteriorating / not improving price indicators.</p> <p>What this may look like in practice is that councils could be required to consider self-financing private plan changes at zoning boundaries where substantial land price discontinuities obtain, with a high threshold being required for rejection of the plan change. That trigger would not automatically release additional development capacity. It would instead provide incentive for developers to watch for areas where the price discontinuities signal a lot of potential value that could be unlocked through a private plan change, and to make application to do so. Even if that ability is only used rarely, the potential for triggering private plan changes if councils fail to zone sufficient land for different uses could encourage councils to avoid artificially constraining land zoned for more intensive use.</p> <p>Similarly, price-cost ratios demonstrating sufficiently high opportunity costs of height limits could require council to consider private plan changes or a factor in aspects of council discretion (eg, height breaches being restricted discretionary) for taller apartment towers.</p>
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	<p>Note: HEAG's view is that Policy 3.8 should be redrafted more fulsomely to require councils to be even more responsive to Private Plan Changes than the status quo wording.</p>
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# Detailed design of Housing Growth Targets: Housing Economic Advisory Group Comments

## Summary

HEAG appreciates HUD's (detailed and extensive) advice on the proposed Housing Growth Targets ("HGTs). HEAG considers that improving the methods used to set HGTs is critical to achieving the objectives of the GfHG programme.

From the outset, HEAG also acknowledges that HGTs require us to make assumptions and engage with uncertainty. As our knowledge is imperfect and the future is uncertain, the HGTs that we estimate will be wrong. Rather than chasing perfection, we consider it more important to ensure the HGTs are not systematically wrong, especially on the low side.

Avoiding the latter outcome compels us to take two related actions: First, we should examine whether the assumptions that underpin the HGTs exhibit systematic error. Second, we should consider whether the HGTs allow for sufficient contingency. Together, this should ensure HGTs do not constrain housing supply on average and in the long run.

HUD proposes to base HGTs on high household projections and allow for a 20% contingency, which is a welcome improvement on current methods. Nonetheless, we consider it likely the HGTs continue to systematically underestimate housing demand growth. As a result, HEAG is concerned that housing supply in New Zealand will continue to remain constrained in the future, which in turn risks undermining the objectives of the GfHG programme. The following sections of this note explain how we have arrived at this view, on which we would welcome further discussion.

## Asymmetric costs

From the outset, HEAG considers it important to note that errors in estimates of future housing demand relative to capacity are likely to impose asymmetric costs.<sup>1</sup> Specifically, the economic costs of planning for more growth in housing demand than is subsequently realised are likely to be much lower than the economic costs of planning for less growth.

Asymmetric costs mean that, in the presence of uncertainty, it will usually be better to err towards over-estimating housing demand relative to capacity. That is, it is better to err on the high side to reduce the risk of incurring the (higher) costs of under-estimating demand.

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<sup>1</sup> There are broadly two general dimensions in which errors may arise, that is in the estimate (or forecast) of demand and in the estimate of capacity. Here, we condense these two sources by focusing on demand relative to capacity.

HEAG considers that the importance of asymmetric costs could be reflected in the NPS-UD's approach to undertaking assessments by expanding the definition to note:

"An under-supply of capacity relative to demand is likely to impose higher economic costs than an over-supply of capacity. Therefore, when making assumptions and confronting uncertainty in undertaking these assessments, practitioners are encouraged to err toward over-estimating demand relative to capacity."

The asymmetric nature of costs also provides important context to more detailed discussion on housing growth targets, which we expand on below.

## HUD's proposed approach to HGTs

HUD's proposed approach to setting HGTs for each council is summarized in the formula:

$$(households_{future} - households_{now}) * \left( \frac{Dwellings}{Households} \right) * (1 + Contingency)$$

Where:

- $households_{future}$  are defined by Stats NZ high household projections
- $\frac{Dwellings}{Households}$  is the ratio of dwellings to households
- $Contingency$  is proposed to be 20%

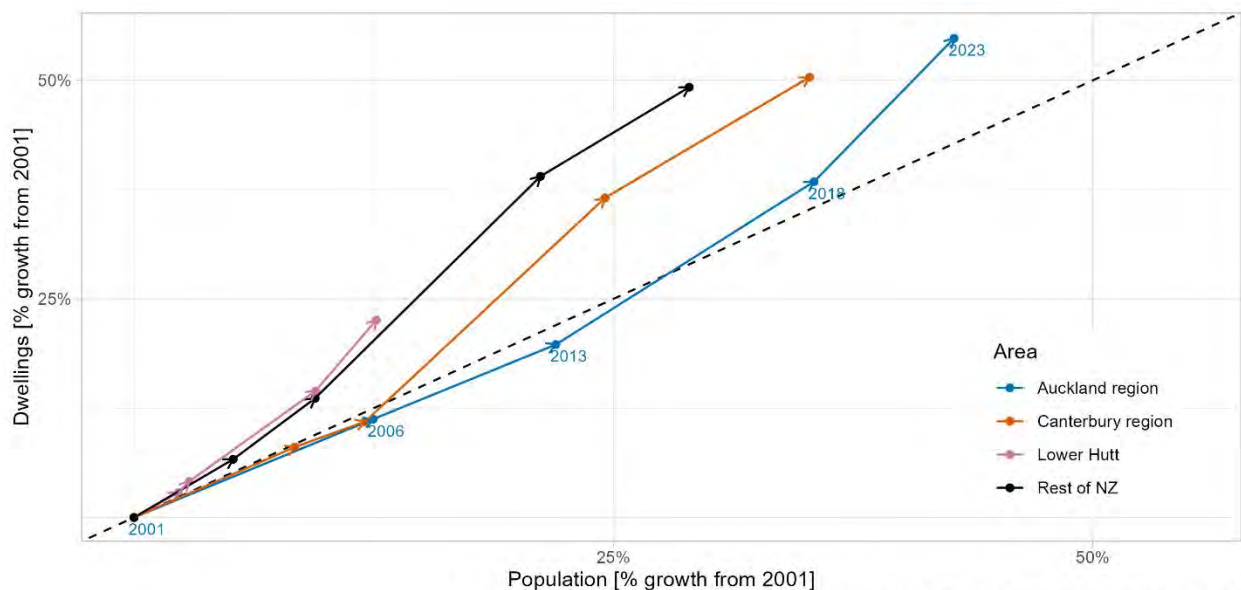
We agree with the use of high projections and a 20% contingency. Nonetheless, we consider it likely that this formula underestimates housing growth for several reasons:

- The formula does not account for demolitions. Where development results in existing dwellings (X) being replaced by new dwellings (Y, where  $Y > X$ ) then the net supply is Y minus X. Although reliable data on demolitions does not exist, we consider it likely that they account for approximately 20% of new infill supply. The effect of demolitions is to reduce the amount of the existing housing stock that is retained.
- The formula does not account for income effects. As incomes rise, people demand more housing, both in terms of more floorspace per person (larger dwellings) and more dwellings per person (secondary dwellings). Over 30 years, these income effects are quantitatively large and relevant to HGTs. Larger dwellings will, for example, mean the capacity enabled by certain height limits will be smaller than we might expect from current data. HEAG considers that increased demand for floorspace arising from income effects is relevant to HGTs: If increasing demand for floorspace is not met by increased supply of floorspace, then it could lead to higher prices and the consolidation of existing dwellings. One possible way to capture some of these income effects is to allow the dwellings / household ratio to increase over time.

- The formula does not allow for increased rates of household formation. The existing housing shortage is likely to mean that New Zealand’s current housing stock is being used more intensively than people would prefer and freely choose in a situation where urban land markets were more competitive. Easing housing supply constraints can therefore be expected to support increased household formation and reduce the average number of people and households per dwelling. We note that the HGTs rely on Stats NZ household projections, which treat household formation as exogenous to housing outcomes.<sup>2</sup> In contrast, Census data suggests average household size in Canterbury and Auckland fell significantly after upzoning, for example, per Figure 1. We would be interested to know how Stats NZ projections compare to these outcomes.
- The formula does not account for the existing housing shortage. HEAG notes that New Zealand faces an existing housing shortage, which future targets would ideally seek to account for such that it can be progressively addressed.

On balance, the cumulative effects of these errors seem likely to systematically underestimate housing demand to an extent that exceeds the use of high population projections and the 20% contingency. This would risk embedding the existing housing shortage, undershooting future demand, and failing to deliver more affordable housing. More detailed responses to HUD’s discussion questions are provided in the table below.

Figure 1: Dwelling growth versus population growth in a selection of New Zealand councils 2001-2023



Source: Author’s calculations using data from Stats NZ

<sup>2</sup> See Michael Gordon “Measuring the Housing Shortage” <https://localknowledge.substack.com/p/measuring-the-housing-shortage>

High-level questions	Specific questions	HEAG comment
Where do Targets apply, and how are they determined?	Proposed methodology for councils to determine their Targets.	HEAG considers the methodology to be broadly reasonable, although notes subsequent comments on the combined risks associated with the proposals to use 1) household projections, 2) a constant dwellings:hh ratio, and 3) a contingency margin of 20%. We suggest the joint risks of these decisions are not adequately covered by the shift to high projections and would benefit from more thorough assessment, which we expand on below.
	Application of targets to settlements within urban environments, as per the status-quo.	HEAG considers this reasonable, although would certainly welcome and encourage HUD and MfE to provide more direction on the definition of urban environments. We note Stats NZ has a well developed set of urban areas. The definition might also include, for example, a focus on areas across which housing demand is sufficiently substitutable.
	Targets are set for each council, but can be transferred between councils, if all relevant parties agree.	<p>HEAG has had mixed views on this issue.</p> <p>We are sceptical that there are many councils where it is actually infeasible to accommodate 30 years' of growth within their boundaries. New Zealand councils are by global standards sufficiently large, spatially speaking, and low density enough to accommodate substantial development.</p> <p>However, there may well be cases where it is more cost-effective for growth to be accommodated at a city's fringes, which may cross a council boundary line. And competitive urban land markets require enabling self-funding greenfield developments at a city's fringes regardless of where council boundary lines may lie.</p> <p>At the same time, 30-year targets need to enable sufficient supply of zoned land to provide and enable choice in location, within and across council boundaries which do not always align with functional urban areas.</p> <p>There may be need to allow targets to be transferred by mutual agreement where an urban council's upzoned areas are considered not economically feasible because self-funding development at the city fringes, across boundary lines, is far more cost-effective.</p> <p>Councils could be required to individually meet their targets for zoned capacity while maintaining the ability to transfer targets for realistic capacity. If this results in a small excess at the regional level, then that is a bonus rather than something to be guarded against.</p> <p>We also note that if councils are required to enable self-financing private plan changes in places where zoning boundaries introduce substantial price discrepancies, potential issues that might otherwise emerge in unanticipated strategic play between councils in target transfer can be mitigated. More specifically: if an urban council tries to avoid zoning for sufficient density in high-value inner-city places where many people want to live by transferring targets, by mutual consent, to an adjacent council, resulting high prices for land zoned for intensive use at city centre would trigger private plan changes by developers extending the area zoned for more intensive use.</p>
	Package of proposals on the projections that councils should use to determine their Targets.	<p>HEAG has the following comments on aspects of Targets.</p> <p>Household projections: HEAG continues to be concerned with the proposal to use Stats NZ household projections as currently formulated. We note this concern is not related to the emphasis on demographic factors, but rather 1) the inclusion of fixed effects to explain differences in levels between regions and 2) the omission of links to housing outcomes. In our view, these risk baking in endogenous differences in levels of household formation between regions that GfHG policies seek to change.</p> <p>Dwellings-to-household ratio. HEAG expects this ratio will vary over time due to, for example, the effects of prices and income. Put another way, the ratio is endogenous to housing outcomes. While these changes may be modest over a 3-year period, we recommend HUD actively monitor the ratios that are chosen by Councils to ensure the latter do not choose a value that bakes in poor outcomes. We would suggest considering long-term trends in relatively unconstrained markets.</p> <p>Floorspace effects. HEAG continues to be concerned that the effects of income on the demand for floorspace will have implications for targets. A persistent failure to undersupply floorspace, for example, could potentially impact on the existing stock of dwellings, e.g. by creating incentives to merge existing dwellings.</p> <p>Income effects. HEAG continues to be concerned that the income effects are being underplayed. While we accept that the intention may be to allow these for these effects by using high projections and contingency factors, we are unsure whether current proposals are sufficient.</p> <p>Data requirements: we note that SA2 household forecasts are likely to be finalised by late 2026. Compared to the last update in December 2022, this is a four-year interval, which is too long for the proposed three-year interval for updating HBAs. We suggest HUD clarify with Stats NZ the interval for releases of household forecasts going forward.</p>
Competitiveness margin should be retained for Targets but reframed as a contingency margin, at the 20% rate	<p>HEAG supports retaining a contingency margin. In our view, the purpose of this contingency margin is two-fold. First, it recognizes that there are asymmetric costs from undersupplying vis-à-vis over-supplying housing. Second, the contingency margin helps to "mop up" factors that are not explicitly accounted for in the methodology that is used to set housing targets, such as</p> <ul style="list-style-type: none"> <li>• Income effects (floorspace and dwellings) (+0.25-0.75% p.a.)</li> <li>• Endogenous household formation [i.e. suppressed household formation due to current housing shortages] (+0.25% p.a.)</li> <li>• Demolitions (approximately 10-20%)</li> <li>• Existing shortfall (10%?)</li> </ul> <p>We appreciate the use of high household projections will have the effect of mitigating income effects and endogenous household formation, at least to some extent and in some urban locations. Nevertheless, shortfalls seem likely to persist in locations where incomes are growing strongly and/or household formation is higher than expected. Indeed, we note that in some areas in recent years, even the high projections have underestimated actual household/population growth. <a href="#">We also note Michael Gordon's comment on difficulties in measuring the housing shortage</a>, which also mean a large contingency margin is desirable.</p> <p>Given the large number of factors that are not explicitly accounted for in the methodology – or the data that it relies on – HEAG recommends monitoring price indicators over time and, if necessary considering increasing the 20% margin, especially in Tier 1 urban areas. The Minister's power to do this should be explicitly linked to price indicators.</p>	

High-level questions	Specific questions	HEAG comment
	Should Targets also be set for business land? And if so, then how the key questions on this could be resolved?	<p>We note that the government's commitment to provide incentive payments to councils to facilitate housing development may also result in a shift toward residential zoning. In principle, HEAG would like to see targets for business land. In practice, it is complex and seems difficult to reconcile with the GfHG programme, which is focused on housing outcomes. We note that a broadening of the mixed-use zoning enabled in areas subject to intensification under NPS-UD will mitigate the potential distortion caused by incentive payments. Whether a floor of a tower, or levels above ground-floor retail, is fitted for residential or commercial use is determined by underlying economic considerations under flexible mixed-use zoning. At paragraph 149, HUD considers sufficiency of land zoned for large-footprint retail. We note that broadening the areas subject to intensification under NPS-UD, where mixed-use zoning applies by default, may enable more feasible sites for large-footprint grocery if titles can be accumulated. This approach may be more fruitful than requiring councils to provide more detailed guesses about demand for retail grocery. We suggest ongoing monitoring of land prices to provide an indicator of emerging scarcity, with potential either for broadening the categories of construction that can draw incentive payments or for setting business targets to complement housing targets. Perhaps a middle ground is to advance simple changes that business land assessments that are consistent with the direction and methods used for HBA. Sufficiency of land zoned for industrial purposes can also be an issue.</p>
Feasibility	Should councils use an average of recent costs and prices in feasibility modelling?	HEAG considers this approach to be reasonable.
	Do you have a view on this proposed guidance to councils on assessing the likely costs of development?	HEAG suggests that, as part of HUD's guidance on feasibility, it consider evidence for the appropriate margin to be used (currently 20% profit margin) in assessing feasibility. It is not clear if there is a strong conceptual or empirical basis for this margin, and if developments in some areas are riskier than others, then the margin will vary. MBIE may be able to help here.
	Should feasibility modelling for Targets compliance use current costs and prices, or should some adjustments be enabled?	Yes, HEAG has a preference to use current costs and prices in feasibility modelling. We note that a prerequisite for improving housing affordability is that growth in real housing costs remains below growth in real household incomes. In normal times, we would expect real household incomes to grow at approximately 1% p.a. If housing costs are assumed to grow above this rate, then this would seem imply continuing deterioration in housing affordability. We suggest HUD include this as a specific check on Council modelling.
	If adjustments should be enabled, should this just be to land values per m2 or to a wider range of inputs?	HEAG would suggest keeping things simple by using prices as they are. We suggest a 3 year period for reviews is sufficiently short to capture changes in prices. If GfHG is successful, such that land prices do fall, then this would seem to imply that ex ante assessments of feasibility are (ceteris paribus) conservative.
	Are there other ways of achieving the intent of feasibility through the NPS-UD?	HEAG notes that the market is the ultimate arbiter of feasibility. This highlights the important role of private plan changes for acting as a check on Council assessments.
Reasonably expected to be realised capacity	new assessment of whether capacity is realistic	<p>HEAG agrees with the proposal to test for realistic capacity.</p> <p>The purpose of requiring assessments of urban land capacity that is feasible, likely or expected is to ensure that there is adequate supply over the relevant period into the future, given information that is available now. These assessments will inevitably require judgement on and uncertainty in a wide range of variables.</p> <p>We think the best approach to these assessments is to:</p> <ul style="list-style-type: none"> <li>• Be clear in the NPS-UD as to the purpose of these assessments.</li> <li>• Ensure that the asymmetry of error is considered when these assessments are being undertaken, that is the economic costs of over-estimating capacity/forecast demand relative to actual demand can be expected to be much lower than under-estimating capacity/forecast demand relative to actual demand.</li> <li>• Set up a process for Councils and HUD to develop methodologies for undertaking these assessments, and to refine those methodologies over time, with HUD having a role in approving such methodologies.</li> </ul> <p>Purpose The purpose of these assessments could be stated by defining what is meant by the term "feasible and likely capacity" and "demand". For example, these definitions could be along the lines of: "Feasible and likely capacity means capacity that is expected to be feasible from an economic and financial perspective over the relevant period and which is likely to be supplied in the market taking into account any known potential impediments, including those arising from on-site development challenges, current uses, and ownership patterns." Demand means the likely level of demand for the relevant period." Definitions along these lines would inform the development of methodologies to undertake these assessments and provide the basis for HUD to approve or not aspects of a methodology.</p> <p>Processes for developing and approving methodologies We think sensible processes should be specified in the NPS-UD that clarify Council and HUD responsibilities in undertaking these assessments and the timing of them. We think HUD should have the responsibility for issuing Technical Guidance on issues as they arise with Councils and have the authority to approve or not a methodology to be used (or one that has been used) by a Council. It may be desirable over time for the HUD Technical Guidance to evolve into a Handbook for undertaking these assessments. We suggest the processes in the NPS-UD should cover:</p>

High-level questions	Specific questions	HEAG comment
		<ul style="list-style-type: none"> <li>- When these assessments are required to be undertaken by Councils and how frequently they need to be updated. We suggest there be a requirement to update them at least every five years.</li> <li>- An obligation on HUD to issue Technical Guidance on how to prepare these assessments. This obligation should be to pro-actively issue Technical Guidance on issues that are known to be contentious and re-actively in response to requests for clarification by Councils.</li> <li>- HUD approving or qualifying methodologies that a Council intends to use, or has used, in their assessments. It should be possible for a Council to secure this approval prior to using a methodology. Where HUD qualifies a methodology, the Council should be obliged to estimate the impact of the qualification on the assessment (i.e. what would have been the assessment results if the HUD preferred methodology had been used).</li> </ul>
	If so, what factors should be considered in this new assessment?	<p>Please note our answer to the prior question. Additionally, we suggest accounting for demolitions. This may be the appropriate place to insert this adjustment, under “realistic” capacity. Councils can estimate the proportion of infill development that will probably occur, and the particular typology being demolished / replaced. This will result in a capacity reduction that must be compensated for through further zoning – or rather councils will have to estimate their net capacity rather than gross capacity. Councils should be required to show their inputs and methodology, with HUD publishing guidance.</p> <p>Similarly, and in line with our introductory comments, accounting for the effects of rising income on demand for space should be part of a realistic assessment of capacity, as should accounting for a reduction in the number of households per dwelling as zoned scarcity decreases and as urban land markets become more competitive.</p> <p>We also note that the ratio of households to dwellings can vary substantially between places that are highly sensitive to tourism demand (holiday homes) and those that are not. Tourist-facing places will require more dwellings per normally-resident household than others.</p>
Projects that can be counted for assessing infrastructure-ready capacity	list provided in paragraph 214 of what would (and would not) count towards being infrastructure-ready over the medium-and long-term?	HEAG agrees with the list in paragraph 214.
Are high-growth projections suitable for infrastructure requirements?	Do you agree that there is an issue with requiring councils to plan for and fund infrastructure than aligns with high-growth projections, and if so, how could it best be addressed?	<p>While HEAG can see this is an issue, we do not agree that it is a significant issue: it may be overcome through improved pricing of infrastructure and reforms to development contributions and other tools for attributing the costs of growth.</p> <p>We agree with the general intent to require zoning to high projections but provide infrastructure for expected projections. This, however, highlights problems with Stats NZ projections, which have systematically underestimated population growth for almost 40 years, largely due to higher than expected net migration gain.</p> <p><a href="#">We also note important work by the Infrastructure Commission on early corridor designation through purchase of options that provide flexibility while reducing overall cost.</a></p>
Potential implications of Local Water Done Well	In addition to the potential options identified in paragraph 225 [258?], are there any other options that may address this issue?	<p>If the commercial regulator overseeing water system pricing sets its pricing methodology appropriately, CCOs should want to lay out infrastructure in places where it can cover its cost over time. Requirements to allow interconnection at regulated fees subject to reasonable quality standards, if coupled with an ability for a first-mover to recoup charges from later-comers, provides competitive discipline and enables developers to take on risk in places where they expect more or faster subsequent development.</p> <p>Incentives facing a trust that does not seek to provide strong returns for its owners will be more ambiguous. The commercial water regulator may need to exercise more vigilant oversight, particularly around interconnection.</p> <p>HUD should confer with the Commerce Commission to check on progress towards the development of a commercial water regulator and that regulator’s preliminary thinking on this issue.</p>
	What would be the best method for addressing this issue?	It seems less than desirable that the form of water provider less likely to have commercial incentive to lay out pipe on a growth-pays-for-growth basis is the one exempted from need to work with councils to prepare HBAs. HUD should confer with the Commerce Commission to check on progress towards the development of a commercial water regulator and that regulator’s preliminary thinking on this issue.
Methodology requirements for assessing infrastructure-ready capacity	How could the requirements for infrastructure-ready modelling be tightened to achieve greater consistency across councils and improve quality, while being viable for councils to implement and suitable for Targets implementation?	<p>This appears a difficult area to be definitive on, given that Council relationships with their water entities are changing in many cases and under the review of the IFFA we understand there is an expectation of more tools to finance off-site infrastructure from private sources. Furthermore, private plan changes in brownfields and greenfields may alter the sequence of development relative to that anticipated by the Council in its LTP, which suggests the need for Council to be responsive rather than just having certain items in their LTP.</p> <p>Nevertheless, where Councils remain the sole provider or coordinator of an infrastructure service (even when part funded by another source) it is critical to the workability of the Targets that there is a robust Council commitment to ensure the relevant infrastructure services will be in place in a timely manner.</p> <p>Perhaps a useful starting point would be to require from Councils a supporting Infrastructure Commitment as part of the Targets that specifies, for infrastructure under their control or ownership, the extent to which the Council is committed to supply that infrastructure, the way in which it intends to fund it and the financing tools in place to facilitate that, and the way in which the Council will respond to the delivery of infrastructure if required by private plan changes. This information should be useful to identify gaps, assist with interactions with developers, and provide the basis for improving these commitments over time.</p>
	Which of the above options should we adopt?	HEAG has no strong views on this question.
Other HEAG Comments	Paragraph 82	At least one member of HEAG was substantially amused by Figure 2 at Paragraph 82. Thank you for providing it.
	Paragraph 88	We note that HEAG’s proposal to provide guidance for councils to assist in identifying urban environments at Paragraph 88 will be important; much will hang on the definition of an ‘urban environment’.
	Paragraph 168	At paragraph 168, HUD notes a potential issue in land valuation. HEAG notes that if rezoning no longer comes with expectation that heavily-subsidised infrastructure will be delivered to the rezoned section but rather that the beneficiaries of infrastructure will be required to pay for that infrastructure over time, rezoning will provide smaller uplift in net value.

High-level questions	Specific questions	HEAG comment
		There are existing processes for challenging land valuation which would seem appropriate if the land is valued on an incorrect basis. It is interesting to contemplate an additional channel that would enable the land owner to petition for removal of the restrictions that impede use of the land in its higher council-valued use, where development is self-financing.
	Paragraph 268	At Paragraph 268, HUD notes cases where cumulative and isolated analysis would yield different results. HEAG notes that places where that is true may well be places where upgrades of overall capacity could be cost-effective.
	Paragraph 316	At Paragraph 316, HUD proposes processes around non-compliance with Targets. HEAG notes that enabling self-financing upzoning private plan changes at zoning boundaries where substantial price effects obtain could be an effective remedy: if enabling such private plan changes is not otherwise recommended by HUD, it could be particularly recommended where councils have been considered non-compliant with Targets.

# HEAG COMMENTS: POLICY PAPER ON NPS-UD INTENSIFICATION CHANGES

## Summary

Section	Topic	Comment
<i>Restoring the scope of Policy 3(d)</i>	Accessibility vis-à-vis demand	Price indicators, e.g. rents and land prices per sqm, are reliable measures of demand whereas accessibility is complex and prone to gaming. Although land prices may be suppressed by current zoning, the two criteria (i.e. the greater of accessibility <i>or</i> demand) test in Option 1 (restore policy 3(d) to pre-MDRS) serves to mitigate this problem.
	Connecting demand to price indicators	Recommend explicitly noting demand is indicated by price (rents and land values), and that large discontinuities at the zoning boundaries signal that planning restrictions are too tight relative to the demand for commercial activity and community services. “(3)(d)(ii) relative demand for housing and business use in that location, <i>as expressed by relative rents and land prices.</i> ”
<i>Clarifying the definition of rapid transit</i>	Define minimum viable threshold for frequency.	We see value in indicating a viable frequency for rapid transit, e.g. <30-minute average headways 7am-7pm.
	Listed rapid transit corridors (“RTC”)	List Northern Express to Silverdale and Devonport ferry as RTC (NB: Both seem to operate <30-minute headways).
	Planned RTC	Triggering upzoning at confirmation of rapid transit stop designation could enable value capture, e.g. footprint of stops could be sized for complementary mixed use activities to fund the RTC. We note the potential for this to prompt opposition to RTC designations.
<i>Key transit corridors</i>	Relative role of key transit corridors (“KTC”)	Emphasise that KTC are exposed to traffic but <i>more frequent</i> and <i>more accessible</i> , hence they are <i>as important as RTC</i> .
	Explicit guidance on frequencies and headways	We recommend providing guidance on appropriate headways, e.g. <10-min average headways from 7am-7pm.

Section	Topic	Comment
	Appropriate zoning	We do not consider 6 storeys to be “high density” and suggest avoiding this framing. We also suggest requiring at least 6 storeys around KTC.
	Multiple categories	We support two types of KTC corridors, e.g. “spine” (< 10-min headways) requiring >6 storeys and “primary” (10-20 min headways) requiring >3 storeys
	Catchments	We suggest 400-600m is appropriate, possibly linked to above spine and primary categories for KTCs.
<i>Setting minimum walkable catchments</i>	Metro centres	We suggest requiring all Tier 1 cities to identify at least one metro centre.
<i>Changes to the qualifying matters framework</i>	Approach to offsetting	We prefer the offset equivalent area (“OEA”) approach, where equivalency is linked to rents and land values per sqm.
<i>Strengthening requirements on impact of qualifying matters</i>	Strengthen s32 provisions	We recommend strengthening the requirements of the s32 analysis to align with the requirements of a regulatory impact statement (“RIS”).
<i>Catchments</i>	Additional height in RTC catchments (NEW)	The Minister has signalled greater heights (>6 storeys) would be required in the walking catchment of RTCs as part of the GfHG reforms. We support either 1) increasing the minimum height enabled to 10 storeys or 2) retaining the 6 storey minimum and requiring an average height of 12-15 storeys in catchment.

## Restoring the scope of Policy 3(d)

- HEAG does not agree that accessibility is easier to determine than demand. Specifically, accessibility requires judgements on the relative value of access to different destinations and the relative value of differences in transport costs.
- Without specific direction on how to measure accessibility, we would expect different Councils to adopt different definitions. We also expect that Councils choice of accessibility measures will be sensitive to political pressure/ gaming.
- In contrast, we suggest that demand for locations is fairly straightforward to measure: Relative rents and land prices per square metre. For this reason, HEAG prefers the original wording of Policy 3(d) and recommends that is retained.
- Moreover, we suggest HUD/MfE issue guidance to Councils that the primary indicators of demand are relative rents per dwelling and land prices per square metre, and/or amending Policy 3(d)(ii) “relative demand for housing and business use in that location, *as expressed by rents per dwelling and land prices per sqm.*”

## Clarifying the definition of rapid transit

- HEAG supports HUD's proposed approach of both listing rapid transit corridors ("RTC"), which would be subject to periodic updates, and providing a catch-all definition of rapid transit services that can guide council decisions ex ante.
- We suggest, however, that there is value in identifying the level of all-day (7am-7pm) frequency that might be expected to trigger a RTC definition. Given the intention to list both the Onehunga Branch and Johnsonville lines in Auckland and Wellington, respectively, 30-minute average all-day headways seems appropriate. This definition brings some low risk that authorities will game timing to avoid triggering RTC requirements, although this risk is somewhat mitigated by 1) PT planning responsibilities mostly falling to Auckland Transport and GWRC rather than local councils and 2) HUD's commitment to ongoing monitoring and updates to listed RTCs. HEAG strongly supports the commitment to ongoing monitoring.
- We also see value in clarifying whether Northern Busway services (past Albany) to Silverdale and the Devonport Ferry qualify as rapid transit. In our view, they do.

## Key transit corridors

- We consider key transit corridors ("KTCs") to be as important as rapid transit corridors ("RTCs"). While KTCs are more exposed to traffic (and hence may be less reliable), they are often more frequent and accessible than RTCs. In many cases, these attributes more than offset the lack of grade-separation. We note, for example, that many bus and light rail KTCs generate higher ridership than equivalent RTCs, like heavy rail. For these reasons, we strongly recommend policies frame KTCs as of equivalent importance to RTCs in terms of their urban development potential.
- In our view, the defining supply-side feature of key transit corridors is *all-day (7am-7pm) frequency*. We suggest a 10-12 minute average headway (measured 7am-7pm across all routes on a corridor) would be an appropriate threshold for KTCs. We note a 10-12 minute average headway 7am-7pm corresponds to an average of 5-6 services per hour. This would put the definition somewhere between the PT2 and PT3 classes listed in NZTA's "One Network Framework".
- Re: paragraph 37 we agree with the need to accommodate differences between cities and provide discretion to councils. That said, we see value in indicating the frequency / headway threshold at which corridors would normally be defined as KTC and then discussing options where alternative thresholds could apply.
- In growing cities that are seeking increased central government funding for PT services and infrastructure, for example, we suggest that a lower threshold should be used, for example, 15-20 minute average headway 7am-7pm.
- Re: paragraph 40, we note the desire to avoid a brightline frequency threshold and emphasise that we are not recommending a strict threshold of 10-12 mins headways 7am-7pm, as this may introduce gaming incentives. Nonetheless, we

suggest the NPS-UD provides clear guidance on expectations, lest we end up in a similar situation to that for walking catchments. Average headways could be converted to services per day, for example, to allow for differences in span.

- In terms of the options, we prefer Option 2. We suggest the criteria “Form a key part of an urban environment’s public transport network” is explicitly linked to PT network branding and/or network planning, like the short term rapid + frequent network map on pg 46 of “Auckland’s Regional Public Transport Plan 2023-2031”.<sup>1</sup>
- Re: paragraph 48, HEAG strongly suggests “high density” zoning is appropriate for the following reasons:
  - From a planning perspective, six storeys is not usually considered high density (rather six storeys is more commonly regarded as medium density).
  - A much higher (at least 100%) frequency / headway threshold is being suggested for KTCs than RTCs.
  - PT services on many existing KTCs will provide greater accessibility and have higher ridership than those on RTCs.
  - Choosing a lower level of density risks vastly under-stating the importance of frequency vis-à-vis grade-separation: A large body of research finds that frequency is a more important determinant of the usefulness of PT.
- We think graduated density risks over-complicating the policy. Rather, we think developers and market forces are best able to determine the appropriate level of graduation within a catchment. Indeed, research finds that – due to negative externalities like noise – land values often peak approximately 200-300m from a PT stop. For this reason, graduated density could risk undermining urban development.
- We disagree with paragraph 51 for several reasons and suggest it is deleted:
  - We don’t think planning policies are well-placed to determine the corridors that are better suited to 3-6 storeys. This range is relatively narrow.
  - It is often significantly easier to increase bus capacity than rail capacity. Whereas rail is constrained by long lead times for additional rolling stock, timetabling of crews/services, and “hard” infrastructure constraints, bus services are comparably quick and easy to procure. Moreover, bus infrastructure constraints are relatively soft and easy to address via road space reallocation (putting aside the question of political will).
  - In Auckland, for example, it would be relatively easy to increase capacity on most of the frequent bus network compared to the rapid transit network, whether by increased frequency or higher capacity vehicles. This will remain true after the CRL and especially if time-of-use road pricing is adopted.
- For similar reasons, we disagree with paragraph 52. Six storeys is well-and-truly medium density and we suggest it is framed as such, especially given that councils have historically interpreted 6 storeys as the maximum rather than the minimum.

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<sup>1</sup> [aucklands-regional-public-transport-plan-2023-2031-adopted-november-2023.pdf \(at.govt.nz\)](#)

- Re: Paragraph 53, we support the definition of multiple categories (or, layers) of KTCs and suggest that it would lay the groundwork for expansion of the corridors in the future. If multiple categories were identified, then this would allow a slightly tighter definition for the highest category, for example:
  - spine  $\leq$  10 minute average headways 7am-7pm triggers minimum 6 storeys
  - primary 10-20 minute average headways 7am-7pm triggers minimum 3 storeys
- Re: Paragraph 55 we consider 200m to be far too small. As noted above, land values often peak about 200-300m from stops due to the presence of externalities close to corridors. On this point, we agree with P56 that a catchment of 200-400m risks leaving out many highly viable and desirable locations from upzoning. If multiple categories are adopted, then it may present the opportunity for different catchments, e.g. spine and primary catchments of 600m and 400m, respectively. In our experience, analyses of PT catchments rarely (if ever) use distances less than 400m. For this reason, we suggest 400m as an absolute lower bound.
- P57—63 We agree with the recommendation to provide councils with discretion, although wonder if this could be complemented with indicative guidance, e.g. generally measure distances from corridors for buses but from stops for ferries?

