



Ministry for the
Environment
Manatū Mo Te Taiao



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HIKINA WHAKATUTUKI

Recommendations and decisions report on the National Policy Statement on Urban Development Capacity

This document may be cited as: Ministry for the Environment and Ministry of Business, Innovation and Employment. 2016. *Recommendations and decisions report on the Policy Statement on Urban Development Capacity*. Wellington: Ministry for the Environment and the Ministry of Business, Innovation and Employment.

Published in October 2016 by the
Ministry for the Environment
Manatū Mō Te Taiao
PO Box 10362, Wellington 6143, New Zealand

ISBN: 978-0-908339-60-0 (online)

Publication number: ME 1263

© Crown copyright New Zealand 2016

This document is available on the Ministry for the Environment website: www.mfe.govt.nz.



Ministry for the
Environment
Manatū Mō Te Taiao



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HIKINA WHAKATUTUKI

Contents

| | | |
|----|--|----|
| 1 | Introduction | 6 |
| | Background | 6 |
| | Submissions | 7 |
| | Major themes from submissions | 8 |
| | Summary of recommended amendments to the notified NPS-UDC | 10 |
| 2 | Scope and focus of the national policy statement on urban development capacity | 14 |
| | Other urban issues | 14 |
| | Reverse sensitivity | 15 |
| | Addressing housing affordability | 16 |
| 3 | Relationship to sustainable management, and to other national direction | 18 |
| 4 | Medium and high growth urban areas | 20 |
| | The boundaries of the urban areas | 21 |
| | Uncertainty caused by urban area population projections | 21 |
| 5 | Development capacity | 25 |
| | Infrastructure | 26 |
| | Short, medium and long terms | 27 |
| | Sufficient | 28 |
| | Intensification | 30 |
| 6 | Evidence and monitoring | 31 |
| | Housing and business land assessments | 32 |
| | Monitoring indicators including price signals | 33 |
| 7 | Responsive planning | 35 |
| | Customer-friendly consenting practices | 35 |
| | Minimum development capacity targets for housing | 35 |
| | Future land release and intensification strategy | 36 |
| 8 | Coordinated decision-making | 38 |
| 9 | Timeframes | 40 |
| 10 | Review | 42 |

Tables

| | | |
|----------|---|----|
| Table 1: | Summary of submissions by stakeholder group | 7 |
| Table 2: | Summary of significant recommended changes to notified NPS-UDC | 11 |
| Table 3: | Medium and high growth urban areas and related local authorities, based on Statistics New Zealand 2016 urban areas and population projections for 2013-23 | 22 |

Figures

| | | |
|-----------|---|----|
| Figure 1: | Development capacity: plan-enabled capacity, serviced with infrastructure, feasible and actually developed. | 26 |
|-----------|---|----|

Glossary of terms

| | |
|---------|---|
| LGA | Local Government Act 2002 |
| NPS-UDC | National Policy Statement on Urban Development Capacity |
| RMA | Resource Management Act 1991 |
| RPS | Regional Policy Statement |

1 Introduction

1. This report outlines the recommendations that were provided to the Minister for the Environment on the notified National Policy Statement on Urban Development Capacity (NPS-UDC) in accordance with section 51(2) of the Resource Management Act 1991 (RMA), and specifies the Minister's decision on each recommendation in accordance with section 52(3)(c) of the RMA. Each section of this report provides:
 - an explanation of the proposal as notified
 - a summary of the submissions received relating to that section of the proposal
 - recommendations to the Minister for the Environment in light of the submissions received and other evidence
 - the Minister for the Environment's decision on the recommendation
2. The full Summary of Submissions to the Proposed National Policy Statement on Urban Development Capacity (Ministry for the Environment, 2016a) report, the cost benefit analysis reports (meeting the requirements of section 32 and 32AA of the RMA), and the Regulatory Impact Analysis are available on the Ministry for the Environment's website.

Background

3. The proposed NPS-UDC is part of the Government's broader package of options to improve urban planning and improve housing affordability, including:
 - the proposed changes to the RMA in the Resource Legislation Amendment Bill
 - responses to the Productivity Commission's inquiries into using land for housing, and urban planning (as outlined in the reports *Using Land for Housing*¹ and *Better Urban Planning*²)
 - the Better Local Services reforms.

Process for developing the National Policy Statement

4. The statutory requirements for developing a National Policy Statement (NPS) are set out in the RMA. For the development of the proposed NPS-UDC, the Minister for the Environment chose to establish a process in accordance with section 46A (1)(b). This process includes:
 - public consultation
 - written submission
 - a report and recommendations to the Minister for the Environment on the submissions and subject matter of the NPS-UDC (this report, and the *Summary of Submissions to the Proposed National Policy Statement on Urban Development Capacity* (Ministry for the Environment, 2016a)).

¹ Productivity Commission, 2015

² Productivity Commission, 2016

5. The Minister for the Environment must consider this report, and may then make changes or no changes as he sees fit, or withdraw all or part of the proposed National Policy Statement.
6. If the Minister for the Environment decides to proceed with the recommended NPS-UDC, a further evaluation must be undertaken in accordance with section 32AA of the RMA. The Minister for the Environment must have particular regard to the further evaluation when deciding whether to recommend the NPS-UDC to the Governor-General. If approved by the Governor-General, the NPS-UDC will be issued by notice in the New Zealand Gazette, provided to the House of Representatives, and publicly notified.
7. As soon as practicable after a NPS is has been approved , submitters must be provided with a summary of recommendations and a summary of the Minister's decisions on the recommendations (including reasons for not adopting any recommendations) under section 52(3)(c) of the RMA. These requirements have been combined into this report.

Submissions

8. The NPS-UDC was publicly notified on 3 June 2016, and submissions were invited for a period of six weeks, until 15 July 2016.
9. In total 140 submissions were received. The majority of these were from local government (including submissions from both individual local authorities and local authority partnerships such as the Canterbury Mayoral Forum). The breakdown of submissions received by stakeholder group is shown in Table 1.

Table 1: Summary of submissions by stakeholder group

| Stakeholder group | Submissions |
|--------------------------|-------------|
| Local government | 49 |
| Property sector | 21 |
| Individuals | 17 |
| Infrastructure providers | 13 |
| Business | 12 |
| Advocacy groups | 12 |
| Professional bodies | 10 |
| Central government | 3 |
| Iwi | 3 |
| TOTAL | 140 |

10. Most submissions indicated support for the notified NPS-UDC, with some concerns and suggestions for improvement. Of the small proportion of submissions that expressed opposition to the NPS-UDC, most were made by the business sector or local authorities that would, under the notified NPS-UDC, have to give effect to policies that apply to 'medium growth urban areas'.

Major themes from submissions

Scope of the proposed NPS-UDC

11. Wider urban planning issues: There was an appetite for national direction to address wider urban planning issues, in addition to development capacity (for example, more substantive direction on integrated planning, urban form, urban design and creating liveable communities). Some submissions also highlighted the importance of addressing population decline, and not just growth.
12. *Reverse sensitivity*: Many business and infrastructure providers strongly recommended that the proposed NPS-UDC provide direction on how to manage reverse sensitivity³, even though the consultation document stated that this had not been addressed because of its complexity and the timeline of this work.
13. *Other contributors to housing affordability not addressed by the proposed NPS-UDC*: A large majority of the submissions noted that the NPS-UDC on its own would not achieve the Government's stated intention of addressing worsening housing affordability. Submissions listed other key factors affecting housing affordability as:
 - infrastructure availability and funding
 - monopoly land ownership and land banking, covenants
 - the scale and capability of the construction sector and its labour force
 - provision of social housing
 - immigration and foreign investment.

