NEW ZEALAND
INFRASTRUCTURE
COMMISSION
Te Waihanga

Submission on Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill

TeWaihanga.govt.nz

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Committee Secretariat
Environment Committee
Parliament Buildings
Wellington
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Dear Environment Committee members,

Submission on Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill

The New Zealand Infrastructure Commission, Te Waihanga welcomes the opportunity to submit to the Environment Committee on the Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill. We would welcome the opportunity to speak to our submission.

Our purpose is to co-ordinate, develop, and promote an approach to infrastructure that improves the well-being of New Zealanders. To this end, the recently released draft Infrastructure Strategy outlines challenges that the infrastructure sector needs to address or respond to over the next three decades.[1] These include a need for more housing in growing cities, especially in areas that are already well served by transport and other infrastructure.

We support the proposed bill

The Bill would establish new Medium Density Residential Standards, bring forward implementation of the National Policy Statement on Urban Development, and make other supporting changes.

Te Waihanga supports this reform, as it would contribute significantly to meeting Recommendation S3.13 in the draft Infrastructure Strategy ("Increase housing development opportunities in areas with good access to infrastructure") by accelerating the implementation of the NPS-UD and enabling greater urban development through minimum levels of upzoning. It is also compatible with Recommendation S3.8 ("Improve the efficiency and consistency of urban planning by standardising planning rulebooks").

Cost benefit analysis suggests that the proposed Medium Density Residential Standards will significantly relax restrictions on new housing construction, especially in areas with good transport access to employment centres, allowing more homes to be built and reducing growth in house prices.[2] The resulting social benefits significantly outweigh the costs, including any impacts on public infrastructure requirements. We have reviewed this analysis and agree with this conclusion.

[1] Available online at our website: https://www.tewaihanga.govt.nz/strategy/new-zealand-infrastructure-strategy/. The draft Strategy is currently under ministerial review. The Infrastructure Commission will receive ministerial comments not before December 24th and then has three months to finalise the New Zealand Infrastructure Strategy.
[2] https://environment.govt.nz/publications/this-report-provides-a-cost-benefit-analysis-including-the-estimated-number-of-dwellings-enabled-by-medium-density-residential-standards-over-58-years-as-part-of-proposals-to-enable-more-housing-supply-in-our-main-urban-areas/

The proposed changes will have infrastructure implications

Infrastructure and housing development are closely linked. If on-site infrastructure solutions are not available, new homes must be connected to networked infrastructure, including water, transport, energy, and telecommunications infrastructure.

Section 6.3 of the draft Infrastructure Strategy ("Building attractive and inclusive cities") outlines a package of other recommendations that can help to manage infrastructure impacts arising from housing development in cities. We recommend that these recommendations be implemented alongside this bill. In our submission, we highlight some particularly relevant recommendations[3].

The bill is unlikely to increase total infrastructure costs in the long run

Some commentators have argued that the bill will increase total infrastructure costs, placing urban councils under unacceptable financial strain.

In our view, this is misleading. Intensification increases the number of homes but overall usage of network infrastructure like water, transport, electricity, and telecommunications and social infrastructure like schools and hospitals is unlikely to increase significantly if at all. This is because the primary impact of the bill is to shift where people live and how crowded the housing stock is, rather than to increase New Zealand's total urban population.[4]

People, rather than buildings, drive network infrastructure demands. Six people housed together in one house will use the same amount of water, wastewater, and transport infrastructure as the same six people living in two separate homes on the same site.[5] Similarly, they will use the same amount of educational and health services under either scenario.

In the long run, the bill will not significantly increase total use of infrastructure networks, but it may mean we have to supply infrastructure in different locations than we were previously expecting.

The public cost for infrastructure could be lower under the bill

As noted in the cost benefit analysis report, infrastructure costs are lower, on average, for medium-density developments and developments in some inner-city areas[6]. This is more likely to occur when added travel demand can be accommodated via existing public transport, active travel, and micro-mobility options, and where intensification allows the fixed costs of building infrastructure like wastewater pipes to be shared among more people. From an infrastructure perspective then, this raises questions for the appropriateness of the specification of "at least 3 dwellings" per site. It may be more

[3] This submission focuses on the infrastructure implications of the Bill. However, we note that there are many non-infrastructure issues that are important. These include issues such as good governance and management of high-density housing and related on-site infrastructure. These issues are important for the success of such ventures. Accordingly, we suggest that this committee might use Standing Order 301 to seek the views of the Finance and Expenditure Committee, since that committee currently has before it the Unit Titles (Strengthening Corporate Governance and Other Matters) Amendment Bill.

[4] For instance, quantitative modelling of the economic impacts of regional house prices suggests that even in an 'upper bound' scenario in which we built enough homes to reverse all excess price growth over the last generation, New Zealand's population would only increase by at most 7% due to reduced migration to Australia. The effect of this policy is likely to be more incremental than that, meaning that total urban population is unlikely to materially change.
See https://www.tandfonline.com/doi/abs/10.1080/00779954.2020.1791939

[5] However, if each individual dwelling has an 'entitlement' to a given quantity of infrastructure capacity, then the total capacity of the network may need to increase even if actual usage does not change significantly. This can be addressed by adopting measures to manage peak-time usage and then reviewing per-dwelling capacity requirements to better reflect actual requirements.