## Setting minimum walkable catchments

- HEAG agrees with using distance walked.
- HEAG is comfortable with Option 2. We reiterate the earlier point that KTCs are similarly important as RTCs and thus should have catchments of at least 400-600m.
- We disagree with para 77 about Option 3's larger catchments: "though additional enabled capacity located further away from amenities may not be commercially feasible (i.e., no impact on overall feasible development capacity)." While the amenity provided by centres and rapid transit is likely to support the feasibility of medium/high density development, many other amenities – like parks, local shops, schools etc – also drive demand. This is especially so when those amenities are somewhat near but not immediately proximate to centres and quality transit, which raises their potential redevelopment value.
- We suggest HUD / MfE provide stronger direction on what qualifies as a "metro centre", especially for Tier 1 cities. E.g. we understand that Christchurch, Hamilton and Tauranga have not identified any metro centres. In our view, all Tier 1 centres are sufficiently polycentric to have Metro Centres, e.g. Chartwell in Hamilton, Bayfair/Arataki in Tauranga, Northlands and Riccarton in Christchurch. One option would be to require Tier 1 councils to identify at least one metro centre or require one metro centre per 100,000 residents.

## Changes to the qualifying matters framework

- We prefer the offset equivalent area (“OEA”) approach as it provides a stronger incentive for Councils not to rely heavily on qualifying matters.
- For the OEA, we suggest using rents per dwelling and land prices per sqm: Offset area must have rents per dwelling or land prices per sqm that no more than, say, 10% below those for the areas excluded by qualifying matters (on average).

## Strengthening requirements on impact of qualifying matters

- HEAG considers that the changes to the qualifying matters framework (e.g. requirement to offset with equivalent areas) will reduce the incentives for Councils to rely on unlisted qualifying matters. As such, we support the proposal to explicitly emphasise the intent of these provisions.
- HEAG recommends, however, also taking the opportunity to strengthen the provisions themselves. Specifically, we would propose amending the provisions to align with the requirements of a regulatory impact statement (“RIS”), including but not limited to requiring:
  - A clear problem definition
  - An articulation of the market failure that provides the prima facie case for policy intervention
  - An analysis of alternative mechanisms, such as financial incentives or voluntary covenants, which could achieve the same outcome.
  - A discussion of how the qualifying matter was designed to minimise impacts on urban development, e.g. not applying to rear of sites.
  - Consideration of the effects of the qualifying matter on market competition where upzoned areas under NPS-UD will be subject to mixed use requirements that enable a broader range of commercial and retail operation. Effects on competition and potential entry should be an explicit part of the analysis. Successive Commerce Commission market studies have identified land use planning as substantial impediment to competition.
  - A statement of adequacy to accompany the analysis, provided by HUD. If the statement is considered inadequate, the qualifying matter is rejected.

## Additional height in Rapid Transit Catchments

The Minister has previously signalled greater heights (than minimum of 6 storeys) would be required in the walking catchment of RTCs as part of the GfHG reforms. This was on the basis that 6 storeys can be uneconomic to build given demand for common facilities and additional Building Code requirements that apply to buildings above 4 storeys, such as structural requirements, need for elevators, centralised heating / cooling, common facilities (eg pools, gyms, and BBQ areas), and fire systems.

As six storeys does not provide sufficient additional capacity to spread these fixed costs across enough dwelling units, it can be a difficult height to build feasibly, even in areas with high demand and accessibility. In addition to simply increasing the minimum height limits, HUD could require a higher average height limit across the catchment, say 12-15 storeys. This maintains the option for councils to have a six storey limit in some places, but would require it to be compensated for by more height in other parts of the catchment. Indirectly, this might encourage councils to adopt graduated density.

We also suggest policies provide for price discontinuities at zoning boundaries to serve as triggers for private plan change proposals to enable upzoning at the boundary. This failsafe would encourage developers to keep a constant watch for areas where greater density would be highly valuable, in case council zoning does not keep up with changing market conditions. This point applies to catchments, generally.

# HEAG COMMENT: DRAFT BRIEFING ON CARPARKING OPTIONS (HUD2024-005265; MfE BRF-5288)

## Summary

Ministers have requested advice on options to enable better management of car parking. In this note, HEAG comments on the following three high-level options:

Option.7; Retain.current.settings, maintain the prohibition.on councils setting minimum parking requirements (“MPRs”).

Option.8; Allow.councils.to.apply.MPRs?progress amendments to the National Policy Statement on Urban Development (“NPS-UD”) that permit MPRs either (a) only in Tier 2 & 3 cities, (b) only outside Policy 3 areas, and (c) in all areas.

Option.9; Strengthen.Council's.parking.management.tools, progress legislative amendments to enable Councils to effectively manage the demand for parking while maintaining the prohibition on councils setting MPRs.

HEAG strongly recommends Option 3. That is, progress legislative amendments to empower Councils to manage the demand for parking management more effectively, e.g. via pricing and enforcement. By directly addressing the underlying problem of excess demand, we consider it likely that this option will have net economic benefits.

HEAG strongly opposes Option 2. Reintroducing MPRs via amendments to the NPS-UD seems likely to reduce housing supply and undermine housing affordability, thereby undermining the government’s GfHG programme. Option 2 also fails to address the factors that give rise to the parking management problems faced by Councils. Indeed, these problems reflect outdated legislation that pre-date the NPS-UD.

HEAG also prefers Option 1 to Option 2. Retaining current policy settings – even in the absence of legislative amendments that enable Councils to more effectively manage the demand for parking – are preferable to the reintroduction of MPRs. The latter seems likely to have economic costs that exceed their benefits by a significant margin.

For these reasons, HEAG recommends Option 3 is included in the briefing to ministers and is, moreover, identified as the preferred option. The following sections are structured as follows: First, we discuss evidence on positive effects of removing MPRs; second, we consider problems with MPRs in more detail; third, we discuss the management of public parking (both off- and on-street); fourth, we consider non-RMA levers for managing parking; and, to finish, we present some concluding comments.

## The success of removing MPRs in New Zealand

Globally, many places have chosen to remove MPRs to support more efficient land-use, improve housing affordability, and reduce road congestion. While this has normally occurred at a local level,<sup>1</sup> in 2020 the NPS-UD made New Zealand into global leader in nationwide parking reform. And evidence suggest it has been a success.

Although the changes are still recent and data remains limited, a survey of new medium density developments in Lower Hutt found the average number of carparks per dwelling in new build medium density housing halved the year after the removal of MPRs via the NPS-UD – falling from 1 per dwelling to 0.5 per dwelling. Across 595 dwellings completed in 2022 in Lower Hutt, the carpark per dwelling average was 0.4.

The average car-park takes up 20-30 sqm, once space for access and manoeuvring is provided. For townhouses and apartments, where space is constrained, the average car-park can easily add \$20,000 to \$50,000 to the cost per dwelling. The data for Lower Hutt suggests the removal of MPRs via the NPS-UD has successfully enabled hundreds of homes to be built and sold at a more affordable level.<sup>2</sup>

## Stepping back to understand problems with MPRs

Many studies, both from New Zealand and overseas, have conclusively found that the application of MPRs increases the costs of housing, thereby reducing housing supply and undermining affordability (see, e.g., Shoup, 2005). From the outset we note that these effects are directly contrary to the stated objectives of the GfHG programme.

From an economic perspective, MPRs impose costs on development that exceed their direct benefits to the people that are affected. The average residents (and, in the case of commercial developments, the average customer) faces higher costs due to the imposition of MPRs. There is a free rider problem where costs are borne by customers / residents of new developments, but benefits accrue to anyone who wants to park.

Research finds the imposition of MPRs also has several indirect effects that are relevant to society. Table 1 summarises some of the economic benefits and costs of MPRs. In this context, a key policy question becomes whether the economic benefits of MPRs (in terms of avoided parking management costs) outweigh their costs (in terms of increased costs of development, increased social support, increased congestion, reduced agglomeration benefits, and reduced street parking and amenity)?

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<sup>1</sup> [Announcing a New and Improved Map of Cities That Have Removed Parking Minimums](#)

<sup>2</sup> Indeed, the reduction of 0.50 car-parks per dwelling in Lower Hutt will – on its own – have reduced housing costs by \$10,000-\$25,000 per dwelling. These are significant savings. For details, see McCracken, M (2023). Development Insights – Lower Hutt housing and the removal of parking minimums. Source: <https://betterthingsarepossible.substack.com/p/development-insights-lower-hutt-housing>

Table.7;Qualitative.summary.of.the.economic.benefits.and.costs.of.MPRs

Benefits	Costs
Avoided.costs.of.parking.management, e.g. enforcement of prices or rules.	Increased.costs.of.development, e.g. welfare losses from bundling parking.
	Increased.social.support, e.g. social housing / accommodation supplement.
	Increased.congestion, e.g. due to implicit subsidies for car ownership and use.
	Reduced.agglomeration.benefits, e.g. due to reduced development density.
	Reduced.street.parking.and.lower. amenity?e.g. due to additional driveways.

The evidence provides a clear answer to this question: The economic benefits of MPRs are outweighed by their costs. Analysis undertaken for Auckland Council, for example, found the costs of MPRs were around 5 times larger than their benefits. Similar numbers are reported in analysis for the NPS-UD. Put simply, New Zealand is better off from not applying MPRs and instead incurring the additional costs of parking management.

In addition to their costs, we note that MPRs are a relatively blunt and inefficient way to manage the excess demand for public parking. Indeed, the latter problem pre-dated the NPS-UD and is unlikely to be fully resolved by MPRs, which target supply rather than demand. Requiring off-street parking to be built does not mean it is used as such. Recent research from Auckland Council on life in medium density housing found “for those households with a garage and at least one car, half used it for purposes other than parking their car including storage, exercise, as a study and for other living activities.”<sup>3</sup>

In our view, reinstating MPRs will not avoid the need for parking management and will impose costs that far exceed their benefits. For this reason, HEAG strongly opposes policies that would reinstate Councils’ ability to impose MPRs in any form. Instead, we recommend focusing on policies that help to manage the demand for parking more directly. We expand on this recommendation in the following sections.

## Management of public parking

The problem that this briefing responds to is excess demand for public parking (whether on- or off-street). Ultimately, the demand for public parking is quintessentially a matter for councils to manage. The government’s focus should therefore be on ensuring that 1) councils have appropriate tools and capabilities to manage demand and 2) that developers and prospective residents understand how parking will be managed.

<sup>3</sup> [Life in medium density housing in Tāmaki Makaurau Auckland \(knowledgeauckland.org.nz\)](https://knowledgeauckland.org.nz/life-in-medium-density-housing-in-tamaki-makaurau-auckland)

Research finds prices are an effective way to manage the demand for parking. Demand elasticities vary but, in general, are approximately -0.40 and -0.80 for short and long stay parking, respectively. This means that a 10% increase in parking prices can be expected to reduce demand by approximately 4-8%. To ensure that parking is relatively well-used but still available when and where it is needed, research also suggests setting short run prices at a level that ensures around 1 in 10 car-parking spaces remain available.

Historically, however, councils in New Zealand have often seemed reluctant to charge for parking for several reasons that include but are not limited to:

- Incumbent opposition; Existing residents who have enjoyed unpriced (“free”) parking may perceive that pricing makes them worse off. In this context, there are political incentives to foist parking costs onto newcomers, e.g. via MPRs.
- Transaction costs; Installing and maintaining parking meters can be expensive, especially in situations of only modest demand. In these cases, time limits are often preferred, although they require enforcement to be effective.
- Weak incentives; Fines for parking infringements were last adjusted almost two decades ago. This has weakened incentives both for 1) people to comply with parking rules and 2) councils to enforce parking rules.

HEAG makes several comments on these problems. First, opposition from incumbents is a political economy problem that Councils find difficult to resolve themselves, as they answer to existing not future residents. This problem is one of the primary reasons why governments in New Zealand have become increasingly involved in setting national directions for urban development, initially via the NPS-UDC and now the NPS-UD.

Second, the transaction costs of charging for parking and/or enforcing compliance with rules have fallen steeply in recent years due to ongoing technological developments. This includes increased uptake of app-based payment channels and automated enforcement, such as photo recognition software to check vehicle compliance.

Third, the real value of fines for parking infringements has fallen over time, reducing incentives for compliance and enforcement. This problem has been partly addressed by recent government announcements to increase fines in line with inflation.<sup>4</sup>

## Non-RMA levers for managing parking

In our view, government has several non-RMA levers available that would help councils to better manage the demand for parking and avoid the costs of imposing MPRs. We briefly discuss the individual levers below, although emphasis upfront that an optimal package of reforms would likely seek to combine multiple complementary levers.

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<sup>4</sup> [Government to update parking penalties | Beehive.govt.nz](https://www.beehive.govt.nz/government-to-update-parking-penalties)

Guidance: The government can publish and disseminate guidance on parking management policies. The NZ Transport Agency has, for example, published “National parking management guidance”, which presents the results of several case studies.<sup>5</sup>

Demerit points for parking infringements: We see value in strengthening the incentives for compliance. One option would be to include more serious parking infringements in the list of driving offences that qualify for demerit points.<sup>6</sup> Demerit points for parking offences would accrue to the registered vehicle owner.

Enforcement and fines: When parking is not scarce, it does not need to be managed or priced. When it becomes scarce, however, use needs to be managed, along with sufficient penalties for violating the rules that seek to manage scarcity. We suggest fines for parking infringements are set at a high enough level to deter illegal parking.

Anecdotally, parking fines in New Zealand have historically been set too low, such that incentives for compliance and enforcement are weak. This is especially true in urban areas where the value of parking is high. People are often better to risk the costs of a fine than pay for parking. This is particularly bad in residential areas with permit, time limit or coupon parking (ie outside of metered commercial centres). In these areas, fines are commonly not high enough to even cover the costs of enforcement.

HEAG notes the Minister for Transport recently [announced](#) an inflation-adjustment to fines in the Land Transport (Offences and Penalties) Amendment Regulations 2024, which is the first adjustment for almost two decades. This is welcome, however:

- Fines ought to be automatically inflation-adjusted going forward, lest they again erode in real terms over time. The tendency for inflation to erode the real value of fines will discourage Councils from investing in parking enforcement technology.
- The efficient level of parking charges and fines would ideally be that which delivers approximately ~80-90% occupancy<sup>7</sup> in a local area. This will differ markedly within each city and within each part of a city. Auckland Council is promoting legislative change to enable councils to set fines locally, which requires central government support to progress a bill. A quicker legislative change could be to simply set higher maximum fines for Tier 1 cities.
- HEAG understands the structure of fines in the Land Transport (Offences and Penalties) Regulations is particularly poor for residential permit / coupon parking areas (outside of metered areas). Wardens are only able to charge small fines in a single sweep and require a double sweep to prove more than 30 mins overstaying. Given the low level of fines involved, this is often not economical to

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<sup>5</sup> [national-parking-management-guidance.pdf \(nzta.govt.nz\)](#)

<sup>6</sup> [Demerit points | NZ Transport Agency Waka Kotahi \(nzta.govt.nz\)](#)

<sup>7</sup> The efficient occupancy rate to target. will differ with local conditions: Pierce & Shoup (2013) “Getting the Prices Right” Journal of the American Planning Association.

frequently enforce. A higher fine in the case of breaching a residents parking permit may be warranted to create sufficient deterrence.

**Adjustments to parking rules:** Government could support the transition to managed parking by simplifying the process for councils to apply and adjust parking time limits, residential parking permit prices, and road space allocation. Government could consider streamlining minor changes, for example, exempting them from detailed public consultation. It could also establish a formal process for managing residents' requests for parking management plans, which would require residents to accept the likely outcome of such plans will include an increased role for pricing and enforcement.

**Parking permits:** In New Zealand, parking permits are managed via the LGA, which allows councils only to charge an administration cost. In Auckland, this has led to the absurd situation where parking permits in central suburbs cost only \$70 p.a. – significantly below the prevailing economic price. We suggest the LGA is amended to allow Councils to set the price of permits at the economic value of parking. The HEAG notes the primary purpose of these permits is to enable people to secure ongoing access to public parking, in a similar way to monthly or annual public transport passes.

**Parking benefit districts (PBDs) and hypothecation:** Government could advance policies to enable the establishment of local parking benefit districts within which revenue from parking charges and enforcement are hypothecated. Net revenues (after enforcement costs) could then be used to fund public goods, e.g. offset rates, support street improvements, fund off-street parking, etc.<sup>8</sup> Legislation could ensure councils are not hindered by legislation / regulation in setting up and administering PBDs.

**Private parking supply:** In areas where public parking is scarce and well-managed, commercial operators may seek to increase the supply of paid parking.<sup>9</sup> This could be by development of new off-street parking facilities or informal arrangements, which facilitate public access to existing private parking.<sup>10</sup> National guidance could set parameters for off-street parking facilities, which currently vary significantly locally and acts as a barrier to the expansion of private parking providers, whether by existing firms scaling up or new firms entering the market.

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<sup>8</sup> See [McCracken \(2024\) "Managing on-street parking for local benefit; the case for Parking Benefit Districts"](#) and <https://parkingreform.org/playbook/pbd/>.

<sup>9</sup> In this way, parking management can help to manage demand and elicit supply in places of high demand.

<sup>10</sup> Wilson Parking, for example, operates the ParkMate service, which allows the owners of parking spaces to contract with Wilson to make the spaces available to other drivers for a time-based charge.

## Conclusions and recommendations

HEAG agrees with HUD's analysis in the draft briefing note but recommends including a 'status quo plus better management' option (Option 3). To enable Councils to manage the demand for parking more effectively, HEAG recommends the Government:

- Ensure Councils are familiar with the NZ Transport Agency's existing guidance on parking management
- Consider including at least some serious parking infringements in the list of offences that qualify for demerit points (or, penalties for repeat offenders)
- Progress legislative amendments that ensure fines remain appropriate and incentivise enforcement, e.g. automatic inflation adjustment.
- Review legislation and policies to reduce the burden that Councils face when making small adjustments to parking policies.
- Progress legislative amendments to the LGA so that Councils have more flexibility to set the prices of parking permits.
- Consider policies to facilitate (hypothecated) parking benefit districts and facilitate the supply of commercial parking.

HEAG strongly prefers retaining the status quo (no MPRs) and advancing these parking management initiatives. HEAG strongly advises against the reintroduction of MPRs and consider all such options as inferior to the status quo.

As noted above, MPRs manage supply, not demand. Indeed, parking management problems predate the removal of MPRs in the NPS-UD. Allowing Councils to reintroduce MPRs does not address the underlying factors that give rise to these management problems – acute parking problems will continue to persist and arise even with MPRs reintroduced. Most crucially for the GfHG agenda, allowing Councils to reintroduce MPRs will significantly increase the costs of housing and reduce supply in urban locations where many people want to live. The burden of these effects is likely to fall most strongly on small, low-income households with low levels of vehicle ownership. In HEAG's view, pursuing any option that allows for the reintroduction of MPRs will seriously undermine the objectives of the government's GfHG agenda.

We also note that the policies of the NPS-UD are only just coming into effect, and it may take time for some councils to adjust their practices to manage excess demand in new areas. We expect community pushback will subside once councils have time to respond and implement new parking rules, especially when such efforts are enhanced by changes to legislation as we have suggested above. Already, some councils are doing better than others in managing parking demand. Wellington City Council, for example, has proactively changed parking policies in advance of their new District Plan being operative and more density being constructed, for example, by introducing resident's

parking / coupon permits in Newtown and Berhampore. In contrast, Auckland Transport has been slow to implement new parking rules in places with rapid housing growth such as Te Atatu Peninsula or Avondale. We understand that AT's reluctance to manage parking largely reflects the weak incentives and unclear legislation discussed above.

Government should consider assisting councils through this transition while maintaining a strong line on the removal of MPRs. Where Councils have only reduced MPRs due to the provisions of the NPS-UD, they may have strategically chosen not to manage parking in the hope that it builds pressure for the reinstatement of MPRs. As such the removal of MPRs risks rewarding recalcitrant councils and creating something of a moral hazard that would serve to undermine further GfHG reforms.

In some respects, it is easier for Councils to blame central government for its problems rather than implement parking management solutions that have been adopted elsewhere in New Zealand and shown to be effective. That said, Councils do have a legitimate point that New Zealand's legislation hinders effective parking management. Central government pointing to readily available guidance and solutions, while advancing tangible legislative reforms, seems to be the most optimal way forward.

## Appendix – Allocation mechanisms for parking permits

In places where metered spaces are inappropriate, resident parking passes can be an alternative. This immediately raises the question of allocation.

If existing residents are viewed as having no property right in parking spaces along their street, council could auction annual permits using, for example, a Dutch Auction method in which prices decline until the market clears, with some spaces maintained as metered paid visitor parking. The auction could be restricted to those with addresses on the relevant street.

Under this option, increased density bids up the price of parking passes, including for existing residents. This may build opposition to new developments, and particularly if that revenue is not hypothecated to hyperlocal use through a parking benefit district.

This option also maintains flexibility for councils to shift on-street parking to other uses, from outdoor dining to cycle-lanes, by ending the annual auction on the relevant sections of streets. If existing residents view the new use as more valuable than the combination of the option to park and the benefits provided by revenues gathered from parking, they may support the shift. If they do not, and having to purchase more expensive passes farther from home is costly, they may not.

If existing residents are instead viewed as having an existing property right in parking spaces along their street, council could allocate permits among existing residents – again while maintaining paid parking spaces for visitors.

As streets densify, this may lead to some properties holding many permits despite not valuing them highly compared to newcomers. Government in this case should ensure councils are not hindered in allowing residents to sell permits to residents of new developments, which may require legislative change to clarify the relevant property right. Allowing transferability would also be important under the annual auctions described earlier; an elderly resident may wish to purchase a pass on behalf of a regular care worker, for example.

Allocated durable permits, or renewable annual permits that come to be viewed as a permanent right, reduce council flexibility to shift on-street parking to other higher-value uses. Other uses would be required to outbid parking for the use of the space, by buying back parking rights along the relevant sections of streets. Fragmented private rights could result in transaction costs preventing efficient shifting of use. Careful design could reduce this problem.

There is no de jure right to on-street parking near one's home. However, if existing residents view themselves as having something close to a property right in those spaces, and if political buy-in for a change to managed parking matters, finding ways of compensating for what would be experienced as a taking can matter. Parking benefit

districts to apply revenue from annual pass auction to hyperlocal uses, or allocations of passes to existing residents, could ease the transition to managed parking. Residents experiencing nearby development as a cost can lead to pressure against development, or to pressure for highly inefficient ways of avoiding that cost imposition – like minimum parking requirements.

**From:** [David Hermans](#)  
**To:** [McCracken, Malcolm](#); [Eric Crampton](#); [Stuart Donovan](#); [Stuart Shepherd](#); [Marko Garlick](#); [Counsell, Kevin](#)  
**Cc:** [Natalie Nienaber](#)  
**Subject:** RE: FDS and responsiveness policy changes, and general update  
**Date:** Monday, 7 October 2024 7:33:00 am  
**Attachments:** [Policy paper - FDS and responsiveness policy changes .docx](#)  
[image001.png](#)  
[image002.png](#)  
[image003.png](#)  
[image004.jpg](#)

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Kia ora koutou HEAG members. Hope you are all well.

This email:

- Seeks your views on a policy paper on Future Development Strategy (FDS) and responsiveness policy changes [subject to your capacity to review by 14 October]
- Provides an update on the last round of GfHG material that you commented on

I am conscious that I have very recently sought your input into the Resource Management 'Phase 3' Reform work, and that you will all have other priorities and may not have a great deal of capacity for more work at this point. Please let me know if this is the case. HUD would, nevertheless, appreciate any views you might offer on the attached paper, and no problem if you need to size your efforts to the time and resource you have available.

### **FDS and responsiveness policy changes**

The attached draft paper covers:

- Future Development Strategies – focusing on approaches to implement the policy direction we have received from Minister Bishop on this matter.
- Responsiveness and rural-urban boundaries – providing a range of policy options to improve the effectiveness of the responsiveness policy in the NPS-UD, and its implementation in relation to urban-rural boundaries

The audience for the paper is those we intend to undertake targeted engagement with, including other government agencies, council experts etc.

To help make best use of any time you can afford this, the aspects of the paper we'd most your views on are:

- The need to consider the relationship between the two policy themes and how we strike the right balance between planning for growth in specific places and being responsive to developer-led growth in way that minimises inefficiencies. We are particularly interested in your views how we get this balance right (I draw their attention to the section on this on page 1 and the overarching questions).
- For the FDS policy, how FDS can support more efficient investment decisions and how specific they should be about the infrastructure needed to support existing and future growth areas (see paragraphs 40 – 53).
- In terms of the responsiveness policy, what (if any) specific changes we should make to the wording of responsiveness policy in the NPS-UD (see Option 4 - Paragraph 74d).

To meet the briefing timeframes, we'd ideally like any comments by **Monday 14 October**.

### **Update on previous GfHG material**

Thank you very much for your recent feedback on the Housing Growth Targets, intensification,

price indicators and carparking papers that we shared with you. Much of the advice is still being considered by Minister, but I wanted to give you a bit of an overview of how we've taken your feedback on board.

- **Intensification.** We generally agreed with your feedback on the intensification paper and it has shaped our subsequent advice. For example:
  - our preferred option is now to restore NPS-UD Policy 3(d) to its original scope (including reference to both demand and accessibility)
  - our preferred option in relation to key transport corridors is the dual approach of having both spine (at least six storeys) and primary (at least three storeys) corridors. We have removed an option of a 200-metre walkable catchment or graduated density within a corridor
  - we're proposing to consult on raising the 'at least six storey' requirement to something greater
  - we're planning to consult on whether we can tighten up the requirements on councils to identify metropolitan centres.
- **Housing Growth Targets.** We understand and agree with your feedback that Housing Growth Targets need to be appropriately ambitious. Where the team tends to disagree slightly is on how important it is to calibrate the Targets to exactly how much demand there will be over the next 30 years and ensuring that projections factor in every potential driver of additional demand (e.g. income effects). The way we view the Targets is as a large 'bucket' of capacity that is available now – the 30 years is a proxy for what a large bucket might look like. When it comes to income effects and household size, we are struggling to identify good data sources that would allow us to make plausible adjustments to account for these factors, so we're hoping that the contingency margin helps to account for this instead – we'll look to consult on the specific margin to be used. However, even to the extent that the contingency margin is insufficient, the reason we are less concerned about things like income effects is that councils will need to review their district plans every three years to ensure they are still complying with the Targets. So – even if councils have not adjusted for (e.g.) income effects now, three years from now they will need to review their plans and account for increased demand at that point – it isn't set once for 30 years and then forget. Having said this, it's worth noting that plan-enabled capacity is intended to be net, and account for demolitions.
- **Price indicators.** We agree that we should ideally be framing the requirement regarding price indicators as 'indicators improve until consistent with competitive urban land markets' rather than 'indicators don't decline'. What we're working through is whether the concept of competitive urban land markets is sufficiently objective to include as a requirement in the NPS-UD, or whether it may simply be too ambiguous for either central or local government to assess whether competitive urban land markets have been achieved in the context of a regulatory requirement. We'll look to test this through public consultation.
- **Carparking.** We agree with your advice on not reinstating carparking minimums and have included a section summarising the HEAG's feedback in our briefing. We haven't yet discussed this advice with Ministers and no decision on next steps has been made.

Please note that I am on leave this week (school holidays), but – with Natalie's help - I will be checking my inbox and will make sure any responses from you get seen and actioned.

Ngā mihi nui,

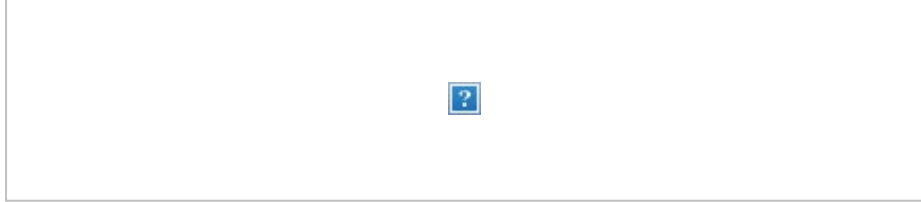
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# Policy paper – Future Development Strategy and Responsiveness policy changes in the NPS-UD

## Introduction

1. The purpose of this document is to record the policy thinking and options analysis undertaken by HUD and MfE on proposed changes to the Future Development Strategy (FDS), and responsiveness requirements in the National Policy Statement on Urban Development (NPS-UD). It will be used to inform further advice to Minister Bishop in late October, as well as the development of the discussion paper on changes to the NPS-UD.
2. The paper is split into two parts:
  - Part A: Future Development strategies – focuses on approaches to implement policy direction from Minister Bishop for improving FDS
  - Part B: Responsiveness and rural-urban boundaries – provides a range of policy options to improve the effectiveness of the responsiveness policy and its implementation in relation to urban-rural boundaries
3. We welcome feedback on any of the proposals set out in this paper.

## Balance between planning for growth and responsiveness

4. When reading this paper please consider the relationship between the two policy themes and how they work together.
5. It is important that through the proposed changes to the NPS-UD, we seek the right balance between spatial planning through FDSs (which is then reflected in district plans) and permitting growth through the responsiveness policy. We want to achieve planned growth through FDS and district plans while allowing for out-of-sequence and unanticipated development where developers are able to cover the costs of infrastructure. One of the main challenges in striking the right balance between strategic growth planning and responsiveness is ensuring that infrastructure needed to service out-of-sequence and unanticipated development is provided by developers.
6. FDS enable councils and their partners to plan for an uncertain future and provide some certainty over the direction of growth that they anticipate, will provide for in plans, and the broad location, nature and timing of infrastructure they intend to provide. This gives developers some certainty about how the council will support growth and when and where infrastructure will be provided to inform their decisions, including whether they will need to pursue private plan changes and alternative infrastructure funding and financing (and delivery) arrangements.
7. The Infrastructure Funding and Financing pillar should provide greater certainty about the costs of infrastructure that developers will need to cover, but there is a question about how this is linked to the responsiveness policy.
8. A rigidly planned system can create inefficiencies e.g., developers may struggle to find development sites available for purchase with good development feasibility in planned areas at the time it is sequenced. A more responsive system can also result in inefficiencies e.g.,



underutilisation or slow uptake of infrastructure capacity, potentially higher infrastructure operating costs over the long term, or redirection of resources away from enabling and realising development in the planned areas.

## Overarching Questions

9. How can we both plan for an uncertain future (via improved FDS settings) and enable responsiveness to deviate from an FDS in a way that minimises inefficiencies?
10. What is the right balance between planning for growth and responding to unanticipated or out-of-sequence development?

## Definitions in NPS-UD

11. When reading the paper note the following definitions.
12. **Additional infrastructure** means:
  - a) public open space
  - b) community infrastructure as defined in section 197 of the Local Government Act 2002,
  - c) land transport (as defined in the Land Transport Management Act 2003) that is not controlled by local authorities
  - d) social infrastructure, such as schools and healthcare facilities
  - e) a network operated for the purpose of telecommunications (as defined in section 5 of the Telecommunications Act 2001)
  - f) a network operated for the purpose of transmitting or distributing electricity or gas.
13. **Development capacity** means the capacity of land to be developed for housing or for business use, based on:
  - a) the zoning, objectives, policies, rules, and overlays that apply in the relevant proposed and operative RMA planning documents; and
  - b) the provision of adequate development infrastructure to support the development of land for housing or business use.
14. **Development infrastructure** means the following, to the extent they are controlled by a local authority or council controlled organisation (as defined in section 6 of the Local Government Act 2002):
  - a) network infrastructure for water supply, wastewater, or stormwater
  - b) land transport (as defined in section 5 of the Land Transport Management Act 2003).
15. **Long term** means 10-30 years.



## PART A: Future Development Strategies

16. We have structured the proposed FDS changes under the following question headings:
- What is the purpose of FDS?
  - How can FDS provide more certainty to inform infrastructure investment?
    - Infrastructure considerations – what are FDS informed by?
    - Infrastructure content requirements – how much detail should be included in FDS?
  - How can implementation plans help?
17. More specific questions are included at the end of each section.

### Overview

18. Subpart 4 of NPS-UD sets out FDS requirements that apply to tier 1 and 2 local authorities. The table below sets out the current FDS policy.

Who it applies to	When it will happen	How it is done	What products
<ul style="list-style-type: none"> <li>• The requirement to prepare and update an FDS applies to every tier 1 and tier 2 local authority</li> <li>• A local authority that is not a tier 1 or 2 local authority can also choose to prepare an FDS, either alone or jointly with any local authority. In that case all the FDS requirements apply, except that there is flexibility to use information equivalent to an HBA.</li> </ul>	<ul style="list-style-type: none"> <li>• The first FDS must be prepared in time to inform 2024 long-term plans</li> <li>• An FDS must be prepared every six years and in time to inform - or at the same time as - the next long-term plan</li> <li>• An FDS must be regularly reviewed to determine whether it needs updating, and the review must be done in time to inform the next long-term plan (ie, every three years).</li> </ul>	<ul style="list-style-type: none"> <li>• Use evidence (eg, HBAs), analysis, consultation and engagement to develop the strategic direction in an FDS</li> <li>• Spatially identify broad locations for development, infrastructure required and any constraints on development</li> <li>• When preparing or updating an FDS, local authorities must use the special consultative procedure in section 83 of the LGA and engage with key stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop spatial scenarios for consideration and consultation</li> <li>• Prepare a draft FDS for consultation</li> <li>• Publish a final FDS, which can form part of another document (eg, a spatial plan)</li> <li>• Undertake a three year review and, if needed, update the FDS</li> <li>• At minimum prepare a new FDS every six years</li> <li>• Prepare an implementation plan that is updated annually.</li> </ul>

### Problem definition

19. There are structural and emerging issues with some FDS which limit their effectiveness and thus their ability to support Going for Housing Growth (GfHG) objectives. These include:
- Inconsistent quality of evidence and analysis, particularly related to the assessment of infrastructure capacity, which results in varying levels of detail about the infrastructure needed to support growth provided in the final plan.
  - Implementation issues, including poorly defined actions and lack of prioritisation or phasing, which reduces the ability of decision-makers to align and coordinate infrastructure investment decisions.