Relationship to sustainable management, and to other national directions

14. Some submitters considered that the way the notified NPS-UDC is drafted requires development at any cost and is not consistent with the principle of sustainable management embedded in the RMA. Submitters suggested that there should be stronger ties between the purpose of the NPS-UDC and its objectives and policies, and the purpose of the RMA.
15. Some submitters identified the potential for the objectives of the notified NPS-UDC to conflict with other national direction (in particular, the National Policy Statement on Freshwater Management, the New Zealand Coastal Policy Statement and the National Policy Statement on Electricity Transmission), creating difficulties for local authorities about which to prioritise, or imposing unreasonable costs to achieve both.

³ The term 'reverse sensitivity' refers to the constraints that an activity may impose upon another less-sensitive activity. For example, newer uses in mixed use areas may have the impact of limiting the activities of established uses. A key instance is the impact of new residential development on industrial activities as an area goes through a process of gentrification.

Medium and high growth urban areas

16. Some submitters expressed support for the use of medium and high growth urban areas in the NPS-UDC to target policies, and to indicate where local authorities should work together.
17. Many local authorities misinterpreted (and therefore opposed) the use of Statistics New Zealand's 'urban areas' to define the medium and high growth urban areas in the NPS-UDC, however. There was concern that urban areas formed a boundary for how growth should be accommodated, and would undermine existing local agreements about the future extent of growth.
18. Some local authorities also expressed concern about basing the medium and high growth urban areas on population projections that change over time. They noted that this created uncertainty about whether NPS-UDC policies might apply to them in future, and that there would be costs associated with local authorities "moving in and out" of the requirements.

The requirements to provide 'sufficient' development capacity

19. *Provision of infrastructure*: many submitters stated that the definition of 'development capacity' in the NPS-UDC was unclear, and open to interpretation in that it includes infrastructure that exists or is 'likely to exist'. Many submitters (including many local authorities) also commented that the definition of 'infrastructure' in the NPS-UDC was too narrow and that it should be expanded to include social infrastructure such as schools, and open space and reserves to promote good quality, liveable communities. On the other hand, some submitters noted that including infrastructure in the definition of development capacity would increase pressure on local authorities to provide infrastructure without addressing the funding or financing challenges of doing so. Auckland Council submitted that 'actual or likely funding sources and mechanisms' should be added as another factor to the definition of development capacity to mitigate this.
20. *Short, medium and long terms*: Submitters noted that the definition of 'development capacity' and related policies do not spell out very clearly what is required in the short, medium and long terms. Some submissions also argued that it was unreasonable to expect local authorities to assess and provide for 'feasible' development capacity over the long term, as this is too distant to have any idea of what might be commercially feasible.
21. *Sufficiency margins*: some submitters considered the definition of 'sufficiency' (which applies to all local authorities) to be too onerous, as it includes margins over and above projected demand. Low growth and substantially rural local authorities in particular noted that this could have significant and unnecessary costs, as they would need to increase infrastructure expenditure to support growth that would not eventuate. Conversely, some submitters (primarily from the development sector) submitted that the margins embedded in this definition were not high enough to take account of the fact that only a proportion of the development opportunities provided by plans are actually taken up.

Assessment and monitoring requirements

22. Some local authorities had concerns about the costs of carrying out housing and business land assessments and monitoring, relative to the benefit achieved. This was particularly the case for local authorities that would be considered "medium growth". Some local authorities thought that the requirement to produce housing and business land assessments every three years was

too frequent. Some submitters argued that the NPS-UDC requirement to monitor indicators should be expressed in terms of outcomes, with the actual indicators only specified in guidance.

Coordination between territorial authorities and with infrastructure providers

23. Some councils, particularly those without strong relationships with related councils, considered that the requirements to work together to agree on data to be used in assessments, and about how growth should be accommodated, would be difficult to achieve. Conversely, many local authorities assumed that each council should produce an assessment, rather than working together on assessment and monitoring requirements as intended (which should help to reduce costs).
24. Many submitters (including local authorities, infrastructure providers and the development sector) commented that central government should also be “bound” by the requirements in the proposed NPS-UDC to work with local authorities to plan for growth, as the infrastructure they provide is also critical to development (such as schools).

The implementation programme

25. Most of the submissions received on the notified NPS-UDC highlighted the importance of the Government providing support for local authorities to implement it. Local authorities particularly sought data and guidance to help them prepare the housing and business land assessments and to monitor indicators (including price signals). They emphasised the benefits of consistency, sharing of best practice and reducing compliance costs for individual local authorities.
26. Some of the submissions requested that guidance on how to carry out housing and business land assessments and monitoring should be released at the same time that the NPS-UDC becomes operative, to help councils meet the requirements in time.

Consistent and clear drafting

27. A number of submissions noted the need to consider some of the language in the proposed NPS-UDC in light of relevant case law (and in particular the Supreme Court’s decision on the King Salmon appeal in Marlborough).

Summary of recommended amendments to the notified NPS-UDC

28. Having analysed the submissions, it is recommended that the scope and content of the NPS-UDC as notified be largely retained.
29. Amendments to the NPS-UDC are recommended, however, to respond to many of the submission points and to effectively implement the NPS-UDC.
30. The most significant recommendations made in this report are summarised in Table 2, along with the Minister’s decision on those recommendations. Significant recommendations and other recommendations are discussed in more detail in the following sections. Minor or

technical drafting changes to clarify the intent of the proposed NPS-UDC are not included in this report.

31. Advice has been provided separately on an implementation programme for the NPS-UDC.

Table 2: Summary of significant recommended changes to notified NPS-UDC

| Notified NPS-UDC | Submission point | Recommended change | Minister's decision |
|---|--|---|---|
| Medium and high growth urban areas | | | |
| Target different policies to different local authorities. Based on Statistics NZ urban areas classification and population projections for growth over the next 10 years. Medium growth = 5% to 10%. High growth = over 10%. | Uncertainty and costs created as local authorities "move in and out of" policies applying to medium and high growth urban areas, when growth rates change or projections are revised. Statistics NZ urban/rural classification review compounds this. Policies should not be confined to the Statistics NZ urban area boundaries. | a) Tie medium and high growth urban areas to Statistics NZ's urban area population estimates in 2016 b) Tie population projections to those for 2013-2023 period (as at 2016) c) Amend this by end 2018, after Statistics NZ completes its urban/rural classification review and revises projections d) Clarify what local authorities should do if they are newly classified or declassified due to review of medium and high growth urban areas e) Clarify that application of policies is not restricted to urban area boundaries | Agree in part Agree: a) c) d) and e) Disagree: b) <u>Reasons for disagreement</u> The definition of high and medium growth urban area should allow local authorities to be reclassified with revised population projections to ensure that all local authorities that are facing higher levels of growth respond appropriately. |
| Development capacity | | | |
| Development capacity includes "infrastructure, existing or likely to exist". 'Infrastructure' includes water and transport. 'Sufficient' includes additional margins above projected demand of at least 20% short - medium term and 15% long term, which apply to all local authorities. Medium and high growth urban areas must provide 'feasible' (commercially viable) development capacity when evidence shows it is | It is unclear what is meant by "likely to exist". Definition of infrastructure should include parks, schools, energy, etc. Short, medium and long term requirements are unclear. The 'sufficiency' margins are arbitrary, will have unreasonable infrastructure costs in low growth areas, and are too low in already urbanised places. It is not possible to know what development capacity will be | a) Split 'infrastructure' into: <ul style="list-style-type: none"> 'development infrastructure', which is water and transport controlled by local authorities 'other infrastructure', including that which local authorities don't control. b) Require all local authorities to provide sufficient development capacity: <ul style="list-style-type: none"> Short term: feasible with development infrastructure in place. Medium term: feasible with development infrastructure in place or in long term plan. Long term: future zoning and development infrastructure in infrastructure strategy. c) Require all local authorities to satisfy themselves other infrastructure will be available. d) Move 20% and 15% margins from | Agree in part Agree: a) c) d) Disagree: b) e) <u>Reasons for disagreement</u> b) As <i>feasible</i> development capacity is a proportion of development capacity, it should be provided in the short, medium <i>and long term</i> to ensure that the development capacity provided will be sufficient to meet demand. e) Local authorities <i>should not</i> be allowed to use a margin of additional development capacity that is less than the 20% and 15% specified. Local authorities should use an alternative margin if their evidence shows a <i>higher margin</i> is needed to account for the likelihood of development being taken up, |

