

# Done right, spatial planning can help improve housing affordability

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For Local Government New  
Zealand

Sense Partners

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## Context

At the end of the 2020, Local Government New Zealand (LGNZ) approached Sense Partners to conceive an approach to spatial planning that supports the overarching goal of housing affordability: the goal of both the Urban Growth Agenda and the National Policy Statement on Urban Development.<sup>1</sup> LGNZ wanted a synthesis of best models to suit the New Zealand context.

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<sup>1</sup> <https://www.mfe.govt.nz/publications/towns-and-cities/national-policy-statement-urban-development-2020>



## Key points

### **Current system is failing - housing affordability reform is needed**

- House prices have continued to push higher, doubling over the past 8 years: both local and central government are struggling to deliver housing affordability.
- One cause is local government-controlled limits on the supply of land, resulting in too few development opportunities, limiting choice and driving the price of urban land higher than it needs to be.
- It is of course not the only cause, but one where local and central government can both take constructive steps for the benefit of their communities and New Zealand.

### **Elements of spatial planning could help...**

- Spatial planning – part of both the reform of the Resource Management Act (RMA) and the Urban Growth Agenda – could help.
- Right now, local government controls land supply. Local government could take action to increase the supply of land but find it hard to provide much needed infrastructure.
- Providing infrastructure requires resolving two key issues: (i) regional coordination on where to put infrastructure to accommodate growth and (ii) how cash-strapped local councils finance costly infrastructure and recover the costs.
- Elements of the spatial planning initiatives – part of the resource management (RM) reforms – can help resolve regional coordination issues, lifting land supply that reduces the cost of housing and expands location choice for households looking for a place to live.

### **Spatial planning spans two distinct components**

- Public engagement on existing spatial plans suggests confusion on the purpose of spatial plans with substantive overlap across local and central government functions.
- The term 'spatial planning' really covers two elements:
  - well-defined plans that set out a vision of where and how cities should grow and develop
  - narrowly defined spatial strategies that views cities as complex systems and sets out just the general parameters of where infrastructure development might occur, allowing firms and households to choose how cities evolve.

### **RM reform needs to first evaluate the benefits of spatial strategies**

- Reforms to the RMA that could really improve housing affordability risk falling off the table, given the number of major concerns that RMA reform seeks to address.
- A good way to ensure this does not happen is for decision-makers to have a compelling evidence base on what options for RMA reform would best improve housing affordability.
- So any policy reform proposal needs to clarify the options and then set out clearly the costs and benefits of each component of spatial planning, including spatial strategies.



### **RM reform should account for how spatial strategies are formed**

- Generally, spatial planning is considered to involve multiple parties, but individual councils have developed spatial plans (for example, Wellington City Council).
- The Resource Management Review Panel advocates preparing and approving spatial plans by consensus of a committee of representatives of central government, regional councils, local authorities in the region, mana whenua and an independent chair.
- It might seem logical that, to solve coordination problems, you can build on the status quo and just need to get more stakeholders in the room, but it is not clear that this is the best approach. There is a need now to evaluate different decision-making models before a suboptimal solution is written into law.
- For example, regional councils could take the lead and be accountable for spatial plans. Reform proposals should make clear why decision making by consensus across a broad committee will reach better outcomes.

### **Spatial strategies should be separated from funding...**

- Some local councils report that the benefit of spatial planning is sitting down with central government to discuss infrastructure funding, not so much to form an integrated plan.
- Infrastructure funding is expensive and plans are long-lived. Funding should be limited to land acquisition for infrastructure, not funding the infrastructure itself.
- Spatial strategies are designed to address land acquisition for infrastructure and are more easily separated from infrastructure funding and finance decisions than detailed spatial plans.
- If successful, the key benefit of spatial strategies is land acquisition ahead of time that provides more choice for land development, lowering land prices and improving affordability.

### **Spatial strategies should be funded nationally, infrastructure regionally**

- More choice improves housing outcomes nationally but depresses prices locally. So there is a strong argument costs of making spatial strategies and land acquisition should be funded nationally.
- Infrastructure funding should then be managed through combined plans at a central and local government level with access to the infrastructure funding and financing tools developing under the Urban Growth Agenda.
- Funding should be tied to when developers make a start and can make capital contributions and should be addressed in the combined plans.

### **Proposals do not hold officials to account - four changes could help**

- Spatial plans should operate on regional scales consistent with labour markets that determine the opportunities and better capture welfare than the political boundaries of local councils that are unlikely to change.
- Rightly, reform proposals point out that central government also has a role since national interests are at stake.
- This challenges unelected officials who have their own incentives and need to represent the interests of groups with different interests, limiting what we can expect from spatial planning.
- Rather than ask too much of each committee, four reforms could help:
  - i. Provide more clarity over objectives and constraints. A system with clear housing affordability objectives alongside clear environmental constraints and any other no-go areas would provide a more helpful framework. The alternative of dual



environmental and housing affordability objectives will make it difficult to assess trade-offs and so lead to poor outcomes.

- ii. Rather than commit representative officials to create binding spatial plans, instead cast their work as that of an independent expert working group whose recommendations are then to be agreed (or otherwise) between local councils and Ministers. This better represents the underlying political reality.
- iii. Establish a decision-making body. Two options are possible: (i) reinvigorating existing regional councils with new spatial planning functions and authorities; or (ii) creating a new body comprised of representatives of each local council in the area spanned by the spatial plan.
- iv. Nine years is too long between each plan. Infrequent planning limits capability development and makes it impossible to assess results, which is bad for incentives. It is better to align spatial planning with existing planning frequencies at the local level.

## **To get the system working and better enable development, legislation needs to enable the critical functions of spatial strategies**

- Lack of coordination, information costs and high transaction costs make a strong case that markets will under provide or provide no land for future infrastructure development or open space.
- But equally, process inefficiencies mean there is no reason to assume government intervention will home in on the optimal quantum of land to make available – raising the premium on clear objectives, aligning incentives and strong processes.
- Rather than take an activist, top-down approach spatial planning should focus on a bare bones approach that focusses on using spatial strategies to ensure land acquisition for transport corridors and open space occurs ahead of development.

## **Keep spatial strategies simple, well-targeted and free from infrastructure funding decisions**

- Right now, there are poor incentives for local councils to coordinate on acquiring the land that supports options for future infrastructure development.
- RM reform proposals hold little to suggest underlying politics will change. Councils – and central government – will remain confronted with hard decisions about when to fund infrastructure, and that's not going away any time soon.
- But if spatial strategies are kept simple and targeted and not tied to infrastructure provision, then the cost of acquiring land for future development can be reduced, freeing up resources. Instead, use combined plans to assess infrastructure funding.

## Prioritised recommendations

TABLE 1. PRIORITISED RECOMMENDATIONS FOR SPATIAL PLANNING

	Recommendation	Description	Priority
<b>Objectives and problem definition</b>			
1	LGNZ should continue to promote exploring spatial strategies as a component of RM reform.	Spatial strategies hold the opportunity of coordinating local and central government on the space for infrastructure. LGNZ should promote the use of spatial strategies as a key element of RM reform.	High
2	Establish environmental standards as constraints on spatial strategies, setting out no-go areas and limits based on existing legislation.	Current RM reform proposals should clarify the objective of spatial planning. Plans operate in a complex environment, and current proposals lay out dual objectives of housing affordability and enhancing the environment. Far better to stick to either (i) an objective of enhancing the environment with housing affordability constraints or (ii) increasing housing affordability with clear environmental standards and no-go areas as constraints (favoured).	High
<b>Cost-benefit evaluation of options needed</b>			
3	Test the costs and benefits of two types of spatial planning: (i) visionary and (ii) a bare bones framework that allows people to choose where to live.	Best practice for public policy development centres on working up a list of options and then evaluating the costs and benefits of each option. The Productivity Commission distinguishes two types of planning: (i) activist planning, with a vision for how the city should be and (ii) a less-activist approach that allows firms and households to choose how cities evolve. The costs and benefits of applying each approach to spatial planning need evaluation.	High
4	Test the costs and benefits of two ways to make spatial plans: (i) a highly participative model with decision made by consensus or (ii) a process led by local councils.	Different decision-making models have costs and benefits in different contexts. Participation and seeking consensus alone will not drive better outcomes. RM reform proposals should show why the decision-making model is preferred to other options.	High

	Recommendation	Description	Priority
<b>Funding</b>			
5	Separate spatial strategies from infrastructure funding.	Councils face pressure to fund infrastructure. Current RM reform proposals suggest councils would be incentivised to reach agreement on spatial plans but because of links to Land Transport Management Act (LTMA) funding processes, central government money is the carrot to reach agreement. What is needed most is coordination on where the infrastructure goes. Better to separate infrastructure funding and instead acquire the space to accommodate infrastructure.	High
6	Establish a land acquisition fund buy land needed to preserve space for infrastructure.	One of the key outcomes from spatial plans should be clear identification of where future growth occurs and the key infrastructure corridors. A fund should be established dedicated to implementing the plan through land acquisition only. Since the returns from improving housing affordability have national impacts by lowering local land prices, there is a strong argument to fund at a national level.	High
<b>Implementation</b>			
7	Separate expert-led advice making from decision making.	One of the weaknesses of the current RM reforms is the lack of clarity on objectives, authority and decision-making roles of the committee. Rather than hand authority for decisions to unelected experts, instead separate the advice-making function of the committee from decision making by tasking expert officials with the goal of the best spatial plan for the region. Then use either: (i) regional councils – redesigned to makes spatial strategies, or (ii) elected local council members in the areas spanned by the spatial plan to decide the plan.	Medium
8	Align spatial strategies with existing planning frequencies at the local level.	Much can happen in 9 years. Shorten the frequency of spatial strategies to better align with existing local planning schedules and increase flexibility to deal with uncertainty. This should help increase capability by generating some persistence across committee members and increasing attachment and accountability to outcomes.	Medium



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# 1. Spatial planning enables urban growth and environment protection

## What is spatial planning?

At its heart, spatial planning has two key elements:

'Spatial planning' is a form of strategic integrated planning that ideally covers a large geographical area, such as a region or major urban centre, and looks out 30 years and beyond. (Resource Management Review Panel, 2020, p. 122)

Spatial planning holds multiple meanings to diverse groups,<sup>2</sup> reflecting points of difference about approaches to planning in general and the simultaneous emergence of spatial planning concepts across several government agencies without a coordinated set of objectives.