- Consequential issues related to the introduction of Housing Growth Targets. The new Targets policy will require councils to live-zone development capacity to meet 30 years' of housing demand in their operative district plans, which is the same time horizon as current FDS. While the capacity enabled in district plans may not entirely align with what is identified in FDS, this could be interpreted as Targets and FDS planning on a very similar scale, calling into question the usefulness of FDS for land-use planning purposes.
20. There are also wider issues with FDS (and spatial planning processes more broadly) that are beyond the scope and purpose of NPS-UD. This includes inconsistent connections to long-term objectives like economic growth and productivity, insufficient legal weight, and variable involvement of central government agencies. Options to address these issues will be considered in proposals to replace the RMA in Phase 3 (which has identified spatial planning as a guiding principle).

## Policy intent

21. To ensure that FDS:
- continue to be a strategic instrument without unnecessary detail
  - provide confidence to the market about the future supply of developable land
  - provide more clarity around the infrastructure that is needed to support growth and the phasing of infrastructure investment (to support developer lead growth)
  - guide more efficient and coordinated infrastructure planning and funding decisions (central government and local government)

## Proposed changes

22. Minister Bishop has agreed to strengthen the FDS policy to better align with GfHG objectives. This includes:
- a) updating the purpose and contents of an FDS – including extending the time horizon
  - b) strengthening infrastructure considerations
  - c) improving implementation plans.
23. Note that non-regulatory options such as guidance to improve evidentiary requirements and methodology of FDS will be considered- in 2025.

## What is the purpose of FDS?

### Background

24. The current FDS policy requires local authorities to undertake long-term (30 year) strategic planning to ensure that sufficient development capacity will be provided to meet future growth needs and achieve well-functioning urban environments. This is then used to assist the integration of land use and infrastructure planning decisions.
25. This is achieved by a requirement for local authorities to identify (but not necessarily live-zone) sufficient development capacity to meet expected demand over the next 30 years.



It also requires identification of the general locations where this capacity will be provided in existing and future urban areas.

26. The new the Housing Growth Targets (Targets) will require councils to provide sufficient live-zoned, feasible development capacity to meet 30 years' worth of housing demand within their district plan. Infrastructure components of development capacity are proposed to stay largely the same as the status quo (the live-zoned capacity will not all be serviced by infrastructure).
27. The potential increase in plan-enabled capacity<sup>1</sup> could make it harder for local authorities to predict where growth will happen, and where and when extra infrastructure capacity will be required. The value proposition for FDS in setting the strategic direction for land use and infrastructure planning therefore becomes more important. A clear growth strategy in the FDS can provide direction about where and when development capacity may be realised earliest. Thereby making it easier for planning and infrastructure investment to be aligned across different decision-makers to maximise efficiency (cost and servicing) and provide certainty for developers.

## Proposed changes to FDS purpose and contents (subpart 4, 1.2)

### *Extending the future planning horizon*

28. To improve the usefulness of FDS as strategic planning instruments we propose to extend the planning horizon from 30 to at least 50 years. This will ensure that FDS:
  - continue to provide a market signal around future land supply (beyond the capacity that will be plan-enabled by the new Targets policy)
  - identify infrastructure corridors and sites needed to support growth over a longer timeframe
  - enable any constraints on development like those arising from climate change to be considered over a longer timeframe.
29. Extending the planning horizon will increase the ability of an FDS to respond to higher than expected growth and support a more responsive planning system by identifying future areas for growth that could be brought forward.
30. In some locations the capacity enabled by Targets (30-year projections, plus a contingency margin) could be similar to the 50-year projections. Making the FDS planning horizon at least 50-years it will provide flexibility for local authorities to look out beyond 50 years (although the further you extend the planning horizon the more uncertain the growth projections would become).
31. To inform this change we are proposing to provide Stats NZ SA2 high-growth household projections for 50 years on HUD's website. Although there are limitations associated with the Stats NZ projections introducing alternative methodologies for forecasting population growth are beyond the scope of NPS-UD and would be better considered through RM Phase 3.

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<sup>1</sup> Noting that in some cases councils consider that the MDRS and NPS-UD are already requiring them to enable 30 years of development capacity, and in some cases, Targets may actually require councils to enable *less* capacity than under current requirements.



**Changing the approach to housing and business growth**

32. To ensure FDS continue to identify housing and business growth beyond what is plan-enabled by the Targets policy we propose the following changes.

Clause	Existing policy	Proposed change
<p><b>The purpose of an FDS</b> Subpart 4, 1.2, (1) (a)</p>	<ul style="list-style-type: none"> <li>• promote long-term (30 year) strategic planning by setting out how to:               <ul style="list-style-type: none"> <li>○ achieve well-functioning urban environments in existing and future urban areas; and</li> <li>○ provide at least sufficient development capacity, over the next 30 years to meet expected demand; and</li> </ul> </li> <li>• assist the integration of planning decisions under the Act with infrastructure planning and funding decisions</li> </ul>	<ul style="list-style-type: none"> <li>• provide strategic direction for change in the urban environment over at least 50 years by setting out how to:               <ul style="list-style-type: none"> <li>○ achieve well-functioning urban environments in existing and future urban areas; and</li> <li>○ provide for housing and business growth to meet expected population projections</li> </ul> </li> <li>• assist the integration and coordination of planning decisions under the Act with infrastructure planning and funding decisions</li> </ul>
<p><b>Contents - every FDS must spatially identify</b> Subpart 4, 1.2, (2) (a)</p>	<ul style="list-style-type: none"> <li>• the broad locations in which development capacity will be provided over the long term, in both existing and future urban areas</li> </ul>	<ul style="list-style-type: none"> <li>• the broad locations most appropriate for housing and business growth, over the next 50 years, in both existing and future urban areas.</li> </ul>
	<ul style="list-style-type: none"> <li>• <i>[the infrastructure requirements for this part of the policy are covered under the infrastructure section in paragraph 42]</i></li> </ul>	

**Questions**

- Do you agree with the proposal to extend the FDS planning horizon out to at least 50 years?
- Do you agree with the proposed amendments to the purpose and contents of FDS?
- Any other feedback?



## How can FDS provide more certainty to inform infrastructure investment?

### Background

33. Going for Housing Growth objectives include the move to a more responsive system where developers are better able to bring forward growth areas subject to their willingness to fund the infrastructure required to support that growth. FDS can support this objective by providing good quality information about where growth is intended, the infrastructure needed to support growth and where and when it is expected to be provided.
34. While most FDS provide direction for infrastructure at the strategic level, good quality information on the state and capacity of existing infrastructure or the status of planned infrastructure is often lacking as an input to developing the growth strategy. This leads to varying levels of infrastructure detail provided in the FDS and associated implementation plans.

### Infrastructure considerations – what are FDS informed by?

35. The current policy requires every FDS to be informed by the most recent applicable HBA (which includes some infrastructure capacity information), the infrastructure strategy that accompanies the local authorities long-term plan, and feedback received through engagement with infrastructure providers.
36. We propose the following changes to strengthen infrastructure considerations by expanding the list of matters FDS must consider.

Clause	Existing policy	Proposed change
<p><b>Every FDS must be informed by</b> Subpart 4, 1.3</p>	<ul style="list-style-type: none"> <li>• HBA</li> <li>• advantages/disadvantages of different spatial scenarios</li> <li>• LTP, infrastructure strategy, and any other relevant strategies/plans</li> <li>• Māori values and aspirations</li> <li>• feedback from engagement and consultation</li> <li>• every other national policy statement</li> <li>• any other relevant national policy</li> </ul>	<p>As existing, and expand to include:</p> <ul style="list-style-type: none"> <li>• the best available information about demand, cost and supply of infrastructure</li> <li>• opportunities to make better use of existing infrastructure</li> <li>• information from delivery agencies, infrastructure providers and operators who may be involved in implementing the FDS</li> <li>• [potential update to the list of infrastructure documents is still to be confirmed]</li> </ul>

37. These additional matters will help ensure infrastructure considerations are integral to the preparation of the FDS - informing the analysis, the identification of the most appropriate areas for growth, corridors and strategic sites that might need protecting, and phasing.
38. Providers of infrastructure, iwi and hapū and the development sector are already expected to be part of developing and implementing the FDS. Including this as a new matter will make this expectation clearer.



39. Any opportunities to utilise existing infrastructure more efficiently should also free up more capital for growth investment.

**Infrastructure content requirements – how much detail should be included in FDS?**

40. A question remains about how specific FDS should be about the infrastructure needed to support existing and future growth areas. We need to get the balance right between the level of detail needed to inform strategic planning decisions (e.g. identification of potential infrastructure corridors), level of detail needed to inform infrastructure investment decisions, and level of detail needed to inform developers decisions about bringing forward development sites (e.g. type of infrastructure and phasing). This section should therefore be considered alongside the options to improve the responsiveness policy (see Part B).

**Amending the infrastructure content requirements**

41. The current policy requires FDS to spatially identify the *development infrastructure* and *additional infrastructure* required to support or service growth, along with the general location of the corridors and other sites required. In practice, councils have found the spatial identification of *additional infrastructure* (particularly education and open space) over the 10–30-year timeframe difficult. This is because the need, location and available funding over the long-term is uncertain. Better engagement with infrastructure providers in the preparation of FDS can help address this issue (as covered in the proposed changes to what FDS are informed by).
42. We propose the following amendments to the infrastructure contents.

Clause	Existing policy	Proposed change
<p><b>Contents - every FDS must spatially identify</b></p> <p>Subpart 4, 1.2, (2) (b)</p>	<ul style="list-style-type: none"> <li><i>development infrastructure</i> and <i>additional infrastructure</i> needed to support or service existing and future growth, including the general location of infrastructure corridors and other sites.</li> </ul>	<ul style="list-style-type: none"> <li>new or enhanced <i>development infrastructure</i> and <i>additional infrastructure</i> that is needed to support or service plan-enabled capacity.</li> <li>the general location of infrastructure corridors and other sites needed to service existing and future growth.</li> </ul>

43. We are proposing that this part of the policy only applies to infrastructure that is needed to support or service plan-enabled capacity. This is because the new Targets policy will likely enable much of the long-term capacity that was previously identified in FDS. The mismatch between the FDS planning horizon (50 years) and infrastructure strategies (30 years) will also make it difficult for councils to spatially identify all infrastructure needed to support future growth over the full FDS horizon.
44. We are not proposing to change the requirement to identify the general location of infrastructure corridors and other sites. The status quo supports the identification of existing or planned infrastructure corridors and sites (that may already be protected) and potential corridors and sites (that should be protected) which can be used to inform regulatory and investment plans. However, this direction is likely to have a greater impact as the FDS will have the ability to identify potential corridors and sites over the longer 50-year horizon.



45. Note that the decision and process to ‘protect’ infrastructure corridors and sites identified in FDS is reliant on other mechanisms that are being considered as part of the wider GfHG work programme, RM Reform and other Government programmes.

### ***Setting minimum infrastructure content requirements***

46. The proposed changes to the infrastructure content requirements (above) are likely to have a minimal impact on the quality of infrastructure information contained in FDS (but are still needed as consequential changes resulting from the extended time horizon and Targets policy). We have therefore identified two options to go further and set minimum content requirements. We are seeking feedback on these options which could provide a stronger signal to developers about the ‘readiness’ of future growth areas.

### **Option 1: a new requirement to clearly set out what infrastructure is needed to accommodate the anticipated levels of growth**

47. As a minimum, require further information to be provided in the FDS that sets out at a strategic level:
- what the required development infrastructure and additional infrastructure is for each future growth area including areas for further intensification or future urban areas
  - whether this involves the use of existing infrastructure or new or enhanced infrastructure capacity
  - planned phasing of infrastructure delivery (i.e. in the short, medium or long term)
  - who is responsible for delivery of the infrastructure.
48. Setting minimum content requirements will ensure clear and transparent information about new or enhanced infrastructure capacity needed to support future growth (and how it will be delivered) is included in the FDS. This will help align the location and phasing of development in future growth areas with investment in infrastructure to service it, assisting integration of planning decisions under the RMA with infrastructure planning and funding decisions.
49. Many FDS include information similar to this (generally focusing on critical infrastructure), but the introduction of minimum requirements would help to standardise the approach. However, the proposal to extend the FDS planning horizon out to 50 years may cause some feasibility challenges for councils’ ability to provide this level of detail beyond the 30-year period. This is because infrastructure investment plans and strategies (e.g. Council LTPs, RLTP, RPTP, Infrastructure Strategies and the new National Infrastructure Plan) have a shorter time horizon (ranging from 10-30 years) and can be subject to change.

### **Option 2: being clearer about the *development infrastructure* that needs to be in place before development can occur i.e. setting an infrastructure prerequisite**

50. In areas that are plan-enabled as a result of the new Targets policy, councils could choose to manage infrastructure constraints by including infrastructure triggers in the district plan. This would prevent or prohibit development until a specific project or specific infrastructure service level has been met.
51. Information provided in an FDS could be used in a similar way, by signalling to developers the infrastructure projects or service level needed for a future urban area to be ‘development ready’ (e.g. like the approach in the Auckland FDS that identifies infrastructure prerequisites).



This would provide developers with more certainty and support a more consistent approach to enabling responsiveness (for out-of-sequence development) if they are able to fund and coordinate the provision of the necessary infrastructure.

52. The requirement for infrastructure prerequisites would only apply to *development infrastructure* that is controlled by councils, which covers core water and roading network infrastructure needed to service the initial phases of development. Local authorities could choose to include similar information about *additional infrastructure*. However, as most *additional infrastructure* is outside of council control and is generally able to be delivered after development is place it is unlikely to be as much of a constraint.

### **Option 3: a mix of option 1 and option 2**

53. Our preference is to set minimum requirements (option 1), while providing the flexibility for councils to set infrastructure prerequisites (option 2) if they are able and think it would be helpful. Information about the likely phasing of new development capacity could help infrastructure providers and developers make informed decisions about where and when land will be ready to develop and guide investment decisions. When combined with new infrastructure funding and financing tools it could provide developers with flexibility to bring forward future growth areas sooner if they can meet the infrastructure costs.

### **Questions**

- Do you agree with the proposal to include additional infrastructure considerations in the list of matters that inform an FDS?
- Do you agree with the proposal to amend the infrastructure contents requirements (i.e. what FDS must spatially identify)?
- Do you agree with the proposal to set minimum infrastructure content requirements? which option do you prefer?
- Are there other ways that FDS could be used to provide more certainty for infrastructure investment and developers?
- Any other feedback?

### **How can implementation plans help?**

#### **Background**

54. The current policy requires councils to prepare and implement an implementation plan for its FDS (to be updated annually), but it does not specify the level of detail that should be included in it. As a result, the approach taken by councils to FDS implementation plans varies greatly in content and quality. It is not uncommon for actions to be poorly defined or information on prioritisation and sequencing, funding status, and who is responsible for delivery, to be lacking.
55. Local authorities have also asked for guidance on FDS implementation plans to clarify expectations and content.



## Proposed changes to FDS implementation plan provisions (subpart 4, 1.7)

56. We propose to clarify the type of information that should be included in an implementation plan by adding the following clause; as a minimum, the implementation plan should set out:
- a list of critical actions required to deliver the strategic direction in the FDS
  - the relative priority of each action
  - the expected phasing and funding status of each action
  - an explanation as to how the actions are to be undertaken and who needs to be involved.
57. The proposed changes will help ensure every FDS has an effective implementation plan and provide a framework for prioritising actions over the short, medium and long term.
58. Explaining how the actions will be delivered and who needs to be involved will provide more transparency to those who involved in implementing the FDS, which in turn should support greater collaboration. This reflects the fact that the FDS will not be delivered solely by local authorities. Instead, local authorities will need to partner with central government agencies, developers, iwi and hapū and community groups to achieve the expected FDS outcomes. This information could also inform regional deals by identifying actions that they could help deliver (and vice versa). The policy would continue to require the implementation plan to be updated annually.
59. In addition to the minimum requirements above, we would like to test whether it would be helpful for FDS implementation plans to identify priority areas. These could be similar to Priority Development Areas used by urban growth partnerships which have provided a mechanism for different decision-makers to coordinate and focus action in specific areas to overcome barriers and accelerate development.
60. Priority areas could focus on those areas that offer the best opportunity to integrate land use and infrastructure to accelerate the delivery of plan-enabled development capacity (i.e. win-win areas that support efficient patterns of growth and investment).
61. Many local authorities already identify variations of priority areas in their FDS. Including this as a requirement would standardise the existing approach and support the implementation of areas plan-enabled for development through the Targets. The priority areas would provide more certainty about where and when capacity may be realised earliest. This will make it easier for planning and infrastructure investment to be aligned across different decision-makers and provide a focus for the use of new and updated funding and financing tools to unlock growth. As a result, the delivery of housing and urban development could be accelerated in the priority areas. Including the requirement as part of the implementation plan enables the priorities to be reviewed and updated annually in response to changing circumstances.

### Questions

- Do you agree with the proposal to set minimum information requirements for implementation plans? is there anything missing?
- Would it be helpful implementation plans to identify priority areas?
- Any other feedback?



## **PART B: Responsiveness policy and the Rural-urban Boundary**

62. This section proposes a range of policy options to improve the effectiveness of the responsiveness policy and its implementation in relation to urban-rural boundaries. It is split into two sections. We are seeking feedback on:

- Options to improve the effectiveness of the responsiveness policy
- Options to address rural-urban boundaries

63. More specific questions are included at the end of each section.

### **Improving the effectiveness of the responsiveness policy**

#### **Background**

64. The NPS-UD requires councils to plan well for growth and ensure well-functioning urban environments. This includes:

- a. ensuring that plans make room for growth both 'up' and 'out', and that rules are not unnecessarily constraining growth
- b. developing, monitoring and maintaining an evidence base about demand, supply and prices for housing and land to inform planning decisions
- c. aligning and coordinating planning across urban areas, via preparation of Future Development Strategies.

65. In relation to responsiveness, the NPS-UD requires the following:

**Policy 8:** *Local authority decisions affecting urban environments are responsive to plan changes that would add significantly to development capacity and contribute to well-functioning urban environments, even if the development capacity is:*

*unanticipated by RMA planning documents; or*

*out-of-sequence with planned land release.*

**Section 3.8** *(Unanticipated or out-of-sequence developments):*

1. *This clause applies to a plan change that provides significant development capacity that is not otherwise enabled in a plan or is not in sequence with planned land release.*
2. *Every local authority must have particular regard to the development capacity provided by the plan change if that development capacity:*
  - a. *would contribute to a well-functioning urban environment; and*
  - b. *is well-connected along transport corridors; and*
  - c. *meets the criteria set under subclause (3).*
3. *Every regional council must include criteria in its regional policy statement for determining what plan changes will be treated, for the purpose of implementing Policy 8, as adding significantly to development capacity.*



66. Case law under the Resource Management Act 1991 (RMA) has found that having “particular regard” to something involves recognising that matter as important to the relevant decision, and therefore to be considered and carefully weighed in coming to a conclusion.
67. There are two relevant guidance documents related to the responsiveness policy:
- a. The [responsive Planning Fact Sheet](#), which outlines:
    - i. The requirements under the NPS-UD on tier 1, 2 and 3 local authorities relating to policy 1 (well-functioning urban environments), policy 8 and section 3.8,
    - ii. How responsive planning requirements have changed in the NPS-UD from the NPS-UDC, and
    - iii. Things councils need to be aware of in relation to these requirements, such as the need for significance criteria to align with the higher-level objectives in the NPS-UD, the need for proposed plan changes to demonstrate how adequate levels of infrastructure will be provided, and the need for councils to review their policies around unplanned/out of sequence development proposals to be consistent with the NPS-UD’s requirements.
  - b. Guidance to support councils on [understanding and implementing responsive planning policies](#), which covers:
    - i. The intent behind the NPS-UD’s requirements on responsive planning, noting the importance of considering policy 1 and how responsive planning should complement FDSs and be incorporated into planning for growth,
    - ii. The expected outcomes of these policies, particularly on ensuring councils can only refuse requests after considering relevant evidence and increasing transparency on the decision-making process,
    - iii. How decisions under these policies must contribute to achieving well-functioning urban environments, and the importance of adequate infrastructure provision in the definition of development capacity,
    - iv. Matters that should be considered when developing significance criteria, how to interpret “well-connected along transport corridors”, and how this policy can apply differently in greenfield and brownfield areas.
68. It is important to strike the right balance between spatially planning for growth via the FDS which enables a proactive investment approach to be taken on what infrastructure is needed in areas planned for growth, while also providing flexibility for the market to deliver development in unanticipated places or at unanticipated times.
69. In June 2024, in the context of broader changes to the NPS-UD, Cabinet:
- a. agreed that there be no ability for councils to impose a rural-urban boundary line (or equivalent) in a plan
  - b. directed officials to explore options to improve the responsiveness policy in the NPS-UD, such as whether to better support developers to undertake private plan changes and bring forward areas of growth [CAB-24-MIN-0228].
70. We are working from a starting position that the land subject to the responsiveness policy (i.e. out-of-sequence or unanticipated developments) would not count towards the Housing



Growth Targets (because that will already be zoned for development). One exception is if a private plan change is looking to upzone land for even greater density or development than has already been plan-enabled under the target.

## Issues

71. There are a range of issues associated with the responsiveness policy or its implementation.
- a. **Effectiveness:** We have not had capacity to systematically review council decisions in relation to private plan changes. However, it is not clear whether Policy 8 is having the intended effect of getting councils to consider more private plan changes, or whether the criteria in policy 8 are instead being used to decline to consider private plan changes further. For example, we know that Selwyn District Council has been highly responsive to private plan change requests<sup>2</sup>, while Auckland Council has arguably been less responsive.<sup>3</sup> Cabinet’s direction was to explore options to better enable developers to undertake private plan changes and bring forward areas of growth.
  - b. **Consistency:** Councils have taken inconsistent approaches to responsiveness planning and have interpreted Policy 8 and its guidance differently in RPSs and plans, specifically the test for significant development capacity and well-functioning urban environments. This potentially relates to uncertainty around interpretation of Policy 8 of the NPS-UD and/or the guidance associated with it. It isn’t clear that the guidance for Policy 8 is completely consistent with provisions in Policy 8. For instance, at present Section 3.8 requires regional councils to include criteria in its RPS for determining what plan changes will be treated as adding significantly to development capacity. The guidance appears to conflate “significant” with “well-functioning” and other matters well beyond any usual dictionary definition of the word significant, e.g., the *Factsheet and Understanding and implementing responsiveness policies* document suggests that councils include criteria about the extent to which the scale and location of development contributes to a well-functioning urban environment; or provides for demand identified in HBAs; or can be delivered at pace; or demonstrates viable options for funding and financing infrastructure.
  - c. **Timeliness and compliance:** Some Regional Policy Statements do not contain any responsive planning provisions despite being required by Policy 8 of the NPS-UD. The NPS-UD required that these be implemented ‘as soon as practicable’ which is vague and difficult to enforce.
  - d. **Infrastructure requirements:** Successful rezoning for unanticipated or out-of-sequence developments does not guarantee timely provision of adequate infrastructure. There are inconsistent approaches to the extent of infrastructure that must be provided to support unanticipated or out-of-sequence developments, and when that infrastructure must be provided by. There is a lead time needed to plan and invest in necessary infrastructure which often means this takes longer than rezoning. For example, there are developments in Tier 1 urban areas that lack infrastructure to connect local water

<sup>2</sup> Selwyn District Council has stated “Since 2020 when the [National Policy Statement On Urban Development \(NPS-UD\)](#) was introduced the Council has received an unprecedented number of private plan change requests for rezoning land across the district – in total 16 which, if all approved, would enable further 10,000 residential sites. Without the NPS-UD the Council would have likely rejected most, if not all, of the requests before they had continued to be processed”

<sup>3</sup> For example, Auckland Council opposed approving a private plan change for rezoning 307 hectares of rural land south of Beachlands, arguing that the development would not contribute to a well-functioning urban environment. The Independent Hearings Panel disagreed and approved the plan change in April 2024. The Council has appealed this decision.



and wastewater infrastructure to broader networks, in some cases despite housing being built and occupied. Funding limitations can mean reprioritisation which may mean responsive planning results in delays to infrastructure delivery in other areas planned for growth.

72. The need for improved responsiveness is symptomatic of a broader issue raised by developers, which is that the private plan change process is expensive and slow. This makes out-of-sequence developments often challenging, affecting the viability of development projects and slowing the delivery of housing. The responsiveness policy relates only to the initial council decision about whether to consider a private plan change, and not the subsequent process and policy related to the progression of a private plan change that is accepted. We suggest this broader issue is best addressed via RM phase 3.

## Objectives

73. We propose the following objectives for this work:
- Councils are appropriately responsive to out of sequence growth, while still having the ability to manage development where it would lead to significant pressure on infrastructure networks or lead to poor urban outcomes.
  - There are clear requirements for council implementation of policies that effectively enable responsive planning.
  - Requirements for responsiveness is appropriately balanced with the strengthening of requirements related to Future Development Strategies.
  - The responsiveness policy is well aligned with broader policy changes to the NPS-UD, infrastructure funding and financing, and other national direction (see Annex A).

## Options to improve the responsiveness policy

74. We have identified a range of options to address the issues discussed above, a number of which could be progressed as a combined package for greater effect:
- Option 1: Maintain the status quo** - noting that phase 3 of RM reform may address the issues.
  - Option 2: Increased compliance checks/enforcement actions by central government.** This could involve monitoring and advising the Minister on council implementation of policy 8 (including significance and WFUE criteria), and decision-making process for acceptance or rejection of private plan applications.
  - Option 3: Update/prepare new guidance** for councils on understanding and implementing the NPS-UD's responsiveness policies, with particular focus on ensuring guidance aligns with policy intent, and clarifying requirements/intent on significance criteria.
  - Option 4: Update the criteria that councils consider when making decisions on private plan change requests.** This could include changing, adding and/or clarifying the requirements related to one or more of:
    - Significance**, i.e., consider defining significance at a national level (i.e. setting a threshold), rather than requiring regional councils to determine significance. This



could include making it easier to meet the significance test, for example, ensuring it is clear that developers are not required to prove that there is demand for development in an area to meet the significance test. Alternatively, we could set a deadline for regional councils to notify a significance policy. Significance policies in existing RPSs vary considerably and include a range of considerations that would generally sit outside of a dictionary definition of the term ‘significance’, but this is consistent with the NPS-UD guidance.

- **Well-functioning urban environments**, i.e., consider whether it is necessary for to set an explicit requirement for proposed private plan changes to contribute to a well-functioning urban environment, in order for councils to be required to have particular regard to development capacity provided by the private plan change.
- **Transport corridor connections**, i.e., consider whether it is necessary for proposed private plan changes to be “well connected along transport corridors”, in order for councils to be required to have particular regard to them. This test is at least partially duplicated in the definition of well-functioning urban environments which by definition “have good accessibility for all people between housing, jobs, community services, natural spaces, and open spaces, including by way of public or active transport”
- **Infrastructure funding, financing and provision**, i.e., develop clear criteria for a council to be satisfied that there is a credible plan for the development to cover its own infrastructure costs (in line with the Government’s ‘growth pays for growth policy), and/or clearer requirements about how to consider infrastructure capacity constraints. This could include a requirement for developers to fund/or deliver infrastructure if it is not planned by the council/infrastructure provider. It may also need to include guidance on when infrastructure needs to be provided, and how a council assesses whether a developer proposing a private plan change is likely to cover the costs of infrastructure.
- **Price indicators**, i.e. consider provisions that could place added impetus for councils to consider private plan changes where price indicators (e.g., rural urban price differential) illustrate that they do not have competitive urban land markets.

## Analysis

75. Progressing **option 1** would result in the issues identified above continuing until addressed at a later date (if at all), such as in phase 3 of RM reform. We do not recommend this option because it:
- would not meet the objective of having clear requirements for council implementation of policies that effectively enable responsive planning.
  - may not fit well with broader changes that are being made to the NPS-UD and infrastructure funding and financing.
  - would be slow, i.e. any policy changes via RM phase 3 will likely take significant time to have full effect.
76. **Option 2** is likely to have the following impacts:
- Some overall increase in private plan changes and out-of-sequence and unanticipated development would be better enabled, as the Government would be taking a more



active approach in ensuring the NPS-UD's responsiveness policies are being implemented correctly.

- Create the need for new or reprioritised resourcing from central government for ongoing monitoring and compliance work.
- Increase resourcing pressures on councils and infrastructure providers due to an increased number of private plan change requests.

77. It is not clear that this would meet the objective of having clear requirements for council implementation of policies that effectively enable responsive planning, or address the need for the responsiveness policy to align well with broader changes that are being made to the NPS-UD and infrastructure funding and financing. There is also very limited government resource available for active monitoring and enforcement.
78. **Option 3** would help to provide greater clarity to councils and developers on the intent of the responsiveness policies and how these should be interpreted and could form part of a package. However, on its own the impact could be limited as while it may somewhat address the consistency and effectiveness issues (noting that guidance is non-statutory and therefore not enforceable), it does not address the issues with timeliness and compliance, and infrastructure requirements.
79. Some version of **Option 4** would have greater impacts and we recommend it be packaged with clear updated guidance. This could see an increase in private plan changes and out-of-sequence/unanticipated development would be better enabled, as strengthened and/or new criteria would provide greater certainty and ensure outcomes are much closer to policy intent. In particular,
- a. Defining **significance** at a national level could better ensure consistency with intent of the policy, and reduce costs for regional councils that have not already implemented a significance policy, however it may be difficult to appropriately account for local differences. Narrowing the definition of significance (e.g., to mean scale rather than the broad interpretation in the guidance) may result in more private plan changes being considered and reduce costs for developers to show how their plan change will meet demand.
  - b. Removing the **well-functioning urban environments** criteria from Section 3.8 could result in more private plan changes being considered but will weaken policy consistency across the NPS-UD and could result in more consideration of poorly functioning urban environments (e.g., with poor accessibility to employment and education), which may ultimately not be approved and therefore waste resources. However, broader policy direction that growth needs to pay for growth means that such developments are less likely to proceed, because of increased infrastructure costs making them uneconomic. Furthermore, this may not be effective given wider requirements under the RMA and NPS-UD would still require councils to consider and contribute to well-functioning urban environments in their decision making on private plan change requests.
  - c. Removing the criteria for private plan changes to be **well connected along transport corridors** could have minimal impact if the criterion for well-functioning urban environments is retained, as these are at least partially duplicated. However, it could weaken consistency across the NPS-UD and lead to development that places undue pressure on councils to upgrade transport networks at a later date.



- d. Including new requirements related to **infrastructure funding, financing or provision** would potentially enable councils to consider infrastructure provision and wider network impacts of private plan changes. This would need to align with wider government policy work in this space, particularly infrastructure funding settings changes to make 'growth pay for growth' under pillar 2 of Going for Housing Growth. There are several complexities with the infrastructure provision components of this potential criteria, including:
- i. Whether it is necessary to include any requirement that growth pays for growth as part of the responsiveness policy, or whether this would be implemented anyway as part of the changes to development contributions (and would thus be redundant).
    - ii. Whether a requirement that growth pays for growth as part of the responsiveness policy could effectively require a developer agreement very early on, before it would be feasible to do so.
  - iii. Questions around what infrastructure should need to be provided, by when, and how this might link to use of infrastructure triggers, i.e., is one option to require councils to consider private plan changes that include infrastructure triggers?
  - iv. How enforceable infrastructure requirements are under the RMA. Councils have raised concerns about enforceability, with examples of resource consents being granted before infrastructure is provided (because the applications take an effects-based approach and provide evidence that the development can manage effects), despite the use of infrastructure triggers.
  - v. concerns that councils may impose higher infrastructure requirements or service standards than are necessary/desirable.
- e. It is not clear how to place greater impetus on councils to consider private plan changes when their **price indicators** illustrate that they do not have competitive urban land markets. The challenges associated with this idea include:
- i. That there can be a significant lag between providing more development capacity and responses in price indicators. Given the large amount of development capacity that will be enabled via Housing Growth Targets, it may be preferable to monitor outcomes over the medium term and consider linking price indicators to the responsiveness policy, if needed.
  - ii. There is a risk of unintended consequences, e.g., councils give less regard to private plan changes that they otherwise would have if their price indicators are improving for a time. There is already recourse to the Environment Court if there are concerns about council decisions. To avoid this, one option might be to require councils to accept (rather than 'have particular regard to') plan changes when their price indicators have been deteriorating over the medium to long term, provided they meet some specified criteria; and 'have particular regard' to them when price indicators are improving. However, requiring council to accept private plan changes risks wasting significant resource (and time of submitters etc) on plan changes that might have a low chance of being approved, because councils would have less opportunity to assess them against national direction etc before accepting them.



## Impacts on Māori

80. NPS-UD Policy 1 (a)(ii) ensures that ‘well-functioning urban environments’ have or enable a variety of dwellings that enable Māori to express their cultural traditions and norms, which officials anticipate will help improve outcomes for Māori living in urban areas. This policy intent cascades through other parts of the NPS, such as Objective 1, the purpose of future development strategies (FDSs), and Subpart 2 (Responsive planning), which refer to well-functioning urban environments. Officials don’t have a clear understanding of the extent to which this is achieving these outcomes at present. One implication is that if we do consider removing the criteria related to well-functioning urban environments, policy 1 (a)(ii) could be retained as a criterion to minimise the impacts of this policy on Māori.
81. Changes to the responsiveness policy could have a positive impact on Māori housing by creating a greater supply of housing. It will also make it easier for Māori developers to get land rezoned for development, and it could potentially make it easier for iwi or hapu to progress private plan changes to seek rezoning of Māori land for development. However, it could see more private plan changes being considered that have negative effects for Māori, e.g., development adjacent to Māori land that has negative impacts.

## Questions

- Does the responsiveness policy at present strike the right balance between allowing councils to plan for growth, and being responsive to the market when developers wish to undertake unanticipated or out-of-sequence development?
- Which options do you think it would be helpful to progress?
- In relation to option 4, which changes to the criteria do you think would be helpful?
- How should we look to link the responsiveness policy with changes to infrastructure funding and financing, where there is an expectation that growth will pay for growth? How might the complexities associated with this be addressed?