| Notified NPS-UDC | Submission point | Recommended change | Minister's decision |
|--|--|--|---|
| insufficient in the short, medium or long terms. | 'feasible' in the long term. | definition of 'sufficient' into policy applying to medium and high growth urban areas. e) Allow local authorities to use another margin if their evidence shows this is appropriate | and to support the efficient functioning of competitive markets. |
| Objectives and outcomes and sustainable management | | | |
| Objectives and outcomes require decision-makers to enable urban development, referring to "social, economic and cultural wellbeing". | NPS-UDC appears inconsistent with the principle of sustainable management. | Incorporate statement about wellbeing consistent with the RMA definition of 'sustainable management'. | Agree |
| Enabling competitive markets | | | |
| Requires decision-makers to enable competitive operation of land and development markets. | Unclear what action is meant by "enable". | Require decision-makers to limit, as much as is possible, adverse impacts on the competitive operation of land and development markets. | Agree |
| Assessing national effects of urban development | | | |
| Requires decision-makers to regard the positive effects of urban development including at the national scale. | Unclear how local decision-makers can assess national effects of urban development. | Rephrase as taking into account the costs and benefits of development. Retain at a national scale, and also add at an interregional scale. | Agree |
| Monitoring price signals | | | |
| Medium and high growth local authorities must monitor specified price signals quarterly. | Concerns about specific indicators, monitoring frequency, data availability, capability and costs. (Confirmed by report on monitoring price signals commissioned by MBIE). | Require the local authorities to: a) Monitor housing affordability, price and rent changes, and consents relative to population growth 6-monthly. b) Use indicators of price efficiency to understand how well market is functioning, impact of planning, and whether more development capacity is needed. | Agree in part Agree: b) Disagree: a) <u>Reason for disagreement</u> Local authorities should be monitoring these indicators on a more frequent basis than 6 monthly so they can respond more quickly to emerging trends. Retain quarterly monitoring for a). |
| Setting minimum targets in RPS outside RMA Schedule 1 | | | |
| Regional councils in high growth urban areas must set minimum development capacity targets for | Territorial authorities wanted ability to give effect to RPS targets without going through RMA | a) Require high growth territorial authorities to also set minimum development targets in their district plans, based on the housing and business development capacity | Agree |

| Notified NPS-UDC | Submission point | Recommended change | Minister's decision |
|--|--|---|---|
| housing in their RPS, based on assessments and outside of RMA Schedule 1. | Schedule 1. It would be beneficial for medium growth local authorities to also set minimum targets. | assessment and outside of RMA Schedule 1. b) Strongly encourage medium growth local authorities to also set targets in their RPS and district plans. | |
| Future land release and intensification strategy | | | |
| High growth local authorities must prepare future land release and intensification strategy outlining the broad location, timeframes and sequencing of development capacity long term | Appears to duplicate other documents (such as Auckland Plan, infrastructure strategies). May need to use both LGA and RMA consultation processes. It would be beneficial for medium growth local authorities to also prepare a future strategy. | a) Clarify that future development strategy can be incorporated into an existing and/or non-RMA document. b) Clarify that either RMA or LGA consultation processes can be used in preparing strategy. c) Strongly encourage medium growth local authorities to also prepare a future development strategy. | Agree |
| Timeframes | | | |
| Take immediate effect: <ul style="list-style-type: none"> Objectives Outcomes Monitoring Coordination Some responsive planning policies By end 2018: <ul style="list-style-type: none"> Housing and business land assessments Minimum targets in RPS Future land release and intensification strategies. | Concerns about ability to do monitoring straight away. Concerns (from medium growth councils) about timeframe for housing and business land assessments. Housing and business land assessments can't inform minimum targets in RPS and future land release and intensification strategy because they are all due on the same date. | Require local authorities to: a) Monitor housing affordability, price and rent changes and consents within 6 months of NPS-UDC being operative. b) Use indicators of price efficiency by 31 December 2017. c) Stagger the requirement for medium and high growth local authorities to complete their assessments by one year. d) Require medium growth local authorities to complete their assessment by 31 December 2019 e) Require minimum targets in RPS and district plans by 31 December 2019. f) Require future development strategy by 31 December 2019. | Mostly disagree Agree: a) b) c) Disagree: d) e) f) <u>Reasons for disagreement</u> Local authorities should complete their assessments as soon as possible so that they have good information to respond to the acute shortages in development capacity that we are currently seeing. Bring forward timeframes for high growth local authorities to complete housing and business assessments to the end of 2017 and leave the other dates as consulted on. |
| Review | | | |
| No provision for review. | | Review NPS-UDC in 2021. | Agree |

2 Scope and focus of the national policy statement on urban development capacity

32. The Government considers urban development to be of national importance. With 73 per cent of New Zealanders living in urban environments of 30,000 people or more, these environments have national benefits and costs.
33. The National Policy Statement on Urban Development Capacity (NPS-UDC) is focused on ensuring that planning decisions enable urban development, and provide sufficient development capacity for both housing and business land.
34. Inappropriate planning constraints are increasing house prices relative to incomes in growing urban areas. It is a Government priority to remove these. Worsening housing affordability is driving inequality, placing pressure on the Government's budget for social housing, and inflating interest rates and exchange rates.
35. A focus on business land is also included in the NPS-UDC, in recognition of the importance of facilitating social and economic interconnections and growth in urban environments. It also recognises that there is competition for land and conflicts between different land uses. Local authorities need to distribute development capacity between these land uses to meet competing demands, maximise the benefits of connections and enable change, while managing externalities and reverse sensitivity.
36. The rationale for the NPS-UDC and its scope are articulated in its preamble and its national significance statement. Most of the policies in the NPS-UDC focus on ensuring that planning decisions provide sufficient development capacity for both housing and business land.
37. Half of the submissions to the notified NPS-UDC commented on its scope. While some supported its emphasis on development capacity, many sought a broader focus, described in the next section.

Other urban issues

38. Submissions sought national direction on wider urban planning issues, as well as development capacity. Submitters sought more substantive direction on integrated planning, urban form, urban design and creating liveable communities. Some submissions also highlighted the importance of addressing population decline, and not just growth.
39. While these other urban issues are important, the current national priority is to remove planning constraints to the supply of housing, which is increasing house prices relative to incomes in growing urban areas. Housing supply also needs to be balanced with space for business and jobs. The NPS-UDC does direct local authorities to make decisions affecting urban environments that enable people, communities, and future generations to provide for their social, economic, cultural and environmental wellbeing.