The largest distinction across spatial plans is what the Productivity Commission refers to as an activist approach – planners that have a vision for the details of how their city should be – compared to an approach that is less activist on the details and views cities as complex adaptive systems and allow firms and households to determine how cities evolve with only a handful of rules to manage externalities. The Productivity Commission refers to these less-activist plans as regional *spatial strategies* (New Zealand Productivity Commission, 2017).

A second distinction arises from how spatial plans are formed. Since spatial planning can span political boundaries, spatial planning often takes a more collaborative approach than centralised planning. Figure 1 shows these two key dimensions of spatial planning.

FIGURE 1: SPATIAL PLANNING COMES IN DIFFERENT TYPES

	Centralised	Collaborative
Handful of rules	<b>Type 1</b> <ul style="list-style-type: none"> <li>Market largely determines where supply meets demand</li> <li>Hierarchy decides plan</li> </ul>	<b>Type 2</b> <ul style="list-style-type: none"> <li>Market largely determines where supply meets demand</li> <li>Many agencies help set the plan</li> </ul>
Visionary	<b>Type 3</b> <ul style="list-style-type: none"> <li>Planners mostly allocate where supply occurs</li> <li>Hierarchy decides plan</li> </ul>	<b>Type 4</b> <ul style="list-style-type: none"> <li>Planners mostly allocate where supply occurs</li> <li>Many agencies help set the plan</li> </ul>

## The development of spatial planning in New Zealand

<sup>2</sup> The New Zealand Productivity Commission (2017) discuss these two approaches to spatial planning, and Ionescu-Heroiu et al. (2013) note that spatial planning has different concepts to planners in different countries.

Differences in concepts of spatial planning in New Zealand also stem from simultaneous policy development. Spatial planning is advocated in the New Zealand Productivity Commission's inquiry into the system of urban planning in New Zealand (New Zealand Productivity Commission, 2017).

At the same time, spatial planning formed one of the five pillars of the Urban Growth Agenda<sup>3</sup> that targets improving housing affordability by improving land supply and reducing barriers to infrastructure provision.

The Urban Growth Agenda moved quickly. Spatial planning partnerships (SPPs) were formed between central government and key metropolitan areas (including the Hamilton-Auckland Corridor and Queenstown, among others).<sup>4</sup>

Consequently, policy work has been scattered across central government agencies and local councils without a consistent framework or operating model. Preferred approaches to spatial planning have in practice largely been driven by local councils and planners operating within the current paradigm of New Zealand's planning system.

This means the proposals for spatial planning by the Resource Management Review Panel (2020) risk missing opportunities from alternative approaches to spatial planning by embedding status quo practices by default.

### **There are barriers to widespread adoption of spatial planning**

Some councils are making progress without a legislative framework and adopting local spatial plans, working with other local councils where possible and sometimes with central government officials.

Barriers to doing more include insufficient legislative mandate and the respective weight according to existing spatial plans. With formal legislative backing, plans have no standing when it comes to forming district plans that set land use regulations at a local level.

Existing governance structures are also informal, reflecting weak incentives for councils to work together. Proceeding down these informal, ad hoc routes biases practice towards the status quo and risks losing an opportunity to make the most of spatial planning.

### **Assessing benefits of spatial strategies requires a framework for urban development**

One of the key benefits of spatial strategies is the opportunity to reduce the costs of urban expansion by improving regional coordination, acquiring land ahead of development and preserving key corridors that hold space for future infrastructure needs.

Understanding future needs first requires a framework for evaluating benefits of spatial planning, what well-functioning cities look like and the benefit of acquiring land ahead of development.

As cities expand, the necessary land for public streets, public infrastructure networks and public open spaces must be secured in advance of development. The alternative is higher cost of acquiring second-best land parcels that likely do not best facilitate future infrastructure needs.

Angel (2012) compares the development of thousands of large cities across the globe and finds two key propositions:

- Cities decentralise as they grow.
- Population densities reduce as cities grow.

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<sup>3</sup> <https://www.hud.govt.nz/urban-development/urban-growth-agenda/>

<sup>4</sup> Other councils have also adopted the language. Wellington City Council's draft spatial plan will inform a review of the district plan in 2021.

In a nutshell, this drives the need to make room for inevitable urban expansion through government acquisition of land for future transport infrastructure, other infrastructure requirement and public open space.

Spatial strategies can help by improving regional coordination and then identifying these land parcels. We first make this case within a simple framework for thinking about urban development that can also be used to assess the types of spatial planning most likely to deliver the greatest benefits for the least cost – the greatest bang for buck.

This framework could be used to evaluate whether spatial planning as proposed by the Resource Management Review Panel might be expected to generate better outcomes than the status quo. To what extent, will reform reduce housing affordability?<sup>5</sup> How much might we expect commute time to improve by securing land for the transport infrastructure? How will amenity value be improved or enhanced? To what extent might incomes and labour outcomes be improved by better spatial planning?

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<sup>5</sup> The Productivity Commission (2017) advocates for spatial strategies as a key component of reform and suggests the size of the prize from better urban planning is substantial: “Development will be easier, less costly and the damaging of land and house price escalation will end.”

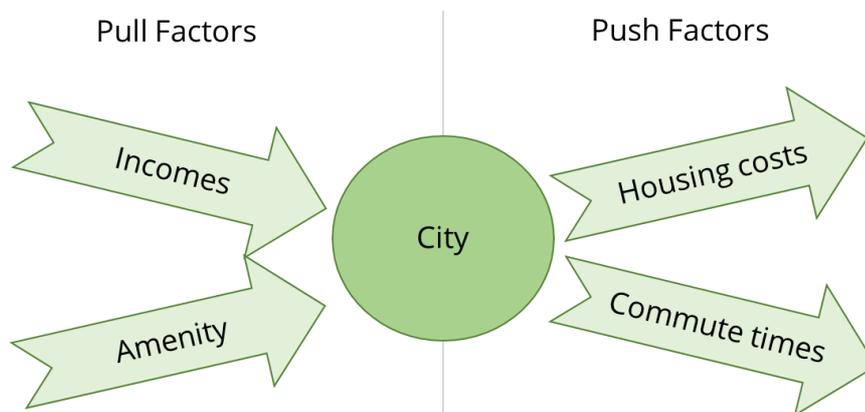
## 2. A simple urban growth framework

### Choice determines the shape of cities

Glaeser (2008) provides a simple framework for thinking about the drivers of urban growth that begins with the motives for households choosing to locate in cities. A key element of the framework is that people respond to not just financial incentives but other incentives that include the amenities in a specific location and social factors motivating households' choice of where to live.

His framework suggests thinking in terms of pull factors that encourage people to move to a particular location (or city) and push factors, such as increased commute times and poor housing affordability, that reduce the benefit of residing in that location. Households and firms move, seeking to make the most of income and amenity while minimising housing costs and commute times. Figure 2 shows a stylised representation of the factors that attract households to particular locations and the factors that push people away from particular sites.

FIGURE 2 MANY PUSH AND PULL FACTORS DRIVE HOUSEHOLDS' LOCATION CHOICES



Source: Derived from Glaeser, 2008

This process drives the shape of the city. Areas with high housing costs are traded off for low commute times. Highly desired locations with local amenities are also associated with higher housing costs. People prefer locations that provide high incomes and amenity (not just parks and open space, but opportunities with friends and family networks) and are prepared to wear the costs of higher housing costs and longer commute times to reap these benefits.

### Income and labour markets

It turns out that one of the key benefits of cities is the labour market opportunities that provide higher income to residents.

Locating close to a larger pool of firms increases the number of potential jobs. For firms, locating close to households means a larger number of potential applicants. These factors both increase the likelihood of a good match between firms and applicants.

The additional opportunities provided by cities increases specialisation. For example, rather than operating as engineers, specialisation allows engineers to operate as civil engineers who in turn can specialise on vertical construction, such as commercial buildings, or horizontal construction, such as roads.