## Rural urban boundaries

### Background

82. As noted above, the NPS-UD requires councils to ensure that plans make room for growth both ‘up’ and ‘out’, and that rules are not unnecessarily constraining growth. Legal advice that was provided when the NPS-UD was being drafted confirmed that the proposed NPS-UD’s responsiveness provisions would be effective in overriding and requiring amendment of RPS objectives and policies that do not provide for non-contiguous urban development.
83. The [Responsive Planning Factsheet](#) states that:

*The NPS-UD requires councils to respond to out-of-sequence development proposals. Councils will need to review their policies relating to unplanned and out-of-sequence development and in some cases, their policies will need to change to implement the NPS-UD. For example, a hard rural urban boundary without the ability to consider change or movement of that boundary would not meet the requirements of the responsive planning policy.*



84. The [Understanding and implementing responsiveness policies](#) guidance states:

*Local authorities may choose to identify in RMA plans and future development strategies where they intend:*

- *development to occur*
- *urban services and infrastructure to be provided.*

*The identified areas must give effect to the responsive planning policies in the NPS-UD and therefore should not represent an immovable line. Council policies, including those in regional policy statements relating to out-of-sequence development, will need to be reviewed and, in some cases, amended to reflect the responsive planning policies of the NPS-UD.*

## Objectives

85. We propose the following objectives for the urban-rural boundaries policy work:

- a. There are clear requirements for council implementation of policies that effectively enable responsive planning and prohibit rural-urban boundaries.
- b. Existing rural-urban boundaries in RMA documents that do not comply with Policy 8 are removed.
- c. Policies in relation to rural-urban boundaries are aligned with broader policy intent in the NPS-UD, e.g., around supporting spatial planning and well-functioning urban environments, housing growth targets; and policy intent in relation to infrastructure funding and financing and other national direction (see Annex A).
- d. Responsiveness planning is appropriately balanced with the strengthening of requirements related to Future Development Strategies.
- e. Councils can still have rurally zoned land.

## Issues

86. There are two issues associated with the responsiveness policy its implementation in relation to rural-urban boundaries (RUB):

- a. **Compliance:** Some RMA documents contain a 'rural-urban boundary' or equivalent provisions limiting greenfield development, despite hard boundaries being prohibited by Policy 8.
- b. **Consistency:** Councils have taken inconsistent approaches to interpreting and implementing the responsiveness policy into their RMA documents. While some RMA documents do not contain any RUBs, some include soft boundaries which do not directly restrict urban expansion (but can make it more difficult for expansion to occur), hard boundaries, or similar provisions that limit urban expansion (see Annexes B and C). Policies contained in RPSs cannot be changed by way of private plan change, but policies in District or Regional Plans are subject to private plan changes.

87. The broad issue that Ministers are looking to solve relate to policies used for the purposes of urban containment, such as use of urban limits, because of their impact on the competitive



operation of land markets. The impact of soft, moveable boundaries on competitive operation of land markets is not certain, however, they do signal an intent to constrain growth (which may discourage private plan changes, and is inconsistent with the objectives of Going for Housing Growth). For instance, Auckland's RUB shows the edge of the future urban zone in the District Plan section of the Unitary Plan, and therefore private plan changes outside the RUB can be considered. There is also large areas of rural zoned land **within** the Auckland RUB.

88. Out of scope of this work (but in scope of wider national direction work) is policies that act as de facto urban limits but are actually being used for other purposes, e.g., provisions protecting highly productive land, or provisions limiting development in particular places for the purposes of freshwater protection. There is work underway looking at both the NPS-Highly Productive Land and the NPS-Freshwater.

### Options to address rural-urban boundaries

89. We have identified a range of options to address the issues discussed above, a number of which could be progressed as a combined package for greater effect:
- a. **Option 1: Maintain the status quo**, noting that phase 3 of RM reform may address the issues,
  - b. **Option 2: Increased compliance checks/enforcement actions** by central government. This could involve monitoring and advising the Minister on RMA documents that contain rural-urban boundaries or equivalent provisions,
  - c. **Option 3: Explicitly prohibit 'Hard' rural-urban boundaries from RMA documents.** Policy 8 already prohibits 'hard' boundaries without the ability for councils to consider changes or movements, however, this is not explicitly stated in the NPS-UD.
  - d. **Option 4: Prohibit 'soft' rural-urban boundaries (or equivalent) from RMA documents.** While this would have limited regulatory effect, it could have a helpful signalling effect.

### Analysis

90. **Option 1** would result in the issues above continuing until addressed at a later date (if at all), such as in phase 3 or RM reform. We do not recommend this option because it:
- a. would not meet the objective of having clear requirements for enabling responsive planning and removing rural-urban boundaries.
  - b. may not fit well with broader changes that are being made to the NPS-UD and infrastructure funding and financing.
  - c. would be slow, i.e. any policy changes via RM phase 3 will likely take significant time to have full effect.
91. **Option 2** is likely to have the following impacts:
- a. 'Hard' rural-urban boundaries would likely be removed from RMA documents, enabling more development at urban fringes. However, 'soft' boundaries such as in the Auckland Unitary Plan would not have to be removed.



- b. Some overall increase in private plan changes and out-of-sequence and unanticipated development would be better enabled, as the Government would be taking a more active approach in ensuring the NPS-UD's responsiveness policies are being implemented correctly.
  - c. Create the need for new or reprioritised resourcing from central government for ongoing monitoring and compliance work.
  - d. Increase resourcing pressures on councils and infrastructure providers due to an increased number of private plan change requests.
92. **Option 3** would have the following impacts:
- a. 'Hard' rural-urban boundaries would be more likely to be removed from RMA documents, enabling more development at urban fringes.
  - b. Likely an overall increase in private plan changes and out-of-sequence and unanticipated development would be better enabled, as the Government would be taking a more active approach in ensuring the NPS-UD's responsiveness policies are being implemented correctly.
93. **Option 4** would have the following impacts:
- a. Greater enablement of development at urban fringes due to removal of lines that may have a signalling effect to discourage people from lodging private plan-change requests.
  - b. Possible overall increase in private plan changes and out-of-sequence and unanticipated development would be better enabled, as the Government would be taking a broader approach to removing boundaries that may directly or indirectly constrain urban expansion.

## Questions

- How problematic are rural urban boundaries that are moveable as part of the private plan change process (i.e., in District Plans rather than RPSs)? In essence what is the difference between a private plan change to rezone land and a private plan change to rezone land outside of a 'soft' boundary?
- Which options do you think would be helpful to progress?



## Annex A: Connections with other policy changes underway

POLICY AREA	DETAIL
<b>GfHG Future Development Strategies</b>	The FDS work aims to strengthen the role of spatial planning out from 30 years to 50 years. Cabinet has agreed to dual aims of providing both greater certainty with spatial planning and enabling more responsiveness. There is a risk that increasing responsiveness could undermine the value of FDS certainty through planning and coordination of infrastructure investment. On the other hand, improved spatial planning will provide a better basis and information from which developers can propose changes such as via private plan changes.
<b>GfHG Housing Growth Targets</b>	Housing Growth Targets aim to significantly increase the supply of developable land for housing and improve land-use flexibility, reducing the use of zoning as a tool for managing infrastructure constraints. We have assumed for this work that any capacity enabled under the responsiveness policy would be in addition to the development capacity that counts towards the Housing Growth Targets.
<b>GfHG Infrastructure triggers</b>	'Infrastructure triggers' are proposed as mechanisms for managing infrastructure constraints while live zoning for 30 years of development capacity under Housing Growth Targets. Conditions could be placed on live-zoned land by councils to ensure that key infrastructure is built before development occurs. Once the infrastructure is in place, no further plan change is needed.
<b>GfHG Infrastructure funding settings</b>	Proposals are being considered that would shift development contributions to a levy approach to better enable full cost recovery and give councils the flexibility to support development to go ahead in places or at a pace that is not foreseen in their planning. The current proposal is to set levies for particular areas (levy zones), with pathways to determine appropriate levies for development occurring outside of these zones (e.g. unplanned/out of sequence greenfield development). Any changes made to the responsiveness policy will need to reflect/align with upcoming changes to infrastructure funding and financing settings.
<b>NPS Infrastructure</b>	<p>Work is underway to develop the NPS-Infrastructure:</p> <p>Objective: New Zealand's infrastructure:</p> <ul style="list-style-type: none"> <li>(a) supports the well-being of present and future generations</li> <li>(b) provides national, regional, and local benefits</li> <li>(c) is well-functioning and resilient</li> <li>(d) is delivered in a timely, efficient, and ongoing manner while managing adverse effects on the environment; and</li> <li>(e) is protected from reverse sensitivity effects and the adverse effects of other activities.</li> </ul>



<b>NPS HPL</b>	Changes to the NPS-HPL are being considered, including potentially removing LUC3 land from the policy or softening the 'urban rezoning' tests to make it easier to rezone categories of highly productive land for urban use. There may be a balance to be struck between broad changes to the NPS-UD to enable development, and the extent of changes needed to the NPS-HPL.
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## Annex B: Existing Significance Policies and provisions limiting greenfield expansion/using rural urban boundaries - regions

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
Northland Regional Council	None located	<p>No RUB, but provides guidelines (or criteria) for managing the location of new subdivision, use and development:</p> <p>Regional development and design guidelines (appendix 2)</p> <p>New subdivision, use and development should:</p> <p>(c) If of an urban or residential nature connect well with existing development and make use of opportunities for urban intensification and redevelopment to minimise the need for urban development in greenfield (undeveloped) areas</p>
Auckland Council	None located	<p>Includes a RUB.</p> <p>Definition of RUB:</p> <p><b>Rural urban boundary</b> The boundary which defines the maximum extent of urban development to 2040 in the form of a permanent rural urban interface. It is defined around the following urban areas:</p> <ul style="list-style-type: none"> <li>• metropolitan urban area of Auckland, Orewa and the urban areas of Waiheke Island and Whangaparaoa Peninsula</li> <li>• the satellite towns of Pukehoke and Warkworth</li> <li>• rural and coastal towns of Beachlands/Pine Harbour, Helensville, Kumeu-Huapai, Oneroa, Riverhead, Snells Beach/Algies Bay, Waiuku and Wellsford</li> <li>• serviced villages.</li> </ul> <p>Description of RUB in section G1 of the Auckland Unitary Plan</p> <p><b>G1. Rural Urban Boundary</b></p> <p>The Rural Urban Boundary identifies land potentially suitable for urban development.</p> <p>The location of the Rural Urban Boundary is a district plan land use rule pursuant to section 9(3) of the Resource Management Act 1991, other than for Waiheke Island where it is an interim regional policy statement method until it is considered as part of a plan change to incorporate the Auckland Council District Plan – Operative Hauraki Gulf Islands Section into the Unitary Plan.</p> <p>The planning maps show the Rural Urban Boundary line.</p> <p>The only method for relocating the Rural Urban Boundary is by way of a plan change pursuant to Schedule 1 of the Resource Management Act 1991.</p> <p>Any relocation of the Rural Urban Boundary must give effect to the objectives and policies of the regional policy statement which establish it.</p> <p>RPS Objectives include:</p> <p>B2.2.1 Objectives</p>

<sup>4</sup> Chatham Islands Council, a unitary authority, has not been included due to its small size.

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
		<p>(2) Urban growth is primarily accommodated within the urban area 2016 (as identified in Appendix 1A).</p> <p>(4) Urbanisation is contained within the Rural Urban Boundary, towns, and rural and coastal towns and villages.</p> <p><b>B2.2.2. Policies</b></p> <p><i>Development capacity and supply of land for urban development</i></p> <p>(1) Include sufficient land within the Rural Urban Boundary that is appropriately zoned to accommodate at any one time a minimum of seven years' projected growth in terms of residential, commercial and industrial demand and corresponding requirements for social facilities, after allowing for any constraints on subdivision, use and development of land.</p> <p>(2) Ensure the location or any relocation of the Rural Urban Boundary identifies land suitable for urbanisation in locations that:</p> <p>(a) promote the achievement of a quality compact urban form</p> <p>[new text to be inserted]</p> <p>(b) enable the efficient supply of land for residential, commercial and industrial activities and social facilities;</p> <p>(c) integrate land use and transport supporting a range of transport modes;</p> <p>(d) support the efficient provision of infrastructure;</p> <p>(e) provide choices that meet the needs of people and communities for a range of housing types and working environments; and</p> <p>(f) follow the structure plan guidelines as set out in <a href="#">Appendix 1</a>;</p> <p>while:</p> <p>(g) protecting natural and physical resources that have been scheduled in the Unitary Plan in relation to natural heritage, Mana Whenua, natural resources, coastal environment, historic heritage and special character;</p> <p>(h) protecting the Waitākere Ranges Heritage Area and its heritage features;</p> <p>(i) ensuring that significant adverse effects from urban development on receiving waters in relation to natural resource and Mana Whenua values are avoided, remedied or mitigated;</p> <p>(j) avoiding elite soils and avoiding where practicable prime soils which are significant for their ability to sustain food production;</p> <p>(k) avoiding mineral resources that are commercially viable;</p> <p>(l) avoiding areas with significant natural hazard risks and where practicable avoiding areas prone to natural hazards including coastal hazards and flooding; and</p> <p>(m) aligning the Rural Urban Boundary with:</p> <p>(i) strong natural boundaries such as the coastal edge, rivers, natural catchments or watersheds, and prominent ridgelines; or</p> <p>(ii) where strong natural boundaries are not present, then other natural elements such as streams, wetlands, identified outstanding natural landscapes or features or significant ecological areas, or human elements such as property boundaries, open space, road or rail boundaries, electricity transmission corridors or airport flight paths.</p> <p>(3) Enable rezoning of future urban zoned land for urbanisation following structure planning and plan change processes in accordance with <a href="#">Appendix 1 Structure plan guidelines</a>.</p>
Waikato Regional Council	In progress – council adopted recommendations of the Hearing Panel in October 2023. Not yet included in RPS document as 3 separate appeal processes are underway.	RUB equivalent included as 'urban limits':

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
	<p>Responsive planning criteria (APP14):</p> <ol style="list-style-type: none"> <li>1. That the development makes a significant contribution to meeting a demonstrated need or shortfall for housing or business floor space, as identified in a Housing and Business Development Capacity Assessment or in council monitoring.</li> <li>2. That the development contributes to a well-functioning urban environment. Proposals are considered to contribute to a well-functioning urban environment if they: <ol style="list-style-type: none"> <li>1. have or enable a variety of homes that: meet the needs, in terms of type, price, and location, of different households; and/or enable Māori to express their cultural traditions and norms; and/or have or enable a variety of sites that are suitable for different business sectors in terms of location and site size; and</li> <li>2. support, and limit as much as possible adverse impacts on, the competitive operation of land and development markets.</li> </ol> </li> <li>3. That the development has good accessibility for all people between housing, jobs, community services, natural spaces, and open spaces, including by way of public or active transport.</li> <li>4. Whether it can be demonstrated that there is commitment to and capacity available for delivering the development so that it is completed and available for occupancy within the short to medium term.</li> <li>5. In cases where the development is proposing to replace a planned land use as set out in a council-approved growth strategy or equivalent council strategies and plans with an unanticipated land use, whether it can be demonstrated that the proposal will not result in a short-, medium- or long-term (as defined in the National Policy Statement on Urban Development 2020) shortfall in residential, commercial or industrial land, with robust data and evidence underpinning this analysis.</li> <li>6. That the development protects and provides for human health.</li> <li>7. That the development would contribute to the affordable housing stock within the district, addressing an identified housing type/tenure/price point need, with robust data and evidence underpinning this analysis.</li> <li>8. That the development does not compromise the efficiency, affordability or benefits of existing and/or proposed infrastructure in the district.</li> <li>9. That the development can be serviced without undermining committed infrastructure investments made by local authorities or central government (including NZ Transport Agency).</li> <li>10. That the development demonstrates efficient use of local authority and central government financial resources, including prudent local authority debt management. This includes demonstration of the extent to which cost neutrality for public finances can be achieved.</li> <li>11. The compatibility of any proposed land use with adjacent land uses including planned land uses.</li> <li>12. That the development would contribute to mode-shift towards public and active transport.</li> <li>13. That the development would support reductions in greenhouse gas emissions and would be resilient to the likely current and future effects of climate change, with robust evidence underpinning this assessment.</li> <li>14. That the development avoids areas identified in district plans, regional plans or the Regional Policy Statement as having constraints to development. That the proposed development would not adversely affect the function and vitality of existing rural settlements and/or urban areas.</li> </ol> <p><a href="https://www.waikatoregion.govt.nz/assets/WRC/Council/Policy-and-Plans/RPS-Regional-Policy-Statement/WRPS-CHANGE-1-strikethrough.pdf">https://www.waikatoregion.govt.nz/assets/WRC/Council/Policy-and-Plans/RPS-Regional-Policy-Statement/WRPS-CHANGE-1-strikethrough.pdf</a></p>	<p>Have incorporated changes which includes out of sequence development provisions for urban development outside of urban zones.</p> <p>There are provisions on 'urban limits' and refers to urban areas/settlements. WRC direct district councils to introduce and include urban limits in the district plans.</p>

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
Bay of Plenty Regional Council	<p>In progress – council adopted recommendations of the Hearing Panel, released February 2024. Not yet included in RPS document as 4 separate appeal processes are underway. Proposed criteria is:</p> <ol style="list-style-type: none"> <li>1. The development is of large enough scale to contribute to meeting demand for additional urban land identified through the HBA for the area, including meeting housing bottom lines or meeting needs for specific housing typologies or price points, or business types. Where there is no HBA, there is evidence that there is a need for additional urban land, and</li> <li>2. For Tauranga City and Western Bay of Plenty District urban environments, the development is large scale (5 hectares or more), and sufficient to support multi modal transport options, and</li> <li>3. For all other urban environments, the developments is at a scale commensurate with the size of the urban environment and includes a structure plan for the land use change that meets the requirements of Method 18, and</li> <li>4. The development is located with good accessibility between housing, employment, community and other services and open space, and</li> <li>5. The development is likely to be completed earlier than anticipated urban development and/or land release sequence, and</li> <li>6. Required development infrastructure can be provided efficiently, including the delivery, funding and financing of infrastructure without materially reducing the benefits of other existing or planned development infrastructure, or undermining committed development infrastructure investment.</li> </ol> <p>The council considered MfE guidance on policy 8 when developing this criteria. <a href="https://atlas.boprc.govt.nz/api/v1/edms/document/A4577992/content">https://atlas.boprc.govt.nz/api/v1/edms/document/A4577992/content</a></p>	<p>No RUB. Have incorporated changes which includes out of sequence development provisions for urban development outside of urban zones.</p>
Gisborne District Council	<p>Could not find criteria. The RPS is currently being reviewed, consultation on draft proposals will occur in early 2025.</p> <p>Work on this includes reviewing “the urban-related chapters of the district plan provisions of the TRMP. Implement the National Policy Statement on Urban Development 2020 to support urban growth and development planning, including housing outcomes.” Unclear if this includes implementing policy 8.</p>	<p>RUB equivalent included as reticulated services boundary. Nothing in the RPS. There is a reticulated services boundary. This distinguishes land that is serviced by infrastructure – which allows for more residential development than unreticulated land.</p>
Hawkes Bay Regional Council	<p>None located</p>	<p>RUB equivalent, included ‘urban limits’</p> <p><b>Objective UD4:</b> Enable urban development in the Heretaunga Plains sub-region, in an integrated, planned and staged manner which:</p> <ol style="list-style-type: none"> <li>a) allows for the adequate and timely supply of land and associated infrastructure; and</li> <li>b) avoids inappropriate lifestyle development, ad hoc residential development and other inappropriate urban activities in rural parts of the Heretaunga Plains sub-region.</li> </ol> <p>Policy UD4.1: ESTABLISHING URBAN LIMITS (HERETAUNGA PLAINS SUB-REGION)</p> <p>POL UD4.1 Within the Heretaunga Plains sub-region, district plans shall identify urban limits for those urban areas and settlements within which urban activities can occur, sufficient to cater for anticipated population and household growth to 2045.</p> <p><b>Policy UD4.2:</b> In determining future Residential Greenfield Growth Areas, not already identified within Policy UD4.3, for inclusion within urban limits in the Heretaunga Plains sub-region, the following general criteria shall apply:</p> <ol style="list-style-type: none"> <li>a) Must form an extension contiguous with existing urban areas and settlements.</li> </ol>

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
		<p><b>Policy UD10.2:</b> In the Heretaunga Plains sub-region, avoid inappropriate ad hoc urban development within the residential greenfield growth areas identified in Policy UD4.3 or created under Policy UD4.2 prior to rezoning taking place.</p>
Horizons Regional Council	<p>In progress – council adopted recommendations of the Hearing Panel in June 2024. Appeal period open; closes 23 August 2024. Criteria for evaluating unanticipated or out of sequence development:</p> <ol style="list-style-type: none"> <li>1. Unanticipated or out of sequence development will add significantly to development capacity* where: <ol style="list-style-type: none"> <li>1. The location, design and layout of the development will contribute to a well functioning urban environment*,</li> <li>2. the development is well-connected by a variety of transport modes and transport corridors, and to community services*, and open space,</li> <li>3. the development will significantly contribute to meeting demand for additional urban land identified in a Housing and Business Development Capacity Assessment*, or a shortfall identified by undertaking the monitoring requirements outlined in the National Policy Statement on Urban Development 2020, including meeting housing bottom lines*, or specific housing and price needs in the market,</li> <li>4. the development will be realised in the short term* and before anticipated planned urban development,</li> <li>5. there is adequate existing or planned upgrades to development infrastructure* to support development of the land* without adverse effects* on the provision or capacity of other planned development infrastructure* including planned infrastructure^ expenditure, and</li> <li>6. the development avoids adverse effects* on infrastructure^ and other physical resources of regional or national importance.</li> </ol> </li> <li>2. If the above criteria are met, the Regional Council^ and Territorial Authorities* must have particular regard to the contribution the development will have towards achieving UFD-P2.</li> </ol> <p><a href="https://www.horizons.govt.nz/getattachment/Publications-Feedback/One-Plan-Reviews-Changes/Urban-Development-Plan-Change/12-Part-2-RPS-UFD-Urban-form-and-development-(1).pdf?lang=en-NZ">https://www.horizons.govt.nz/getattachment/Publications-Feedback/One-Plan-Reviews-Changes/Urban-Development-Plan-Change/12-Part-2-RPS-UFD-Urban-form-and-development-(1).pdf?lang=en-NZ</a></p>	No RUB. Have incorporated changes which includes out of sequence development provisions for urban development outside of urban zones.
Taranaki Regional Council	<p>None located. However, the council is reviewing its RPS in two parts: part 1 will focus on giving effect to the National Policy Statement for Freshwater and Part 2 is intended to be updated in 2026 to give effect to other national directions. Unclear what this includes but could be NPS UD.</p> <p><a href="#">Regional Policy Statement review process / Taranaki Regional Council (trc.govt.nz)</a> <a href="#">Strategic plan review process / Taranaki Regional Council (trc.govt.nz)</a></p>	No RUB
Greater Wellington Regional Council	<p>In progress – proposed criteria included in proposed RPS change1, which is at the hearings stage. Proposed criteria is: When considering a change of a district plan for a development in accordance with clause (d) of Policy 55, particular regard shall be given to whether the following criteria is met:</p> <ol style="list-style-type: none"> <li>1. The location, design and layout of the proposal: <ol style="list-style-type: none"> <li>1. Contributes to establishing or maintaining the characteristics and qualities of a well-functioning <i>urban environment</i> identified in Policy 55(a)(ii) and Objective 22,</li> <li>2. Is well-connected to the existing or planned urban area, particularly if it is located along existing or planned transport corridors,</li> <li>3. For housing will apply a <i>relevant residential zone</i> or other urban zone that provides for <i>high density development</i> or <i>medium density residential development</i>.</li> </ol> </li> </ol>	<p>No RUB, but includes provisions on structure plan, out of sequence planning, and where urban development should occur.</p> <p>The notified plan rules make it prohibited to undertake urban development outside of these areas.</p> <p>No RUB but similar to other councils – maps included of urban areas and urban growth.</p> <p>Objective 22: A compact well designed and sustainable regional form that has an integrated, safe and responsive transport network and: (a) a viable and vibrant regional central business district in Wellington city; (b) an increased range and diversity of activities in and around the regionally significant centres to maintain vibrancy and vitality; (c) sufficient industrial-based employment locations or capacity to meet the region's needs; (d) development and/or management of the Regional Focus Areas identified in the Wellington</p>

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
	<p>2. The proposal makes a significant contribution to meeting a need identified in the latest Housing and Business Development Capacity Assessment, or a shortage identified in monitoring for:</p> <ol style="list-style-type: none"> <li>1. A variety of housing that meets the regional, district, or local shortages of housing in relation to the particular type, size, or format,</li> <li>2. Business space or land of a particular size or locational type, or</li> <li>3. Community cultural, health, or education facilities, and</li> <li>4. The proposal contributes to housing affordability through a general increase in supply or through providing non-market housing, and</li> </ol> <p>3. When considering the significance of the proposal's contribution to a matter in (b), this means that the proposals' contribution:</p> <ol style="list-style-type: none"> <li>1. Is of high yield relative to either the forecast demand or the identified shortfall</li> <li>2. Will be realised in a timely (i.e., rapid) manner,</li> <li>3. Is likely to be take up, and</li> <li>4. Will facilitate a net increase in district-wide up-take in the short to medium term,</li> </ol> <p>4. Required development infrastructure can be provided effectively and efficiently for the proposal, and without material impact on planned development infrastructure provision to, or reduction in development infrastructure capacity available for, other feasible, likely to be realised developments, in the short-medium term.</p> <p><a href="https://www.gw.govt.nz/assets/Documents/2022/08/Proposed-RPS-Change-1-for-the-Wellington-Region.pdf">https://www.gw.govt.nz/assets/Documents/2022/08/Proposed-RPS-Change-1-for-the-Wellington-Region.pdf</a></p>	<p>Regional Strategy; (e) urban development in existing urban areas, or when beyond urban areas, development that reinforces the region's existing urban form; (f) strategically planned rural development; (g) a range of housing (including affordable housing); (h) integrated public open spaces; and (i) integrated land use and transportation Note: GWRC's plan change 1 proposed to rewrite Objective 22. The council made decisions on recommendations from an independent hearings panel on 26/9/2024, however, at the time of writing the outcome of these decisions have not been released publicly.</p> <p>Anticipated Environmental Result: All new urban development is within the region's urban areas (as at February 2009); or in areas identified for urban development in a district growth frameworks or strategies; or in accordance with a structure plan.</p>
Tasman District Council	Council will progress a plan change to the Regional Policy Statement to include criteria for determining what plan changes will be treated, for the purpose of implementing Policy 8 NPS UD, as adding significantly to development capacity. <a href="#">Nelson-Tasman-Housing-and-Business-Capacity-Assessment-Report-July-2024.pdf</a>	No RUB
Nelson City Council	<p>Unclear if this predates the NPS-UD/when this was added to the RPS.</p> <p>DH1.3.2 – To have regard to community expectations when determining the extent and location of urban expansion.</p> <p>DH1.3.3 – Where urban expansion is considered to have greater net benefit than intensification, to provide for the most appropriate form of urban expansion for Nelson. In determining what is most appropriate, to assess the costs and benefits of various options according to the following criteria:</p> <ol style="list-style-type: none"> <li>i. <a href="#">energy</a> efficiency in terms of location and <a href="#">structures</a>;</li> <li>ii. infrastructure costs including opportunity costs of existing infrastructure;</li> <li>iii. natural or physical barriers to expansion;</li> <li>iv. existence of incompatible rural activities such as quarries or smelly activities;</li> <li>v. susceptibility to <a href="#">natural hazards</a>;</li> <li>vi. existence of sensitive uses such as <a href="#">land</a> transport links, airports or ports;</li> <li>vii. utilisation of the <a href="#">land</a> resource for primary production purposes;</li> <li>viii. proximity to existing facilities;</li> <li>ix. impacts on natural and conservation values associated with riparian and <a href="#">coastal margins</a>, <a href="#">rivers</a> and the coast;</li> <li>x. <a href="#">effects</a> on internationally, nationally, or regionally significant natural features and <a href="#">landscapes</a>;</li> <li>xi. <a href="#">effects</a> on internationally, nationally, or regionally significant native vegetation and significant habitats of <a href="#">indigenous fauna</a>;</li> <li>xii. <a href="#">effects</a> on ancestral <a href="#">land</a>, <a href="#">water</a> sites, <a href="#">wāhi tapu</a> and other taonga of significance to <a href="#">tāngata whenua</a>;</li> <li>xiii. <a href="#">effects</a> on heritage values of sites, buildings, places, and areas of regional, national, or international significance;</li> </ol>	No RUB. There are directive objectives and policies for determining how urban expansion should occur

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
	<p>xiv. <a href="#">effects</a> on <a href="#">amenity values</a> of international, national, or regional significance;</p> <p>xv. <a href="#">effects</a> on recreation resources of international, national, or regional significance;</p> <p>xvi. <a href="#">effects</a> on urban form and on the demarcation between urban and rural areas; and</p> <p>xvii. <a href="#">effects</a> on availability of <a href="#">land</a> resources for future generations.</p> <p>DH1.3.4 – To ensure that any proposals for urban subdivision and/or development include adequate and appropriate provision of services including waste disposal, stormwater, <a href="#">water</a> supply, electricity and other network services.</p>	
Marlborough District Council	<p>Could not find any criteria, or any indication that this is being worked on.</p> <p>Prior to the NPS-UD, council prepared a proposed Marlborough Environment Plan, which combines the Marlborough Regional Policy Statement, the Marlborough Sounds Resource Management Plan and the Wairau/Awatere Resource Management Plan. Decisions were made in Feb 2020.</p>	No RUB
West Coast	None located	No RUB
Environment Canterbury	None located	<p>No RUB, but similar: Directive objectives and policies that encourage urban growth to occur within the existing Map A urban area, and in and around existing settlements. Limited provision for unplanned urban growth</p> <p>Policy 5.3.1 Regional growth (Wider Region)</p> <p>To provide, as the primary focus for meeting the wider region’s growth needs, sustainable development patterns that:</p> <ol style="list-style-type: none"> <li>1. ensure that any <ol style="list-style-type: none"> <li>a. urban growth; and</li> <li>b. limited rural residential development</li> </ol> </li> </ol> <p>occur in a form that concentrates, or is attached to, existing urban areas and promotes a coordinated pattern of development;</p>
Otago Regional Council	<p>In progress – council adopted recommendations of the Hearing Panel in November 2022. Not yet included in RPS document as 19 separate appeal processes are underway.</p> <p>UFD–P10 – Criteria for significant development capacity:</p> <p>‘Significant development capacity’ is provided for where a proposed plan change affecting an urban environment meets all of the following criteria:</p> <ol style="list-style-type: none"> <li>1. the location, design and layout of the proposal will positively contribute to achieving a well functioning urban environment,</li> <li>2. the proposal is well-connected to the existing or planned urban area, particularly if it is located along existing or planned transport corridors,</li> <li>3. required development infrastructure can be provided effectively and efficiently for the proposal, and without material impact on planned development infrastructure provision to, or reduction in development infrastructure capacity available for, other feasible, likely to be realised developments, in the short-medium term,</li> <li>4. the proposal makes a significant contribution to meeting a need identified in a Housing and Business Development Capacity Assessment, or a shortage identified in monitoring for: <ol style="list-style-type: none"> <li>1. housing of a particular price range or typology, particularly more affordable housing,</li> <li>2. business space or land of a particular size or locational type, or</li> <li>3. community or educational facilities, and</li> </ol> </li> </ol>	<p>No RUB, but policy for managing urban growth:</p> <p><b>Policy 4.5.1 Providing for urban growth and development</b></p> <p>Provide for urban growth and development in a strategic and co-ordinated way, including by:</p> <ol style="list-style-type: none"> <li>a) Ensuring future urban growth areas are in accordance with any future development strategy for that district.</li> </ol>

Council <sup>4</sup>	Significance Criteria	Provisions limiting greenfield expansion or using rural urban boundaries
	<p>5. when considering the significance of the proposal's contribution to a matter in (4), this means that the proposal's contribution:</p> <ol style="list-style-type: none"> <li>1. is of high yield relative to either the forecast demand or the identified shortfall,</li> <li>2. will be realised in a timely (i.e. rapid) manner,</li> <li>3. is likely to be taken up, and</li> <li>4. will facilitate a net increase in district-wide up-take in the short to medium term.</li> </ol> <p><a href="https://www.orc.govt.nz/media/12992/porps-edited-version-identifying-non-freshwater-parts.pdf">https://www.orc.govt.nz/media/12992/porps-edited-version-identifying-non-freshwater-parts.pdf</a></p>	
<p>Environment Southland</p>		<p>No RUB, but policies on managing urban growth:</p> <p>Policy URB.2 – Urban development Manage urban growth and development in ways that: (a) support existing urban areas; (b) promote development and/or redevelopment of existing urban areas ahead of greenfield development; (c) promote urban growth and development within areas that have existing infrastructure capacity; (d) promote the progressive upgrading of infrastructure and improvement of the quality of sewage and stormwater discharges; (e) provide potable water supply; (f) plan ahead for the expansion of urban areas; (g) promote compact urban form; and (h) promote appropriate site and building orientation that supports the principles of optimum energy efficiency and solar energy gain.</p> <p>Policy URB.3 – Urban intensification Encourage opportunities for urban intensification and redevelopment within Southland's existing urban areas.</p> <p>Method URB.2 – District Plans</p> <p>(b) Establish and maintain provisions in district plans which: (i) identify and map areas for urban growth and development; (ii) encourage development and/or redevelopment of existing urban areas ahead of greenfield development; (iii) encourage the integration of land use and infrastructure; (iv) avoid unplanned and unmanaged development; (v) encourage high quality urban design; (vi) encourage a range of urban densities which are appropriate to their locations in order to maintain amenity whilst supporting pedestrian, cycle and public transport; (vii) encourage higher housing densities in locations where it is supportive of pedestrian, cycle and public transport and the viability and vibrancy of urban centres; (viii) encourage the intensification and, where relevant, the regeneration of existing urban areas; (ix) provide a mix of residential (e.g. density and cost), employment and recreational opportunities; (x) ensure that urban development cannot occur without the appropriate infrastructure capacity to support it; (xi) encourage urban growth within urban areas of Southland that have existing infrastructure capacity;</p>

## Annex C: Rural-urban boundary type provisions in plans – Districts

REGION	DISTRICT COUNCIL	DOES THE COUNCIL HAVE RUB PROVISIONS IN THEIR DP?	DETAILS
Northland	Whangarei District Council	No	Have other provisions in DP to manage urban expansion and restricting sprawl into the rural area – Part 2 District-wide matters / Policy DGD-P6 Urban Expansion)
	Far North District Council	No	Requires the preparation of structure plan to establish the broad framework for urban development on the periphery of existing settlements – Chapter 13 Subdivision/13.12 Structure Plans refers
	Kaipara District Council	No	No RUB. Relies on the compatibility with Structure Plans when considering plan changes – Part A District Wide Strategy / Chapter 3 land use and development strategy refers. Entire chapter is relevant so not copied and pasted here
Auckland	Auckland Council	Yes, in RPS	Only Council that adopts explicit RUB policies, contained in Chapter B – Regional Policy Statement in the Operative Plan (in part).
Bay of Plenty	Kawerau District Council	No	
	Opotiki District Council	No	
	Rotorua District Council	No	No RUB. There are specific provisions on maintaining the district's productive capacity of rural land and supporting a compact urban area. These are in objectives and policies. There is future growth areas identified in the plans. However a comprehensive design process has to be undertaken.
	Taupo District Council	No	No RUB. However, there is a chapter on land development and the structure plan process (chapter 3e in the DP). Urban growth areas identified.
	Tauranga City Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
	Thames-Coromandel District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
	Western Bay of Plenty District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
	Whakatane District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
Gisborne	Gisborne District Council	No	
Hawkes Bay	Central Hawke's Bay District Council	No	No RUB. But there are provisions on structure plan, avoiding urban development onto HPL and maintaining urban growth in the growth areas identified. There are maps with growth areas identified with property boundaries to where growth is limited too. See UFD chapter, <a href="https://eplan.chbdc.govt.nz/draft/rules/0/178/0/11150/0/48">https://eplan.chbdc.govt.nz/draft/rules/0/178/0/11150/0/48</a>
	Hastings District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
	Napier City Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development). This in both the operative and proposed DPs.
	Wairoa District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
Manawatu-Wanganui	Horowhenua District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).

