

Local Government New Zealand (LGNZ): Spatial Planning Can Improve Housing Affordability and Protect Our Environment

Sense Partners (March, 2021)

Done Right – Spatial Planning Can Help Improve Housing Affordability

Background

House prices are increasing at a rapid pace and both local and central government are struggling to enable sufficient supply to achieve housing affordability (where the overall price levels in the market are concerned). Many towns and cities in New Zealand are also grappling with how to provide more affordable housing (dwellings that are affordable to buy or rent for households on low to median incomes). The housing crisis is no longer a metro problem, but a national problem, affecting cities and provincial and rural areas alike.

In response to these challenges, LGNZ passed a housing affordability remit in August 2020 that calls on central government to give councils more tools to respond to housing needs.

LGNZ has identified spatial planning as a vital and necessary tool to advance housing affordability objectives, but it needs to be coupled with a strategic planning strategy to be truly effective. Done right, spatial and strategic planning can reduce the cost of infrastructure investment needed to accommodate future growth as well as improve how land markets operate, thereby creating downward pressure on house prices. Spatial and strategic planning in combination can also better protect the environment and public spaces of special cultural value, while being cognisant of constraints such as future climate change adaptation challenges. LGNZ's view is that with the right spatial and strategic planning framework in place we can simultaneously make housing affordable and protect the environment *at the same time*.

Promoting Reform Success

The Government's Resource Management (RM) Reform programme focuses on spatial planning. To support this work and clarify the options available, LGNZ has commissioned Sense Partners to develop an approach to spatial planning that is based on a sound analytic economic framework that meets three key objectives:

- advances housing affordability, underpinned by affordable land, by providing the necessary conditions for abundant choice in urban land and housing markets;
- synthesises best practice models for the New Zealand context; and
- allocates roles and responsibilities based on a principled framework, ensuring the combined roles of central and local government to maximise efficiency (productive, dynamic and allocative).

The attached paper from Sense Partners entitled *Done Right – Spatial and Strategic Planning Can Help Improve Housing Affordability* sets out a spatial planning framework that focuses on a different way of doing long term planning – a way that can be more efficient and effective in advancing our multiple objectives than common practice.

Spatial Planning Comes in Different Flavours

Investigation into best practice models and consultation with the Treasury, the Ministry of Housing and Urban Development, the Infrastructure Commission and the Ministry for the Environment shows that the term spatial planning is a broad concept that covers well-defined plans, and narrowly defined plans, as defined below:

1. Well defined plans (spatial plans) – which set out where and how cities should grow and develop in great detail; and
2. Narrowly defined plans (strategic plans) – which set out a strategy focused on securing cost effective options for future infrastructure development.

Well defined Spatial Plans

This first approach spells out in great detail where and how cities should grow and develop. The detail is captured in part through elements such as:

- district plan level detail, including land use regulations that prescribe the vision laid out for the city/urban area;
- precise specifications of infrastructure requirements, including type of infrastructure; and
- specific projects enabled through the above provisions and how they are to be sequenced.

Well-defined spatial plans commit to a single growth scenario in detail. A growth scenario articulates the settlement pattern of the future that accommodates a specific amount of population growth and how that growth should be spatially distributed. Development opportunities are unlocked step-by-step to realise this specified growth scenario, in part motivated by the necessity of local authorities to ration their limited ability to fund the needed infrastructure connecting sites. No go areas ensure the environment and areas of special value are protected. Choice is overall fairly constrained.

Figure 1. *Sequenced Release of Development Opportunities Limit Choice*

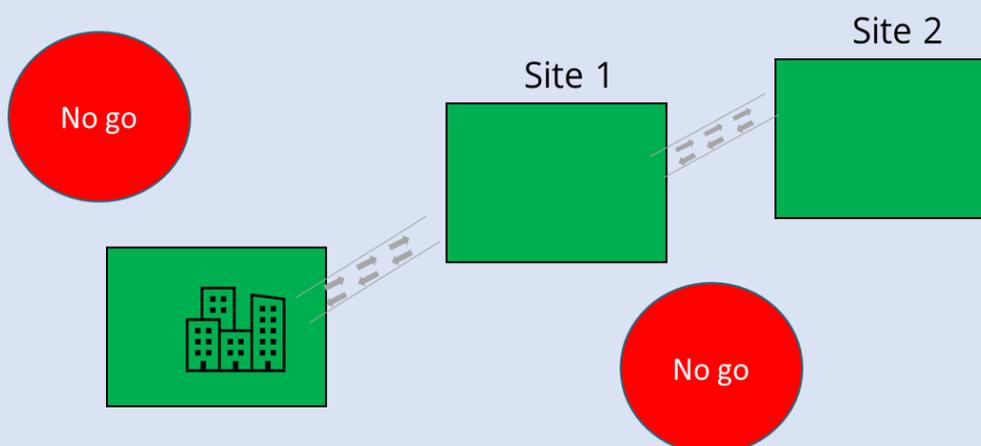


Figure 1 illustrates urban development under the auspices of well-defined spatial plans. The urban periphery expands in a sequential and timed fashion from the periphery to Site 1 and then Site 2. Urban centres that are debt constrained project how much finance can be raised and serviced through rates in their long-term plans (LTPs), which presents the maximum allowance to service sites with infrastructure. This severely limits the amount of sites that can be developed at any one time. The amount of room enabled for growth corresponds to what infrastructure projects can be committed to. The projects are then phased to ensure serviceability. In this way, spatial plans that are well defined (detailed at project level) link to LTP processes and limit future options and choice.