This helps raise the productivity of each worker, allowing workers to reap a higher return for their labour. Without sufficient scale provided by cities, such specialisation is difficult.

Cities also deliver what economists call agglomeration benefits – the return from the knowledge transfer that occurs when workers interact in spaces facilitated by the close connections provided by cities.

Specialisation and agglomeration effects make workers more productive in cities, increasing returns to firms and increasing wages and incomes.<sup>6</sup>

## Amenity

### Consumption

Cities are not just about labour markets.<sup>7</sup> Preferences matter and can create amenity value that attracts people to cities.<sup>8</sup>

People have different preferences for different goods and services – some people like going out for dinner, other people prefer listening to live music.

We can also think about a hierarchy of preferences – for example, preferences for not just listening to live music but listening to heavy metal and listening to subgenres of heavy metal like doom metal or sludge metal.

This diversity of preferences is supported by cities with sufficient populations to sustain niche consumption. Travelling to gain access to niche goods and consumption is the alternative to cities, and driving times have been used to assess the utility of the variety of consumption options provided by cities.<sup>9</sup>

### Open space

Bertaud (2018) points out the need for provision of open space. Open space and public space provide amenity value.<sup>10</sup> Open space and corridors that preserve space of infrastructure will not typically be provided by the market.

## Mobility and commuting costs

Mobility increases the size of the labour market, deepening and expanding the number of connections that provide incomes and opportunities to both firms and workers. Historically, transport developments including the car and the train have spurred city growth by providing additional labour market opportunities within reach of housing.

Commuting costs – the flip side of mobility – reduce the size of the labour market. People want a commute that is short enough to support leisure and family activities at the end of the work day, so commuting time limits the size of the labour market and the size of the city.

Congestion reduces the opportunities for residents to participate in labour markets and increases costs for residents attached to the city labour market, so one of the key roles for planning is to maintain mobility both into and across the city as density increases.

Evidence suggests future cities will evolve into polycentric urban forms (Decamps, Gaschet, Pouyane and Virol, 2019). These cities require focus on movement across the city as well as facilitating commuter flows into and out of the city.

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<sup>6</sup> See Maré and Graham (2003) for New Zealand estimates.

<sup>7</sup> Nor does Bertaud (2018) make that argument – rather, “without the opportunities provided by deep labour markets there simply is no city”.

<sup>8</sup> See Tabuchi and Yoshida (2000) on distinguishing agglomeration in production from agglomeration from consumption.

<sup>9</sup> See Glaeser, Kolko and Saiz (2000), Schiff (2015) and Ahlfeldt and Pietrostefani (2019).

<sup>10</sup> See Brander and Koetse (2011) and Allpress, et al. (2016) for estimates for Auckland city.

In modern cities, all modes of transport can help. Equilibrium of transport modes (maximising the contribution of each mode) is necessary to maintain mobility and manage congestion and other negative externalities of increasing density.<sup>11</sup>

## Housing affordability

Improving housing affordability provides a critical role for planning to enable housing supply. While markets can allocate people to the best use of land, markets struggle to set aside the space needed to provide infrastructure needs.

This matters since additional supply of urban land for development increases choice, reducing the price of land for development and placing downward pressure on house prices.<sup>12</sup>

Planning and households need to work together. Households are best positioned to make decisions in their best interests. Only planning can bring together the land required to provide networked infrastructure connectivity to support urban growth and improve affordability.

Planning too must play a role to minimise spillovers from urban activities, but care needs to be taken to ensure planning regulations have benefits that outweigh costs in our cities, which are complex and evolving systems.

Land markets are imperfect. Rather than identical, location provides sufficient differences across land parcels that are exploited when landowners exercise market power. Land markets that tend to drift towards anti-competitive conditions when bringing additional supply to the mix are challenging (Bertaud, 2018), so careful attention is required to monitor and maintain system settings and market conditions to ensure workably competitive land markets.<sup>13</sup>

Bringing on housing supply need not be at the expense of the amenity provided by cities. Indeed, access to housing is a key component of well-functioning cities:

When cities function well, they provide greater access to and choices of housing, and better protection of the natural environment and cultural values. They also provide greater choices of employment and higher wages, a wider pool of labour for firms, and more opportunities for specialisation, innovation and easier transfer of ideas – the engine of economic prosperity. Work and commerce aside, well-functioning cities are attractive spaces where people consume goods and services, play, and are creative. (New Zealand Productivity Commission, 2017)

## 3. How spatial strategies can help

The defining feature of urban areas is the labour market that cities provide, but the very success of city labour markets undermines their potential through congestion and pressure on housing affordability.

Any spatial equilibrium is not set in stone. Instead, planning to accommodate growth can play a powerful role in two ways:

- Planning to accommodate growth can expand the set of possibilities – income, amenity, housing costs and commute times – available to households. More location options mean greater choice for households to accommodate their preferences across incomes, commute times, housing costs and location-specific amenity, which can vary in a number of ways.

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<sup>11</sup> See Parker (2013) for an appraisal of current practice in New Zealand transport modelling.

<sup>12</sup> This is true of both monocentric models (see for Alonso 196, Muth and Mills, the empirical applications in Kulish et al. 2011) and polycentric models (see Anas and Ikki 1996).

<sup>13</sup> This drives the importance of the National Policy Statement on Urban Development.

- By supplying many more additional development opportunities, planning to accommodate growth reduces the price of urban land and lowers housing costs (Glaeser & Gyourko 2018). Lower housing costs allow households to spend on other goods and services or purchase additional housing – either additional space, better quality or a preferred location.

Regional spatial plans or high-level spatial plans have a critical role in accommodating growth. We know the market for urban land in New Zealand has a shortage of development opportunities, driving up land prices and housing costs.

There are not many reasons to limit the quantum of growth spatial strategies should consider accommodating. Costs of land acquisition for infrastructure development are likely to be small relative to the costs of retroactively acquiring land for infrastructure development.<sup>14</sup> Retrofitting infrastructure can cost three to nine times the costs than if cities had room ahead of time.<sup>15</sup>

## Spatial planning comes in different flavours

The term 'spatial' planning is very broad. In principle, it relates to any planning that uses spatial data like a map. There are two key types of spatial plans that are worth distinguishing.

### **The detailed, visionary approach**

The first approach – well-defined detailed plans of where and how cities should grow and develop – would include elements of district plans and are visionary. Planners set out where growth should occur through land use regulation.

This detailed visionary approach is precise about infrastructure requirements, including the type of infrastructure and even specific projects that are enabled.

Definitions of spatial planning also differ on how plans are constructed. Generally, spatial planning is considered to involve multiple parties, but individual councils have developed spatial plans (for example, Wellington City Council).

This approach is consistent with a definition of spatial planning provided by the Ministry for the Environment:

A spatial plan is a high-level strategy for developing a region that relates to its geography, and seeks to achieve desired broad outcomes. Developed and implemented via collaboration between multiple parties, it provides a mechanism for agreeing joint priorities, actions and investment. (Ministry for the Environment, 2010, p. 23).

### **The bare bones approach**

The second type of spatial planning – *spatial strategies* – is more narrowly defined, setting out only the general parameters for infrastructure development. This second path is in keeping with the Productivity Commission's recommendations on spatial planning:

... spatial plans should lay out the bones of the city's future development. The more detailed district plans, council long-term plans, together with the choices and actions of individual developers, residents and entrepreneurs would then fill out the body of the city over time. (New Zealand Productivity Commission, 2017, p. 291)

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<sup>14</sup> And land can also be rented, perhaps for agriculture, until needed.

<sup>15</sup> See Angel (2012), Planet of Cities.

This approach is also consistent with the use of spatial planning as a framework that allows firms and households to allocate land use. Angel (2012) uses data on 3,646 cities across the globe that shows cities decentralise as they grow and population densities reduce as cities grow. He advocates using spatial strategies to make room for inevitable population growth based on four propositions:

- The inevitable expansion proposition – urban expansion cannot be contained and we must make room to accommodate it
- The sustainable densities proposition – city densities must remain within a sustainable range and must be allowed to increase if too low and decrease if too high.
- The decent housing proposition – strict urban containment destroys housing affordability so land must be in ample supply to ensure decent housing for all.
- The public works proposition – as cities expand, the necessary land for public streets, public infrastructure networks, public open spaces must be secured in advance.

This narrowly-defined approach is about taking a strategic approach. Future uses and technologies are uncertain. So it makes sense to preserve land for the option value of putting in place infrastructure even though the precise form of infrastructure is yet to be determined.

At least to date, spatial planning in New Zealand has tended to follow the detailed, visionary, top-down approach (see Box A) but not exclusively.

## Box A: Spatial planning in practice

### Many councils have implemented spatial plans

Several councils have already implemented spatial plans, including Dunedin, Hamilton, Queenstown Lakes and many others.

These plans have limited statutory partnerships. Central agencies involved include the Ministry of Housing and Urban Development, Ministry of Transport, NZ Transport Agency, Treasury, Department of Internal Affairs, Ministry of Business, Innovation and Employment, Ministry for the Environment and Kāinga Ora – Homes and Communities. Expect representatives from these agencies to be involved in future statutory spatial plans.