REGION	DISTRICT COUNCIL	DOES THE COUNCIL HAVE RUB PROVISIONS IN THEIR DP?	DETAILS
	Manawatu District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
	Palmerston North City Council	No	There are references to an 'urban boundary' and requiring new urban development to locate in areas within the urban boundary but there is no specific overlay or control in the maps that identifies the urban boundary. There are also provisions to structure plan process.
	Rangitikei District Council	No	There are provisions on comprehensive development areas and staging of development land.
	Ruapehu District Council	No	There are provisions to restrict 'unplanned expansion of urban areas into rural areas.'
	Tararua District Council	Yes	The District Plan maps define the urban/rural boundaries of the District's urban areas and settlements. The District Plan rules seek to encourage urban activities to locate within consolidated urban areas. The Plan also defines an "urban buffer area" around the margins of the District's four main towns in which a minimum subdivision size of 8000m2 applies in addition to the normal rules of the "Rural Management Area". The Council has defined the boundaries of the "Management Areas" on the District Plan maps, for expansion of activities and growth.
	Whanganui District Council	No	There are references to an 'urban boundary' and requiring new urban development to locate in areas within the urban boundary but there is no specific overlay or control in the maps that identifies the urban boundary. There are also provisions to structure plan process.
Taranaki	New Plymouth District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
	South Taranaki District Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development).
	Stratford District Council	No	
Waikato	Hamilton City Council	Yes	There is an urban limit, and it is drawn around the whole TLA boundary. There are provisions and references to 'urban limits,' structure plan process and land development.
	Hauraki District Council	No	There are provisions to managing urban boundaries.
	Matamata-Piako District Council	No	
	Otorohanga District Council	Yes and no	There is an urban limit, but it is not on the maps. There are provisions and references to 'urban services effects area' and 'urban limited services effects areas,' structure plan process and land development. Urban services effects area refers to the area where full range of services is available or readily available, to support urban growth.
	South Waikato District Council	No	There are provisions to managing urban growth in towns.
	Waikato District Council	No	There are provisions to managing urban growth in towns.
	Waipa District Council	Yes	Inclusion of urban limits boundary in the maps (red line drawn around the towns). There are provisions and references to 'urban limits,' structure plan process and land development. Consolidation of urban activities in urban limits of the towns of the District.
	Waitomo District Council	No	

REGION	DISTRICT COUNCIL	DOES THE COUNCIL HAVE RUB PROVISIONS IN THEIR DP?	DETAILS
Wellington	Carterton District Council, Masterton District Council, South Wairarapa District Council	No	There are provisions to managing urban growth in towns and avoiding 'intensive sporadic urban growth' especially residential development in the region.
	Hutt City Council	No	There are provisions to maintain consolidated urban form within existing urban areas and identified growth areas, including manage the rate at which land at the periphery of urban areas is developed for residential (preventing rural areas from being urbanised).
	Kapiti Coast District Council	No	There are 'urban edge' boundaries in Waikanae and Otaki North. There are provisions to maintain consolidated urban form within existing urban areas and identified growth areas.
	Porirua City Council	No	There are provisions to maintain consolidated urban form within existing urban areas and identified growth areas.
	Upper Hutt City Council	No	There are provisions to maintain consolidated urban form within existing urban areas and identified growth areas.
	Wellington City Council	No	There are provisions to maintain consolidated urban form within existing urban areas and identified growth areas.
Tasman	Tasman District Council	No	No RUB, though development area is effectively a RUB There are specific provisions on maintaining the district's productive capacity of rural land, except where there is land deferred for urban use. These are in objectives and policies for Rural.
Nelson	Nelson City Council	No	No RUB. There are provisions on the land development and subdivision of Rural Land
Marlborough	Marlborough District Council	No RUB but future development areas prescribed	No RUB. But there are provisions on balancing the maintaining the productive capacity of rural land and limiting effects of subdivision except where provided for near Blenheim with subdivision controls. (i.e. rezoning land for urban development). This is the proposed DPs.
Canterbury	Kaikoura District Council	No	No RUB. Focus on urban growth occurring where existing physical infrastructure and energy will be used most efficiently where urban growth is located within existing urban areas or on the periphery of these areas provided that adverse effects on infrastructure are avoided. Specific direction - to discourage unplanned urban growth between the coastal settlements to protect the amenity of coastal areas as viewed from the State Highway.
	Hurunui District Council	No	No RUB. There are provisions on subdivision and land development (i.e. rezoning land for urban development).
	Waimakariri District Council	Not explicitly, but an RU infrastructure boundary	No RUB but RU infrastructure boundary. Focus on productive capacity of rural land and limiting effects of subdivision as well as maximising existing infrastructure. There are provisions on land development (i.e. rezoning land for urban development). There are also provisions for rural residential restrictions. This is for the existing and proposed District plan.
	Christchurch City Council	No	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development). Limitations related to RPS
	Selwyn District Council	Not explicitly but township boundaries in place	No RUB. There are provisions on structure plan process and land development (i.e. rezoning land for urban development). This is for the proposed and the operative district plans.
	Ashburton District Council	No RUB.	No RUB. There are provisions to discourage subdivision and development in the rural area and to encourage consolidation of future growth within existing settlements.
	Timaru District Council	No RUB but future development areas prescribed	No RUB, however clear future development areas defined in the PDP. There are provisions on structure plan process and land development (i.e. rezoning land for urban development). Current DP has development areas that urban development is provided within it.

REGION	DISTRICT COUNCIL	DOES THE COUNCIL HAVE RUB PROVISIONS IN THEIR DP?	DETAILS
	Waimate District Council	No	
	Mackenzie District Council	No RUB but future development areas prescribed	There are no RUB provisions that are immediately obvious in the plan or proposed plan changes, however there are provisions similar through the limitation of 'urban' development to areas defined in the spatial plan for residential growth
	Waitaki District Council	No RUB but future development areas prescribed	This is for the proposed and the operative district plans.
<b>Otago</b>	Dunedin City Council	No RUB but future development areas prescribed	Strong New Urban Land provisions and limitations to rural subdivision
	Central Otago District Council	No	
	Clutha District Council	No	No RUB. There are provisions to discourage subdivision and development in the rural area and to encourage consolidation of future growth within existing settlements.
	Queenstown Lakes District Council	Urban Growth Boundary	Proposed District Plan has an Urban Growth Boundary, operative plan has provisions for the adoption.
<b>Southland District</b>	Invercargill City Council	No RUB – sewerage and water reticulation areas identified	Policies to encourage consolidated urban growth
	Gore District Council	No RUB	Neither the PDP or ODP have RUB provisions
	Southland District Council	No RUB	But Council intend to produce a spatial plan as a guide future land use, subdivision and development across the district
<b>West Coast</b>	Westland District Council	No RUB	No RUB in operative zone. TTPP addressed FUZ and development sets of new infrastructure and connections as part of subdivision activities.
	Grey District Council	No RUB	No RUB in operative zone. TTPP addressed FUZ and development sets of new infrastructure and connections as part of subdivision activities.
	Buller District Council	Rural-Urban definition policies	Policies in the operative plan to ensure definition of urban and rural. TTPP addressed FUZ and development sets of new infrastructure and connections as part of subdivision activities.

**From:** [Counsell, Kevin](#)  
**To:** [David Hermans](#)  
**Cc:** [Stuart Donovan](#); [McCracken, Malcolm](#); [Marko Garlick](#); [Eric Crampton](#); [Natalie Nienaber](#); [Stuart Shepherd](#)  
**Subject:** RE: HEAG engagement in Phase 3 RM Reform (incl. an action)  
**Date:** Wednesday, 16 October 2024 12:58:29 pm  
**Attachments:** [image001.png](#)  
[image002.png](#)  
[image003.png](#)  
[image004.png](#)  
[image005.png](#)  
[image006.png](#)  
[image007.jpg](#)  
[image008.jpg](#)  
[HEAG comments -- FDS and Responsiveness \(FINAL\).docx](#)

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Hi David

With apologies for the slight delay beyond the midday deadline, please find attached HEAG's comments on the FDS and responsiveness policy changes. Similar to our last set of feedback on the RMA reforms, Stuart Donovan was not available for this response, so he has not had an opportunity to support or otherwise the views expressed in it.

Cheers,  
Kevin

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**From:** Natalie Nienaber  
**Sent:** Friday, October 11, 2024 1:36 PM  
**To:** Stuart Shepherd ; David Hermans  
**Cc:** Stuart Donovan ; McCracken, Malcolm ; Counsell, Kevin ; Marko Garlick ; Eric Crampton  
**Subject:** RE: HEAG engagement in Phase 3 RM Reform (incl. an action)

**CAUTION:** This email originated outside the company. Do not click links or open attachments unless you are expecting them from the sender.

Kia ora HEAG members,  
I've contacted the team holding the pen on the FDS and responsiveness policy changes, and they've asked if you could provide feedback by midday Wednesday 16 October. Also, thank you for the Phase 3 RM Reform feedback.

Ngā mihi

**Natalie Nienaber**

Business Assistant / Kaiāwhina | Auckland  
Policy

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**From:** Stuart Shepherd s 9(2)(a)

**Sent:** Thursday, October 10, 2024 8:39 PM

**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>; Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>

**Cc:** Stuart Donovan [redacted] McCracken, Malcolm [redacted]  
[redacted] Counsell, Kevin [redacted] Marko Garlick [redacted] Eric Crampton [redacted]  
[redacted]

**Subject:** RE: HEAG engagement in Phase 3 RM Reform (incl. an action)

Hi David, please find attached our comments on the RMA Phase 3 Cabinet Paper. Note Stuart Donovan was not available for this response so he has not had an opportunity to support or otherwise the views expressed in it.

On the timing of the next piece of work, on FDS and responsiveness policy changes, we have not yet had time to get started on it, so we are wondering if it would be workable if we provided our comments to you by the end of Wednesday next week, rather than on Monday?

Cheers

Stuart S

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**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Sent:** Monday, 30 September 2024 12:51 pm

**To:** Stuart Donovan s 9(2)(a)

McCracken, Malcolm

Counsell, Kevin

Eric

Crampton

Marko Garlick

Stuart Shepherd

**Subject:** HEAG engagement in Phase 3 RM Reform (incl. an action)

Kia ora HEAG members

As I mentioned to you a few weeks ago, we are keen for you to have an opportunity to inform and influence the direction of the Phase-3 RM reform work.

By now you will know that Kevin has also been [appointed to the RM EAG](#). This is a welcome move from our perspective, as it will better help ensure this important mahi incorporates a solid housing and urban perspective.

HUD will also be closely involved in the work, and I will be attending most of the meetings of the RM-EAG alongside Kevin. At the first meeting of the RM-EAG last week, we discussed:

- a. Inviting HEAG to comment on the overall approach and the Government's objectives and principles as outlined in the Cabinet paper (attached).
- b. Identifying opportunities for the HEAG to engage with the RM-EAG

Kevin and I will work on the second action above. In the meantime, it would be great if you could pull together **a HEAG perspective on the attached Cabinet paper**. My suggestion is that this should:

- Help solidify/centre the importance of housing and urban development in the reform work.
- Provide a forthright HEAG perspective on the approach and principles outlined by Ministers in Cabinet paper (including any aspects that you support as being particularly important, or perhaps don't support, any red flags that appear inconsistent with the housing and urban development work, or is there anything missing?\*)
- Be no more than a few pages, but can link to further reading where useful.

I'll be guided by you on what timeframe is realistic for this, but something within a week would be great. In case it is useful in this regard, the RM-EAG has a meeting **next week on Tuesday 8 October**.

For the avoidance of doubt, where as a group you engage with the RM-EAG (or with MfE), including preparing any written material such as this request, then you can of course bill HUD for that time.

Kevin and I will be in touch on the second action.

Ngā mihi,

David

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**\*NB** - HUD will also be taking opportunities to advise on and influence this work, and we'll use your views and feedback to inform our advice also. At this point, some of the key things we will likely be focusing on are helping ensure:

- Housing and urban outcomes and objectives are firmly part of the architecture of any new system (i.e. well integrated into, and a central part of whatever the equivalent of Part 2 of the RMA might be in a new system) and that the system is responsive to the need for growth and change (rather than focused on conserving the status quo)
- The gains we have made around housing and urban national direction (NPS-UD, and current improvements such as HGTs etc.) are translated appropriately and effectively into any new system, including into primary legislation rather than secondary direction (if that is still a feature) where more appropriate
- The system prioritises efforts on up-front planning and on effective land use and infrastructure integration at a strategic level (including through better use of spatial planning), to provide greater long-term certainty and responsiveness, so that key trade-offs aren't managed through individual consent decisions.
- That roles and responsibilities are clear, and in particular the role of the judiciary in the system is appropriate and proportionate, and is not the de-facto place for making what are essentially policy decisions
- That there is a clear and coherent distinction between the management of impacts on ecosystems and the natural environment vs impacts on people's socio-cultural preferences (i.e. subjective amenity effects)
- That the system prioritises the use of non-regulatory tools (including pricing)

# Housing Expert Advisory Group's perspective on HUD's Policy paper - Future Development Strategy and Responsiveness policy changes in the NPS-UD

16 October 2024

## Overarching Questions

*How can we both plan for an uncertain future (via improved FDS settings) and enable responsiveness to deviate from an FDS in a way that minimises inefficiencies?*

*What is the right balance between planning for growth and responding to unanticipated or out-of-sequence development?*

- Response to both questions.
- In relation to forecast development, councils should generally:
  - Plan for a range of forecasts, and that public infrastructure is resilient to forecast errors.
  - Avoid making assessments of consumer demand in a certain area, which are best left to developers who have superior knowledge and incentives.
  - Secure land for future infrastructure (ideally through purchasing options and designating corridors) to lower costs of provision and prevent a development from imposing costs on future developments by encroaching on infrastructure corridors.
  - Signal public infrastructure investment early and coordinate investment between utility providers and potential developers.
  - Ban development in truly inappropriate areas – e.g., natural hazards that cannot be mitigated.
- There is not necessarily a tension between ‘planning’ and ‘responsiveness’ - risks, incentives and costs ought to be properly aligned.
  - If council is too rigid in planning and creates a housing shortage, the costs are dispersed among everyone renting and everyone who'd like to buy a house but can't. If council enables developers to take a punt on a growth-pays-for-growth basis, developers bear the risk and cost if they get it wrong.
- In response to para 8, it is worth noting that “efficient” outcomes aren't necessarily scenarios that align with council predications or minimise public infrastructure spending. Instead, efficient outcomes are where people who have a willingness to pay for a bundle of housing/location/infrastructure are enabled to make that purchase subject to facing the correct marginal cost of those decisions (accounting for externalities).
- Out-of-sequence developments
  - Private plan changes are an essential demand-led emergent part of the planning system that provides a check on councils who, for example, under-estimate demand in zoning or mis-estimate the location of demand.

- Planning ought to be permissive and welcoming of unanticipated developments as long as the infrastructure funding & financing system is well set up. Indeed, we are aware of examples where councils have sought to block unanticipated developments based largely on the fact that the development is not anticipated in the FDS.
- This will require a mechanism for first-movers to gain some of the benefits from future-movers that benefit from their infrastructure investment. For example, an excessively wide road reserve, overbuilt water pipe or flood bank. Developers who provide this first-mover infrastructure can benefit from charging follow-on developments or having development contributions passed through at a later date. But if there is none, the first-mover bears the cost; crucially, not the council/ratepayer.
- We cannot know ex ante what will make sense; it must be discovered. The developer might sink the infrastructure and set a charging schedule for follow-on development; an infrastructure company might take on the risk and have its own set of levies on early and later movers. All of it is overseen by ComCom commercial reg for the water side. Further reform may be needed for non-water assets where there is a chance of significant market power by first-movers.

## FDS

### Planning horizon and purpose/content changes

*Do you agree with the proposal to extend the FDS planning horizon out to at least 50 years?*

- We support extending the required FDS planning horizon from 30 to 50 years for corridor planning and for purchasing options on corridors that may be needed. We doubt that extending the FDS planning horizon from 30 to 50 years for matters outside of corridor planning would add benefits exceeding the costs of preparation. The primary reason for this view is the uncertainty of the information that would be required to go into a 50-year FDS, for example projections for demand and supply of residential and commercial land beyond the 30 years. We note Councils could choose to extend the horizon of their FDS if they considered that would be, in their circumstances, useful.

*Do you agree with the proposed amendments to the purpose and contents of FDS?*

- We support the proposed amendments but note the above re the 50 year time horizon.

*Any other feedback?*

### Infrastructure requirements

*Do you agree with the proposal to include additional infrastructure considerations in the list of matters that inform an FDS?*

- We support the proposed additional items listed in the table in paragraph 36, plus we suggest the third bullet point should include "land owners and developers". The reason for this is land owners and developers in the relevant geographical area are critical agents in implementing the FDS and their intentions or reservations with respect to

development (to the extent they are willing to disclose them) is very useful information for the Council to include in the FDS.

*Do you agree with the proposal to amend the infrastructure contents requirements (i.e. what FDS must spatially identify)?*

- Change to “Contents, every FDS must spatially identify”.
  - We query the language of locations “most appropriate” for housing and business growth.
  - Councils’ first priority should be setting out the areas inappropriate for development. For example, mitigatable natural hazards, nature reserves and buffer zones, areas of cultural significance, etc.
  - However, this requirement may be redundant. To the extent this requirement refers to setting out infrastructure corridors and indicating the developable areas around those corridors, it is fine. But this is already covered by GfHG targets will require zoning to 30 years of demand and the infrastructure requirements set out in other parts of the FDS will cover corridors.

*Do you agree with the proposal to set minimum infrastructure content requirements? which option do you prefer?*

- We support a mix of Option 1 and Option 2 as set out in paragraph 53. The reason for this support is that we consider Option 1 would better inform the development market as to what infrastructure is required to progress particular development areas and who is responsible to deliver that infrastructure, while Option 2 would identify what infrastructure thresholds need to be met by a developer in order for a development to proceed. We consider both of these perspectives would improve the efficiency of the development markets.

*Are there other ways that FDS could be used to provide more certainty for infrastructure investment and developers?*

*Any other feedback?*

## Implementation plans

*Do you agree with the proposal to set minimum information requirements for implementation plans? is there anything missing?*

- Councils have an important role as coordinators between themselves, developers, infrastructure providers and landowners.
- We support the proposed changes to the Implementation Plans, however, we are generally sceptical that plans with uncertain funding arrangements, based on council forecasts, with diffused responsibilities has much value. The material gains in enabling efficient infrastructure provision will be from structural changes to funding, financing and aligning responsibilities.

*Would it be helpful implementation plans to identify priority areas?*

- We consider the identification of Priority Areas or similar expressions as to how and when certain areas are to be developed is best left to the relevant parties involved (e.g. Council, land owners, developers and infrastructure providers) agreeing to a pathway to development. This is an example of the need for good process between these parties (as mentioned above). Guidance on how that process is expected to work would likely be useful.

*Any other feedback?*

## Responsiveness policy

*Does the responsiveness policy at present strike the right balance between allowing councils to plan for growth, and being responsive to the market when developers wish to undertake unanticipated or out-of-sequence development?*

- See below.

*Which options do you think it would be helpful to progress?*

- We support an amended version of Option 4, see below.

*In relation to option 4, which changes to the criteria do you think would be helpful?*

We support the following changes to Option 4:

- Remove the significance test. Provided the promoter of a private plan change carries the costs (to itself and the direct costs to Council) of a private plan change, we consider the uncertainty injected by a test of "significance" should be removed. There is no justification for only significant additions in capacity being considered; the responsiveness policy should be neutral as to capacity. Development occurs at the micro level, and none of it might be significant on its own, but when taken together it address housing supply issues. A promoter of a private plan can be expected to proceed with only those private plan changes where the benefits of doing so outweigh the costs. Given that the promoter of private plan changes faces the benefits (which reflect the value to society of the plan change) and the costs to secure those benefits, we consider the promoter of such plan changes is best placed to determine whether a private plan change warrants consideration.
- Include an explicit provision in the responsiveness policy that private plan change promoters need not prove demand. For example, "the act of bringing a private plan change in and of itself is sufficient evidence of demand". This will be captured in the RMA Phase 3 reform, because an assessment of demand is not relevant to a proper effects-based/externalities test. Including in this Phase 2 reform is beneficial to begin shifting the system towards the goals of Phase 3.

- Consider removing the "well functioning urban environments" criteria. While the "well connected along transport corridors" criteria could remain, there may be other ways of resolving the issue it seeks to address..
  - o While both criteria have subjectivity, in our view, the "well functioning urban environments" criteria is highly subjective and may be used to block leap-frog developments that give rise, for a period, to non-contiguous developments (due to that form of development being perceived as not well functioning).
  - o The "well connected along transport corridors" criteria is arguably less subjective. A key issue that it is likely seeking to address is the risk that transport accessibility is not provided by developers at the outset, but later socialised across the ratepayer or taxpayer base.
  - o However, it would be worth exploring other options to address this issue, such as through forward commitments. For example, caveat emptor provisions could be added to LIMs, which prevent ratepayers lobbying for subsidised transport connections at a later date. There could be exemptions from these if ratepayers pay a targeted rate to cover a share of the cost of future transport connections.
  - o If the "well connected along transport corridors" criteria does remain, then the definition will be important e.g., to include places where the developer provides the connection or there are optioned transport corridors.
  - o HEAG notes that we have not fully had the opportunity to settle our views on this issue, but it is an important and nuanced issue that is worth further consideration.
  
- We also note that more uncertainty is brought in via the wording 'urban environment'. Councils can define this, and use it to avoid unanticipated development if it is not in certain areas that they consider to be urban environments.
  
- Alternatively, the ability for councils to use "well functioning urban environments" as a consideration could be removed if price indicators are worsening/not improving – this being a proxy for councils abusing this amorphous consideration. A council can earn back its discretion by getting the bundle of price indicators back on track.
  
- Introduce the ability to include trigger requirements in relation to infrastructure provision that would specify what infrastructure services are required to be in place in order for defined levels of development to proceed (e.g. prior to the release of more than X number of residential sites, or the release of more than X sqm of industrial land or X sqm of lettable retail or office space).
  - o We believe this needs to be carefully drafted, noting the infrastructure standards in each region currently differ, as do service levels of public transport. We should want a minimum level of infrastructure and service provision to be placed on developments under the *growth pays for growth principle* but are wary of how this could be misused to block development. Critically, contributions need to be proportionate to the size of the development and thresholds considered carefully.
  - o A potential solution noted was time limited caveat emptor provisions on LIMs in locations that are unlikely to be able to be served in a cost-effective manner in the short to medium term to stop residents and businesses from lobbying for highly subsidised services.

*How should we look to link the responsiveness policy with changes to infrastructure funding and financing, where there is an expectation that growth will pay for growth? How might the complexities associated with this be addressed?*

- As noted above, we anticipate the most effective way to handle infrastructure provision is to specify what infrastructure services are to be in place in order for defined levels of development to proceed. There are numerous ways in which that infrastructure may be financed, including via the changes foreshadowed to the IFFA that have yet to be designed and legislated.
- Councils should also only be worrying about infrastructure in relation to private plan changes if they cannot otherwise manage increased demand via non-regulatory measures like pricing.

*Other feedback*

- Para 81 – analysis of Option 2. Our understanding is that councils bill their time for private plan changes to the applicant. This should mitigate most of the risk of increased resourcing issues on councils from a higher frequency of private plan change applications. However, we suggest a watching brief on such charges: a council wishing to thwart private plan changes could set onerous processes on itself, charge the developer for the excessive but real cost, and thereby discourage applications.

## The Rural-urban boundary

*How problematic are rural urban boundaries that are moveable as part of the private plan change process (i.e., in District Plans rather than RPSs)? In essence what is the difference between a private plan change to rezone land and a private plan change to rezone land outside of a ‘soft’ boundary?*

- We understand that private plan procedures will likely place some weight on rural/urban boundaries, even where those boundaries are in District Plans and not RPSs.
- ‘Soft RUBs’ should be viewed broadly. We would consider this including Auckland Council’s Future Urban Zone and GWRC’s RPS Proposed Change 1<sup>1</sup> (bans new developments if they do not enable alternative transport modes. This presents issues to first movers if bus routes only become viable after follow-on development). These all present barriers to entry which drive up rural land prices. Policies for contiguous development or containment have no economic grounding and impose large costs on affordability.

*Which options do you think would be helpful to progress?*

- We agree with progressing Options 2, 3 and 4 together.
- In support of banning ‘soft’ RUBs, they still present a possible legal hurdle to get over for a private plan change so should be prohibited. Anything in policy documents can be had regard to in PPP or consenting (even if its weight is low). Developers will likely take a

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<sup>1</sup> <https://www.gw.govt.nz/assets/Documents/2022/08/Proposed-RPS-Change-1-for-the-Wellington-Region.pdf>

risk averse approach and expend large sums of time, legal and expert costs in proactively refuting the policy.

- We note that the timely provision of infrastructure for a development enabled by a private plan change (which is one of the key reasons used for the retention of rural/urban boundaries) would be addressed elsewhere in the NPS-UD.

# HEAG Perspective on the Cabinet paper Replacing the Resource Management Act 1991

Thank you for the opportunity to provide feedback on the Cabinet Paper on Resource Management Reform. We have not commented on every aspect of the paper. Our notes follow the structure of paragraph 8 of the paper.

## Feedback

### 8.1 *Narrow the scope of the resource management system and the effects it controls*

We support narrowing the scope of the RM system relative to existing RMA practice. We consider the existing RMA tools have become a convenient and powerful tool for Councils and others to impose their preferences on land use and its development, whether or not those issues generate significant externalities (e.g. size and configuration of apartments, whether they have balconies, configuration of private residential open spaces, etc). Further, RMA tools are often used to bolster or address issues that are the purview of other regulatory interventions, e.g. the Building Code or public health issues, and in many instances climate change (despite New Zealand having an Emissions Trading Scheme). We recommend defining the scope for the RM system (with respect to land use) along the following lines:

- o Determine where land may be developed, any effect-based limits on such development, and where development is not permitted.
- o Coordinate land use with infrastructure and define boundaries between private and public property including roads, parks and nature reserves.
- o Separate incompatible land uses via zoning, while being cautious about deeming uses to be incompatible. For too long, residential and retail/hospitality were considered incompatible; mixed use zoning by default is generally superior for economic, environmental and social outcomes.
- o Manage effects on nearby properties.
- o Codify, transmit and enforce accepted land development methods e.g. environmental protection during development, traffic management, etc.
- o Clarify “effects” to align with the economic concept of externalities:
  - o falling on property owned by others (public or private);
  - o must be material (large enough to substantially affect property value)
  - o not already internalised through the price system, subject to an agreement by all materially affected parties, or managed by an RM standard, or by other legislation or regulation.
- o Any limits on effects in council land-use plans should specify which property(ies) benefit from the rule, and by implication who can waive that rule for valuable consideration. For example, recession planes that benefit neighbouring properties immediately adjacent to the property boundary could be waived by those enjoying the benefit.

- o Clarify Treaty obligations and the specific involvement of tangata whenua in planning and consenting processes and ensure such approaches are accessible to users and transparent.

We agree and endorse that heritage is better protected through explicit payments to owners of heritage amenities for the amenity provided rather than through regulatory restrictions on the use of property (paragraph 30).

This paragraph also notes the significance of Māori culture and heritage recognition under the current RMA and that the policy process will appropriately consider these views. We note that the current RM system seems to result in the worst outcome: councils hold a veto over iwi uses of their own land, including requirements that iwi seek consent from Council for even moving a stormwater tank at the marae. At the same time, private land-owners frequently report hold-up problems in development in which multiple hapū must be consulted, and processes for acquiring positive assessments do not always seem consistent with standard notions of rule-of-law. In effect, hapu often appear to have veto over others' land but have no authority over their own. An alternative worthy of consideration, in a system grounded in property rights, would be to recognise tino rangatiratanga over iwi-held land, while limiting veto-rights over land that is not held by iwi except in exceptional cases (for example, potentially, discharge into Lake Ellesmere's catchment).

We consider the scope of new RM system should be restricted to the use and development of land, air and water and the effects that arise from that on the natural or built environments. Duplication by the RM system of regulation with other legislated regulatory regimes should be prohibited e.g. with regulation applying to the design and construction of buildings, public health issues and constraints on climate change related emissions.

At times loose phrasing would re-create some of the problems that RM reform seeks to address. For example, 'rights held collectively' (paragraph 27) could mean any number of things, including rights to views, rights to not have a bottle-shop nearby, or rights to a certain neighbourhood character (which paragraph 28 correctly seeks to remove). We would urge that the rights Parliament wishes to protect be listed and debated explicitly, rather than left for future litigation.

### *8.2 Establish two Acts with clear and distinct purposes*

We do not have a strong view as to whether one of two Acts is a preferable legislative structure. In our view a critical issue in either case is that the RM system enables trade-offs between addressing environmental effects and enabling the development of urban land along the lines we discuss below in relation to environmental limits.

### *8.3 Strengthen and clarify the role of environmental limits and how they are to be developed*

We consider the RM system should protect and enhance the environment, however if that protection is framed as maintaining existing limits on a place-by-place basis there will be many opportunities foregone to BOTH shift land use to higher value uses (e.g. including for housing) AND to protect and enhance the environment.

Consider the case where the cost of improving environmental amenities varies greatly across the country, or that the opportunity cost of avoiding environmental degradation has similar sharp differences. For example, if it would cost \$100m to avoid one catchment falling slightly below an “environmental limit”, but would cost only \$10m to bring greater offsetting improvements in environmental amenities in another catchment area, the RM system should allow such trade-offs to be considered and undertaken. Similarly, in the housing space, if a new subdivision would cause biodiversity harms valued at \$20m, but it would cost only \$10m to provide larger increases in biodiversity benefits in another area, the developer should be able (and be required to) to offset the environmental effects of the new subdivision. Paragraph 34 supports enabling such offsets.

Framing environmental protection as "bottom-lines" (on a place-by-place basis) will leave New Zealand worse off, both in terms of the environment and in terms of addressing the supply of urban land for housing, as such an approach would lock out opportunities to consider and progress BOTH of these objectives.

The environmental domains and limits referred to paragraphs 33 seem inconsistent with a property-rights based approach. Regulation to prevent discharge to air or water that affects neighbours is eminently suitable for council regulation. Regulating discharges like GHG that have global effects are probably best suited to national-level regulation, such as the emissions trading scheme. However, regulation to protect soils on a property, where there are no effects on adjoining properties, seems inconsistent with a system purportedly grounded in property rights. If a land owner transforms a field into a (non-polluting) factory, that owner will have weighed up the forgone revenue from crops. The price system fully incorporates all relevant effects.

Between paragraphs 33 and 34 there seems a risk of recreating the current system but with different language. “Within limits” in paragraph 34 does not specify what limits. We suggest that prices can provide a useful signal in these cases. If Parliament decides that soils need particular protection, despite there being no sound market-failure-based case for that regulation, the limits should be targeted at the costs of that regulation rather than land-owners’ uses. If subdividing a paddock for housing would increase the land’s value relative to its use in agriculture, after accounting for all of the costs of that land’s transformation, how large of a price difference is Parliament happy to create? Should the transformation be banned even if it would increase the land’s value by 150%? 200%? More? Setting a trigger level that suspends the regulation if the opportunity cost of alternative land use is high enough seems both a way of protecting property owners *and* forcing Parliament to think more consistently about trade-offs.

#### 8.4 *Provide for greater use of national standards*

We support the greater use of national standards, and particularly so where the activity and its effects on the environment are similar across New Zealand (e.g. cell towers, many aspects of housing, etc). We envisage an approach where compliance with the national (or regional) standard obviates the need for any further consenting. There needs to also be a consenting path available whereby the applicant is able to tailor its approach to the context in a way that may differ from the national standard.

The development and maintenance of workable national standards would be a significant piece of work, and one that would be on-going to ensure these standards are

kept current. The skills involved in formulating national standards are likely to be largely technical in nature, drawing on multiple disciplines such as planning, economics, law, ecology, engineering and so forth. We envisage this task would be best undertaken, and result in more enduring output, if it is the responsibility of an organisation that has a significant degree of professional independence from central government political overview. This raises the probability of needing a new institution to undertake this task, and possibly other tasks, in the new RM system.

We consider the new RM system is likely to need much stronger and ongoing input from central government than has been the case to date. This could include the development of national standards (as above), the development of default zoning provisions, and the recruitment, training and development of Hearings Panel Commissioners. This suggests to us the need to review the way in which central government supports and intervenes in the implementation of the new RM system and ensure that the organisation providing that support and intervention is appropriately designed, governed and resourced.