[6] Page 102. Also see, MR Cagney, Beca & Covec, 2016, Cost benefit analysis of policy options for a National Policy Statement on Urban Development Capacity.

appropriate to consider a number that is higher – for instance, five dwellings, so that the fixed costs of infrastructure can be more easily spread win cases where there is demand for greater density.

The bill will increase uncertainty about where development will occur

Increasing housing development opportunities throughout cities will, initially, increase uncertainty about where infrastructure demands may increase. This will create some short-term financial risks for councils, which rely upon development contributions (DCs) to repay loans for growth infrastructure, and other infrastructure providers that must choose where to provide capacity.

To illustrate, consider a case in which a council is expanding its wastewater network to service a new greenfield subdivision. It will take out a loan to pay for the up-front costs and levy development contributions on new homes that are built in the subdivision to repay the loan. Under the proposed bill, some development activity may be diverted elsewhere in the city, meaning a slower pace of development in the greenfield subdivision and hence a slower rate of repayment on the loan.[7]

The greenfield infrastructure will eventually be used, but in the interim the council will incur higher interest costs and may have less ability to borrow to finance other infrastructure upgrades.

Councils are aware of this problem and have traditionally responded by restricting housing development in many locations. While this manages the financial risk that councils incur when providing new infrastructure, it results in other adverse consequences, such as higher housing costs. In our view, there are better ways to manage these financial risks, including:

- More flexible and responsive planning and provision of infrastructure
- Greater use of measures to manage infrastructure demands arising from new development
- Better asset management data to understand where upgrades and renewals are needed
- Funding and financing tools that can better manage risks.

Infrastructure providers will need to be more flexible about when and where to upgrade infrastructure

Although many councils have raised concerns about the infrastructure impacts of the bill, energy and telecommunication infrastructure providers have not publicly expressed similar concerns even though they will face similar uncertainties about where their services will be demanded.

This reflects the fact that energy and telecommunication providers have a more flexible and responsive approach to meeting increased demand. Councils should adopt better practices drawn from other infrastructure sectors. They should aim to develop a better picture of demand and respond to changes in demand by changing what they build and what they defer.

As outlined in the draft Infrastructure Strategy, this could include improvements to population growth forecasting (recommendation S2.2), more long-term designations for multi-use infrastructure corridors (recommendation S3.5), use of regional spatial planning to identify how infrastructure provision can

[7] Some councils, including Hamilton City and Tauranga City experienced this issue after the 2008 Global Financial Crisis. These councils took out loans for infrastructure to service new housing development, only to find that development activity and development contribution revenues slowed down significantly after the GFC. Development activity resumed after several years, but these councils were left with higher-than-expected debt.
As these examples highlight, councils already face risk around the timing and pace of development. In a sense, the bill adds to an existing risk rather than creating a new risk.

respond to multiple alternative futures (recommendation S3.10), and more consistent use of cost benefit analysis to guide infrastructure decisions (recommendation B1.5).

Infrastructure providers should use practical measures to manage infrastructure demands

The draft Infrastructure Strategy outlines several practical measures that can be used to manage water and transport infrastructure demands arising from new housing development. If consistently implemented, these measures can significantly reduce the costs to provide infrastructure in growing cities.

Infrastructure networks often have significant under-used capacity at off-peak times. For instance, peak-time use of urban water and transport networks may be twice as high as off-peak use.[8] These networks could accommodate additional users if appropriate mechanisms were in place to encourage better use of spare capacity at off-peak times.

Some key measures to achieve this include:

- Ensuring existing water reform allows for water metering and volumetric charging, which has been shown to reduce water demands and hence free up capacity on existing infrastructure (recommendation S3.1)
- Incentivising on-site water management and water conservation measures, which can reduce peak-time demands on water and stormwater networks (recommendation S3.2)
- Better application of transit-oriented development principles, which can significantly reduce traffic impacts from new development (recommendation S3.9)
- Use of congestion pricing to free up capacity on urban transport networks (recommendation S3.11).[9]

In addition, there is an opportunity to strengthen the bill by setting standards for mixed-use zoning. The bill will provide more flexibility for housing. This should be matched with more flexibility for services that follow household locations, such as small-scale retail and hospitality and home-based business. This is consistent with recommendation S3.13b in the draft Infrastructure Strategy.

Enabling these activities in residential zones will reduce the need for commuting and retail trips, thereby reducing pressure on transport networks. This could be done by amending the proposed Medium Density Residential Standard to make some retail and commercial activities permitted activities in residential zones. If the Committee chose to adopt this recommendation, a pragmatic approach would be to review existing district plans to identify an appropriate threshold for small-scale activities.

[8] Electricity networks are better utilised at off-peak times, reflecting a combination of pricing policies that encourage off-peak use and higher demand from industrial users that operate 24/7.