### Lessons from the Hamilton-Auckland corridor

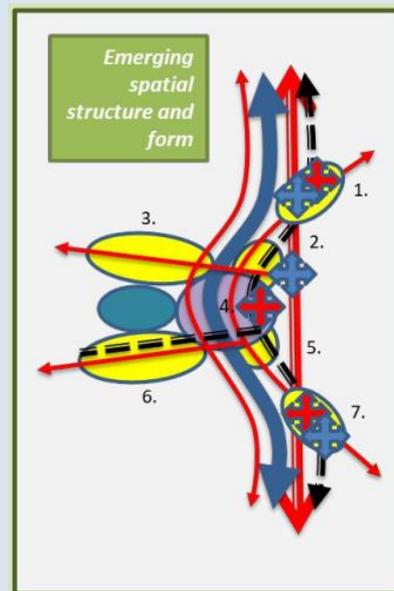
The Hamilton-Auckland corridor has many of the features of ‘bare bones’ spatial strategies. The objectives of the corridor are broad – “to better coordinate growth and increase connectivity in a way that realises the Corridor’s social, economic, cultural and environmental potential”.<sup>16</sup> The importance of identifying land for future infrastructure sits at the heart of the initiative, recognising the need for a “coordinated approach to spatial planning” that protects “public open spaces and sensitive locations” and infrastructure to be “provided in a more responsive and timely manner, helping shape and direct growth”.

The plan was a Cabinet initiative signed in May 2018 and endorsed a year later with project partnerships with Waikato-Tainui and several local councils: Hamilton City Council, Waikato District Council, Waikato Regional Council, Auckland Council and Waipa District Council.

The spatial planning for the Hamilton-Auckland corridor set out to identify where land acquisitions could help provide infrastructure to accommodate growth. This occurred as a joint Crown-iwi-local government partnership – the type of spatial planning perhaps closest to the spatial strategies recommendations provided by the Productivity Commission’s inquiry into the system of urban planning in New Zealand (Productivity Commission, 2017).

The plan uncovered limits on future urban growth – Figure 3 shows an example from the river communities section of the corridor) – and potential to accommodate growth in southern Auckland and the Hamilton metropolitan area.

FIGURE 3: HAMILTON-AUCKLAND PLANNING IDENTIFIED GROWTH AREAS



Source: Phil Twyford Ministerial address <https://infrastructure.org.nz/page-18991>

### Lessons from the Draft Wellington spatial plan

<sup>16</sup> <https://www.hud.govt.nz/assets/News-and-Resources/Publications/7c160d667b/Cabinet-paper-Hamilton-Auckland-Corridor-Partnership-Plan-and-Programme.pdf>



To inform the District Plan review, in 2020, Wellington City Council consulted with the public on Our City Tomorrow – a draft spatial plan for Wellington City.<sup>17</sup> Submissions are now closed.

Earlier, officials had asked the public to have their say on the pros and cons of four potential growth scenarios and concluded that “Wellingtonians think intensification of the city centre and suburban-centres offer the best balance overall”.

Although the plan does identify some new sites for urban growth, the plan is explicit on the goal of being a compact city: “Long term investment in our infrastructure, community and recreation facilities and services supports future development in existing urban areas”.

Rather than identifying land required to accommodate many more new development sites, spatial plans pursued through status quo processes are unlikely to unlock much land to reduce the price of urban land on the city fringe.

If housing affordability objectives are to be supported, bare bones regional spatial strategies appear more likely to deliver choice in land market that will lower house prices.

### **These spatial plans show that the ‘flavour’ matters in practice**

A wide variety of spatial planning outcomes are possible and depend critically on the type of spatial planning adopted. The development of the draft Wellington spatial plan was conducted under current rules and established processes. It is markedly different to the type of spatial planning for the Hamilton-Auckland corridor.

Moreover, public views may not align with the role for spatial planning to accommodate growth. At a minimum, consistent communication of the rationale for spatial planning and a common language will be needed to ensure buy-in. Preferences for existing ratepayers to retain that status quo over change may also prove hard to shift.

Distortions that arise from New Zealand’s urban land markets are likely to be large (Lees, 2019). Urban land prices are far higher than marginal costs of supply because developers cannot compete with farmers for land at the fringe of New Zealand cities.

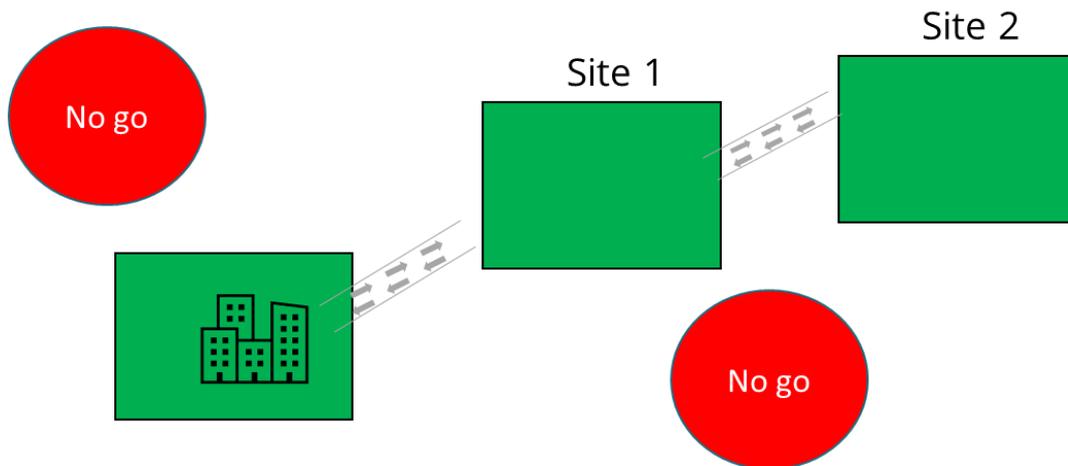
Development opportunities are unlocked by one by one, limiting choice and driving opportunity for land banking.

Figure 4 shows development sites proceed from site 1 to site 2, limited by the ability of councils to fund infrastructure that connects the development opportunities. Environmental no-go areas – defined by existing national legislation rather than decided within spatial plans – further limit development opportunities.

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<sup>17</sup> [wcc.maps.arcgis.com/apps/MapSeries/index.html?appid=5d8f3900b7cf4fa99acc218c3d149247&entry=4](https://wcc.maps.arcgis.com/apps/MapSeries/index.html?appid=5d8f3900b7cf4fa99acc218c3d149247&entry=4)

FIGURE 4: CURRENT DEVELOPMENT OPPORTUNITIES ARE LIMITED BY COUNCIL SEQUENCING



## The future state

Spatial strategies can help by acquiring land for infrastructure well ahead of needs. We know that productivity of urban centres rests on maintaining affordability, mobility and freedom to locate with minimal transaction costs as density increases.

Spatial strategies increase the number of development opportunities, enabling choices and reducing the price of land, which pushes down house prices.

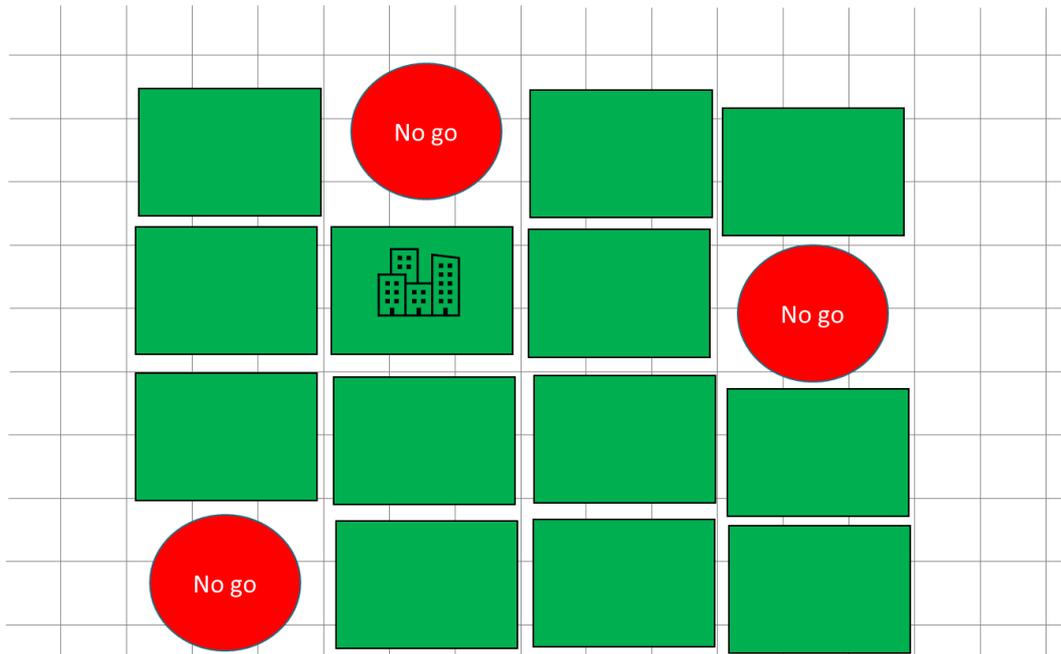
Regional spatial plans help by solving the coordination issues – where to place network infrastructure to bring on many development opportunities.