#### 8.5 *Shift the system focus from ex ante consenting to strengthened ex post compliance monitoring and enforcement*

While a shift from ex ante consenting to strengthened ex-post compliance monitoring and enforcement is laudable, it is easy for ex-post compliance monitoring to turn into ex ante permission-seeking if it is difficult for developers to predict what the authority undertaking the ex-post monitoring would consider as being permissible. We would urge ongoing monitoring of whether developers have felt need to seek advice from those authorities prior to building, and the costs associated with that process, as a signal of whether the shift to ex-post compliance and enforcement has been successful.

The Cabinet Paper notes that “*New mechanisms will be needed to collect revenue to fund these functions.*” This seems critically important as fees from Resource Consents have been one of the largest sources of revenue for some councils in recent years.

#### 8.6 *Use spatial planning and a simplified designation process to lower the cost of future infrastructure*

Spatial planning over a 30-to-50-year horizon should embrace uncertainty through scenario planning to allow councils to be better prepared for out-of-sequence developments and understand:

- a. What infrastructure is required in the short term to support a proposed out-of-sequence development, and;
- b. How that infrastructure fits into the longer-term infrastructure requirements for that area.

Government could consider option-contracting in cases where multiple sites are potentially viable for the works, or simply paying a margin above market value for easements that come with a right to purchase at a premium in future. Early payments above current market value, before the value of associated infrastructure is embedded into land prices, could save time and money.

This goes hand in hand with changes to funding and financing tools available to councils and developers to spread infrastructure costs over beneficiaries.

Paragraph 46 refers to a property owners having access to a simplified regulatory process to change underlying zoning. We strongly support this, particularly insofar as private plan changes to change underlying zoning have an important role as a check on council assessments, as the market is the ultimate arbiter of feasibility. Indeed, we consider there should be an obligation on Councils to engage with and approve private plan changes that upzone at zoning boundaries where the boundary imposes a large price differential (unless there is a compelling reason not to). Such price differentials provide a very clear signal that supply is undershooting demand. We note there should also should be an obligation on the promoter of the private plan change (or the beneficiaries over time) to bear the costs of the infrastructure required to support the upzoned development.

#### *8.7 Realise efficiencies by requiring one regulatory plan per region jointly prepared by regional and district councils*

We support a requirement for Regional and District Plans to be consolidated into a single Unitary Plan for each region. This consolidation should have the benefits of ensuring all components of the plans are coherent with each other, and provide a much more user-friendly planning outcome by virtue of a user needing to understand and refer to one plan only for the region.

National planning standards could be used to provide standardised zones for plans to further simplify the system and comparability across regions.

A risk from consolidating plans is that, with multiple Councils involved, private plan changes may in effect be thwarted. We consider it important to ensure this does not happen.

#### *8.8 Provide for rapid, low-cost resolution of disputes between neighbours and between property owners and councils*

We note that there will likely be fewer disputes in a system in which rights are better defined. If the new RM system is based on property rights, in most cases the land owner will have a clear right to undertake works and activities on that land. If a neighbour objects to those works (assuming there are no externalities) the neighbour should need to compensate the land owner to cease works.

Currently, litigation can be used (due to the underlying rights being unclear) as a way of thwarting developments that an objector dislikes. Establishing and maintaining clarity of rights matters. As part of this, neighbours should be able to agree to set restrictions on each other's LIM: for example, mutual agreement to enable works that would otherwise infringe on the neighbouring property should be able to be codified onto the land title, such that subsequent owners cannot object.<sup>1</sup> Lowering transaction costs is key to enable 'Coasean' bargaining and for high-value uses to be revealed by private agreements after property rights in land are clarified. A low-cost planning tribunal would assist in achieving this aim.

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<sup>1</sup> See Marko Garlick (2024) "Mixed-use development is coming to NZ cities, here's One Small Trick to take it further" <https://yesinourbackyards.substack.com/p/mixed-use-development-is-coming-to>

### 8.9 *Uphold Treaty of Waitangi settlements and the Crown's obligations*

It is important that the property rights that emerge from Treaty of Waitangi settlements and the Crown's obligations under the Treaty are reflected in the new RM system. In our view it is also important that the RM legislation is clear as to the extent to which, and in what way, any Treaty obligations impinge on the process of any plan changes and consenting processes related to privately held property.

Consideration should be given to providing “by-right- zoning” for land held by iwi and hapu to better reflect tino rangatiratanga (essentially a strong form of private plan changes).

### 8.10 *Provide faster, cheaper and less litigious processes within shorter, less complex and more accessible legislation*

These are clearly desirable outcomes from the new RM system. We expect the greatest contribution to such outcomes will be clarity of policy and of property rights.

#### Other issues

- 25 We support the intention expressed in paragraph 25 that the RM system “*should not shelter businesses from competitors*”.

Fewer veto players and less need to seek permission at all in an RM system grounded in property rights would establish fewer points at which potential competition is stymied. A definition of ‘effects’ that reflects the economic concept of externalities should prevent trade competition from being considered in indirect ways as it is currently through ‘amenity effects’ on other businesses. Competition may lead to lower demand for some incumbents but this is not an effect; it is fully internalised through the price system.

However, the provision for an all-else-fails recourse to the Commerce Commission for a determination may be helpful. Put simply, a potential entrant should be able to seek a determination from the Commission as to whether a restriction that acts as a barrier to entry is the most effective measure for providing the justifiable public good sought by the restriction. It would be hoped that this determination would never need to be sought and that district plans would be sufficiently enabling that components of the new RM system will not create a substantial lessening of (potential) competition. But the potential for the Commerce Commission to intervene might encourage district plan processes to check more closely that they have not unintentionally created substantial barriers to competition.<sup>2</sup>

#### Appendix 1

*Local zoning flexibility - Proposals will consider how to enable neighbours to increase development potential through upzoning based on supermajorities, as well as how to enable property owners to opt out of upzoning by councils while remaining liable for the obligation to pay for infrastructure services.*

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<sup>2</sup> See Ben Hamlin’s draft Bill <https://www.nzinitiative.org.nz/reports-and-media/podcasts/podcast-rethinking-the-governments-role-in-competition/>

We support officials working on hyperlocal zoning changes either through opt in or opt out methods. This will likely require delegated legislation given the design difficulties. We note that the UK appears very close to releasing their own delegation legislation on such an opt in system called ‘Street Votes’.<sup>1</sup> This would greatly assist New Zealand officials in designing a system. See further reading.<sup>3</sup> We also note that standardised zones, set at a national level, would assist this process being relatively simple to administer.

### **Items not covered in the Cabinet Paper**

#### *Compensation to property owners for effects*

The Phase 3 reform should consider compensation payments for material externalities. The current system is one of participatory democracy – anyone can object to a new activity, decision makers guess what each property owner values, and much of the surplus of new projects is extracted through the discretionary process. Ideally a new system would allow compensation to materially affected properties based on a loss in property value. Infrastructure projects would not have a hold-up problem with people requesting design changes (eg tunnelling rather than noise barriers) all out of proportion to a simple side payment to the affected property.

#### *‘Coming to the nuisance’ and reverse-sensitivity*

The Phase 3 reform should consider bringing New Zealand back in line with the common law position on ‘coming to the nuisance’, for the tort of nuisance. There are issues of land uses with externalities, and then newcomers building next door and either opposing expansion or attempting to close down the activity. This is otherwise known as reverse sensitivity. Examples include music venues, sports grounds and airports.

This creates a further dynamic of ‘reverse’ reverse-sensitivity, with owners with externalities vehemently opposing new development nearby in fear of newcomers opposing expansion or shutting down their activity. For example, Christchurch Airport submitted on the City Council’s recent plan change significant density controls on its runway approaches, partially motivated by a fear of new residents opposing the existing noise. Another example is where owners of new apartments object to noise from long-standing music venues. Anticipation of such objections can lead to objections to the apartments in the first place. This is the natural result of a system predicated on participatory democracy rather than property rights.

A move to a property rights-based RM system ought to create a path to address this. Newcomers who have come to the nuisance should have no right to object to existing uses (these being priced into their rent or land price). Rather, a clear ‘coming to the nuisance’ would induce appropriate investment in soundproofing for newcomers or the newcomers could pay the existing use to abate and such bargains should be enabled through the new system. Existing nuisances would not need to object to new residents

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<sup>3</sup> <https://yimbyalliance.org/street-votes/>  
<https://yesinourbackyards.substack.com/p/how-national-can-save-the-medium>  
<https://worksinprogress.co/issue/houston-we-have-a-solution/>  
<https://benjaminschneider.substack.com/p/learning-from-houston>  
<https://media4.manhattan-institute.org/sites/default/files/hyperlocal-zoning-enabling-growth-JM.pdf>

as a result; any subsequent expansion of the nuisance should include compensation paid to materially affected neighbours.

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<sup>i</sup> <https://www.gov.uk/government/consultations/street-vote-development-orders-consultation/street-vote-development-orders>

**From:** [McCracken, Malcolm](#)  
**To:** [David Hermans](#); [Stuart Shepherd](#); [Eric Crampton](#); [Marko Garlick](#); [Counsell, Kevin](#); [Stuart Donovan](#)  
**Cc:** [Natalie Nienaber](#)  
**Subject:** RE: HEAG engagement in Phase 3 RM Reform (incl. an action)  
**Date:** Monday, 21 October 2024 3:57:55 pm  
**Attachments:** [GfHG Policy paper - Mixed use HEAG Comments.docx](#)

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Kia ora David,

Please find attached HEAG's comments on the Mixed-Use policy paper. As we our other recent feedback, Stuart Donovan was not available for this response, so he has not had an opportunity to support or otherwise the views expressed in it.

Ngā mihi,

**Malcolm McCracken** *he/him*

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**From:** David Hermans

**Sent:** Monday, October 14, 2024 6:39 PM

**To:** Stuart Shepherd ; Eric Crampton ; Marko Garlick ; Counsell, Kevin ; McCracken, Malcolm ; Stuart Donovan

**Cc:** Natalie Nienaber

**Subject:** RE: HEAG engagement in Phase 3 RM Reform (incl. an action)

Kia ora koutou

[A belated] thank you for this Stuart and the rest of the team. It's great to have your thinking on this. In my absence last week Natalie passed this on to the RM reform team at MfE, and (as Kevin will be aware) it has now been provided to the RM-EAG for their next meeting.

I note that your paper discusses the importance of enabling mixed-use zoning. As you know we've also been working on that in the context of the nearer-term improvements to the NPS-UD. The attached paper presents some of the team's latest thinking on that topic, including outlining two options for taking it forward (see page 3). The first option in the paper seems most analogous with your advice to the RM-EAG that mixed-use should be enabled by default, and only altered by justified exception.

I'm conscious that you are working on the FDS and responsiveness paper over the next couple of days, but following that if you do have a chance to review this mixed-use paper, we would value your feedback. It's a shorter paper, and at a minimum we'd be interested in your views on the two options set out in the paper. As per above, I'd expect you'd prefer option one, but you may have alternative options in mind also.

The due date for briefing the Minister on this is 31 October, so if you can provide any feedback we'd need it by early next week, and ideally Monday (21 October).

Cheers

David

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**From:** Stuart Shepherd s 9(2)(a)

**Sent:** Thursday, October 10, 2024 8:39 PM

**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>; Natalie Nienaber <[Natalie.Nienaber@hud.govt.nz](mailto:Natalie.Nienaber@hud.govt.nz)>

**Cc:** Stuart Donovan

McCracken, Malcolm

Counsell, Kevin

Marko

Garlick

Eric Crampton

**Subject:** RE: HEAG engagement in Phase 3 RM Reform (incl. an action)

Hi David, please find attached our comments on the RMA Phase 3 Cabinet Paper. Note Stuart Donovan was not available for this response so he has not had an opportunity to support or otherwise the views expressed in it.

On the timing of the next piece of work, on FDS and responsiveness policy changes, we have not yet had time to get started on it, so we are wondering if it would be workable if we provided our comments to you by the end of Wednesday next week, rather than on Monday?

Cheers

Stuart S

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**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Sent:** Monday, 30 September 2024 12:51 pm

**To:** Stuart Donovan s 9(2)(a)

McCracken, Malcolm

Counsell, Kevin

Eric

Crampton

Marko Garlick

Stuart Shepherd

**Subject:** HEAG engagement in Phase 3 RM Reform (incl. an action)

Kia ora HEAG members

As I mentioned to you a few weeks ago, we are keen for you to have an opportunity to inform and influence the direction of the Phase-3 RM reform work.

By now you will know that Kevin has also been [appointed to the RM EAG](#). This is a welcome move from our perspective, as it will better help ensure this important mahi incorporates a solid housing and urban perspective.

HUD will also be closely involved in the work, and I will be attending most of the meetings of the RM-EAG alongside Kevin. At the first meeting of the RM-EAG last week, we discussed:

- a. Inviting HEAG to comment on the overall approach and the Government's objectives and principles as outlined in the Cabinet paper (attached).
- b. Identifying opportunities for the HEAG to engage with the RM-EAG

Kevin and I will work on the second action above. In the meantime, it would be great if you

could pull together a **HEAG perspective on the attached Cabinet paper**. My suggestion is that this should:

- Help solidify/centre the importance of housing and urban development in the reform work.
- Provide a forthright HEAG perspective on the approach and principles outlined by Ministers in Cabinet paper (including any aspects that you support as being particularly important, or perhaps don't support, any red flags that appear inconsistent with the housing and urban development work, or is there anything missing?\*)).
- Be no more than a few pages, but can link to further reading where useful.

I'll be guided by you on what timeframe is realistic for this, but something within a week would be great. In case it is useful in this regard, the RM-EAG has a meeting **next week on Tuesday 8 October**.

For the avoidance of doubt, where as a group you engage with the RM-EAG (or with MfE), including preparing any written material such as this request, then you can of course bill HUD for that time.

Kevin and I will be in touch on the second action.

Ngā mihi,

David

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**\*NB** - HUD will also be taking opportunities to advise on and influence this work, and we'll use your views and feedback to inform our advice also. At this point, some of the key things we will likely be focusing on are helping ensure:

- Housing and urban outcomes and objectives are firmly part of the architecture of any new system (i.e. well integrated into, and a central part of whatever the equivalent of Part 2 of the RMA might be in a new system) and that the system is responsive to the need for growth and change (rather than focused on conserving the status quo)
- The gains we have made around housing and urban national direction (NPS-UD, and current improvements such as HGTs etc.) are translated appropriately and effectively into any new system, including into primary legislation rather than secondary direction (if that is still a feature) where more appropriate
- The system prioritises efforts on up-front planning and on effective land use and infrastructure integration at a strategic level (including through better use of spatial planning), to provide greater long-term certainty and responsiveness, so that key trade-offs aren't managed through individual consent decisions.
- That roles and responsibilities are clear, and in particular the role of the judiciary in the system is appropriate and proportionate, and is not the de-facto place for making what are essentially policy decisions
- That there is a clear and coherent distinction between the management of impacts

on ecosystems and the natural environment vs impacts on people's socio-cultural preferences (i.e. subjective amenity effects)

- That the system prioritises the use of non-regulatory tools (including pricing)



# Policy paper – Mixed use

## Introduction

1. This paper sets out HUD and MfE's current thinking on how to give effect to Cabinet decisions from June 2024 regarding mixed use as part of the Going for Housing Growth land pillar. It will be used to inform further advice to Minister Bishop at the end of October, as well as the development of the discussion paper on changes to the National Policy Statement on Urban Development (NPS-UD).
2. We welcome feedback on any of the proposals set out in this paper.

## Problem definition

3. HUD and MfE officials have undertaken a comprehensive review of a range of Tier 1 council district plans to understand the extent to which different activities are enabled in different zones. For brevity, we have not included this information in this paper. However, in summary, across district plans in New Zealand a mix of uses/activities is generally enabled in commercial zones (often subject to resource consent or rules in plans), but to a much lesser extent in residential zones (often dairies are the only commercial activity enabled in residential zones).
4. There is scope for councils to be more enabling of commercial and community activities (particularly for small to medium sized activities) in existing residential locations which would facilitate access to services locally.
5. As more residential intensification is enabled in our urban areas (including as a result of national direction), it is important that the commercial and community activities enabled keeps up with changing residential living patterns. National direction on mixed use will help to achieve this.

## Outcomes sought

6. The overall outcome sought is that district plans enable a mix of activities (including commercial, residential and community activities) across their urban environments, including residential areas, to support well-functioning urban environments.
7. This is intended to:
  - a. Promote agglomeration, competition, productivity and innovation
  - b. Create more dynamic, liveable and attractive neighbourhoods
  - c. Make active transit more viable.
8. In working towards the outcome sought, we want to balance:
  - a. Reducing planning and regulatory barriers to mixed-use activities, to promote more certainty for those looking to carry out these activities; with
  - b. An ability for councils to continue to appropriately manage the adverse effects of different activities, including by prohibiting incompatible activities from locating next to each other.
9. While we have objectives for what is enabled, we do not have objectives for what eventuates. The focus of this direction is on being more enabling – it is deliberately about shifting away from planning for specific outcomes 'on the ground'.

10. As such, while it would be desirable for a range of small-to-medium-scale activities to be established in places where there is demand for them (including in residential areas where these activities are generally not enabled at present), one plausible outcome of this work is that most commercial and community activities continue to locate in centre zones, because these are centrally located, accessible, and there are localised agglomeration effects. This outcome would not be contrary to the objectives of this work.

## Decisions taken to date:

11. Cabinet has agreed to issue new national direction that requires:
  - 24.1 Tier 1 and 2 councils to enable a baseline level of small-scale mixed-use across their urban areas (including outside of NPS-UD intensification areas); and
  - 24.2 Tier 1 councils to enable a specified set of small-to-mid-scale activities, such as cafes and restaurants, retail, metro-style supermarkets and offices, in areas subject to the NPS-UD's six storey (or greater) intensification requirements.

## Proposed approach for consultation:

12. To give effect to these decisions, we propose to consult on setting two 'layers' of national direction on mixed use.

## General direction on mixed use

13. We propose to consult on setting new policy direction in the NPS-UD requiring Tier 1, 2 and 3 councils to enable a mix of activities to support people and communities to access a range of services locally, including residential, commercial and community activities.<sup>1</sup>
14. This would support objectives 1 and 3 in the existing NPS-UD:
  - a. Objective 1: New Zealand has well-functioning urban environments that enable all people and communities to provide for their social, economic, and cultural wellbeing, and for their health and safety, now and into the future
  - b. Objective 3: Regional policy statements and district plans enable more people to live in, and more businesses and community services to be located in, areas of an urban environment in which one or more of the following apply:
    - i. the area is in or near a centre zone or other area with many employment opportunities
    - ii. the area is well-serviced by existing or planned public transport
    - iii. there is high demand for housing or for business land in the area, relative to other areas within the urban environment.

## Specific direction on mixed use

15. The general policy direction would be supported by more specific direction setting out how Tier 1 and/or Tier 2 councils should do this. We propose to consult on two approaches for the specific direction. While some of the components of these options could be 'mixed and matched', for simplicity we have presented these as packages.
16. These options are set out in Appendix 1 in more detail and analysis, but are summarised at a in the table below:

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<sup>1</sup> The Cabinet paper only referenced providing direction to Tier 1 and 2 councils, however we think it would be appropriate to consult on extending this requirement to Tier 3 councils as well.

	Option 1	Option 2
Core proposal	Government sets broad direction to enable <u>all</u> commercial and community activities (as defined in the National Planning Standards), unless 'ruled out' by councils. Councils can manage activities through district or zone-wide rules, and exclude activities from being enabled if a 'listed qualifying matter' applies, or if they consider (and justify in writing – i.e. in a section 32 report) that they cannot manage the effects through rules in district plans.	Councils required to enable a <u>mix</u> of activities to support people and communities to access services locally, without specifying which activities must be enabled.  Councils would be required to take into account the following: <ul style="list-style-type: none"> <li>• Enabling convenience activities in local areas (such as retail, dairies, hairdressers, grocery stores, food and beverage outlets, early childhood centres, healthcare centres, laundromats, community facilities, and activities with similar effects)</li> <li>• Managing effects where practicable through rules in district plans to enable more activities with more permissive activity statuses</li> <li>• Enabling activities to support specific community aspirations.</li> </ul>
What enabled means	Activities must be permitted in the first instance, unless a less permissive activity status is justified in writing.	Activities enabled could be permitted, controlled, or restricted discretionary (as currently defined in the NPS-UD).
Approach to managing effects	Effects of activities would be managed through council plans (i.e. through applying district-wide, zone-wide, or activity-specific rules), or consenting processes where a non-permitted activity status has been justified.	Effects of activities would be managed through council plans and taking into account the matters in the above section, and through consenting processes where consents are required (eg, for controlled or restricted discretionary activities).
Who the specific direction applies to	Tier 1 councils only	Tier 1 and 2 councils
Where the specific direction is focused	Relevant residential zones and commercial zones in the urban environment	Relevant residential zones in the urban environment only

17. Both options rely on a plan change process to determine the outcome (to what extent a greater mix of activities are enabled, and which activities), so outcomes will be dependent on that process. However, the key difference and similarities between the two options include:

- a. Option 1 involves a default presumption that all commercial and community activities will be enabled (and permitted) unless councils justify why this is not

appropriate, whereas Option 2 has a presumption to plan for (and enable) a mix of compatible activities.

- b. Both options have a strong role for local plan making to either rule out particular activities or determine an appropriate mix. In both cases these decisions are likely to be highly contestable in the plan making process.
- c. Option 1 would require councils to do more work upfront to manage the effects of activities or justify taking a less permissive approach and may result in effects being managed in a more structured and less flexible manner compared to Option 2, but it may result in a more enabling framework overall.
- d. Both rely on a change in planning practice to achieve the outcome sought, although option 1 is a bigger change.

## These options address the intent of Cabinet direction in a more nuanced way

### Spatial application of specific direction.

18. In line with our advice in May and June, the Cabinet recommendations envisaged delineating between the scale and types of activities enabled in NPS-UD intensification areas, versus wider urban environments. This recognised that a greater mix of activities (and scales of activities) may be more appropriate in locations where people are more concentrated to support well-functioning urban environments.
19. We considered only focusing specific direction in areas subject to the NPS-UD's six storey (or greater) and key transit corridor intensification requirements. However, as councils are broadly already enabling of a mix of uses in city and metropolitan centres, and the policy would only cover intensification areas, the main areas where this policy would have impact are the walkable catchments of city and metropolitan centres, and of rapid transit stops and key transit corridors. This may result in little to no change to what is enabled outside of intensification areas, depending on how councils interpret the high-level objective/policy set out above.
20. Only applying direction to intensification areas could also create a cascading effect in relation to centre zones. If councils are required to enable mixed use not just in their centre zones, but also in the walkable catchments of these zones, then the walkable catchments may in time become classified as part of the centre zone. This would then require councils to enable mixed use in the walkable catchment of the expanded centre zone, and so forth. Applying the direction on mixed use more broadly avoids this issue.

### Approach to what activities are enabled.

21. The Cabinet paper also envisaged direction enabling a specified set of activities, with the intent of ensuring a specific minimum set of activities was enabled. Both options depart from this in different ways, although are still consistent with the intent of the Cabinet decision.
22. We considered various options in which councils would be directed to enable a specific set of activities, but do not favour progressing these options. For example:
  - a. We considered directing councils to enable a specific list of activities based on the activities that most councils are already enabling in their Town and Local Centre Zones. This would include retail, offices, dairies, supermarkets / grocery stores, food and beverage outlets, care centres, education facilities, healthcare facilities, and community facilities. However, such a list is ultimately arbitrary, and relies on councils having established good reasons for enabling these activities (and not

others) in centre zones in the first place. While Option 2 does include examples of activities councils should consider enabling, councils are not required to enable these specific activities.

- b. We also considered taking a 'ground-up', effects-based approach to what activities councils are directed to enable, based on a detailed analysis of the potential effects of different activities, with only those deemed to have low-to-moderate effects being directed to be enabled. However, this approach would be resource intensive and cannot be delivered on current timeframes. It is also not clear that effects are inherent to specific activities, as opposed to how the activities are carried out.

## Appendix 1: Specific direction on mixed use – options analysis summary

Option	1: All commercial and community activities + 'rule-out' process	2. Mix of commercial and community activities
Core proposal – What is enabled / what the presumption is		
Description	<p>This option would require councils to enable <u>all</u> activities that fall under the definitions of commercial activities and community facilities in the National Planning Standards, unless a listed qualifying matter applies, or the activity has explicitly been 'ruled out'.</p> <p>There would be no national direction regarding industrial activities.</p> <p>Councils could 'rule out' an activity if they consider that the effects of the activity could not be appropriately managed through rules in district plans (i.e. they were incompatible with other activities in the zone).</p> <p>A robust process would need to be followed to 'rule' out a specific activity. For example, councils might need to provide the following information to justify not enabling an activity in an evaluation report prepared under section 32 of the RMA:</p> <ul style="list-style-type: none"> <li>• The commercial or community activity, or class of commercial or community activities (but not commercial or community activities as a whole), that the council is proposing to not enable in a specified area subject to the mixed-use direction</li> <li>• Information about the specific characteristic of the commercial or community activity that makes enabling the commercial or community activity inappropriate in the area, and justifies why that is inappropriate in light of new mixed-use policies and objectives of the NPS-UD</li> <li>• Information about why the environmental effects of the specific commercial or community activity cannot be managed through district-wide, zone-wide, or activity-specific rules</li> <li>• The costs and broader impacts of imposing those limits.</li> </ul> <p>Activities could not be 'ruled-out' solely on the basis that it may draw activity away from, or have adverse retail distribution effects on existing centres, as allowing for this could substantially undermine the intent of the policy to enable more activities in more places.</p>	<p>This option would require councils to enable <u>a mix</u> of activities to support people and communities to access services locally, without specifying which activities must be enabled. Councils/communities would determine the appropriate mix of activities for residential areas through the plan change process.</p> <p>To do this, councils would be required to take into account the following:</p> <ul style="list-style-type: none"> <li>• Enabling convenience activities in local areas such as retail, dairies, hairdressers, grocery stores, food and beverage outlets, early childhood centres, healthcare centres, laundromats, community facilities and activities with similar effects</li> <li>• Managing effects where practicable through rules in district plans to enable more activities with more permissive activity statuses and the individual and cumulative impact of rules facilitates this</li> <li>• Enabling activities to support particular community aspirations (eg, enabling particular community facilities such as an urban marae, and associated activities).</li> <li>• The direction under subpart 7 in the NPS-UD which requires the individual and cumulative impact of rules to provide for the activities it is intended to enable.</li> </ul> <p>And would not be able to consider the adverse retail distribution effects on existing centres when determining what activities to enable.</p> <p>No qualifying matters or opt-out framework would be required as specific activities are not required to be enabled.<sup>1</sup> However, section 32 evaluation reports would need to demonstrate how the plan has given effect to the direction (which would be able to be questioned throughout the plan process).</p>
Analysis	<p>Directing councils to enable all commercial and community activities aligns with the presumption in the RMA that land-use activities should be enabled by default.</p> <p>Relying on enabling a broad category of activities (based on National Planning Standards definitions) reduces the risk of arbitrariness associated with identifying specific activities for councils to enable.</p> <p>Provides strong direction for enabling activities. Councils would need to spend time and resources ruling out activities that are not compatible with residential zones. This is likely to be highly contestable.</p> <p>May have unanticipated consequences if new commercial or community activities that are incompatible with residential activities develop but have not been 'ruled out'.</p> <p>Uncertain which activities would be enabled in which places in practice after councils have undertaken a 'rule out' process. However, strong presumption of permissiveness may result in more activities being enabled than Option 2.</p>	<p>Strong direction to be more enabling, but provides discretion for councils and communities to determine what activities are compatible with the residential activities in a particular residential zone. The 'matters to take account of' suggests the types of activities that should be considered, but is not exclusive, nor does it require those activities to be enabled. Decision-makers will have to demonstrate in section 32 reports how they have considered the 'matters to take account of'.</p> <p>Risk that councils only enable activities specifically set out in the list of activities, resulting in other activities with similar effects being excluded for arbitrary reasons.</p> <p>Provides discretion to councils to determine what is appropriate to enable in which residential zones.</p> <p>Uncertain which activities would be enabled in which places.</p> <p>Provides a hook for communities with specific needs to have these enabled through the plan, including Māori communities.</p> <p>Councils/local communities will have discretion on which activities are enabled where, although will have to demonstrate how they have considered the above matters.</p> <p>Process to determine which activities are enabled where is likely to be highly contestable.</p>

What enabled means		
Description	<p>Councils would, in the first instance, be required to permit commercial and community activities (i.e. no resource consent required for the activity). Councils could still require resource consent for the construction or alteration of buildings where proposals did not meet standards set out in district plans.</p> <p>Councils could apply a less-permissive activity status (such as controlled or restricted discretionary) as part of the 'rule out' process set out above. This would require them to justify why it is necessary to apply a less permissive activity status to manage effects, and why these cannot be managed through upfront rules in a district plan.</p>	<p>Enabled means permitted, controlled or restricted discretionary (as currently defined in the NPS-UD).</p>
Analysis	<p>Applies a presumption of a more permissive and certain approach for parties seeking to undertake commercial or community activities, as the default would be that councils could not require resource consent for a particular activity.</p> <p>Presumption of permitted status aligns with policy direction of RM Phase 3, as well as the presumption in the RMA that land-use activities are to be permitted by default.</p> <p>More enabling approach than the NPS-UD currently takes to enabling development capacity, which relates to construction of buildings, not just activities. One of the key reasons discretion may be required in relation to the construction of buildings is the availability of infrastructure. However, once the building is in place, infrastructure is likely to be less of a consideration in relation to the activity that takes place within it.</p> <p>Additional work required for councils to justify why permitted activity status may not be appropriate for particular activities.</p>	<p>Councils have discretion about which activity status to apply to activities, however there is strong direction in the 'matters to have particular regard to' to manage effects where practicable through rules in district plans to enable more activities with more permissive activity statuses.</p> <p>Using a controlled or restricted discretionary activity status requires an activity to go through a consent process. A consent for a controlled activity cannot be declined, but often specific standards (eg, hours of operation, noise,) are required to be met (as specified in the plan) before a consent is granted. A consent for a restricted discretionary activity can be declined, but assessment of the consent, and the types of conditions applied are restricted to particular matters (again as specified in the plan and similar to those noted for controlled activities).</p> <p>Even though a consent is required for activities, this can provide for more flexibility for activities to meet their particular needs (rather than relying on standard rules in a plan). For example, it can take into account the physical location of a particular proposed activity which might mean that the same outcomes can be met through managing effects in a different way than what is anticipated in the plan. For example, providing for outdoor dining space because the noise effects (which may not meet a standard noise rule) can be mitigated through orientation (such as if the activity is located next to an open space), or acoustic dampening. This may provide less certainty for parties seeking to undertake commercial or community activities, as councils may still require a resource consent for many activities, but may also provide more flexibility to meeting particular activity needs.</p> <p>It is not clear what the impact of requiring a resource consent for particular activities is, and this is something we need to test through consultation and engagement.</p>
Approach to managing effects		
Description	<p>Effects of activities would be managed through council plans. Councils could apply any district-wide, zone-wide, or activity-specific rule necessary to manage the effects of activities (e.g. in relation to noise, wind, hours of operation etc).</p> <p>The scale of activities is an (imperfect) proxy for the effects of an activity. Councils would be able to manage the scale of activities through matters such as building form rules plans (e.g. height limits, setbacks, recession planes, site coverage requirements), and could impose specific restrictions on the scale of activities via mechanisms such as setting maximum gross floor area for particular activities</p> <p>Where councils consider that the effects cannot be sufficiently managed through a plan, they could also manage effects through a consenting process (for example, using a controlled or restricted discretionary activity status), but they must justify why permitted activity status is not appropriate.</p> <p>Section 3.36 of the NPS-UD would be amended to require the development outcomes in zones (i.e. what can be achieved in practice) to be consistent with the new mixed-use policies.</p>	<p>Effects of activities would be managed through council plans and consenting processes, taking into account the matters in the above section.</p> <p>Section 3.36 of the NPS-UD would be amended to require the development outcomes in zones (i.e. what can be achieved in practice) to be consistent with the new mixed-use policies.</p>

Analysis	<p>High degree of flexibility for councils to manage the effects of district or zone-wide rules, but may require significant upfront work from councils to update these rules to manage the effects of a greater mix of activities occurring in residential areas.</p> <p>Rules can be used to manage most effects, but are less well-suited to managing effects such as traffic which can be very localised. Over time this may be less of an issue if more services are located closer to where people live which will better enable active transit.</p> <p>Enabling councils to impose scale limitations via gross floor area restrictions reduces the risk of large-scale activities being enabled in residential areas that are not well-suited for them if there are very large sites or significant site amalgamation is carried out. However, it may result in councils imposing arbitrary gross floor area limits that impact on viability.</p> <p>More reliance on district or zone-wide rules and less on consenting may result in more rigidly-set district-wide rules (e.g. regarding hours of operation) and less opportunity for flexibility.</p> <p>Providing councils with the ability to manage effects through any rules does present a risk that councils impose a range of restrictive rules that in practice limit the viability of activities despite being permitted in theory. However, we consider this risk is outweighed by the need for councils to manage legitimate effects. The risk could be partially mitigated by amending section 3.36 of the NPS-UD to provide that development outcomes for zones must be consistent with policy direction relating to mixed use.</p>	<p>This approach provides councils with discretion to manage effects of activities, through both the plan and consenting processes where appropriate.</p> <p>Likely to require material upfront work from councils to determine appropriate activity status and rules to manage a greater mix of activities, but could target this work to compatible activities only rather than all commercial and community activities.</p> <p>Strong direction to be more enabling and manage effects through the plan rather than consenting process, although ultimately up to the plan making process to determine what the balance for this is.</p>
<b>Who the specific direction applies to</b>		
Description	Tier.7 councils only	Tier.7.and.8 councils
Analysis	<p>This aligns with the current approach in the NPS-UD, which only applies specific direction on intensification to Tier 1 councils (via Policy 3), with more general direction to Tier 2 and 3 councils (via Policy 5). In line with this approach, Tier 2 and 3 councils would still be subject to the general direction on mixed use.</p> <p>Option 1 would require councils to undertake significant work to justify why certain activities would not be enabled. While this may be justified for fast-growing urban environments that are subject to specific national direction on intensification, it is arguably less justifiable for Tier 2 environments that are in general likely to grow more slowly, have less intensification, and less change in urban form than Tier 1s.</p>	<p>Applying to both Tier 1 and 2 councils recognises that all urban environments would benefit from greater enablement of a mix of activities to support well-functioning urban environments.</p> <p>While option 2 will require councils to undertake further work to enable compatible activities within its residential zones, it will not require a fundamentally different approach to the status quo, so could be scaled in an appropriate way to for different councils.</p> <p>However, if through consultation we receive different feedback on the level of work required for the perceived benefits this could also just be applied to Tier 1 councils, and rely on the general policy direction to enable a mix of uses for Tier 2.</p>
<b>Where the specific direction is focused</b>		
Description	<p>Relevant residential.zones and.commercial.zones in the urban environment.</p> <p>It would not extend to areas that are currently zoned for industrial or rural uses, for open space, or for other special purposes.</p>	<p>Relevant residential.zones in the urban environment.</p> <p>It would not extend to areas that are currently zoned for industrial or rural uses, for open space, or for other special purposes</p>
Analysis	<p>Many businesses will likely want to locate in areas of higher demand and accessibility, such as centre zones and areas subject to intensification policies. However, where there is demand for businesses to locate outside of these areas, this would enable them to do so.</p> <p>While existing commercial zones generally already enable a mix of activities, this option would still apply the direction to commercial areas to avoid directing councils to enable commercial activities in residential zones but not commercial zones. Only applying the direction to residential zones could, over time, result in a perverse outcome in which residential zones became more enabling of commercial activities than existing commercial zones. Because commercial zones are already relatively enabling of a range of activities, there would likely be less of a significant shift in what is enabled in commercial zones relative to residential zones as a result of this policy.</p>	<p>Commercial zones are generally already enabling of a mix of activities. Limiting to residential zones provides for more targeting of the ‘particular matters’ that councils must consider when enabling a mix of activities (eg, the non-exclusive list does not include big-box retail, which is appropriate in commercial zones, but less so in residential). The general policy direction would apply to commercial zones.</p> <p>The policy direction allows for different scales of activities to be enabled dependent on the type of residential zone (eg, compatible activities). Intensification areas under the NPS-UD that have been zoned primarily for residential would provide for a greater scale of mixed-use activities than a lower density residential zone.</p>

Overall analysis

This option creates a strong presumption of permitting mixed use activities by default across residential and commercial areas. Councils would still have clear pathways to manage the effects of activities via district or zone-wide rules, or through less permissive activity statuses. However, the burden would lie with councils to appropriately manage these effects or justify their position for not being enabling of specific activities.