The downside of detailed, well-defined spatial plans is that they by necessity limit choice and signal a sufficiently predictable pattern to the market. The sequential unlocking provides land owners with certainty and the real option to:

- delay development,
- land bank; and
- speculate on future value uplifts through re-zoning.

Limited availability of land (potential sites) in the market increases the price of the land that is made available and increases the cost of future investment in infrastructure, because just-in-time provision of the infrastructure goes hand in hand with acquiring the relevant land at a high price. The high cost of land and infrastructure provision is then reflected in higher prices for homes.

Narrowly defined Strategic Plans

Narrowly defined plans are more permissive because they are concerned with a limited set of general parameters for future infrastructure development.

Under this framework, the specific task of narrowly defined, strategic planning is:

- to identify and preserve land for future public infrastructure development well in advance of demand;
- to protect public space, either for social infrastructure or areas of special value (“no-go” areas due to environmental and cultural considerations);
- not concerned with the precise shape of future infrastructure or its funding (as this is uncertain), but ensures the option to put in place public infrastructure networks in future is protected;
- not involved in district level details, land use regulations, projects or funding; and
- empowered by a dedicated funding stream (supported by central government) to map out and protect the skeleton for growth (for example, transport network corridors and public space).

A strategic approach moves away from any commitment to a single growth scenario (i.e., a settlement pattern defined by a singular estimate of population growth with specific spatial configuration). Instead, it focuses on identifying and protecting land for future infrastructure and public spaces, which are needed to future proof a wider range of possible future growth scenarios. No go areas ensure the environment and areas of special value are protected while not significantly restricting how growth may spatially distribute over time.

Figure 2. Simultaneous Release of Development Opportunities Increase Choice

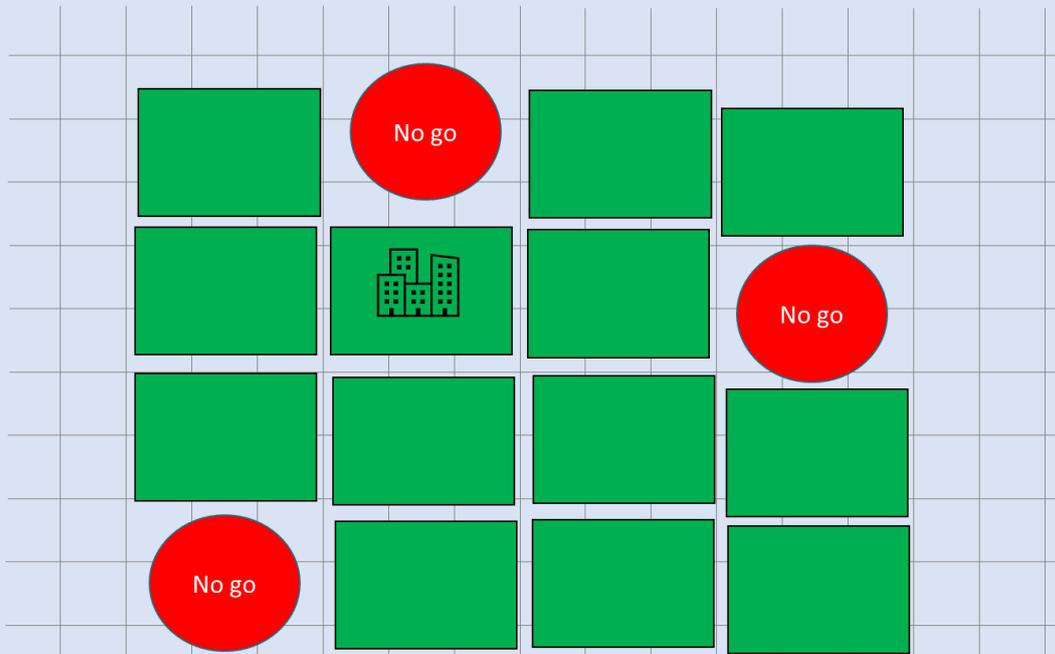


Figure 2 illustrates urban development under the auspices of narrowly defined strategic plans. The public space needed for future infrastructure investment (see grey lines) is protected well in advance of potential opportunities being taken up for development, as are “no-go areas”.