Instead of planning for where growth should go, regional spatial strategies identify growth areas at a high level, allowing the decisions households and firms make to drive city growth, densities and the best use to be made of available land.

Regional spatial strategies need to accommodate local arterial network infrastructure including transport networks. Protecting the space for network infrastructure today reduces costs of growth in the future and reduces uncertainty for landowners, helping to facilitate better coordination.

To deliver housing affordability, spatial plans need to be able to provide the network mobility to facilitate choice, spreading housing and commercial demand to a volume of development capacity that lowers land prices. Spatial plans can allow for no-go areas to manage environmental impacts, but the majority of land should be able to accommodate urban growth (Figure 4).

FIGURE 5: SPATIAL STRATEGIES SHOULD REALISE MORE OPPORTUNITIES BY CREATING SPACE FOR INFRASTRUCTURE



## The government's spatial planning role - some theory

### Pigou and the role for government

Urban growth reflects population growth. Population growth comes with costs in terms of infrastructure. Accommodating population growth within urban centres allows households the opportunities provided by cities.

But the market will tend to undersupply land for future infrastructure development opportunities relative to the optimal quantity of land for society. Negative externalities have typically driven the case for government intervention to pare back private levels of output to levels favoured by a social planner.

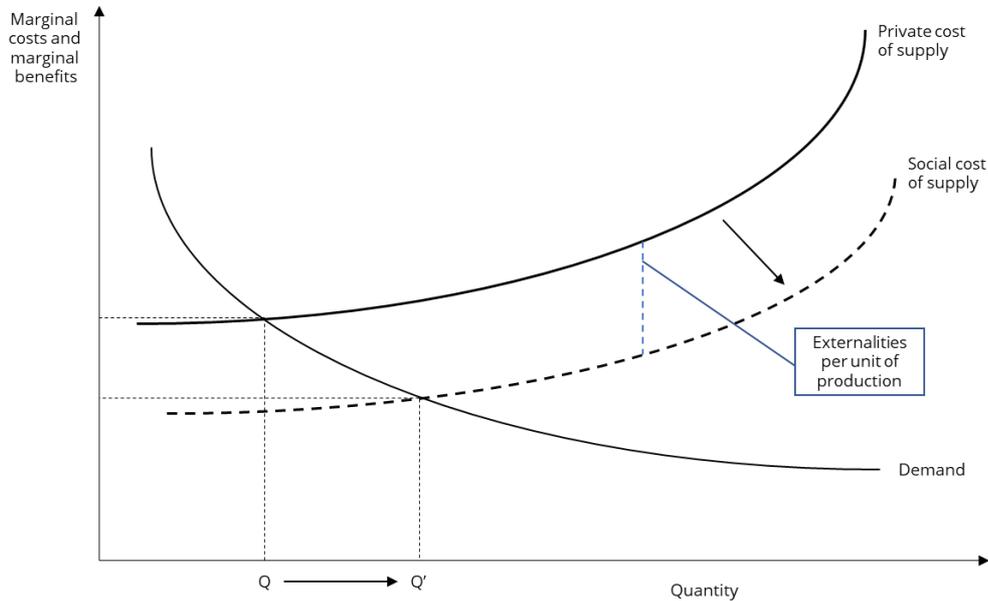
In the case of spatial planning, Pigouvian theory, that asserts market failures such as externalities and information asymmetries as a justification for government intervention, says the market will not self-regulate to make ready additional land for future infrastructure at the socially optimal level. So government can either impose regulation to induce additional land or purchase land itself.<sup>18</sup>

Figure 6 shows the case of market undersupply of land for potential future infrastructure development and open space. Private costs of supply limit the quantity of land supplied for future infrastructure to  $Q$ . But each unit of land has social benefits in excess of the private costs so the social cost of supply is *lower* than the costs of private provision, so quantity  $Q'$  should be supplied to meet society's needs.

FIGURE 6: MARKET LIKELY UNDER PROVIDES LAND FOR FUTURE INFRASTRUCTURE DEVELOPMENT OPPORTUNITIES RAISING A CASE FOR GOVERNMENT INTERVENTION

<sup>18</sup> Solly Angel (2012) points out some South American countries require developers to provide 40 percent of developed land for public use.

Stylised representation of private demand, private and social supply cost curves



### Coase and the role for government redux $Q^G$

At least in theory, there may be other alternatives to implementing the socially optimal outcome of land acquisition  $Q^G$ . Coase (1996) argues that provided property rights are clearly assigned, the socially optimal amount of production that trades off production and pollution can be obtained via negotiation between affected parties over prices of the externality.

Providing land that allows for the future infrastructure development and open space is not straightforward. Coordination is required across multiple parties. And parties are likely to make different assessments and have access to different information about the likely rate of growth, requirement for land and changes in technology. So coordinating on pricing that shifts supply of land for future infrastructure development and open space is unlikely to occur.

But the Pigouvian case for government intervention rests on solely on externalities rendering private market provision of goods and services – including land – suboptimal relative to the level desired by society, or at least, a social planner. Failure of the market does not imply that government can implement better solutions.

The arguments of Coase and others,<sup>19</sup> suggest simply asking government to implement the level of land implied by  $Q^G$  in Figure 6 is too simplistic for several reasons:

1. Too little information is known about the position of demand and supply for public goods – such as land for future infrastructure development – to allow government to implement the quantity  $Q^G$ . Cost-benefit analysis can help, but public goods, like acquiring land for infrastructure, are typically unpriced, making valuation difficult.
2. Implementing spatial plans and funding the land acquisition that returns quantity  $Q^G$  is not free. These costs should be internalised into the calculus of the rationale for government

<sup>19</sup> See Webster (1998).

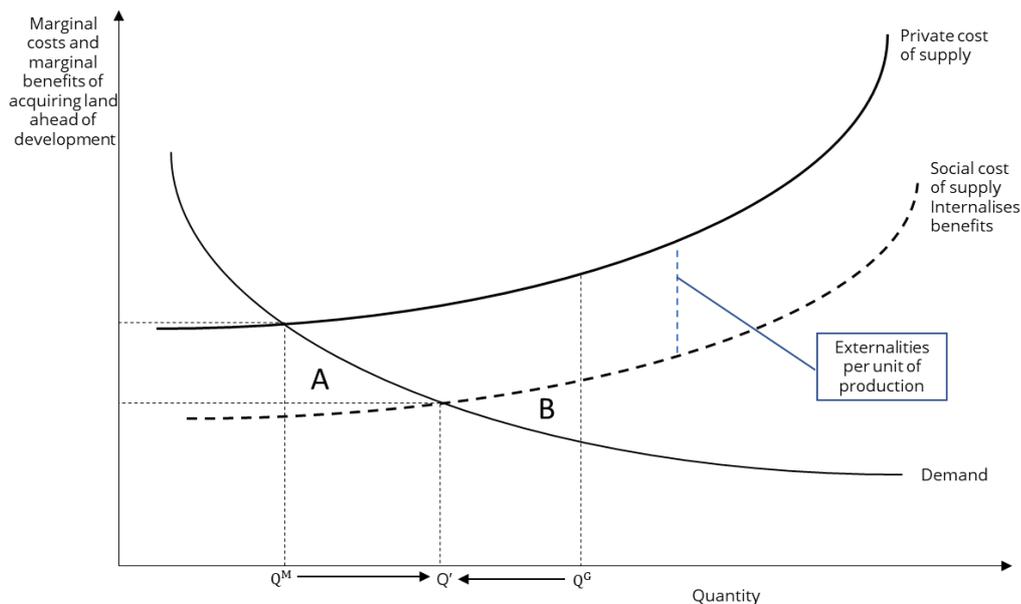
intervention. In other contexts, these costs could overturn the proposition for government intervention that might outweigh the intervention logic.<sup>20</sup>

3. Transaction costs matter. For example, solutions need to be administratively feasible: incentives that promote excessive administration that is not aligned to the socially optimal quantity of land threaten  $Q'$ . Quantities could extend in excess of  $Q'$  under alternative incentive structures for the bureaucracy.
4. The Pigouvian proposition ignores politics.<sup>21</sup> Governments' have their own agenda and objectives that may or may not align with the quantity  $Q'$ . The bureaucracy itself has its own incentives and objectives that can challenge implementation (see Box B).

Ultimately, these arguments raise the likelihood that *process* inefficiencies confront the *outcome* inefficiencies the Pigouvian analysis emphasises. Market failure does not necessarily mean government is better equipped to assist. Process inefficiencies imply government could oversupply public goods or under supply goods. Figure 7 compares the case of market supply ( $Q^M$ ) with oversupply by government due to process inefficiencies ( $Q^G$ ).

FIGURE 7: WITHOUT TRANSACTION COSTS, COASE EXPECTS NEGOTIATED OUTCOMES

Stylised representation of private demand, private and social supply cost curves



Given low levels of land set aside for future development and open space, under supply might be considered most likely. But policy might instead expand the narrowly defined spatial strategies into more detailed, top-down planning that risks duplicating combined plans.