While councils would have significant discretion under both options, the stronger presumption in favour of permissiveness under Option 1 may lead to Option 1 being more enabling of a greater range of activities than Option 2. This brings with it the potential for greater benefits as described above. However, compared to Option 2, Option 1 presents a higher risk that (despite the tools available to councils) not all effects are appropriately managed, or that incompatible activities are enabled next to each other.

A presumption in favour of activities being permitted (rather than just enabled) may result in greater certainty for those seeking out to undertake commercial or community activities. However, managing more effects at the district plan level rather than at consenting stage may result in effects being managed in a more structured and less flexible manner.

Councils would be required to undertake significant, detailed work across all of their commercial and residential zones to implement this policy direction where their existing district or zone-wide rules were not sufficient to manage adverse effects.

This option provides strong direction for councils to enable a compatible mix of activities in residential areas, but without the presumption that all commercial and community activities will be enabled (and permitted) by default.

A softer presumption may result in fewer commercial and community activities being enabled than under Option 1 (with potential for lower associated benefits), but would reduce the risk of effects not being appropriately managed.

Compared to option 1 it would create less work for councils to implement as activities incompatible with residential uses would not need to be ruled-out. Evidential requirements to consider compatible activities should still however enable a broader mix of activities in residential zones.

<sup>1</sup> Qualifying matters are only relevant where direction applies to certain areas, and a mechanism is needed to exempt/modify the direction in certain areas. For example, the directive intensification outcomes in Policy 3 for tier 1 local authorities were designed to enable higher densities in specific locations. However, there may be some areas that are not suitable for higher levels of intensification, or any intensification because of a qualifying matter.

# Housing Expert Advisory Group (HEAG) comment on HUD/MfE's Policy paper.- .Mixed.use..

21 October 2024

## Comments on paper

We support Option 1

- Councils status quo zoning for mixed-use has been built up over many decades under orthodox planning practice of strictly separating uses and attempting to 'concentrate' demand (and its externalities) on centres, according to a hierarchy of centres.
- We support requiring councils to reassess their mixed-use zoning with the starting presumption of all activities being permissive and only deviating from that starting point through qualifying matters or if effects cannot be managed through rules. This will present a higher threshold for keeping the currently significant and widespread bans on mixed-use and lead to a more enabling set of District Plans.
- The proposed direction is to enable "all commercial and community activities (as defined in the National Planning Standards) unless 'ruled out' by councils.
- As the NPS does not provide clear list of activities that would be categorised as commercial and community. Councils would be required to interpret these broad definitions:
  - commercial activity means any activity trading in goods, equipment or services. It includes any ancillary activity to the commercial activity (for example administrative or head offices).
  - community facility means land and buildings used by members of the community for recreational, sporting, cultural, safety, health, welfare, or worship purposes. It includes provision for any ancillary activity that assists with the operation of the community facility.
- We note this approach should be broadly enabling in outcomes; however, we do have some concerns on the potential for councils to rule out some activities on the effects basis due to level of ambiguity. It is possible motivated councils will do the work jumping through the hoops to get back to their status quo position on mixed use. Given the large resourcing, time and political costs of a plan change process, this would be a missed opportunity to not be more directive. We suggest stronger direction on how scale of activity should be considered, as this has implications for managing effects. We also suggest "all commercial activity, which is non-industrial, should be permitted."
- Approach to managing effects. The test should make explicit that effects should only be managed by rules to the extent necessary to manage that effect. Effects should be managed through pricing and private agreements in the first instance unless not practical. This should direct councils to take a 'least restrictive' approach to managing effects. Consistent with our advice on the RMA Phase 3 Reform Cabinet Paper, effects should be aligned with the economic concept of externalities and exclude effects already internalised elsewhere. For example, councils should not be able to use 'retail distribution effects' (which are not externalities – see below) or climate change impacts from transport (which are internalised via the Emissions Trading Scheme) as a rationale for ruling out certain developments.
- Scope of direction. There is no reason why Option 1 cannot be applied to Tier 2 and 3 councils. Para 13 notes that consultation will be for Tiers 1-3 but at the table below para 16 Option 1 only applies to Tier 1, Option 2 only applies to Tier 1 & 2.
- We have previously expressed that s 32 analysis should be aligned with a more orthodox economic notion of externality management (starting with a market failure, then whether intervening is efficiency enhancing and picking the least welfare-reducing method of intervention). The paper could consider tailoring the Option 1 process around this intervention logic flow.

Remove ability of councils to consider effects of new developments on competitors

- An updated NPSUD should make clear that councils cannot consider effects of new developments on competitors. Direct trade effects cannot be considered under the RMA. However, effects on competitors are being de facto considered through current planning practice which considers the diminution of an area's amenity by virtue of being outcompeted by a new development (so-called 'retail distribution effects').<sup>1</sup> There is no basis for councils to zone or consent on this basis and it should be prohibited. Indeed, such effects on competitors are not consistent with the economic concept of an externality. We note that these considerations will be prohibited by work in the RMA Phase 3 reform.
- At Appendix 1, row 3, the paper states that "Activities could not be ruled out solely on the basis that it may draw activity away from or have adverse retail distribution effects on existing centres as allowing for this could substantially undermine the intent of the policy to enable more activities in more places." The wording here ought to be stronger: rather than "solely on the basis of" it should be instead that "when deciding which activities to rule-out, councils cannot have regard to that a new activity may draw ...".

Consider connecting Option 1 to price and/or competition law tests

- Councils could be prompted to consider whether their restrictions on commercial activity do not result in any substantial lessening of competition. Councils should be required to demonstrate that the public purpose sought by the restriction is achieved at least overall cost through that restriction despite its effects on competition, and that the benefits of the restriction exceed the cost. Council should be able to draw on Commerce Commission advice when assessing whether a restriction results in any substantial lessening of competition, and when assessing the effects of potential private plan changes that might strengthen workably competitive outcomes.

Recommend including an option for more prescriptive mixed-use zoning in NPSUD Policy 3 areas

- We believe there is still a case for central government picking a core of permitted activities within NPSUD Policy 3 areas. This would function in addition to Option 1.
- This is also the recommendation Cabinet agreed to and ought to be put up as an option. Political risks and resourcing issues ought to have been raised before Cabinet agreed to that recommendation but nevertheless should be made transparent in an option in consultation. We note that prescriptive mixed-use in Policy 3 areas has been signalled by the Minister, since the Going for Housing Growth announcement when this Government was in opposition.
- We believe a prescriptive minimum for Policy 3 areas could also be done on an accelerated pathway, to deliver benefits sooner, noting that option 1 will likely take some time and resourcing for councils to work through. This could be done in a similar manner to how Minimum Carparking Requirements were removed.

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<sup>1</sup> See, for example, in Ashburton <https://www.stuff.co.nz/national/politics/local-democracy-reporting/300435509/ashburton-developers-disappointed-at-consent-decision> or in Dominion Road, Auckland <https://www.nzherald.co.nz/nz/supermarket-plans-fast-tracked-against-advice-of-council-planning-experts/7QOLQHNH5IUJEMZLBYIV54OI74/>

- We are not convinced by the analysis for dismissing Policy 3 mixed-use zoning in paras 19 and 20.
- Metropolitan zones and walkable catchments, especially after impending reforms to the NPSUD relating to public/rapid transit, does represent a large area of land and generally correlates with areas of high demand, high prices, high accessibility, and an expectation of more externalities of development.
- The statement that there would be “little to no change to what is enabled outside of intensification areas” does not hold true if Option 1 (or 2) is applied in addition to prescribed permitted activities in Policy 3 areas.
- Para 20 in particular is puzzling. A “cascading effect” which enables centres (of all sizes) to grow in spatial extent over time in response to growing demand is a positive outcome, not a negative one and one we would consider part of the process of cities growing. The alternative is the current status quo – orthodox urban planning which focusses demand on centres whilst attempting to contain the fringes of those centres from encroaching on neighbouring zones. This tends to lead to less competition, distorted land prices, lower positive externalities of agglomeration, and higher congestion.
- Given the large resourcing, time and political costs of a plan change process, this would be a missed opportunity to not be more prescriptive.

Supplementary reform: Allowing neighbouring properties to waive planning rules for a payment (will occur in Phase 3)

- There is only so far central Government or councils are willing to take mixed-use rules across an entire city / policy 3 area / zone. Allowing neighbouring properties to waive relevant boundary rules (e.g., shading, height) in exchange for a payment or other considerations would allow emergent and flexible mixed-use outcomes that go beyond the relevant District Plan rules.<sup>2</sup> Phase 3 of the RMA replacement reform intends to investigate such a change<sup>3</sup> which will be a useful supplement to the mixed-use reforms outlined below.
- Relatedly, to the extent that mixed-use rules create the potential for reverse sensitivity issues, we reiterate our advice on the RMA Phase 3 Reform Cabinet Paper, where planning rules should align with the common law position on ‘coming to the nuisance’. Newcomers who have come to the nuisance should have no right to object to existing uses.

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<sup>2</sup> See <https://yesinourbackyards.substack.com/p/mixed-use-development-is-coming-to>

<sup>3</sup> <https://www.beehive.govt.nz/speech/speech-replacing-resource-management-act>

**From:** [Eric Crampton](#)  
**To:** [David Hermans](#); [McCracken, Malcolm](#); [Counsell, Kevin](#); [Stuart Donovan](#); [Stuart Shepherd](#); [Marko Garlick](#)  
**Cc:** [Natalie Nienaber](#)  
**Subject:** RE: Draft Cabinet paper on IFF  
**Date:** Monday, 4 November 2024 12:05:37 pm  
**Attachments:** [HEAG feedback on Draft Cabinet Paper on Improving Infrastructure Funding and Financing to Support Urban Growth.pdf](#)

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Dear David,

Thanks greatly for the opportunity to comment on the draft Cabinet Paper.

Our notes are attached.

Best,

Eric

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**From:** David Hermans  
**Sent:** Tuesday, 29 October 2024 5:55 pm  
**To:** Eric Crampton ; McCracken, Malcolm ; Counsell, Kevin ; Stuart Donovan ; Stuart Shepherd ; Marko Garlick  
**Cc:** Natalie Nienaber  
**Subject:** Draft Cabinet paper on IFF

Kia ora HEAG members —

This email provides you an update on the Infrastructure Funding and Financing component of GfHG (or what is now called ‘pillar two’), which we have engaged with you on a few times this year.

Attached is a draft Cabinet paper outlining a package of improvements to infrastructure funding and financing to support urban growth. The main decisions sought are to introduce a more-flexible development levies tool (in place of development contributions) and reduce barriers to the use of the IFF Act, which are both intended to support a more responsive supply of development capacity.

In designing proposals for development levies, we have considered your previous feedback on this topic. For example:

- We intend to provide for contestability around provision of growth infrastructure through providing a flexible toolkit that includes development agreements and the IFF Act.
- We have included proposals to address first mover disadvantage.
- For development levies, we have considered trade-offs between the precision of the cost calculations at any point in time and stability of pricing through time and over a wider area. The proposed model enables councils to set development levies based on aggregate growth costs across an urban centre, but also provides discretion for additional charges for any growth areas that require particularly high-cost infrastructure.
- We have considered the role of regulatory oversight for council charging. The paper signals an interim approach for oversight of development levies, and longer-term

arrangements being integrated with the Minister of Local Government's proposals for regulatory oversight of water services and rates.

The paper also includes proposed improvements to the IFF Act. The main changes are focused on streamlining the levy approvals process. I'm conscious that we haven't talked with you about the IFF Act component in any detail, so I have provided the attached briefing (from last week) for further context should you need it.

While primarily provided to keep you informed, we would of course **be interested in any further views or comments you might have** on the draft Cab paper.

We also sent it to other agencies for consultation today, for feedback by this Friday. This is to ensure we can provide a draft to Ministers for review and discussion by next Wednesday. If you do you want to provide any comments, we will need it by **midday Monday (4 November)** at the latest. That's a tight timeframe, so happy for you to size any effort or response accordingly.

Let me know if any questions -

Ngā mihi,

David

# Going for Housing Growth: Improving Infrastructure Funding and Financing to Support Urban Growth

## Executive Summary

- 1 To fix New Zealand's housing crisis, it is essential that we address the underlying factors that hold back the supply of new housing.
- 2 In June, Cabinet took the first tranche of decisions on Going for Housing Growth, which require councils to free up land for development [ECO-24-MIN-0100]. Cabinet also signalled the need for further changes to infrastructure funding and financing to limit the financial impact of growth on councils and ensure infrastructure can be delivered to land zoned for development.
- 3 The key to ensuring a responsive supply of infrastructure is 'growth pays for growth'. The growth-related costs of infrastructure that enables new development should be paid for by new development, rather than relying on subsidies from the wider community.
- 4 Development opportunities can vary in terms of size, number of developers, alignment with planned council infrastructure investment, and impact on wider infrastructure networks. Therefore, councils will need a flexible toolkit for infrastructure funding and financing to implement growth pays for growth. To provide the necessary toolkit, we seek agreement to a package of improvements across development contributions, targeted rates, and the Infrastructure Funding and Financing Act 2020 (IFF Act).
- 5 Following decisions on this paper, we propose that officials undertake further work and that relevant ministers have delegated authority to decide further policy. We will report back to Cabinet in the second half of 2025 seeking approval to introduce amendment legislation, including amendments to the Local Government Act 2002, Local Government (Rating) Act 2002, and IFF Act.

## Background

- 6 In December 2023, Cabinet agreed to establish the Going for Housing Growth work programme [CAB-23-MIN-0498]. The work programme comprises three pillars:
  - 6.1 Pillar One: Freeing up land for urban development and removing unnecessary planning barriers.
  - 6.2 Pillar Two: Improving infrastructure funding and financing to support urban growth.
  - 6.3 Pillar Three: Providing incentives for communities and councils to support growth (i.e. addressing the political economy of urban growth).
- 7 The proposals in this paper relate to Pillar Two and focus on the infrastructure services that are critical for enabling new housing but are challenging to

deliver under current settings – drinking water, wastewater, stormwater, transport, reserves, and community infrastructure.

## **Current infrastructure settings constrain housing development opportunities**

- 8 Addressing the causes of New Zealand’s housing shortage requires a package of improvements that deliver a responsive supply of development opportunities (i.e. more competitive urban land markets). In turn, this will shift market expectations of future scarcity, bring down the cost of land for new housing development, and improve incentives to develop land sooner instead of land-banking.
- 9 To shift market expectations about future development opportunities, the policy direction for freeing up land for development needs to be seen as credible and enduring. But under current settings providing the infrastructure needed for growth creates financial risks for councils. This can limit support for implementing the Government’s policy direction and maintaining those policy settings into the future.
- 10 Furthermore, even when land is zoned for development, current settings do not ensure a reliable supply of infrastructure to support development of that land.

## **There are three underlying problems with the way we fund and finance infrastructure to support urban growth**

- 11 Firstly, councils (i.e. ratepayers) end up subsidising the cost of growth infrastructure, because of limitations of existing tools.
- 12 Development contributions are the primary tool councils use to recover growth infrastructure costs. They were introduced in 2002 and require a strong causal nexus between infrastructure assets with growth capacity and the developments being charged.
- 13 At the time development contributions were introduced, councils were well placed to predict where and when growth would occur. This meant they could identify a growth area, invest in infrastructure, and recover costs from development progressing in line with estimates. However, in a modern planning environment, councils have less certainty about where and when development occurs, because of changes in the development market, changes in council planning practices, and Government requirements to free up land for development.

*Figure One: Changes to the planning context for urban growth*

Historic planning context – greater certainty about where and when development occurs



Modern planning context – less certainty about where and when development occurs



● Intensification enabled around rapid transit stops ● Suburban infill enabled

- 14 Secondly, developers face unpredictable costs for infrastructure. For example, Auckland Council has recently proposed increasing development contributions from \$25,000 to \$98,000 in Auckland’s Inner Northwest, and \$31,000 to \$119,000 in Tāmaki.<sup>1</sup> Where they have already purchased land, unexpected price increases can make a development unprofitable, make it more challenging to finance a project, or lead to delays in development.
- 15 Thirdly, developers face poor incentives and barriers for arranging funding and financing solutions that do not rely on council balance sheets. The IFF Act was passed in 2020. But no levy proposals have been received for new residential development and the two levies so far have been for city-wide infrastructure proposals.<sup>2</sup> The issues include the lack of a level playing field between development contributions and developer-initiated funding arrangements, first-mover disadvantages, and excessive cost and uncertainty associated with the IFF Act.

### **‘Growth pays for growth’ through a flexible toolkit**

- 16 Our overall aim is that the ability to provide infrastructure is not a bottleneck where it otherwise makes economic sense to build new houses.

<sup>1</sup> Auckland Council Sharing the cost of growth: Contributions Policy 2025 – Consultation document (September 2024).

<sup>2</sup> Tauranga City Council’s Transport Systems Plan and Wellington City Council’s Sludge Minimisation Facility.

- 17 The key to responsive supply of infrastructure is the principle of 'growth pays for growth'. For 'in-sequence' development (where the location and timing align with planned council infrastructure investments), councils should be able to invest in infrastructure with confidence that they can recover growth-related costs from new development. For 'out of sequence' development, developers should be able to arrange funding and financing without relying on council balance sheets.
- 18 There is no one-size-fits-all funding and financing approach that will suit all developments. Development opportunities can vary in terms of size, number of developers, alignment with planned council infrastructure investment, and impact on wider infrastructure networks.
- 19 We have identified a series of principles and improvements to deliver a flexible toolkit that will cater for variation between development opportunities.

*Figure Two: Principles and flexible toolkit for infrastructure funding and financing to support urban growth*

### Principles

- Growth pays for growth
- Certainty and consistency of charges for new development
- Reduced financial risks for councils
- Ability to adapt investment plans as development progresses
- Flexibility about role of developers and councils

### Flexible toolkit

#### Development Levies (to replace Development Contributions)

- One-off, upfront charge on a developer to support council investment in growth infrastructure.
- Expected to be the primary tool used for 'in-sequence' development that aligns with council infrastructure investment plans.

#### Development Agreements

- Voluntary contractual agreement for a developer to provide, or pay for, infrastructure.
- Useful for 'out of sequence' development that is not aligned with planned council investment where a developer can provide upfront funding.
- No significant changes proposed to existing settings.

#### IFF Act Levies

- Infrastructure is financed by a Special Purpose Vehicle (SPV) and funded through levies on property owners.
- Useful for out-of-sequence development where a developer considers it is worthwhile establishing a levy/SPV instead of providing upfront funding.

#### Targeted Rates

- Annual charge on properties that benefit from certain council activities, including investments in growth infrastructure.
- Useful tool for small councils to recover growth infrastructure costs, or for projects with a mix of growth and non-growth benefits for a specific geographic area.

\*Alongside these tools, councils can also charge financial contributions under the Resource Management Act 1991 for measures that will avoid, remedy, mitigate or offset adverse effects on the environment.

## Delivering a flexible toolkit through a package of improvements to infrastructure funding and financing tools

### A. Modernising development contributions through a development levy system

- 20 We propose a development levy system, which would enable councils to recover the growth costs of infrastructure in a modern planning environment where they have freed up land for development. Councils will be able to set levies based on the estimated growth costs of providing infrastructure across a broad area. They would also have flexibility to adjust their programme of infrastructure improvements, to achieve maximum efficiency if development patterns differ from initial estimates. Water service providers (such as water council-controlled organisations) will also be able to set levies for the provision of water services, where a council uses this model.

- 21 As an alternative to development levies, we considered the potential for targeted amendments to development contributions while retaining a strong causal nexus between infrastructure assets with growth capacity and the developments being charged. However, these changes would be insufficient to address the fundamental issues of councils under-recovering growth infrastructure costs in a modern planning environment.
- 22 There is an inherent trade-off to be made when considering how tightly cost-recovery tools link charges to specific areas. On the one hand, it is important to ensure councils have sufficient flexibility to recover growth costs when they do not have certainty about where and when development occurs. On the other, it is desirable that where possible, charges reflect the infrastructure costs for a specific growth area. The proposed design of the development levies tool strikes a balance between these objectives by providing councils with improved flexibility, but enabling additional charges for growth areas which require particularly high cost infrastructure assets.

*Table One: Proposed design of development levies tool*

Design elements	Rationale
Separate levies must be set for each <b>specific infrastructure service</b> (water, wastewater, stormwater, transport, reserves, and community infrastructure).	This aligns with Local Water Done Well and provides certainty about how levy revenue will be used.
A <b>levy zone</b> can only cover one urban centre, except for Auckland, which may have a number of levy zones.	This will ensure that one urban centre does not cross-subsidise growth in another centre. The size of Auckland is such that a small number of levy zones is likely more appropriate for that local authority.
A council has discretion to impose an <b>additional charge</b> on top of the base levy for a service, for any part of a levy zone where providing that service requires particularly high-costs infrastructure.	Decisions on the appropriateness of additional charges are highly dependent on place-specific context about development opportunities and infrastructure investment plans.
Each levy must be <b>calculated based on aggregate growth costs and expected levels of growth</b> . Aggregate growth costs include past expenditure to provide growth capacity, anticipated expenditure to provide growth capacity,	This is to account for the 'lumpy' nature of network infrastructure improvements, which means many infrastructure assets can only be provided in a cost-effective manner when built at a scale that enables considerable growth.

and previously unanticipated growth costs. <sup>3</sup>	
Councils (and any other infrastructure providers with the ability to set a levy) will be required to use a <b>prescribed methodology</b> to determine growth costs and standardised growth units. These methods will be prescribed in regulations to be made.	This will support rigour and transparency around how levies are set, and enable consistency between council jurisdictions.
Where development is proposed <b>outside of a levy zone</b> , there will be a process through which councils or water service providers can determine an appropriate levy (including an additional charges where appropriate).	This will enable development levies to support out-of-sequence development opportunities that differ from council estimates about urban growth, while still applying growth pays for growth.
Development levies will be flexible enough to account for <b>different models of infrastructure delivery</b> . This includes supporting first-mover developers who provide infrastructure capacity for subsequent development, enabling third party funded targeted to a non-growth portion of a project, and recovering council costs for infrastructure owned by another entity.	This will support application of growth pays for growth across a range of infrastructure delivery models.

- 23 The proposed development levy system will reduce financial risks for councils from growth infrastructure, which could moderate rates increases. It will also reduce the administrative complexity for cost recovery and provide increased flexibility for councils to adapt infrastructure investment plans as development progresses.
- 24 Although development levies could increase infrastructure charges for some developments, they are designed to improve predictability of infrastructure charges. In New Zealand's high-growth centres there is a significant difference between the price of rural and urban land. Therefore, over the long term, higher infrastructure charges will lead to lower land prices in high-growth centres and will not negatively impact new housing supply.
- 25 There are short term risks that developers who have already bought land may face unexpected increases in infrastructure charges. To mitigate these risks, we intend to provide clear signals of upcoming changes to legislation and enable council discretion to phase in any increased charges.

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<sup>3</sup> Previously unanticipated growth costs can include costs incurred due to cost escalation, a growth backlog, or out-of-sequence development.

## B. Regulatory oversight of development levies

- 26 The development community regularly expresses concerns that councils overstep in their use of development contributions. The levy system will alleviate some of these issues by restricting discretion for local authorities about some matters by specifying in regulation methods to be used for some matters. For example, to allocate project costs between growth and other purposes.
- 27 The current system allows developers to appeal the application of a development contribution policy to independent development contributions commissioners, but the only avenue for objecting to a development contribution policy itself, is judicial review in the High Court. We consider this is a significant gap in the current system. In New South Wales, development contribution policies are subject to regulatory oversight by IPART – the state’s economic regulator.
- 28 We consider that regulatory oversight of development levies should be part of the new system. This oversight will need integrated with the Minister of Local Government’s proposals for regulatory oversight of water services and rates (### refers). While the wider regulatory oversight system for aspects of local government are being designed, we propose interim oversight arrangements. Detailed design of these powers would be done by delegated ministers. We anticipate these arrangements will involve:
- 28.1 clearer and more consistent information disclosure requirements; and
- 28.2 closer government oversight of development levy policies, which may include requirements to provide information and explanations of development levy policies and potentially step in powers for the Crown if development levy powers are being used inappropriately.

## C. Improving the Infrastructure Funding and Financing Act 2020 (IFF Act)

- 29 We propose a package of amendments that will reduce the time and effort to develop a levy proposal, speed up the approvals process, and improve certainty about whether a levy proposal will be approved by Cabinet. They will also improve the workability of the Act and ensure it works as part of the wider flexible toolkit to apply growth pays for growth. These changes are intended to improve the Act regardless of the type of infrastructure projects it is used for, however, a particular focus is on improving the Act’s utility for out-of-sequence developments.

Table Two: Proposed improvements to the IFF Act

Proposed improvements	Rationale
<b>Purpose of the Act</b>  - Remove focus on addressing local authority	Going forward, we anticipate the IFF Act will be mostly used as a developer-led tool for out-of-sequence developments. Removing the focus of the Act’s purpose on local authority financing and

Proposed improvements	Rationale
<p>financing and funding constraints</p> <ul style="list-style-type: none"> <li>- Remove requirement that use of the IFF Act supports the “functioning of urban land markets”</li> </ul>	<p>funding constraints would better reflect the likely use of the Act. It would also broaden the scope of the Act, enabling its use by the New Zealand Transport Agency (NZTA) and new water entities established as part of Local Water Done Well<sup>4</sup>.</p> <p>The IFF Act can only be used for infrastructure for urban development. As such, the requirement that use of the IFF Act supports the “functioning of urban land markets” is superfluous.</p>
<p><b>Streamlining the levy approvals process</b></p> <ul style="list-style-type: none"> <li>- Simplifying the mandatory considerations the Minister must weigh as part of the levy approval process.</li> <li>- Simplifying requirements for levy proposals and recommendation reports.</li> <li>- Limiting councils’ ability to block developer-led proposals.</li> <li>- Other changes to improve the process</li> </ul>	<p>The time and effort required for applicants to have a levy approved is a key barrier to the use of the IFF Act.</p> <p>There are a number of changes that can be made to streamline the approvals process. However, any changes need to ensure the interests of levypayers are adequately protected.</p> <p>The key change to streamline the process is simplifying the mandatory considerations the Minister must weigh before a levy is authorised. In particular, there is significant duplication in the required beneficiary analysis that could be removed while still ensuring levies appropriately allocate the costs of infrastructure.</p>
<p><b>Simplified approvals process for greenfields</b></p> <ul style="list-style-type: none"> <li>- Removing the requirement to consider whether a proposed levy is affordable and in the long-term interests of levypayers for land owned by the levy proposer or landowners who have provided written support.</li> </ul>	<p>For IFF Act levies in greenfield areas, levypayers effectively self-assess affordability and opt-in to the levy when deciding to purchase a property. In addition, developers are best placed to know if a proposed levy affects the commercial viability of their development. As such, where developers are supportive of a levy proposal, Ministerial consideration of whether a levy is affordable and in levypayers’ long-term interests should not be required.</p> <p>While targeted at greenfields, this change would also apply to brownfield developments where existing landowners are supportive of the levy.</p>

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<sup>4</sup> Cabinet has already agreed to changes to the IFF Act to enable its use for water services infrastructure that is to be vested with a water organisation (CAB-24-MIN-0277.03 refers)

Proposed improvements	Rationale
<p><b>Interaction with development levies</b></p> <ul style="list-style-type: none"> <li>- Enabling an IFF Act levy to be set without a direct link to a specific infrastructure project where the IFF Act is being used to finance payment of a development levy.</li> <li>- Any other necessary changes to ensure IFF Act levies and development levies work well alongside each other.</li> </ul>	<p>The proposed development levies regime may necessitate changes to the IFF Act to ensure IFF Act levies and development levies work well alongside each other. For example, ensuring that IFF Act levies and development levies cannot be used to pay the same cost twice.</p> <p>The IFF Act could also be a useful tool for developers to raise finance necessary to pay a development levy. As development levies will not have a causal nexus with specific infrastructure projects, use of the IFF Act in this way would require enabling an IFF Act levy to be set without reference to a specific infrastructure project.</p> <p>For example, a developer may be required to pay development levies totalling \$30 million towards council-provided bulk infrastructure to enable development in a new growth area but lack the funds to pay this. As such, they could use the IFF Act to raise \$30 million with finance paid back through an IFF levy charged to future homeowners over the next 30 years.</p>
<p><b>Other changes</b></p> <ul style="list-style-type: none"> <li>- Further changes to improve the Act's flexibility and support its use for a range of infrastructure projects.</li> <li>- Technical and remedial changes to improve the functioning of the IFF Act.</li> </ul>	<p>Further changes to the IFF Act may be identified to improve the Act's flexibility and support its use for a range of infrastructure projects. For example, adding additional factors that may be used for setting IFF Act levies.</p> <p>A number of technical or remedial issues with the IFF Act have also been identified. Addressing these issues would improve the functioning of the Act. For example, removing the requirement for a vesting agreement between an SPV and relevant infrastructure authority if the SPV is not constructing the infrastructure.</p>

- 30 In addition, we propose changes to the IFF Act to better support its use as a cost-recovery based value capture tool (see below).

#### **D. Improving flexibility of targeted rates for growth infrastructure**


- 31 We propose updating the list of categories councils can use for setting a targeted rate, by adding 'rating unit creation date' to Schedule 2 of the Local Government (Rating) Act 2002.

- 32 This change will support councils to apply to principle of growth pays for growth in two ways:
- 32.1 It will enable a council to set targeted rates that apply when a rating unit is created (at subdivision stage). This could be used as an alternative to a development levy, particularly for smaller councils where it may be administratively simpler to use targeted rates instead of development levies.
  - 32.2 It will also enable targeted rates and development levies to be used together where projects benefit existing residents and provide for growth.

### **E. Improving existing tools to support value capture**

- 33 We believe that those who benefit from publicly-funded infrastructure should help contribute to the cost of it. New state highways, for example, create economic benefits for private landowners by unlocking capacity for new development or improving journeys for existing households. The same is true of major public transport projects.
- 34 Under the current system, councils have access to cost recovery-based tools that provide for landowners who benefit from infrastructure to contribute to their cost. We propose three changes to ensure the existing toolkit provides for landowners to contribute to Crown transport projects that materially increase land values, such as state highway or rapid transit projects led by the New Zealand Transport Agency (NZTA).
- 35 We propose two changes to the IFF Act:
- 35.1 Enabling IFF Act levies to be charged for major transport projects (e.g. NZTA projects) by removing the specific focus on 'local authority funding and financing constraints' from the purpose section of the Act.
  - 35.2 Enabling levy deferrals as an optional levy design choice. Even if an infrastructure project materially increases the value of a property, the property owner may have insufficient cash at hand to pay an annual levy. Enabling levy deferrals would address these cashflow issues by ensuring levies are not payable until the required cash is available (e.g. upon sale of a property).

36 s 9(2)(f)(iv)



- 37 We are still receiving advice on this change. If this can be easily achieved alongside the other changes we have recommended in this paper, we recommend that the Minister of Housing and Minister of Local Government

are delegated authority to determine the detailed policy decisions. If it is determined that another legislative vehicle would be more appropriate, we would return to Cabinet for approval. Ministers may also determine that the change should not progress.

## **Wider reforms will also play a critical role in providing infrastructure that supports urban growth**

- 38 The package of improvements outlined in this paper will enable the growth-related portion of infrastructure costs to be met by new development, rather than being subsidised by the wider community.
- 39 However, other costs — such as an accumulated deficit of deferred investment in maintenance and renewals in existing assets — can be revealed through new growth opportunities but cannot be covered through growth charges. These still present a critical barrier to realising the gains from Going for Housing Growth.
- 40 For this reason, it will be important to maintain a focus on:
  - 40.1 incentives for communities and councils to support growth – through Pillar 3 of Going for Housing Growth
  - 40.2 growth planning and how to use infrastructure funding and financing tools – through spatial planning, Urban Growth Partnerships, and Regional Deals;
  - 40.3 efficient use of infrastructure/demand management – through Local Water Done Well and road pricing;
  - 40.4 links between growth, renewals, and levels-of-service – through the Infrastructure Priorities Programme and Local Water Done Well; and
  - 40.5 investigating a system for regulatory oversight of local authorities.