Recommendation:

Retain the focus of the NPS-UDC on ensuring that planning decisions enable urban development and provide sufficient development capacity. Amend the national significance statement to better reflect this focus.

Minister's decision:

Agree.

Reverse sensitivity

40. Many business and infrastructure providers submitted that the notified NPS-UDC needed to provide direction on how to manage reverse sensitivity. The consultation document had stated that policies on reverse sensitivity had not been addressed in the NPS-UDC because of the complexity of the issue, and the time required to do the work.
41. A report on *Business land: problems and causes* (Sanderson et al, 2016), which was prepared to inform the notified NPS-UDC, identifies that reverse sensitivity is a challenge in growing urban areas where land uses are changing. This is particularly so when housing is developed near pre-existing capital-intensive activities such as manufacturers or utilities that generate noise, odour or traffic movements. Incumbent businesses or utilities typically oppose new housing development, because once it happens tensions arise, and they often incur costs to reduce the effects of their activities, or to relocate. Large utility providers such as airports or ports, and some manufacturers, cannot relocate. Often even small manufacturers will not move, however, where there is not suitable alternative land. Approaches to addressing adverse effects and reverse sensitivity necessarily vary on a case-by-case basis depending on individual circumstances.
42. It is a challenge for the planning systems to facilitate the complex interconnections between housing and businesses that define urban environments. Enabling change while managing the conflicts can be difficult. The *Business land: problems and causes* report confirmed that considerable time and resource would be required to develop a national direction on reverse sensitivity.
43. The notified NPS-UDC could be amended to require that a combined housing and business development capacity assessment be prepared, which includes information about the interactions between the two land uses. This would be the first step toward improving understanding about these issues.

Recommendation:

Amend policies PB1–PB2 to require a combined housing and business development capacity assessment that includes information about the relationship between housing and business activities and their impacts on each other. Support this with introductory guidance that refers to reverse sensitivity as an example.

Minister's decision:

Agree.

Addressing housing affordability

44. Some submissions noted that the NPS-UDC did not state clearly how it would achieve the goal of improving housing affordability. Some submissions drew on definitions of housing affordability that emphasised the ability of low income earners to pay for housing using no more than 30 per cent of their income.

Affordability and competitive land development markets

45. The Government's approach to improving housing affordability includes building more competitive land and development markets, in which the supply of housing increases in response to demand without prices at all levels being artificially inflated. Planning can restrict competition by restricting the supply of development opportunities, and by providing unique development rights to a small number of landowners. The NPS-UDC requires planning decisions to provide sufficient development capacity. It also includes a specific requirement under policy PA1 for decision-makers to enable the competitive operation of land and development markets.
46. Some submissions said that it is not clear what local authorities should do to "enable" competition, and whether policy PA1 requires something additional to decision-making under the Resource Management Act 1991 (RMA).

Initiatives outside the scope of a national policy statement

47. Many submissions also noted that the NPS-UDC on its own would not address worsening housing affordability. Submissions listed other key factors affecting housing affordability as:
- infrastructure availability and funding
 - monopoly land ownership and land banking
 - covenants
 - the scale and capability of the construction sector and its labour force
 - provision of social housing
 - immigration
 - foreign investment.
48. National direction under RMA can only direct resource management decisions. The Government is picking up many of the above issues outside of the NPS-UDC.

Recommendations:

Retain the focus of the NPS-UDC on ensuring that planning decisions enable urban development and provide sufficient development capacity.

Amend the preamble to more clearly articulate how the NPS-UDC aims to help address drivers of unaffordable housing.

Amend policy PA1 in the notified NPS-UDC to include (in a new policy PA3) a requirement that decision-makers “limit, as much as possible, adverse impacts on” the competitive operation of land and development markets. Support this with a more detailed explanation in the introductory guidance as to how planning decisions can give effect to this policy.

Minister’s decision:

Agree.

3 Relationship to sustainable management, and to other national direction

49. The National Policy Statement on Urban Development Capacity (NPS-UDC) aims to ensure that planning decisions:

- enable urban environments to develop and change
- provide sufficient urban development capacity.

This will enable people, communities, and future generations to provide for their social, economic, cultural and environmental wellbeing. This is consistent with the purpose of the Resource Management Act 1991 (RMA) and its definition of sustainable management.

50. The preamble to the NPS-UDC articulates particular features of urban environments that require different resource management approaches than those appropriate in non-urban environments. These features include dense population settlement and interconnections between different land uses; and a rapid rate of change. These characteristics have both positive and negative impacts. The challenge for local authorities making planning decisions is how to maximise the positive and minimise the negative impacts.

51. The notified NPS-UDC policies direct decision-makers, when making decisions about urban development, to have particular regard to a range of outcomes that are consistent with the RMA, but which have tended to be underemphasised in favour of current local interests or environmental or amenity considerations.

52. Some submissions, however, considered that the way the notified NPS-UDC is drafted requires development at any cost, and is not consistent with the principle of sustainable management in the RMA. Submitters suggested that there should be stronger ties between the purpose of the NPS-UDC and its objectives and policies, and the purpose of the RMA. This could be achieved by amending the preamble, objectives and policies to incorporate the “wellbeing” statement above.

53. Some submitters identified the potential for the notified NPS-UDC to conflict with other national direction (such as the National Policy Statement on Freshwater Management (NPS-FM)), creating difficulties for local authorities in making decisions about which to prioritise, or imposing unreasonable costs to achieve both. Submissions sought guidance on weighing up different national direction. This work will be done as part of the wider National Direction programme, rather than addressed in this NPS.

54. While the NPS-UDC requires that local authorities provide sufficient development capacity in urban environments, it does not remove the need for them to consider a range of sometimes conflicting objectives when deciding how and where to provide that development capacity.

Recommendation:

Amend the objectives and outcome policies in the notified NPS-UDC to incorporate a wellbeing statement that links to the definition of sustainable management in the RMA.

Minister's decision:

Agree.

4 Medium and high growth urban areas

55. It is desirable to target different National Policy Statement on Urban Development Capacity (NPS-UDC) policies to different local authorities, because the costs and benefits of these policies vary considerably according to the size and growth rate of local urban environments. Mackenzie District Council should not have to meet the same requirements as Auckland Council. However, currently legislation does not allow national policy statements to name specific local authorities.
56. To address this, the notified NPS-UDC targeted different policies to:
- all local authorities
 - local authorities with jurisdiction over part or all of a medium growth urban area or high growth urban area
 - only local authorities with jurisdiction over part or all of a high growth urban area.
57. The ‘medium growth urban area’ and ‘high growth urban area’ used in the notified NPS-UDC were based on Statistics New Zealand’s urban areas classification and population projections.
58. Statistics New Zealand’s urban areas are catchments of contiguous settlement that often cross over territorial authority boundaries. They approximate areas with a single housing and labour market. They therefore provide a geographic basis for directing both where urban development policies are necessary, and where coordinated urban planning between local authorities is desirable.
59. Populations for main urban areas projected to grow at 5–10 per cent over the next 10 years were defined in the notified NPS-UDC as “medium growth”, while main urban areas projected to grow at more than 10 per cent over the next 10 years were defined as “high growth”.⁴ In addition, Appendix A1 in the notified NPS-UDC lists the main and secondary urban areas, and Appendix A2 shows the projected populations for main urban areas in five-year intervals to 2043 (as at 2016).
60. Policy PD4, near the end of the notified NPS-UDC, stated that local authorities should not restrict their planning responses to meeting the demand of only the areas that lie within the medium growth urban area or high growth urban area.
61. Most of the local government submissions on the notified NPS-UDC, and many of the business submissions, commented on the use of the medium and high growth urban areas and the way that these were defined. While some saw them as a useful device for encouraging neighbouring local authorities to coordinate across single urban markets, most submissions found them confusing.