With clearly defined property rights and zero transaction costs, Coase argues points between  $Q^M$  and  $Q^G$  could be negotiated, reducing the sub-optimal outcomes in A and B.

## Box B: Incentives matter for government officials too

<sup>20</sup> See Webster (1998, and Webster et al. (2005) who note that when Pigouvian theory is applied to land use control, its reference point is market failure and is silent on process efficiency and the failure of political markets.

<sup>21</sup> Perkins and Thorns (2001) note: "Planning and resource-use decisions are ultimately about politics."

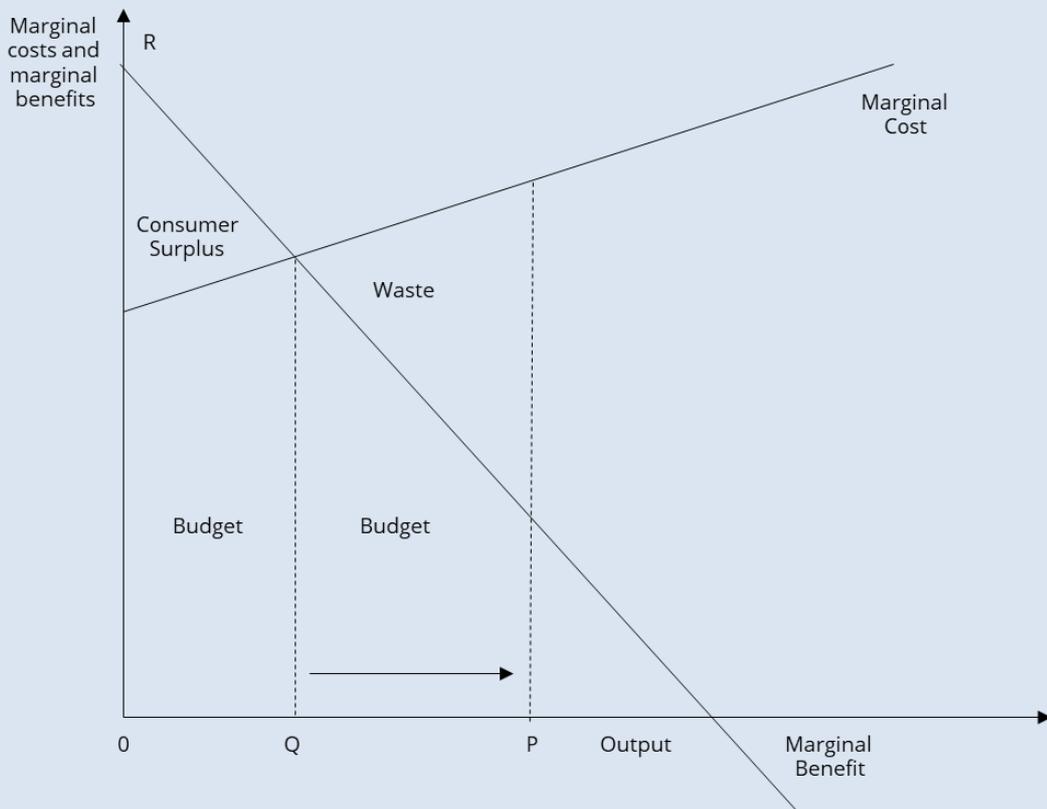
**Budget maximisation?**

It is too easy to prescribe a role for government to address a market failure, such as failing to undersupply of land for the option of future infrastructure development. Government and the bureaucracy can also fail to get right the supply of goods and services the market fails to provide.

Bureaucrats typically do not hold property rights over resources they control and do not stand ready to gain or bear the costs from their decisions. They have very different incentives to firms who make profit-making decisions.

One model suggests bureaucrats are motivated to control what resources they can which will usually be related to the size of the budget of the bureau.<sup>22</sup> Figure 8 shows that in this world, expect government to over-supply the output that would otherwise be expected to under-supplied by the market. Under these assumptions bureaucrats will tend to support policies that expand the size of the bureau or agency rather than support policies based on their economic and environmental merits.<sup>23</sup>

FIGURE 8: INCENTIVES MATTER FOR THE BUREAUCRACY, NOT JUST THE MARKET



Source: Pennington 2007

**Pursuing policy expertise can also oversupply**

This view of the bureaucracy does not square with New Zealand’s experience of a static rather than growing share of central government in the economy or the Public Finance Act 1989.

<sup>22</sup> See Niskanen 1971. Ott 1981 examines the impact of incentives on oversupply of regulation of public land in the US.

<sup>23</sup> See Pennington 2007.



Political scientists and other researchers have noted the disconnect between public servants that are motivated by policy and pursue a plurality of objectives; and decision-making within bureaus that is not typically driven by a single bureaucrat but is instead determined by the preferences and interactions of individual officials.<sup>24</sup>

In both cases, incentives are still not likely to be strongly aligned with supply the social optimum in Figure 8. Officials instead seek to deliver policy expertise – useful for problem solving and capability building – but seek a return on the development of policy expertise: the ability to shape policy. Officials invest in and support policies that promote returns on that investment rather than supporting policies that inhibit or reduce previous investments in policy expertise.

Gailmard and Patty 2007 make the argument:

“While policy-motivated bureaucrats...do care about policy, in order for these bureaucrats to benefit directly from developing expertise, they must be able to earn some policy rent in order to wish to develop it in equilibrium. If, on the contrary, policy-motivated bureaucrats are not able to capture enough rent from bending policy to their liking, investing in expertise will not be worthwhile.”

### **Expect scope creep without clarity on the type of spatial planning**

It is clear that we should not expect officials to be literally motivated by expanding the budget of their agency. But equally, we should not assume that a role for government in acquiring land for infrastructure development options, comes unencumbered from incentive issues.

Some features incentivise officials to make the investment in expertise that helps policy and makes it better to govern and regulate some areas. But these same investments can ensure officials seek to extend the policy domains rather than lose return on the capital investment.<sup>25</sup>

The risk for spatial planning is officials seek to do too much. Without clearly defined boundaries, the risk for spatial planning is embedding a detailed top-down approach, that proscribes where growth should occur. This risks a return to status quo planning activities that undermine the key value of spatial strategies – reducing costs of setting aside land for the option of infrastructure development.

Moreover, the RMA has not met expectations of an effects-based system that provides clarity on permitted activities provided there are no adverse impacts on the environment. Instead, planning has returned to status quo practices that prevailed prior to the Resource Management Act.<sup>26</sup>

Markets cannot do this at a regional, city or metropolitan level. Any benefits that accrue from such planning and allocation are non-excludable, and transaction costs are too high to return the benefits to the firms and households that produce the benefits.

Urban planning alone can separate private land from public land. Urban planning alone can provide primary infrastructure. Urban planning alone can set aside land for arterial roads and future infrastructure needs.

The best management of urban growth uses the choices of households and firms to decide the locations that make families and firms better off, but planning is needed to secure the infrastructure that enables growth.

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<sup>24</sup> See Dunleavy 1991 for example.

<sup>25</sup> Williamson 1998 notes these features improve the bureaucracy but risk overusing bureaucratic solutions.

<sup>26</sup> See Perkins and Thorns, 2001.

## 4. Improving the framework

### Objectives and constraints

Better decision-making results from pursuit of clear goals and objectives.

However, the proposed RM reform measures leave room for obfuscation. Three approaches are possible depending on what is defined as a goal and what is identified as a constraint on actions:

- Improving housing affordability but allowing for “the identification of areas unsuitable for development due to their natural values or importance to Māori” (Resource Management Review Panel, 2020) that (rightly) act as a constraint on achieving the objective.
- Protecting and improving the environment with targets for housing affordability as a constraint.
- Dual goals of protecting and enhancing the environment and improving housing affordability.

Dual goals seems tempting but force unelected officials to make trade-offs over environmental and housing affordability objectives that also are likely to impact on rural production. Moreover, RM reform proposals recommend that regional committees enable doing more on the environment, effectively allowing officials the opportunity to set their own objectives.

Instead, it is better to establish housing affordability as a goal with clear environmental constraints provided by national direction and local cultural preferences. This appears consistent with the Productivity Commission’s conception of spatial planning:

Regional councils will lead the production of Regional Spatial Strategies (RSSs) that set out strategic land-use parameters stretching 30 to 50 years ahead in the case of high-growth regions. RSSs will define corridors that provide options for future infrastructure, future public open spaces, and areas of cultural significance and outstanding conservation value. Remaining land will be available for development. (New Zealand Productivity Commission, 2017, p. 7)

### Preferences and incentives

One constraint of the RM reform proposals is that the joint committee requires representation by central government officials, regional councils, all territorial authorities in the region, mana whenua and an independent chair.

Large committees also have pros and cons. When people have similar preferences, larger groups are useful to uncover information relevant to the decision at hand (Beniers & Swank, 2003).

When preferences differ, consensus can break down and poor behaviour can result (Karotkin & Paroush, 2003; Li, Rosen & Suen, 2001). Committees work well when preferences are similar, and participants have different information sources to draw from.