## **Recommendations**

The Minister of Housing and Minister of Local Government recommend that the Committee:


- 1 note the Going for Housing Growth programme comprises three pillars to address the underlying causes of New Zealand’s housing shortage:
  - 1.1 freeing up land for urban development and removing unnecessary planning barriers;
  - 1.2 improving infrastructure funding and financing to support urban growth;
  - 1.3 providing incentives for communities and councils to support growth;
- 2 note that in June 2024, Cabinet took the first tranche of Going for Housing Growth decisions focused on freeing up land for urban development and

signalling the direction of travel on the other two pillars (infrastructure and incentives) [ECO-24-MIN-0100];

- 3 note that the key to a responsive supply of infrastructure is the principle of 'growth pays for growth', which requires a flexible toolkit for infrastructure funding and financing;

### **Delivering a flexible toolkit through a package of improvements to infrastructure funding and financing tools**

- 4 agree to modernise development contributions through establishing a development levies system with the following features:
  - 4.1 separate levies will be maintained for each service (water, wastewater, stormwater, transport, reserves, and community infrastructure);
  - 4.2 each urban centre will be a discrete levy zone;
  - 4.3 councils will have discretion to impose an additional charge on top of a base levy if providing a service to part of a levy zone requires infrastructure assets with particularly high growth costs;
  - 4.4 levies must be calculated based on expected levels of growth and aggregate growth costs (which include actual past costs to provide growth capacity, previously unanticipated growth costs, and anticipated costs for projects in councils' long-term plans and infrastructure strategies);
  - 4.5 councils will be required to use a prescribed methodology to determine growth costs and standardised growth units;
  - 4.6 where a council receives an application for development outside an existing levy zone, there will be a process through which a council can determine appropriate levies (including an additional charge on top of the base levy for an existing levy zone);
  - 4.7 development levies will be flexible enough to account for different models of infrastructure delivery;
  - 4.8 councils will have discretion to phase in any transition to higher charges under the levy system to manage impacts on local development;
- 5 agree that development levies be subject to regulatory oversight:
  - 5.1 in the long-term integrated with regulatory oversight of local authority rates;
  - 5.2 in the interim, by information and disclosure powers, and Crown step in powers where levy powers are being used inappropriately;
- 6 agree to add 'rating unit creation date' to the list of categories of rateable land councils may use for setting a targeted rate;

- 7 agree to improve the Infrastructure Funding and Financing Act 2020 (IFF Act) through the following changes:
  - 7.1 Amending the IFF Act's purpose by removing the focus on addressing local authority financing and funding constraints and the requirement that use of the Act supports the functioning of urban land markets.
  - 7.2 streamlining the levy development and approvals process;
  - 7.3 creating a simplified approvals process for greenfield levy proposals that are supported by developers;
  - 7.4 providing for the interaction between the IFF Act and proposed development levies;
  - 7.5 enabling an IFF Act levy to be set without a direct link to a specific infrastructure project where the IFF Act is being used to finance payment of a development levy;
  - 7.6 other changes to improve the flexibility of the IFF Act and support its use for a range of infrastructure projects.
  - 7.7 technical and remedial changes to improve the functioning of the IFF Act;
- 8 agree to better support value capture, through:
  - 8.1 enabling IFF Act levies to be charged for New Zealand Transport Agency projects;
  - 8.2 enabling levy deferrals as an optional IFF levy design choice; and
  - 8.3 s 9(2)(f)(iv) 

### **Next steps**

- 9 authorise the Minister of Housing and Minister of Local Government to make further policy decisions for development levies and targeted rates;
- 10 authorise the Minister of Housing and the Parliamentary Under-Secretary to the Minister for Infrastructure to make further policy decisions for amendments to the IFF Act;
- 11 note that the proposals will be given effect through:
  - 11.1 the Local Government (Infrastructure Funding) Bill, which holds a category six priority on the 2024 Legislation Programme (drafting instructions to be issued by the end of 2024); and

- 11.2 the Infrastructure Funding and Financing Amendment Bill, which holds a category six priority on the 2024 Legislation Programme (drafting instructions to be issued by the end of 2024).
- 12 invite the Minister of Local Government to issue drafting instructions for a Local Government (Infrastructure Funding) Bill to implement these proposals in relation to development levies, development agreements, and rating, including any minor, technical, or consequential changes that arise during drafting to ensure workability; and
- 13 invite the Minister of Housing to issue drafting instructions for amendments to the IFF Act, including any minor, technical, or consequential changes that arise during drafting to ensure workability.

## Appendix One: Simplified example of how a council would set development levies



<sup>1</sup> Note, water services providers will also be able to set levy zones and levies for the areas where they provide water services.

<sup>2</sup> Note, a house can be more or less than one growth unit depending on its size and some other features

\* Note, regulatory oversight of development levies will also occur. But exactly where in the process this happens is still to be determined.

# Housing Expert Advisory Group (HEAG) feedback on *Draft Cabinet Paper on Improving Infrastructure Funding and Financing to Support Urban Growth*

4 November 2024

## Principles

- We support the principle of "growth paying for growth" in relation to new developments. We support the two mechanisms of Development Levies and a revised Infrastructure Funding and Financing Act (IFFA) to implement that principle.
- "Growth pays for growth" should be buttressed by an additional principle of "renewals pays for renewals". This makes it clear that not only do the upfront capital costs of new infrastructure need to be paid from new beneficiaries but also their ongoing operating costs and depreciation. Consider inserting this at the principles section of Figure 2.
- Cross-subsidisation. This should include both over- and under- charging of new developments that occurs under the status quo. Under-charging is likely due to uncertainty and cost attribution issues. Over-charging can be a method to stymie development or to extract funds from future residents to subsidise current ratepayers (only the latter category can vote). Consider inserting "and vice versa" at the end of para 3.
- Uncertainty of costs applies to both councils and developers. The words "and councils" should be inserted at para 14, to read "...developers and councils face unpredictable costs of infrastructure".
- Monopolistic pricing power of councils. As generally the sole provider of many local public goods in an area and the ability to set prices for those goods, councils have a large degree of pricing power over new developments. This should be noted in the paper's narrative. We address this further below.
- Developments should face proper price signals. While needing to be balanced against simplicity and certainty for councils, enabling pricing practices that differentiate between high- and low- cost of provision areas to develop. Currently, this is missing from the narrative and principles section of Figure One. We address this further below.

It appears to us the economic issues are similar when setting Development Levies and setting IFFA levies where there is not agreement amongst the levied land-owners. We therefore treat these issues together, followed by comments on setting IFFA levies where there is agreement amongst the levied land-owners.

## Common methodology issues with Development Levies and IFFA levies

Any methodology used to calculate these two types of levies will likely need to address the following issues:

- Identify the infrastructure projects that are eligible to be recovered in the levy and the extent to which their costs are eligible to be recovered. In practice this will likely include choices related to:
  - the projects that are eligible. For example, only those projects that provide a direct benefit to the land-owners being levied should be eligible.
  - the timing of the project relative to the application for or imposition of the levy. This includes whether projects completed (or contracted) prior to the application for the levy should be eligible.
  - the extent to which the costs of a project are eligible to be recovered from a particular Area of Benefit. This is particularly important where the project is a large dollar amount and is intended to confer benefits over a large number of future developments (e.g. an additional Waitemata harbour crossing, a new waste-water treatment plant in Warkworth, or extending the motorway from Warkworth to Whangarei).
  - the extent to which the project costs will be recovered in service charges in the future relative to levies. There is potential for time-inconsistent behaviour where, for example, a Council recovers all costs of a waste-water project from levies and then in five years' time tries to set fees for waste-water services that are in part justified by those project costs.
- Defining the Areas of Benefit of an infrastructure project. This may include Areas of Benefit that are to be levied immediately and also future or potential Areas of Benefit that may be levied in the future for the same infrastructure project (e.g. Areas of Benefit that may be levied in the future by a Council or an investor who has invested in an arterial road or wastewater pipeline for a leapfrog development, and who wants to secure the rights to levy future developers that access these arterial roads or pipelines).

- Determining the cost of capital that is eligible to be included in the levy.

The above issues are very similar to those that need to be addressed in infrastructure pricing regimes that are based on cost. In New Zealand those pricing regimes include electricity and gas distribution and transmission network services, broadband communication services (e.g. Chorus), and international airport services. All these pricing regimes are administered by the Commerce Commission, which has developed over time the capacity and competency to manage these regimes. The Commission has the authority to resolve the many technical issues to administer these pricing regimes (e.g. it issues Input Methodologies which determine how it will measure costs, value land and determine the cost of capital). In addition, we note the Commerce Commission is independent from Ministerial direction. We consider the Commerce Commission is best placed to administer the levy-setting aspects of the proposed Development Levies and revised IFFA regimes. Indeed, any “prescribed methodology” (as referred to in Table One) for setting levies should be built off the well-established methodologies developed by the Commerce Commission for setting regulated prices consistent with outcomes in workably competitive markets. This will also go towards addressing our aforementioned concerns regarding monopoly pricing power of councils.

We note these levy regimes may have added complexities (relative to existing pricing regimes) related to defining eligible projects (that is determining whether and to what extent a project provides benefit to an Area), defining Areas of Benefit, and determining the extent to which the costs of an eligible project should be able to be recovered from a particular Area of Benefit.

To reflect the above points in the draft Cabinet paper we suggest MHUD:

- recommends that the Commerce Commission administers the setting of levies under the Development Levy and IFFA regimes. We note also the reference (at paragraph 28.1) to information disclosure (ID) requirements, and it is not clear to us that a regulatory regime based solely on ID is appropriate (given there are few constraints on the monopoly pricing power of councils). The appropriate regulatory regime needs further consideration, but we consider the IPART regime (where the regulator undertakes an assessment of whether a council’s levies are reasonable) has a lot of merit;
- include in the work programme over the next few months (preferably in consultation with some Councils, CIP and the Commerce Commission) some practical worked examples of how the Development Levies and IFFA levy-setting process would work in order to inform the design of legislation to properly and adequately frame the levy-setting process.
- Consider stronger direction on councils to phase in any increased charges that may not be priced into land already purchased for development (as opposed to

“enabl[ing] council discretion” for a phase in, at paragraph 25). We note that material changes in regulated pricing are often accompanied by a “glide path” to provide more certainty for investment. Again, this is something the Commerce Commission has considerable expertise in. Councils may be required to use a glide path if any expected increase in levies is above a materiality threshold.

- As with telecoms, developers should be allowed to bypass council pricing by putting in their own infrastructure if they believe the council price is unreasonable. This could happen inside and outside levy zones and will provide contestability and pricing discipline on councils. As discussed later in this document, compulsory interconnection to trunk networks at regulated fees would be a useful complement.
- Note that there is a free-rider issue for a single developer to judicial review a levy policy that impacts all new developments. That suggests that levy policies are generally under-challenged right now. This should be noted at para 27. This lends weight to a single regulator (ComCom) provider oversight.

We also note there is a broader issue - beyond cost setting and pricing power – of councils imposing an unreasonable level of service on new developments. For example, Auckland Council’s new development contribution range noted in the paper at para 14 has a large component of stormwater costs. There is a risk of goldplating or overbuilding in excess of willingness to pay for a level of service (eg, no surface flooding even in 1-500 year event). This will need to be addressed through the RMA reform, engineering standards and water reform. On the other hand, there is a potential risk of under-provision of service levels, but this can be addressed through standard regulatory tools of regulated minimum service standards.

## Development levies: enabling adequate price signals

The proposal in the paper is for each council to only set one levy for each urban centre (apart from Auckland Council). We are concerned that this may be too broad of an approach and blunt price signals that encourage development to find the most efficient place to develop, and diffuse costs across all new developments in an area.

For example, in Wellington City while most areas have sewerage dealt through Moa Point, a portion of Karori / Western suburbs use a different wastewater treatment plant with costs differing. Similarly, Lower Hutt City Council consists of the valley floor, Western Hills, and Wainuiomata – all of which may have different cost profiles for council.

While there is provision for a discretionary uplift in the levy for high-cost areas, councils applying this for every development in a certain sub-area of an urban area would seem like a more onerous, less certain and high-cost method of effectively creating a multiple

levy zone system within urban areas. Councils are probably best placed to decide the balance between transaction costs and simplicity in dividing up an urban area into multiple zones. We suggest that this single-levy requirement for outside of Auckland needs further refinement.

## Outside of levy zones / out-of-sequence development: Connection to water reform

We note the reference in Table One (para 22, second row from bottom) to development outside of levy zones, where the intention is for there to be a process for water service providers to determine an appropriate water levy.

Where such out-of-sequence development involves interconnection to existing infrastructure, it would be appropriate for the Commerce Commission to come in as water commercial regulator, mandating interconnection at regulated rates, the same as is done for telecoms, electricity and gas.

The Commerce Commission's mandate in setting levies and standards should include reference to the benefits of competitive urban land markets. The Commission's role as regulator here should emphasise the importance of competitive urban land markets for workably competitive outcomes both in land use and in other markets that depend on availability of serviced and developable land.

## IFFA levy-setting where land-owners agree

We support:

- The proposed simplified approvals process for greenfields.
- Allowing developers using the IFF Act to amortise upfront development levy costs.

## IFFA: Achieving agreement where hold-out is likely

At Annex B there are some examples of when assessment criteria (under the IFFA) would need to be used, which is where agreement of all land-owners is not achieved. This Annex is labelled as "greenfield developments" but the issues apply equally to brownfields.

We suggest an interim category which is where a super-majority of levied land-owners support a levy, but agreement is not unanimous. This situation is likely to arise particularly in brownfields. In this category there are benefits to those land-owners who support the levy for it to be able to be undertaken at low cost and in a timely manner (as

if all land-owners agree) versus the cost to go through a detailed affordability assessment, plus there are potential costs on those who disagree with the levy and are either not able to pay it or do not consider it provides them fair value.

We recommend in this interim category some super-majority rules be developed to provide adequate protection to those disagreeing while also not unduly burdening those that agree. An example of a super-majority rule could be that, for levied land-owners other than the promotor(s) of the levy, agreement would require:

- 75% of land-owners in number; and
- 75% in terms of the amount of the levy being imposed on the group (other than on the promoters).

We propose that if a super-majority along the lines above is achieved, the IFFA levy process should be able to proceed on the simplified and low cost path available to situations where all land-owners agree.

We note a parallel to existing council processes for designating business improvement districts, in which a supermajority of properties can vote for local improvements funded by a special levy on benefitted properties. We also note that the 1913 Local Bodies' Loans Act included a similar provision for debt and project authorisation.<sup>1</sup>

We recommend this to be an investigate recommendation in the paper: “Investigate mechanisms for a supermajority agreement for the imposition of an IFF Act levy in situations where hold-out problems are likely (eg, brownfield developments)”

## Targeted rates and value capture

We support the proposed changes to targeted rates and value capture. We recommend that the ability to use value capture tools is extended s 9(2)(f)(iv)

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<sup>1</sup> See 4(1) in *Local Bodies' Loans Act, 1913*, available at [https://nzlii.org/nz/legis/hist\\_act/lbla19134qv1913n30235/](https://nzlii.org/nz/legis/hist_act/lbla19134qv1913n30235/)

**From:** [Counsell, Kevin](#)  
**To:** [David Hermans](#); [Stuart Donovan](#); [s 9\(2\)\(a\)](#); [Stuart Shepherd](#); [Eric Crompton](#); [Marko Garlick](#); [McCracken, Malcolm](#)  
**Subject:** Housing affordability and productivity  
**Date:** Thursday, 14 November 2024 10:19:24 am

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Hi David and fellow HEAG members

My NERA colleagues in London have just published a study which might be of interest – it looks at the impact that declining housing affordability around London has had on economic productivity. The very high level finding is that a 1% worsening in affordability (defined as the house price to wage ratio) leads to a 0.14% decline in productivity (defined as gross value added per employee). There is some cool stuff in the paper about how this translates into total £ impacts.

The paper is here: <https://www.london.gov.uk/programmes-strategies/business-and-economy/business-and-economy-publications/housing-affordability-and-economic-productivity>. Well worth a look I reckon.

Cheers,

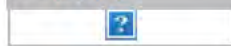
Kevin

Kevin Counsell

Director

[Bio](#) | [LinkedIn](#) | [vCard](#)

[s 9\(2\)\(a\)](#)



# Issues raised by the National Public Health Service's Submission on a resource consent in Wanaka: HEAG Perspective

On 26 November, the Housing Economic Advisory Group became aware of a submission by the National Public Health Service in opposition to a consent application for a McDonald's in Wanaka.

HEAG has not been asked by HUD to provide advice on this issue; we generally view it as being the proper remit of the Resource Management Economic Advisory Group.

One member of HEAG noted the issue to the Minister informally. The Minister suggested that this advisory group suggest some sensible amendments. We provide this short briefing to the Minister, to HUD, and to RM-EAG, on that basis.

## The Submission

We here reference Submission #356 on RM 230874 – a submission made by the Regional Director of the National Public Health Service, Te Waipounamu Region, in opposition to a consent application from McDonald's to construct a restaurant building and undertake a 24-hour restaurant activity at 237 Wānaka-Luggate Highway, Wanaka.<sup>1</sup>

The submission and associated consenting process seems exemplar of the kind of thing that a reformed RM system must avoid. Indeed, submissions of this type could usefully be considered vexatious, an abuse of process, and subject to penalty.

Queenstown-Lakes District Council requested a submission from the National Public Health Service on the consent application.

The submission urges that the consent application be rejected on several grounds.

It considers that a comprehensive Health Impact Assessment should be required. However, consents are only for the type of activity. The same process would apply for any restaurant proposing 24-hour service at that location.

It suggests that a cultural impact assessment should be required because the restaurant is within sight of Mt Iron.

It recommends that those assessments should be required to demonstrate mostly positive outcomes before granting consent.

It raises concerns about the ownership of the restaurant, warning that particular health concerns arise from the involvement of multinational and/or transnational corporations. It similarly notes that a multinational company might hurt the interests of existing local restaurants.

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<sup>1</sup> A copy of the National Public Health Service's submission is available at <https://www.nzinitiative.org.nz/assets/Uploads/Submission-356-National-Public-Health-Service-for-Herald-oped.pdf>

**From:** [Eric Crampton](#)  
**To:** [David Hermans](#); [McCracken, Malcolm](#); [Counsell, Kevin](#); [Stuart Donovan](#); [Stuart Shepherd](#); [Marko Garlick](#)  
**Cc:** [Natalie Nienaber](#)  
**Subject:** Issues raised by an RM process in Wanaka  
**Date:** Friday, 29 November 2024 9:41:29 am  
**Attachments:** [HEAG Comments on health and resource management.docx](#)

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Dear David,

Earlier this week, a member of our group noted to Minister Bishop some problems highlighted by the resource consenting process for a McDonald's in Wanaka.

The Minister requested that the advisory group provide some suggestions for avoiding those issues in future.

The Housing Economic Advisory Group has put together the attached short note which we will be sending on to the Minister. We also ask Kevin Counsell, in his capacity as member of the Resource Management Economic Advisory Group, to bring our note to that group's attention – as it seems more properly the remit of EAG-RM.

Before we send the note through to the Minister, we wanted to check whether HUD had any views on it.

Best,

Eric Crampton

It raises greenhouse gas emissions as a relevant concern, along with potential environmental effects from littering.

And a letter from Monica Theriault, Health in All Policies Advisor for Te Waipounamu Region, National Public Health Service, appended to the submission, notes that the NPHS is “eager to enhance how the concepts of health promotion can be effectively applied within the RMA framework”.

Barring changes, a revised RM system will see continued objections of this nature.

## The submission – HEAG view

There is an open question about how central government agencies should engage with local councils in general and individual applications in particular.

While it is common for local government to invite comment from agencies like NZTA if a development might impact on highway infrastructure, that engagement tends to happen in a very structured way and consider NZTA’s interests as set out in the District Plans, Regional Policy Statements, or national highway plans.

There is also an expectation that NZTA will proactively engage in the development of district and regional plans so their interests can be considered ex ante, allowing trade-offs and providing greater certainty to applicants.

The corollary here would be for Health New Zealand to engage in the district and regional planning consultation processes rather than being drawn in from nowhere.

However, the resource management and land use planning system is a very poor way of trying to regulate the content of offerings at restaurants. Most obviously, restaurants are a permitted activity in many urban settings. Trying to regulate nutritional content through land use planning would require the land use planning system’s involvement every time a restaurant or café changed ownership, to confirm whether the nutritional characteristics of the new venue were consistent with the consented use.

And New Zealand has existing food safety regimes.

It would be a substantial mistake to try to achieve these outcomes through land use planning. If the government wished to use land use planning to this purpose, a national policy statement or equivalent could be a more appropriate instrument for providing guidance and predictability. They at least would provide a consistent framework.

It seems entirely inappropriate for the National Public Health Service to have been involved in an individual application process like this one. It is not the place for that type of intervention, and many of their submitted grounds for objection are inadmissible – like potential effects on trade competitors.

Indeed, the set of issues presented in that submission could form a useful basis for a tick-sheet, where a sufficient number of tallied issues could form the basis for deeming a submission to have been a vexatious abuse of process subject to an infringement notice and fine.

More tightly defining what an effect is for resource management purposes, and defining those effects as being tightly in line with real externalities on nearby properties, would be helpful. It

would also be helpful if submitters were only able to submit on effects that are directly relevant to them, rather than submitting a 'laundry list' of potential effects, many of which are not actually effects on the submitter (or parties they represent).

Similarly, RM processes should specifically exclude effects addressed through other means, including emissions that are already managed by the Emissions Trading Scheme, and public health concerns that are addressed through government-funded public health systems.

A materiality threshold on effects should also be considered. A single McDonald's near Wanaka, in a country that has about 170 McDonald's outlets and countless other restaurants, cannot possibly have a material adverse effect on public health.

RM-EAG should also consider tightening the standards for who is considered to have standing for submissions. Recourse to the Planning Tribunal for a quick decision to strike out submissions that might fall afoul of tighter guidelines could help.

### Additional considerations

The process here exposes other substantial flaws with the current system that must be avoided in a future planning system.

Three Parks developer Willowbank was reported as opposing the application. McDonald's reported having received correspondence on 12 November from Willowbank inviting them to seek tenancy with them if their application was unsuccessful.

Willowbank is not a trade competitor of McDonald's but is a trade competitor for the land on which McDonald's wishes to set a store. McDonald's noted that rent at Three Parks was exorbitant and would make the business infeasible.<sup>2</sup>

This seems a very clear anticompetitive use of the land use planning system that is somehow allowed by the system and that remains beneath the attention of the Commerce Commission. It is inconsistent with the government's stated goal of a competitive urban land market.

We suggest that the Minister discuss land use planning issues with the Minister of Commerce and recommend instructing the Commerce Commission to take a more direct interest in anticompetitive use of land use planning processes. RM reform might also consider how best to incorporate principles of competition within new legislation, beyond just carrying over the trade competition approach of the RMA.

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<sup>2</sup> Jamieson, Debbie. 2024. "Moral and health-related objections dismissed: Wanaka McDonald's hearing". 25 November. The Press. Available at <https://www.thepress.co.nz/nz-news/360496928/moral-and-health-related-objections-dismissed-wanaka-mcdonalds-hearing>

**From:** [Eric Crampton](#)  
**To:** [christopher.bishop@parliament.govt.nz](mailto:christopher.bishop@parliament.govt.nz)  
**Subject:** A minor RM Phase 2 opportunity with likely-high BCR  
**Attachments:** [image001.png](#)  
[image002.png](#)  
[image003.png](#)  
[image004.png](#)  
[image005.png](#)

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Dear Minister Bishop,

Members of the Housing Economic Advisory Group has come across a somewhat minor issue that can hold up housing development that could be addressed very simply. It seems suitable for inclusion among Phase Two reforms.

Road naming proves a surprising cause of delay for some new developments. Naming roads requires extensive consultation. Consultation requirements can trigger if a laneway connects as few as six lots. This can sometimes come as a surprise to developers if, for example, council requests that a proposal to set three dwellings on each of two lots be shifted into one lot for each of the dwellings.

Consultation requirements can be onerous and, when a surprise, can hold up a development. We suggest that councils be required to maintain lists of pre-approved names that developers can use for roads, where council would have already undertaken whatever consultation council wishes to have in place for roads. Choosing a name from that list should require no further consultation.

We suggest further that if council has no names in a pre-approved list, a developer should be able to set road names without having to undertake consultation processes.

We have advised HUD of this issue; with time pressure around Christmas, they have not had the opportunity to get back to us on it.

Sincerely, and with best wishes that you get to enjoy some well-earned holidays this summer,  
Eric



**Eric Crampton | Chief Economist**  
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PO Box 10147, Wellington 6143, New Zealand  
**W:** [www.nzinitiative.org.nz](http://www.nzinitiative.org.nz) | [@EricCrampton](#)

s 9(2)(a)



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**From:** [David Hermans](#)  
**To:** [Eric Crampton](#); [McCracken, Malcolm](#); [Counsell, Kevin](#); [Stuart Donovan](#); [Stuart Shepherd](#)  
**Subject:** s 9(2)(a) [Marko Garlick](#) s 9(2)(a)  
**Date:** RE: A different RM housing matter  
Wednesday, 18 December 2024 12:24:00 pm

---

Hi Eric – apologies for delay in replying. This is a matter that I recall being raised every now and again over the years, on the back of developer frustrations. A few thoughts on this:

- As I understand, road-naming responsibilities are largely a function of the LGA 1974 and the AS/NZ standards (which LINZ administers), and only tangentially connected to the RMA (i.e. appropriate naming as a requirement for issuing a s223 subdivision certificate).
- To that end, I wonder if opportunities for streamlining the process might be better directed via the local government portfolio (and MoLG). I've enquired with DIA if anything around this is currently on their radar or work programme, and the answer is not currently, but you will know that the MoLG is currently quite active in thinking about council performance and LG system improvement ([Government getting local government back to basics | Beehive.govt.nz](#)).
- Prima facie, your idea for a pre-approved list of already-consulted road names has merit. However, I suspect the main considerations (or cautions) would be that:
  - At least in the Auckland context, but also elsewhere, responsibility is delegated to local boards or equivalent, and so there would essentially need to be multiple pre-approval processes, and presumably they would need to occur regularly to keep the list 'topped up'. This is not insurmountable, but I imagine it could detract from other business given how political such deliberations can become. Indeed, there's possibly a risk that the 'master-list' approval process makes the decision-making even more of a political 'event' than road naming processes currently are.
  - Often road names can be very place-specific, and mana whenua especially will want to make sure that names reflect the very local history, ecosystems, or culture of an area. A pre-approved list that is designed to cover a larger geographic area without the local flavour that is specific to a development site may face a stumbling block in that respect.
  - In a similar vein, often developers themselves want to enshrine their own legacy (think Hugh Green Drive) or apply a consistent branding in an area through themed street names, and a council pre-approved list may not include names that developers actually want to use. As an aside, I recall a number of years ago being in a meeting between the Auckland Council, NZDF and Oyster Capital/Fletchers about getting the NZDF's support for development within the Whenuapai Special Housing Area. The discussion was supposed to mostly be about managing noise from the airbase, but one of the negotiation elements was NZDF's desire to have the area's aviation history

reflected in the street names.

But re your main question: as you note, this is probably a minor issue in the context of GfHG, and so I wouldn't treat this as a billable commission from us. However, it is your prerogative to send your views to the Minister, and comfortable with you doing so. If you do, I'm also happy to pass it on to the DIA team looking at LG system improvements.

Hope this is ok / makes sense – let me know if any issues.

Cheers

David

---

**From:** Eric Crampton

**Sent:** Tuesday, 17 December 2024 12:17 pm

**To:** McCracken, Malcolm ; Counsell, Kevin ; Stuart Donovan ; Stuart Shepherd ; Marko Garlick

**Cc:** David Hermans

**Subject:** A different RM housing matter

Dear David,

We've come across a somewhat minor issue that could usefully be addressed as part of RM Phase Two changes. Unless you see issues with this approach, I'd like to send a short note to the Minister providing this as suggestion from some members of EAG-Housing (not all of us have had time to check into it, but those who have think it is a good idea).

The substance of that short note follows below.

**Short brief:** Road naming proves a surprising cause of delay for some new developments. Naming roads requires extensive consultation. Consultation requirements can trigger if a laneway connects as few as six lots. This can sometimes come as a surprise to developers if, for example, council requests that a proposal to set three dwellings on each of two lots be shifted into one lot for each of the dwellings.

Consultation requirements can be onerous and, when a surprise, can hold up a development.

We suggest that councils be required to maintain lists of pre-approved names that developers can use for roads, where council would have already undertaken whatever consultation council wishes to have in place for roads. Choosing a name from that list should require no further consultation.

We suggest further that if council has no names in a pre-approved list, a developer should be able to set road names without having to undertake consultation processes.

Eric

**From:** [David Hermans](#)  
**To:** [Stuart Donovan](#)  
**Cc:** [Stuart Shepherd](#); [Marko Garlick](#); [McCracken, Malcolm](#); [Eric Crampton](#); s 9(2)(a)  
**Subject:** RE: Timelines for updated NPS-UD  
**Date:** Tuesday, 4 February 2025 4:34:00 pm

---

Kia ora Stuart and team – and Happy New Year to those I haven’t caught up with yet.

Re your specific question, things are somewhat uncertain at the moment. As Kevin knows, the Minister has been considering the draft RM-EAG report provided to him before Xmas, on ‘Phase 3’ of the RM reform. As part of that the Minister is considering what parts of the proposed national direction package, including the NPS-UD improvements, proceed as part of Phase 2 and what might be rolled into Phase 3. Those decisions will be informed by advice — and the Minister’s confidence — about the delivery and implementation timeframes for Phase 3.

So, short story: we can’t clarify with certainty what the timeframe will be. You will recall that the proposal was to draft and issue a discussion document on the NPS-UD changes. We’ll be keen to share a draft with you, but it’s not quite at a suitable stage yet. Will likely do that once we’ve got clarity on the matter above.

In addition, I’ll be in touch soon to talk about what else it would be good to get your help on in the coming weeks and months, and how we might position the group this year (conscious that the original agreements are only until April, and Kevin is in his new role also).

Talk soon -

Ngā mihi,

David

---

**From:** Stuart Donovan <s 9(2)(a)>  
**Sent:** Monday, 3 February 2025 2:31 pm  
**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>  
**Cc:** Stuart Shepherd <>; Eric Crampton <>; McCracken, Malcolm <>; <>; Marko Garlick <>; <>; Counsell, Kevin <>; <>  
**Subject:** Timelines for updated NPS-UD

Hi David (cc HEAG),  
Congratulations on to HUD on getting the RMA amendments tabled.  
We were wondering if you had any timelines for finalising the updated NPS-UD and whether the potential existed for HEAG to review?  
Best,  
Stuart

# Meeting with Stuart Donovan re: development levy zones (17 February 2025)

Attendees: Stuart Donovan, Jane Keane, David Hermans, Daniel Lawrey, Frederique Bertrand, Donna Boniface-Webb

- HUD/DIA provided context on Going for Housing Growth – Pillar 1 Cabinet decisions, Pillar 2 Cabinet decisions, currently working on detailed policy design for development levies.
- Key issues:
  - How to achieve efficient use of infrastructure.
  - Levy zones.
  - Compatibility with planning system and council infrastructure planning and investment.
- Purpose of today’s session is to provide background and then for Stuart to provide views on approach to development levy zones and high-cost areas.
- s 9(2)(f)(iv) [Redacted]
  - [Redacted]
  - [Redacted]
  - [Redacted]
  - [Redacted]
  - [Redacted]
- Discussed process / next steps
  - Officials will provide Stuart with a version of powerpoint for consideration.
  - Will provide clarification on whether Stuart engages with other HEAG members.
  - Will confirm background papers for Stuart.

**From:** [Daniel Lawrey](#)  
**To:** [Stuart Donovan](#)  
**Cc:** [David Hermans](#); [Jane Keane](#)  
**Subject:** RE: Development Levy Zones Discussion  
**Date:** Wednesday, 19 February 2025 10:38:03 am  
**Attachments:** [Levy zones slidepack.pptx](#)

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Hi Stuart,

Here is the updated version of the slide pack on development levy zones for your consideration. If you have any questions on what to focus on when providing feedback, it's best to contact Hannah Ouellet.

I will also send you email you five documents with relevant background material. However, these will be in separate emails due to their file size. Please feel free to get in touch if there are any issues receiving the documents. The documents are:

- HUD/DIA slide pack *Going for Housing Growth: Infrastructure Funding Settings Workstream* (8 July 2024)
- HUD/DIA slide pack *Going for Housing Growth: Development Contributions* (20 August 2024)
- HUD/DIA briefing *Going for Housing Growth: Infrastructure Funding Settings – Advice on Options* (26 September 2024)
- Cabinet paper *Going for Housing Growth: Improving Infrastructure Funding and Financing to Support Urban Growth*
- DIA discussion draft *Development levy zones – detailed design considerations and scope*

Ngā mihi,  
Daniel

---

**From:** Daniel Lawrey  
**Sent:** Tuesday, 18 February 2025 11:34 am  
**To:** Stuart Donovan ; David Hermans ; Jane Keane  
**Subject:** RE: Development Levy Zones Discussion

Hi Stuart,

Thanks for clarifying. Emailing a list of preliminary comments/questions sounds like a good approach.

We'll be in touch once we have the updated slides and any other relevant background material.

Ngā mihi,  
Daniel

---

**From:** Stuart Donovan s 9(2)(a)  
**Sent:** Tuesday, 18 February 2025 10:51 am  
**To:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>; Daniel Lawrey <[Daniel.Lawrey@hud.govt.nz](mailto:Daniel.Lawrey@hud.govt.nz)>; Jane Keane <[Jane.Keane@hud.govt.nz](mailto:Jane.Keane@hud.govt.nz)>  
**Subject:** RE: Development Levy Zones Discussion

Dear Jane, David, and Daniel,

Thank you for the meeting yesterday, which was very helpful.

Once I have digested the cabinet paper + updated slides, would it be possible for me to email you a list of preliminary comments / questions?

Best,

Stuart.

-----Original Appointment-----

**From:** David Hermans <[David.Hermans@hud.govt.nz](mailto:David.Hermans@hud.govt.nz)>

**Sent:** Friday, 14 February 2025 11:00 AM

**To:** David Hermans; Stuart Donovan; Daniel Lawrey; Jane Keane; Donna Boniface-Webb; Frederique.Bertrand (Guest); MEET WLG 8.05 Mobile

**Subject:** Development Levy Zones Discussion

**When:** Monday, 17 February 2025 11:00 AM-12:00 PM (UTC+12:00) Auckland, Wellington.

**Where:** Microsoft Teams Meeting; meet wlg 8.05 mobile; MEET WLG 8.05 (Project Space)  
\_(apologies – correcting to Monday)

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