⁴ Main urban areas have a population of over 30,000 people. The notified NPS-UDC also included in the definitions any secondary urban area with a combined resident and visitor population of over 30,000 people (with projected population growth over the next 10 years of over 10 per cent being “high growth”, and growth between 5 and 10 per cent being “medium growth”). Only the Queenstown urban area meets this definition.

The boundaries of the urban areas

62. Many submitters were confused about the use of medium and high growth urban areas, and for that reason opposed their definition based on Statistics New Zealand urban areas. Submissions raised concerns that the urban areas would form a boundary for where growth should be accommodated under the NPS-UDC. This was despite the note in policy PD4.
63. Local authorities felt these boundaries were imperfect and would undermine existing local agreements already established for coordinating urban planning, such as the Greater Christchurch Urban Development Strategy or the SmartGrowth partnership in Bay of Plenty. Business/industry submissions asked for the exclusion of greenfield or rural land from the definition of an urban area. In contrast, submissions from the development sector asked for more decisive direction on the inclusion of greenfield sites.
64. Statistics New Zealand is currently reviewing the boundaries of its urban areas classification, with decisions on new boundaries expected by the end of 2017.
65. The medium and high growth urban areas were intended as a device for
 - targeting different policies to different local authorities
 - indicating when neighbouring local authorities should coordinate.
66. It was not the intention that local authorities should restrict the application of NPS-UDC policies to the geographic boundaries of the urban area. This should be made clearer in the final NPS-UDC.

Recommendation:

Amend the NPS-UDC by inserting a statement at the beginning of all policies targeted at medium and high growth urban areas, to clarify that the application of the policies is not restricted to the boundaries of the urban area.

Minister's decision:

Agree.

Uncertainty caused by urban area population projections

67. Some submissions made the point that basing the medium and high growth urban areas on changing population projections created uncertainty and could be unnecessarily costly. Over time, or when population projections are revised, some urban areas might go above or below the 5 or 10 per cent thresholds, and local authorities would be classed in and then out, or vice versa, of policies that apply to medium and high growth urban areas.
68. The population projections available when the NPS-UDC was notified showed that population growth in most areas is projected to slow down over time. This means that an urban area defined as “high growth” during the 2013–23 period might be defined as medium growth between 2018–28, and neither medium or high growth thereafter.
69. Statistics New Zealand revises its population projections twice between censuses. The 2017 revised projections for urban areas will incorporate additional population from unexpectedly high net migration, and some urban areas such as Whangarei and Blenheim may then be

defined as medium or high growth. This would mean that when the projections are published some local authorities would suddenly need to give effect to additional policies in the NPS-UDC.

70. In addition, Statistics New Zealand's review of its urban areas classification will likely result in boundary changes, with an unknown impact. Decisions on this review are due at the end of 2017, with new boundaries published with the 2018 Census.
71. Local authorities need some certainty about which NPS-UDC policies they will need to give effect to and for how long. Two options have been considered for providing certainty.
72. The first option is to amend the NPS-UDC to use territorial authority areas of over 30,000 people (rather than urban areas) with projected population growth over the next 10 years of either 5–10 per cent (medium growth territorial authority) or over 10 per cent (high growth territorial authority). The population projections could be tied to a particular point in time, such as the 2013–23 period in the projections published in 2016.
73. This option would dilute the targeting of policies to truly urban areas, and weaken the imperative for neighbouring local authorities to work together. It would require more local authorities to give effect to medium or high growth policies than under the notified NPS-UDC, including territorial authorities such as Ashburton, Timaru and Matamata–Piako. It would also result in some neighbouring local authorities that share an urban area being classified as medium growth, while others would be classified as high growth (for example, Western Bay of Plenty and Tauranga City).
74. The alternative option is to amend the NPS-UDC to tie the definitions of medium and high growth areas to the Statistics New Zealand urban areas classification as at 2016, and to the 2016 population projections for the 2013–23 period. Table 3 shows the medium and high growth areas and related local authorities that would result from this option.

Table 3: Medium and high growth urban areas and related local authorities, based on Statistics New Zealand 2016 urban areas and population projections for 2013–23

| Area | Local authorities |
|---------------------------------|--|
| High growth urban area | |
| Auckland | Auckland Council |
| Tauranga | Tauranga City Council, Western Bay of Plenty District Council, Bay of Plenty Regional Council |
| Hamilton | Hamilton City Council, Waipa District Council, Waikato District Council, Waikato Regional Council |
| Queenstown | Queenstown-Lakes District Council, Otago Regional Council |
| Christchurch | Christchurch City Council, Selwyn District Council, Waimakariri District Council, Environment Canterbury |
| Medium growth urban area | |
| New Plymouth | New Plymouth District Council, Taranaki Regional Council |
| Palmerston North | Palmerston North City Council, Horizons Regional Council |
| Nelson | Nelson City Council, Tasman District Council |
| Kapiti | Kapiti District Council, Wellington Regional Council |
| Wellington | Wellington City Council, Hutt City Council, Upper Hutt City Council, Porirua City Council, Wellington Regional Council |

| Area | Local authorities |
|--------------------|-----------------------------|
| Other areas | |
| Other | All other local authorities |

75. A couple of submissions suggested that the definitions be tied to the projections for the 2018–28 period rather than the 2013–23 period. This is not recommended because, using the projections available in 2016, it would mean that Christchurch would not be classified as a high growth urban area, and Wellington would not be defined as a medium growth urban area.
76. It would be desirable to review the definitions of ‘medium growth urban area’ and ‘high growth urban area’ once Statistics New Zealand has completed the review of urban areas, and revised the population projections. This can be done using the two-step consultation process required under the Resource Management Act 1991 (RMA) for national policy statements, by the end of 2018. Should the relevant provisions of the Resource Legislation Amendment Bill be passed, it may also be possible at that time to simply name the local authorities targeted by specific policies in the NPS-UDC.
77. If this review is to go ahead, the NPS-UDC should provide local authorities with certainty now about whether they need to complete policy requirements should the review mean that medium or high growth urban area policies no longer apply to them. We recommend that they should complete the policy requirements.
78. It is also recommended that any local authorities that are newly brought into the ambit of specific NPS-UDC policy requirements as a result of this review be given 12 months’ grace to meet requirements.

Recommendations:

Amend the definitions of high growth urban area and medium growth urban area in the notified NPS-UDC to:

- a) Tie the definitions of medium and high growth urban areas to the 2016 Statistics New Zealand urban area classification.
- b) Tie population projections to those for the 2013 -2023 period, as at 2016.
- c) Note that these are transitional definitions to be reviewed amended by 31 December 2018 (after Statistics New Zealand has completed its urban/rural classification review and revises projections).
- d) Introduce a note in a new review section that clarifies the requirements local authorities will face if the review newly classifies or declassifies medium growth urban areas or high growth urban areas at 31 December 2018.