While there is a cost of land acquisition for infrastructure in advance of demand, it is highly likely to be much smaller when compared to the cost of purchasing land “just in time”, as is currently the case. Importantly, planning to protect future options for development does not require decisions on funding and finance for specific projects to unlock sites.

In short, the amount of room enabled for growth is not constrained by what specific infrastructure projects can be committed to. Rather, public space for open areas (“no-go”) and public utility corridors can be secured ahead of time, and potential options realised through other planning processes (e.g., “combined plans”). In this way, narrowly defined plans are more strategic (i.e. protect future options) and do not link to LTP-like processes, thereby increasing future choice.

The upside of narrow, bare bone strategies is that they increase choice and do not predetermine sequence or a specific growth scenario. Councils, households and businesses are empowered to choose where locate, making uptake less predictable while also signalling where to provide infrastructure

The preservation of land for public space well in advance of demand reduces the cost of infrastructure when it is time to invest, and provides an abundance of choices that in turn reduces the incentive to delay development. Instead, land owners are incentivised to pre-emptively develop to avoid other land owners from capturing the benefits. This dynamism in land markets creates downward pressure on prices.

Decision-making Arrangements Matter

The Resource Management Review Panel has recommended a decision-making panel comprising unelected officials from local government and representative officials of government and iwi groups. LGNZ acknowledges that spatial planning relates to the functional labour market that often transcends the political boundaries of local authorities, and that central government has legitimate interests due to the impact that well-functioning and productive labour markets have on the nationwide economy.

At the same time, LGNZ considers delegating key decision making powers to unelected officials a misguided strategy for three reasons:

1. Unelected officials are not well-placed to make values-based calls on difficult planning matters, particularly where costs and benefits are intangible;
2. advice-making (officials) needs to be separated from decision-making (elected officials); and
3. delegating decision making powers to a group of local councils and Ministers better reflects the underlying political realities.

The attached paper from Sense Partners explores these institutional questions in greater detail by applying the Productivity Commission's framework to identifying where decision rights should stand between local and central government. This work highlights that the RM Reform should provide greater cost-benefit analysis of alternative governance structures, including models of decision making.

LGNZ's position: We need spatial and strategic planning

LGNZ's position builds on the Sense Partners framework by arguing for the development of discreet but interlinked strategic and spatial planning domains within the overall planning framework. There does not need to be an either/or choice when it comes to narrowly defined (strategic) and well defined (spatial) planning.

There are considerable advantages to undertaking well-defined spatial planning in New Zealand. It is a principle means of city shaping: Deciding where to enable growth as well as what infrastructure projects will be needed, including project funding, to practically realise development capacity. This planning can be supported by key national guidance (e.g., climate change mitigation and adaptation, coastal policy statements, freshwater and urban development, etc.).

There are further advantages to better enabling well-defined spatial planning through strategic planning with a more narrowly defined purpose: To provide for a variety of future growth options well in advance of demand by identifying, protecting, and securing land needed for infrastructure (e.g., public utility corridors) and other public purposes (e.g., open spaces). The key benefits are lower cost of future infrastructure investment, minimising social disruption, and the ability to proceed with best practice urban development because a wider set of practically realisable options is then available, which avoids being forced to proceed with second best options due to high costs and difficult to reverse decisions linked to path-dependent urban development.

Because strategic planning is not engaged in the provision of infrastructure or funding for specific projects, but merely securing future options for spatial planning to undertake its city shaping activities, strategic planning should be free to do with a minimum of national guidance other than natural hazard and climate change adaptation considerations.

LGNZ advocates for a new decision-making body comprised of representatives of each local council in the area spanned by the spatial plan, and supported by an independent expert working group whose recommendations are to be agreed (or otherwise) between councils and Ministers.

In relation to strategic planning, it is the role of officials to develop the strategic plan, which should be approved by the new decision-making body to ensure that the specified protections and no-go areas have been consulted on and agreed by the public.

Key Recommendations

To ensure spatial planning gets the system working better and enables development, while protecting the environment, LGNZ recommends that the legislation needs to:

- Clarify the objective of strategic planning and distinguish objectives from constraints to ensure relevant trade-offs can be made;
- Define the scale of strategic and spatial plans at a regional order of magnitude consistent with functional labour markets that determine opportunities and capture welfare;
- Ensure that the planning framework contains both the strategic and spatial planning domains.
- Ensure the strategic planning framework adopts a narrowly defined planning approach – those functions are focused on identifying and preserving the land for future infrastructure development (not limited to a single growth scenario or settlement pattern);
- Support strategic planning functions (narrowly conceived) with a dedicated land acquisition fund – funded by central government because national interests are at stake;
- Ensure detailed planning and infrastructure funding decisions take place at the spatial level and that this activity is discreet and does not constrain the strategic planning functions;
- Allocate roles and responsibilities on the basis of a sound framework (and cost-benefit analysis) for assigning decision making powers between local & central government; and
- Separate advice making from decision making to reflect the underlying political realities.