At least in principle, we could expect difference preferences across committee members, and existing RM reform proposals take on a large number of complex issues:

The value of our proposal for regional spatial strategies is to provide a platform for central and local government and mana whenua to reach agreement on these issues in a way that integrates competing priorities, including climate change mitigation, urban development, regional development and other environmental goals. (Resource Management Review Panel 2020, p. 184)

### Funding

### **Funding costs of regional spatial planning**

The costs of spatial planning are the costs of conducting spatial planning activities, including consultation and increased capability across all partners, and the costs of land acquisition. There are: "...poor incentives for local authorities to join forces to coordinate, provide for, and fund infrastructure in order to efficiently respond to growth and change".<sup>27</sup>

While non-trivial, the costs of conducting spatial planning activities are an order of magnitude lower than the costs of land acquisition. Since the benefits of spatial planning accrue to both local and national interests (environmental outcomes have national benefits and accommodating urban growth has spillover benefits), there is a case for funding spatial strategies from both national and local government balance sheets. We disagree with current RM reform proposals that "the joint committee and the secretariat supporting it should be funded by the constituent local authorities" (Resource Management Review Panel 2020, p. 257).

Land acquisition costs are likely to be lumpy and vary by region. There are two approaches: funding land acquisition on a case-by-case basis, slowing down and reducing the benefits of spatial strategies, or funding land acquisition from a central fund. The second approach would have benefits of reducing the time between recognising the need for land purchase and land acquisition.

Most likely, funding should be determined by whose balance sheet the asset sits on. Funding costs could also be recouped by a charge for using the land for future infrastructure development. Holding costs can be partially offset by renting back to the current user.

Regardless, agreeing a straightforward approach to funding acquisition is critical. One complaint levelled at the current state is the rationing of available land to manage local council infrastructure costs.

It is essential that substantially increased funding and resources be provided by both central and local government if the objectives of the new system are to be realised. (Resource Management Review Panel, 2020, p. 6)

### **Funding costs of infrastructure**

Funding the costs of infrastructure should be fully separated from spatial strategies. Separation ensures spatial strategies are not constrained by funding so spatial strategies can instead focussing on what needs environmental protections and increasing choice of land for development at long horizons that are multiples of levels of demand.

Instead, regional spatial strategies are advanced through RM reform and will complement new funding and financing models established under the Infrastructure Funding and Financing Act 2020. These tools help break the link between what gets funded and councils' debt constraints, allowing more land development opportunities to be realised more quickly.<sup>28</sup>

These tools support broader Urban Growth Agenda objectives for housing affordability by developing more through well-regulated, well-planned competitive urban land markets. Two elements of the tools are key: minimising capital and operating costs of supplying public infrastructure and increasing supply responsiveness. This aligns with the objective of increasing housing supply and minimising externalities from urban growth.

How the infrastructure is funded should be determined by who receives the benefits of the infrastructure. One argument is that the benefit of infrastructure that helps improve housing

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<sup>27</sup> See Resource Management Review Panel, 2019, p. 28.

<sup>28</sup> Other models are possible. We note that Infrastructure New Zealand proposes a large fund for investing in spatial planning partnerships.

affordability accrue not just locally but nationally so there is a strong case for funding infrastructure that supports urban growth at a national level.

It is worth noting that, when housing becomes more affordable, local property owners can lose some of the economic rents they enjoy, so local landowners and the councils their rates support have a disincentive to support infrastructure that supports greater choice for development opportunities.

**Working together**

One poor outcome would see infrastructure funding used as the carrot for councils to agree to regional spatial strategies. This would replace a consensus-building approach with power-based politics. Indications are not good:

Councils would be incentivised to reach agreement on regional spatial strategies because of the link to the LTMA funding process and the potential for central government to fund or co-fund other initiatives in the region through the implementation agreement.  
(Resource Management Review Panel, 2020, p. 150)

## 5. Decision making

The Resource Management Review Panel (2020) makes two clear recommendations on decision making that leave at risk opportunities from spatial planning. The first relates to legitimacy and power. Who holds the right to decide on regional spatial strategies? The second relates to the model of making decisions via consensus. Other options are available, and it is not clear why consensus is favoured over other options.

### Legitimacy

Since spatial planning relates to labour market areas that transcend political boundaries, it is not surprising, without moving political boundaries (such as the Auckland City amalgamation), resolving who should make decisions is fraught.

The Resource Management Review Panel (2020) recommends each regional committee be established with the authority to develop and make decisions on spatial plans.

#### **Why hand power to unelected officials?**

The Resource Management Review panel comprises unelected officials of central government and representative officials of government and iwi groups. There is a key question unanswered by the panel review: Why should the public expect this group of unelected officials to hold legitimacy for decisions that affect their lives?

There are precedents for independent agencies to hold power (including the judiciary and the military), but these examples are few. The Reserve Bank of New Zealand holds power independent of the government, but this separation of powers rests critically on a specific set of circumstances. Central bank independence is designed to save the people from the government by preventing the government stimulating the economy immediately ahead of an election to boost their chances at the polls.

Independence is not with respect to the goals of central banks but rests on the assumption that monitoring outcomes from transferring power to unelected officials is credible.

Tucker (2018) provides a take on when delegation of powers to "insulated technocrats is a good strategy" based on a model by two Italian researchers (Alesina & Tabellini, 2007):

- The goal can be specified.
- Society's preferences are reasonably stable.
- There is a problem of making credible commitments to stick to a policy regime.
- There are no significant distributional trade-offs for decision makers to make choices.

However, none of these situations would appear to apply to spatial planning:

- Constraints rather than goals are provided by national environment standards while regional committees can do more on regional environment objectives if they want.
- Society's preferences are unlikely to be stable in response to climate change.
- It is not clear what would prevent local or central government implementing policies.
- Distributional impacts of binding land use regulations and environmental standards that constrain urban growth are large and fall on the poor and future generations.

Tucker (2018) gives his own prescription for when to delegate authority to independent agencies, which we apply to spatial planning in Table 1.

TABLE 2. CURRENT SPATIAL PLANNING DECISION-MAKING PROPOSALS LACK LEGITIMACY

Tucker's legitimacy precepts	Applied to spatial planning proposals	Criticisms
A statement of its purpose, objectives and powers, a delineation of its boundaries (purposes-powers).	<p>Regional spatial strategies (RSSs) set the long-term objectives for urban growth and land use change but with flexibility for responsible Ministers to determine sequencing, timing and priorities for preparation of these strategies.</p> <p>Boundaries are clear in principle. RSSs should be strategic and high level with separate implementation agreements and funding strategies.</p>	Objectives unclear and possibly to be set by the spatial planning committee but possibly by the Minister. Committees appear to have national level constraints on environment standard but the ability to "do more" on the environment at a regional level. If cross-government infrastructure spending is on the table, conceivably these could be Cabinet rather than Ministerial level decisions.
Prescriptions of who should exercise the delegated powers and the procedures to be employed (procedures).	RSSs should be prepared and approved by a joint committee comprising representatives of central government, the regional council, all constituent territorial authorities in the region, mana whenua and an independent chair.	Regional spatial committees have no powers to implement the plan and hence no procedures to follow. This is fundamental and left unresolved. What incentivises representatives of local councils to work for the region's interest rather than their constituency? Without resolution, expect process inefficiencies to drive outcomes away from optimal outcomes.
Principles for how the agency will conduct policy within its boundaries (operating principles).	There should be significant stakeholder and community involvement in the preparation of strategies and agreement on type (narrowly defined, bottom-up vs detailed top-down).	Type of spatial planning needs to be set-up in legislation to avoid scope creep that increases costs and can undermine strategic high level goals – setting aside land for open space and the option for future infrastructure development.
Sufficient transparency to enable the delegated policy maker and, very important, the regime itself to be monitored and held to account by elected representatives (transparency-accountability).	Environmental monitoring will be strengthened and a national environmental monitoring system developed.	<p>Since the committee does not have the power to implement the plan, there is no holding to account. Long timeframes, consensus and complexity of the development of cities preclude accountability. Improving environmental quality is welcomed but connecting the role of spatial plans to environment will be challenging.</p> <p>There is little in the documentation that shows how housing affordability will be monitored. In practice, it is hard for elected representatives to hold the system to account since they are also responsible for selecting the central government members of the system.</p>

Tucker's legitimacy precepts	Applied to spatial planning proposals	Criticisms
Provisions determining what happens when the boundaries of the regime are reached during a crisis, including how democratic accountability works (emergencies).	Dispute resolution processes to be provided including facilitated mediation process and power for the Minister to resolve any remaining disputes.	

Tucker's precepts suggest the current proposals lack legitimacy since spatial plan makers have no powers to implement the plan, nor are the plan makers accountable for their actions. A large part of the economic literature makes that case:

When decision makers bear the consequences of their decisions, it provides an incentive and a discipline to consider all the relevant effects, resulting in a more optimal allocation or use of resources. (New Zealand Productivity Commission, 2013, p. 106)

**Who should make the decisions? Local or central government?**

Central governments have legitimate interests in the outcomes that could be obtained from spatial strategies that sets aside land for infrastructure. Local decisions to accommodate urban growth have spillover effects that impact on other regions. Increasing housing affordability would lift wellbeing and reduce intergenerational inequality.<sup>29</sup>

Local councils have legitimate interests. Decisions made at a local level can be more representative and hence have more legitimacy.