Minister's decision:

Agree in part. Agree to a) c) and d)

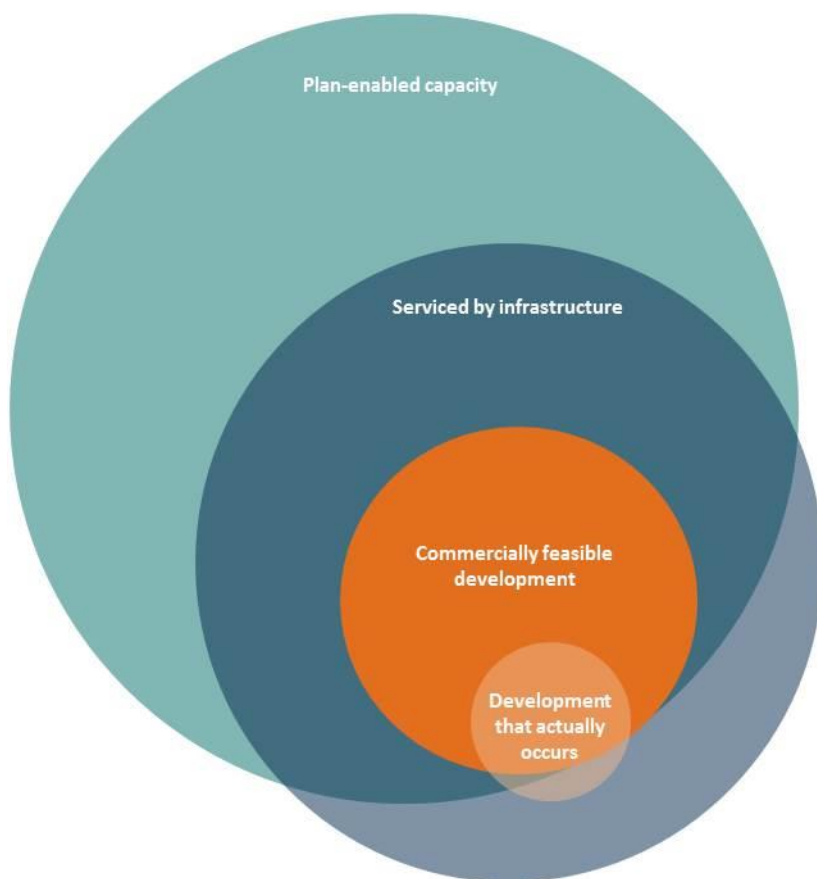
Disagree: b)

The definition of high and medium growth urban area should allow local authorities to be reclassified with revised population projections to ensure that all local authorities that are facing higher levels of growth respond appropriately. The definitions should use the most recent Statistics New Zealand population projections for the 2013(base) – 2023 period.

5 Development capacity

79. At the heart of the National Policy Statement on Urban Development Capacity (NPS-UDC) is the goal that urban planning decisions provide sufficient development capacity for housing and business at all times. This includes sufficient opportunities to both develop greenfield areas and to intensify already settled areas. The notified NPS-UDC takes a stepped approach to achieve this:
- a. It includes a definition of 'development capacity' that applies to all local authorities, and includes zoning in resource management plans, supported by infrastructure that "is existing or likely to exist".
 - b. This is linked to a definition of 'infrastructure'. This definition is narrower than the Resource Management Act 1991 (RMA) definition (including only water and transport), reflecting the intention to include in the definition of 'development capacity' only that infrastructure that is largely in control of local authorities.
 - c. It provides a definition of 'sufficient' which applies to all local authorities, and:
 - a) links development capacity to projected demand, both aggregate and demands for different types and locations, and
 - b) includes margins of over and above projected demand, of 20 per cent in the short and medium term and 15 per cent in the long term.
 - d. Policy PA2 requires all local authorities to provide sufficient residential and business development capacity over the short, medium and long term at all times.
 - e. There are other policies that only apply to medium and high growth urban areas, which require them to provide sufficient capacity informed by their evidence and monitoring, including information about commercial feasibility of development opportunities in plans. 'Feasible' is defined as commercially viable, taking into account current likely costs, revenue and yield of development.
80. The discussion document published with the notified NPS-UDC included a diagram illustrating the relationship between plan-enabled capacity, infrastructure, feasible capacity and what is actually developed (see Figure 1).
81. The impact of these policies should be to significantly increase the development capacity provided in plans and supported by infrastructure in urban areas, and ensure that it is more responsive and better matched to demand and to what is economic in the market. A report on International approaches to providing for business and housing needs (Ministry for the Environment, 2016b) prepared for the NPS-UDC, found that national direction in the United Kingdom and State-level planning systems in Australia use similar approaches to require sufficient development capacity.
82. Most submissions on the notified NPS-UDC commented on the development capacity definition and related policies.

Figure 1: Development capacity: plan-enabled capacity, serviced with infrastructure, feasible and actually developed.



Infrastructure

83. Many submitters stated that the definition of 'development capacity' in the NPS-UDC is unclear and open to interpretation, because it includes infrastructure that exists or is "likely to exist".
84. Many submitters (including many local authorities) also commented that the definition of 'infrastructure' is too narrow in the NPS-UDC, and should be expanded to include social infrastructure such as schools, and open space and reserves to promote good quality, liveable communities.
85. On the other hand, some submitters noted that including infrastructure in the definition of development capacity would increase pressure on local authorities to provide infrastructure without addressing the funding or financing challenges of doing so. Auckland Council submitted that "actual or likely funding sources and mechanisms" should be added as another factor to the definition of development capacity to mitigate this. We do not agree.
86. Development capacity provided for in RMA plans needs to be supported by infrastructure; it is also key that local authorities can be held accountable for providing sufficient development capacity. For this reason it is recommended that the infrastructure included in the definition of development capacity is confined to that which local authorities control.
87. Other infrastructure is also important, however, and so it is recommended that the NPS-UDC require local authorities to work with the providers of this infrastructure so they can be

satisfied that it will be available. These can be achieved by amending the definitions in the NPS and policies that refer to infrastructure.

Recommendations:

Amend the definition of 'development capacity' in the notified NPS-UDC to refer to 'development infrastructure'.

Split the definition of 'infrastructure' in the notified NPS-UDC into:

- *development infrastructure*, which is water and transport infrastructure to the extent it is controlled by local authorities, or their council-controlled organisations
- *other infrastructure*, including that which is not controlled by local authorities.

Amend policy PA2 in the notified NPS-UDC with new policies:

- PA1 which requires that development capacity be supported by development infrastructure that is, in the:
 - short term, in place
 - medium term, identified in a 10-year long term plan
 - long term, in a 30-year infrastructure strategy.
- PA2 which requires that local authorities satisfy themselves that other infrastructure necessary to support urban development will be provided.

Make consequent amendments to other policies, which require local authorities to coordinate with providers of both development infrastructure and other infrastructure.

Minister's decision:

Agree.

Short, medium and long terms

88. Submitters noted that the definition of 'development capacity' and related policies do not spell out very clearly what is required in the short, medium and long terms. Tauranga City Council suggested an amendment that would require infrastructure to be in place in the short term, identified in a funding plan in the medium term, and identified in an infrastructure plan in the long term. This is an elegant solution (recommended above) that would provide certainty and accountability, and would link resource management planning with plans required under the Local Government Act 2002 (LGA).

Feasible development capacity

89. Some submissions also said that it was unreasonable to require local authorities in medium and high growth urban areas to assess and provide for 'feasible' development capacity over the long term. They argued that this is too uncertain to have any idea of what might be commercially feasible. We agree.
90. We consider it important, however, that all local authorities provide urban development capacity that is feasible to develop in the short to medium terms. There is an opportunity to

introduce this as a requirement in the new policy PA1 recommended above, which applies to all urban environments that are expected to grow, and spells out what is required over the short, medium and long terms. This would significantly increase the amount of urban development capacity provided in plans.

Recommendation:

Replace policy PA2 in the notified NPS-UDC with a new policy PA1, which applies to all urban environments that are expected to grow, and which includes the requirement to provide feasible development capacity in the short and medium term.