[9] Te Waihanga's submission to the Transport and Infrastructure Select Committee inquiry into congestion pricing in Auckland highlighted how congestion pricing could optimise transport networks and complement existing transport funding arrangements. See https://www.tewaihanga.govt.nz/assets/Uploads/Te-Waihanga-Submission-to-Transport-and-Infrastructure-Committee-on-Auckland-Congestion-Pricing.pdf

Better asset management data is needed

Councils often have a poor understanding of asset condition and capacity, especially for water infrastructure.[10] This makes it difficult for them to identify where infrastructure upgrades may be needed to enable growth, and what alternative options are available to provide network capacity. For example, Water New Zealand data suggests that roughly 20% of water supplies are lost to leaks in high-growth urban councils. Reducing network losses could allow additional homes to be served without new infrastructure.[11]

Rather than using a lack of information to justify broad restrictions on housing development, the burden of proof should be on councils to identify where more infrastructure capacity is needed and consider all options for funding upgrades.

Recommendation S3.14 in the draft Infrastructure Strategy highlights the need for local and central government, alongside other relevant infrastructure providers, to work together to improve information on the capacity of existing infrastructure networks to accommodate growth and the cost of providing additional capacity. This recommendation should be adopted, with appropriate funding to ensure that it can be delivered.

Better funding and financing tools can help councils to manage risks

Finally, and most importantly, better application of funding and financing tools can help councils and others to manage risks associated with provision of growth infrastructure. As noted above, the bill is likely to increase the financial risk associated with development contribution-funded infrastructure. Alternative mechanisms may help councils to transfer some of these risks.

There are three broad ways to do this.

First, councils should make greater use of special purpose vehicles for financing new infrastructure, including through the Infrastructure Funding and Financing Act (recommendation B2.5 in the draft Infrastructure Strategy). This can enable councils to remove some risk from their balance sheet.

Second, councils should look beyond development contributions for funding growth infrastructure. One option is to make greater use of targeted rates, which are enabled by the Local Government Act 2002, to ensure that landowners who benefit from the availability of new infrastructure make a fair contribution to the cost of that infrastructure (recommendation B2.7).[12] Another option is to make greater use of development agreements, which are contracts between councils and developers that specify when network infrastructure upgrades will occur to support housing development and when developers will make payments for new infrastructure.

Third, development contributions need to be improved (recommendation B2.3). Achieving significant improvements would require additional Department for Internal Affairs guidance on development contributions policy, better modelling of costs (including costs that are incurred after development occurs), and potentially also changes to the Local Government Act 2002.

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[10] As part of the Three Waters Reform programme, the Department for Internal Affairs recently compiled information on water asset condition and investment plans from councils. The Department's advisors highlighted some concerns with the quality of this information, which may indicate poor asset management planning.
See https://www.dia.govt.nz/three-waters-reform-programme-national-evidence-base

[11] Data sourced from https://www.waternz.org.nz/NationalPerformanceReview
Some leakage is inevitable in any water network, as it is not economic to find and fix every minor leak. However, past experience shows that there are gains to be had from identifying and fixing the worst leaks.

[12] When infrastructure providers provide infrastructure that enables housing development, this creates 'option value' for landowners, who can choose whether to build now or wait for demand and prices to increase further. Some economists have argued that this value should be reflected in the charges levied by infrastructure providers.
See https://heinonline.org/HOL/LandingPage?handle=hein.journals/critjinov5&div=8&id=&page=

We believe there are three key areas for improvement:

a) Better information on infrastructure capacity and upgrade costs would increase the accuracy of development contribution charges and reduce the chance that councils under-recover costs. Smaller councils often have limited modelling and analysis capability and hence there is a need to develop better shared / centralised tools.

b) Development contributions allow councils to recover costs for infrastructure upgrades that were identified in advance of development and included in Long Term Plans. When unexpected infrastructure costs arise after development occurs, councils are not able to recover costs. While it is important to avoid holding up development while waiting for perfect information on infrastructure requirements, better central government guidance is needed to address how to address this issue to avoid under-recovery of costs.

c) Development contributions should allow for the risk of under-recovery due to slower-than-expected development in the service catchment. In principle, one way to do this would be to allow councils to calculate the interest charge component of development contributions using a weighted average cost of capital that reflects risk around development timing and location, rather than councils' current bond rates.[13] If this approach was adopted, central government guidance would be needed to ensure that weighted average cost of capital was not chosen in an arbitrary way.

Yours sincerely,

Ross Copland

Chief Executive

[13] In 2019 PwC estimated that the weighted average cost of capital (reflecting the cost of obtaining finance from both debt and equity) was around 5.4% for listed property companies, 9.3% for Fletcher Building, and 7.5% for listed utility companies. At the time, local government ten-year bond yields were substantially lower, in the range of 3% to 3.5%. Local governments have lower overall costs of capital due to the fact that rates are a very predictable revenue stream, but development contributions revenue is more likely to match the risk profile of property development or other utility companies.
See https://www.pwc.co.nz/pdfs/2019pdfs/cost-of-capital-report-1.pdf; https://www.lgfa.co.nz/bonds-issuance/tender-85