Councils also have a key role in providing allocative efficiency by making decisions closer to the preferences of the people that use the services.

We have seen how developing labour market areas expand beyond and then cut across static political boundaries. There are clear trade-offs to be made between centralised decision making and local decision making that can best tailor policies to local communities.

One approach is to make more use of regional councils since these elected bodies share several properties that are appealing such as having:

- elected members
- political boundaries that encompass local councils
- existing capability and familiarity with other legislation.

Rather than take a stand, we apply the Productivity Commission's framework (New Zealand Productivity Commission, 2013, p. 119) to locating where decision rights should stand between local and central government (see Table 2).

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<sup>29</sup> Much can be learnt from the national spatial plan of the Scottish Government. (2014) where national interests align geographical with the regional spatial scale.

TABLE 3: PRODUCTIVITY COMMISSION'S FRAMEWORK SHOWS ALLOCATING RESPONSIBILITY FOR SPATIAL PLANNING IS FAR FROM STRAIGHTFORWARD

Questions to ask	Principles to apply	Spatial planning assessment
<b>Distribution of costs and benefits</b>		
<ul style="list-style-type: none"> <li>• Are the costs and benefits of the regulation contained within a particular region?</li> <li>• Who are the beneficiaries from the regulation? Are they represented in the region making the policy?</li> <li>• Who bears the costs of the regulation? Are they represented in the region making the policy?</li> </ul>	<ul style="list-style-type: none"> <li>• When the costs and benefits of a regulatory outcome are contained locally, local decision makers should have control over the regulatory policy.</li> <li>• When the costs and benefits of a particular outcome spill over outside local boundaries, decision makers that cover the spillover should have control over the regulatory policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits are a reduction in house prices that reduces the asset value of ratepayers in the region with benefits accruing to first-home buyers in the region and immigrants, hence national and local interests.</li> <li>• Mechanism and funding for land acquisition unresolved but no neat delineation of costs and benefits suggests a mixed local and central government could be appropriate.</li> </ul>
<b>Local variability in outcomes</b>		
<ul style="list-style-type: none"> <li>• Have the outcomes sought from the regulatory intervention been clearly specified?</li> <li>• Is local discretion or a uniform policy likely to lead to better regulatory outcomes?</li> <li>• Should limits be set on the level of local variation that would result from local policy making?</li> </ul>	<ul style="list-style-type: none"> <li>• The regulatory outcomes sought should be specified as clearly as possible.</li> <li>• Local policy making should occur when local variability for a specific regulatory outcome is likely to lead to better regulatory outcomes.</li> <li>• National limits and bottom lines should be specified when a more limited range of variability is in the national interest.</li> </ul>	<ul style="list-style-type: none"> <li>• Outcomes have been generally identified – housing affordability and protecting the environment – but specifics remain nebulous.</li> <li>• Environmental standards to be set in future national policies with some local variation.</li> <li>• Assessment: spatial nature of plans requires local variability but clear national interest in environment standards.</li> </ul>
<b>Accountability</b>		
<ul style="list-style-type: none"> <li>• Are regulatory outcomes defined with sufficient clarity to enable the regulatory policy maker to be held accountable for results?</li> <li>• Which electorate (local or national) is best able to hold the policy maker accountable for regulatory outcomes?</li> <li>• What other accountability mechanisms are in place, or can be put in place, to appropriately hold the regulatory policy maker accountable?</li> </ul>	<ul style="list-style-type: none"> <li>• Regulators should be responsible for outcomes and have the autonomy to make policy decisions that influence those outcomes.</li> <li>• Policy-making responsibility should be given to the level of government where the electorate has the most interest (and ability) to hold the regulator to account for the policies made.</li> <li>• Regulatory regimes should be designed with the appropriate accountability mechanisms to enable the regulatory policy maker to be held to account.</li> </ul>	<ul style="list-style-type: none"> <li>• No – accountability for spatial plans is almost non-existent. Spatial plan makers hold no levers that could affect spatial plans, severely limiting accountability.</li> <li>• Three electorates are in play – local, regional and national electorates. Local communities could try and vote out Ministers, although in practice some plan decisions will involve Cabinet rather than Ministerial decisions. Regional councils leading plan making marginally superior to other accountability models.</li> <li>• Assessment: accountability is low but no clear mechanism to increase accountability elsewhere.</li> </ul>

Questions to ask	Principles to apply	Spatial planning assessment
<b>Cost</b>		
<ul style="list-style-type: none"> <li>• Is there significant potential for cost efficiencies in implementation or administration?</li> <li>• Do implementation requirements vary significantly between different regions?</li> <li>• Are there incentives (or perverse incentives) on the regulator that might impact on the delivery of cost-effective regulation?</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation and administration of regulation should be consolidated when there are significant cost efficiencies to be gained.</li> <li>• When implementation requirements vary significantly between jurisdictions, locally specific implementation is appropriate.</li> <li>• Allocate responsibility where there is an alignment of incentives for cost-effective delivery.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited efficiencies. Expect planning not to be able to operate on a scale larger than labour markets that span regions at most.</li> </ul>
<b>Capability and information needed for effective delivery</b>		
<ul style="list-style-type: none"> <li>• Is there capability to effectively implement and administer the regulation? Where is the capability located? Will capability have to be built?</li> <li>• Are there synergies with other regulatory functions?</li> <li>• Is the relevant information for implementation or administration of regulation held or more easily obtained at a local or a national level?</li> </ul>	<ul style="list-style-type: none"> <li>• The implementation and administration of regulation should be located where there is the capability to undertake the task or where the capability can be built.</li> <li>• Existing implementation capacity should be assessed and considered with a view to achieving synergies in the administration of regulatory functions of a similar nature.</li> <li>• Regulatory implementation should be aligned close to the source of the required information.</li> </ul>	<ul style="list-style-type: none"> <li>• Information requirements to trade-offs decisions are high. Extensive capability and information support is needed.</li> </ul>
<b>Funding</b>		
<ul style="list-style-type: none"> <li>• Are suitable funding arrangements within the legal mandate of local or central government?</li> <li>• Do the beneficiaries or exacerbators of the regulation provide a local or national source of funding?</li> </ul>	<ul style="list-style-type: none"> <li>• Match the service delivery funding base with the regulatory benefit distribution as closely as possible.</li> <li>• Where there is a mismatch between service delivery funding and benefit distribution, explicitly consider whether a fiscal transfer between jurisdictions is needed to achieve the objective of the regulation.</li> </ul>	<p>Since the benefits of housing affordability accrue nationally and local impacts reduce local land prices, there is a case that funding of spatial strategies activities and land acquisition should be funded at a national level.</p>

## Models of decision-making

None of this is easy. The interrelationships between central government and local government do not lend themselves to obvious governance arrangements:

Polycentric spatial strategies meet classic collective action problems since local costs and benefits are asymmetrical. Most metropolitan regions lack effective institutions for resolving social dilemmas and collective action challenges that could facilitate land use and transport policies supporting polycentric or other sustainable spatial strategies. (Olsson & Cars, 2011)

But other models of decision making are possible. Suitably reformed regional councils with enhanced planning capability could lead spatial planning. One strength of this model is using the legitimacy of existing institutions that are elected bodies.

An alternative model is the Civil Defence Emergency Management Groups that are established as joint standing committees under the Local Government Act 2002. Each local authority has equal voting status and retains the right to declare an emergency within their own territory. The Act also provides direction on funding. Plans must be reviewed every 5 years and consulted on with the public.

To increase buy-in from the public, RM reform could provide greater cost-benefit analysis of alternative governance structures including models of decision making.

Consensus building has pros and cons. Committee members may want harmony and agreement and regard contrary views as promoting disharmony. Simply having everyone in the room may not be the solution.<sup>30</sup> The Productivity Commission notes:

Yet participation and collaboration are not a simple panacea for solving urban planning problems. Collective action institutions need careful design to succeed in overcoming entrenched differences in values and inherent conflicts of interest. (New Zealand Productivity Commission, 2017, p. 65).

Regardless of the decision-making model, protecting against status quo bias is likely to be important (Samuelson & Zeckhauser, 1988).

## Separate advice making from decision making

One opportunity to improve the roles of the plan-making committee is to move the committee from a decision-making body to an expert advice-making body. Decisions on the spatial plan are then agreed (or not) between local councils, regional councils, iwi and central government.

This has two possible benefits: making clear the politics that is behind the decision making and freeing up participants on the plan-making committee to act as experts rather than representatives of the preferences of local councils. Acting as representatives, plan makers have strong incentives to reflect the views of their organisations. Acting as experts, plan makers can reveal information and work together towards a plan without the requirement to agree to the plan.

Incentives also bind for central government participants. Officials have little standing on funding decisions that are either subject to National Land Transport Programme processes or Cabinet. Participation in an expert group could provide insight unencumbered by unrealistic expectations of representing central government views.

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<sup>30</sup> This would appear to be the experience with the Land and Water Forum (see Smellie, 2018).



## 6. References

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