Minister's decision:

Mostly agree.

Feasible development capacity should also be required into the long term, as feasible development capacity is only a proportion of total development capacity.

Sufficient

91. Some submitters considered the definition of 'sufficient', which applies to all local authorities, to be too onerous as it includes margins over and above projected demand. Low-growth and substantially rural local authorities in particular noted that this could have significant and unnecessary costs, as they would need to increase infrastructure expenditure to support growth that would not eventuate. Conversely, some submitters (primarily from the development sector) submitted that the margins embedded in this definition were not high enough to take into account of the fact that only a proportion of development opportunities provided by plans is actually taken up.
92. We agree that areas that are not experiencing growth should not have to provide additional development capacity which would require increased infrastructure that is unlikely to be used. We therefore recommend removing the quantitative margins from the definition of 'sufficient', which applies to all local authorities, and inserting them in a new policy that would only apply to local authorities with a medium or high growth urban area in their region or district.
93. The margin of oversupply necessary to take account of take up will vary considerably from place to place and over time. For example, the margin required for sufficient development capacity in an already established urban environment (such as the Auckland Isthmus) will be much higher than in a greenfields location. Fragmented land ownership, the costs of redevelopment and other factors may mean that land is less likely to be brought to market and developed than in greenfields areas.
94. In an ideal world local authorities would create an oversupply of development capacity based on their own understanding of local take-up rates. The reality is that local authorities have not been explicitly monitoring this, or providing sufficient development capacity that is supported by infrastructure and economically feasible to develop, let alone an additional margin. It is therefore recommended that the NPS-UDC specifies margins, and also requires local authorities to use a different margin if their housing and business development capacity assessment (required under the evidence policies) shows that this is more appropriate.

95. We recommend that these margins of oversupply be applied to ‘feasible’ development capacity in the short and medium term, and to development capacity in the long term. This is a stronger requirement than was in the notified NPS-UDC.

Recommendations:

Amend the definition of ‘sufficient’ in the notified NPS-UDC, which applies to all local authorities, to:

- a) clarify that sufficient development capacity meets demand, including demands for different types and locations of development capacity
- b) remove the quantitative margins over and above projected demand.

Introduce new policies PC1 and PC2 that apply to medium and high growth urban areas only, which require local authorities to provide an additional margin of either:

- c) at least 20 per cent of feasible development capacity over and above projected demand in the short and medium term and 15 per cent of development capacity over and above projected demand in the long term; or
- d) another margin based on evidence from their housing and business development capacity assessment that includes information about the rate of take-up of development capacity.

Minister’s decision:

Agree in part.

Agree: a) b)

Disagree: c) d)

- c) For the long term, additional margins of development capacity should also be feasible. Reasons for this are outlined in the decision above. Amend policy PC1 to provide additional margins of *feasible* development capacity in the long term.
- d) Local authorities should not be allowed to use a margin of additional development capacity that is less than the 20% and 15% specified in PC1. However, local authorities should use another margin if their evidence shows a *higher margin* is needed to account for the likelihood of development being taken up, and to support the efficient functioning of markets.

Development capacity for holiday housing

96. A couple of submissions from local authorities with significant visitor populations suggested that they should not have to provide ‘sufficient’ development capacity for visitors, or that they should be able to provide capacity for residents first.
97. We do not think it is possible or desirable to separate residential and visitor demand for housing, and attempts to provide only for residents will likely lead to an overall undersupply of development capacity that will elevate prices. This would have detrimental social and economic consequences.

Recommendation:

Replace the word ‘residential’ with ‘housing’ throughout the document.

Minister's decision:

Agree.

Intensification

98. Some local authority submissions wanted the NPS-UDC to give stronger direction in support of intensification in urban areas. This could be achieved by amending the definition of 'development capacity', and supporting policies.
99. We consider this inappropriate (and probably unlawful) for a national policy statement. The NPS-UDC directs local authorities to provide sufficient development capacity, but it does not interfere in what should be local decisions about where, and in what form, to provide this.

Recommendation:

No change.

Minister's decision:

Agree.

6 Evidence and monitoring

100. The notified National Policy Statement on Urban Development Capacity (NPS-UDC) requires local authorities with jurisdiction over medium and high growth urban areas to prepare a housing assessment and a business land assessment every three years, estimating demand for and supply of development capacity. These must also assess the:
 - cumulative impact on development capacity of resource management regulations
 - likely availability of infrastructure
 - commercial feasibility of development
 - likelihood of development opportunities being taken up.
101. The assessments must also estimate the additional development capacity needed if supply is not likely to meet demand in the short, medium or long term. The notified NPS-UDC requires the first assessments to be prepared by the end of 2018.
102. The notified NPS-UDC also requires local authorities to monitor, on a quarterly basis, specified indicators of market activity, including price signals:
 - the ratio of house prices to incomes, and relative costs to rent
 - increases in house prices and rents
 - resource and building consents relative to population growth
 - vacancy rates for business land
 - rural/urban land price differentials
 - the ratio of the value of improvements to the value of land.
103. These policies are to ensure that decisions are well informed about the dynamics of land and development markets, and the impact of planning on these markets.
104. A report on *How councils estimate demand and supply of development capacity for housing and business* (Ministry for the Environment, 2016c), undertaken to inform the NPS-UDC, found considerable variation in the quality of information held by local authorities.
105. While all local authorities generally use population projections to estimate aggregate demand for housing, some local authorities choose not to use Statistics New Zealand projections for a range of reasons.
106. Some local authorities undertake work to understand demands for different locations, sizes and types of dwellings (including “unrevealed” or future demands), but in general, plans have not provided for all of these demands. The work also found that most local authorities have a relatively poor understanding of demands for business land, and undertake less work on this.
107. All local authorities estimate the theoretical development capacity that their plans could yield, but only a few local authorities have been doing work to understand what proportion of this “plan-enabled” capacity would be considered commercially feasible in current conditions. Those that are doing this have found that plans need to substantially increase development capacity for development to occur. While planners also observe that only a proportion of feasible development capacity gets taken up, little work has been undertaken to quantify this.

108. In its report Using land for housing (Productivity Commission, 2015), the Productivity Commission also found that local authorities seldom use price signals as information about supply and demand.
109. There is significant opportunity to improve the quality of information underpinning urban planning decisions. The assessments and monitoring required by the NPS-UDC should provide the basis for councils to increase development capacity and ensure that it is better matched to demand and development realities.
110. Two-thirds of all submissions commented on the evidence and monitoring policies.

Housing and business land assessments

111. Some local authorities had concerns about the costs relative to the benefit achieved of carrying out housing and business land assessments and monitoring. This was particularly the case for local authorities that would be considered “medium growth” under the NPS-UDC. Some local authorities thought that the requirement to produce housing and business land assessments every three years was too frequent, or that there should be a later deadline for business land assessments, to enable local authorities to do the work.
112. Other local authorities thought that the assessments are “core business”, however. Most of the local authorities that would be defined as high growth under the NPS-UDC have already been undertaking much of the research and forecasting required in the housing assessments and, to a lesser extent, business land assessments. Auckland Council has undertaken the most sophisticated modelling to inform its first Unitary Plan, developed with an independent hearings panel and adopted recently. Other local authorities have been undertaking work as part of strategic partnerships (such as SmartGrowth, Future Proof or the Greater Christchurch Urban Development Strategy) formed to manage urban growth in a more coordinated way. While the NPS-UDC would still require them to do new work, these councils have the machinery and capabilities to build on their current evidence base and meet the requirements of the NPS-UDC.
113. Local authorities with medium growth urban areas in their jurisdiction have further to go and less practice in agreeing evidence. They will require more assistance from central government. It may be appropriate to delay the requirement that they produce assessments until a year after the high growth urban areas have prepared theirs, to enable them to build coordination processes and resource the work.
114. It is not recommended that the assessments be prepared any less frequently than three yearly. This timeframe is enough to carry out quality and comprehensive work that will not be out of date as market conditions change. The timeframe would also enable these assessments to inform long-term plans and infrastructure strategies under the LGA, which must also be produced every three years.
115. Some submissions from the development sector argued that the housing and business land assessments should be independently reviewed. This would reduce the incentives for local authorities to understate the demand for development capacity, or to overstate the extent to which their plans would meet demand. We do not think a policy in the NPS-UDC would be effective in achieving independent review. We do recommend strengthening policy PB4 in the notified NPS-UDC, however, which requires local authorities to “consult” stakeholders including the property sector “as they see fit”. We also separately recommend Government review assessments as part of the implementation programme for the NPS-UDC.

Recommendations:

- a) Require medium growth local authorities to complete their housing and business development capacity assessments by 31 December 2019 one year, one year after the high growth local authorities.
- b) Amend policy PB4 in the notified NPS-UDC to require local authorities to seek and use the input of iwi authorities, the property development sector, significant landowners, social housing providers, providers of development infrastructure and other infrastructure, when preparing a housing and business development capacity assessment.

Minister's decision:

Agree in part.

Agree: b)

Disagree: a)

Local authorities should complete their assessments as soon as possible so that they have good information on which to respond to the acute shortages in development capacity that we are currently seeing.

Amend the timeframes to bring forward the date by which high growth local authorities must have completed the required assessment to 31 December 2017, one year earlier than medium growth local authorities.

Monitoring indicators including price signals

- 116. Local authority submissions in general had concerns about the requirement to monitor market indicators, a new area for many of them. Submitters said that the requirement to monitor market indicators on a quarterly basis was too frequent. Property sector submissions noted that it was common commercial practice to monitor indicators on a six-monthly basis, and we suggest amending the NPS-UDC to align with this.
- 117. Submissions also commented on the indicators specified in the notified NPS-UDC. Some suggested other indicators should be monitored, such as measures of housing quality or trip to work distance. Others expressed concern that data was not available at the required level of geographic detail or frequently enough for local authorities to monitor all of the specified indicators. Submitters suggested that central government should provide the indicators to local government, or even undertake the monitoring itself. Others suggested that the monitoring policy in the NPS-UDC should be expressed in terms of outcomes, with detailed indicators specified in guidance instead.
- 118. During consultation on the notified NPS-UDC, the Ministry of Business, Innovation and Employment and the Ministry for the Environment commissioned a report on the practicability of local authorities monitoring price signals (*Review of possible price signals for use under the national policy statement on urban development capacity – forthcoming*) This report recommends that the NPS-UDC require local authorities to first monitor the more straightforward indicators:
 - housing affordability indicators

- prices and rents by location and type, and changes in these prices and rents
- resource and building consents relative to population growth.

119. The report recommends that if the monitoring of these indicators shows a problem (ie, that housing is becoming less affordable) then local authorities should monitor a package of price efficiency indicators. These include some of the indicators listed in the notified NPS-UDC, along with some others. It would provide greater certainty if the NPS-UDC required local authorities to begin using price efficiency indicators once they have established the monitoring for the more straightforward monitoring.
120. The report states that measures of price efficiency are “the chief indicators of how well the market is functioning and whether or not more development capacity should be released”. The report notes that the measures do not indicate how to provide more development capacity (ie, where and in what form), however. In addition, not all of these indicators can be monitored frequently, or for every urban area. Finally, significant technical capability is required to produce and interpret some of the indicators.
121. The report recommends that central government take a lead role in working with medium and high growth local authorities on this, to ensure the benefits of the monitoring are achieved and to minimise the costs. This would take time to establish and achieve results. Separate advice has been provided about this as part of our advice on the implementation programme for the NPS-UDC.

Recommendations:

- Amend policy PB5 in the notified NPS-UDC to require local authorities to monitor housing affordability, prices and rents, and consents relative to population growth on a six-monthly basis, starting from mid-2017.
- Insert a new policy applying to medium and high growth urban areas, which requires local authorities to use indicators of price efficiency, such as differentials across zones, to understand the functioning of the market and the impact of planning on this, and whether more development capacity is required (starting from the end of 2017).

Minister’s decision:

Agree in part.

Agree: b)

Disagree: a)

- Retain the requirement to monitor on a quarterly basis. This will allow local authorities to respond more quickly to trends shown by the indicators.

7 Responsive planning

122. The notified National Policy Statement on Urban Development Capacity (NPS-UDC) requires that medium and high growth urban area local authorities are more responsive in their planning to the evidence regarding demand and development activity. It requires local authorities to consider a range of responses to ensure that there is sufficient development capacity, including:
- enabling development through customer-friendly consenting processes
 - making plan changes
 - indicating the location and timing of development capacity over the long term.
123. The notified NPS-UDC also includes policies applying to high growth urban areas only, requiring “minimum targets” and “future land release and intensification strategies”.
124. Regional councils are required to use relevant housing assessments to set minimum development capacity targets that are sufficient, feasible and include margins of 20 per cent over the short and medium terms, and 15 per cent over the long term. Regional councils must incorporate these minimum targets in their regional policy statements without going through the Resource Management Act 1991 (RMA) Schedule 1 consultation process. The notified NPS-UDC then requires territorial authorities to give effect to these targets in their plans.
125. The notified NPS-UDC also requires local authorities to produce future land release and intensification strategies that indicate the location, timing and sequencing of development capacity in existing and future urban environments.
126. Just under half of all submissions provided feedback on the above policies.

Customer-friendly consenting practices

127. Submissions requested clarification as to what was meant by “customer-friendly” consenting practices. A small number opposed the idea that developers should be considered “customers” (as opposed to communities or the environment).

Recommendation:

Amend policy PB3 in the notified NPS-UDC to require (in a new policy PC4) integrated and coordinated consenting processes that facilitate development.

Minister’s decision:

Agree.

Minimum development capacity targets for housing

128. Some submissions supported policy PB6 in the notified NPS-UDC, which would enable regional councils to set minimum development capacity targets for housing outside of the RMA Schedule 1 process, but others opposed this. Infrastructure providers and developers were concerned that they would be left out of the process for setting the targets. Some territorial

authorities argued that they should be also allowed to give effect to the Regional Policy Statement (RPS) targets without going through the Schedule 1 process, to ensure alignment between the RPS and District Plans.

129. The intention of policy PB6 was to ensure that local authorities could be held to account in achieving a target for an aggregate amount of development capacity, which would be set based on evidence about demand and supply. It was not the intention (and nor would it be lawful) for these targets to replace the necessarily consultative process of deciding how and where to provide for this development capacity.
130. It is desirable, however, that there is alignment between the RPS targets and what each relevant territorial authority agrees to provide for in their plans. This could be achieved by territorial authorities also setting aggregate targets, as a proportion of the RPS targets and informed by the housing and business land development capacity assessment, and incorporating these into their District Plans outside of the RMA Schedule 1 process.
131. There would be benefits in extending the minimum targets policies to medium growth as well as high growth urban areas. This would capitalise on the work undertaken in medium growth urban areas to prepare assessments of development capacity for housing. However introducing this as a requirement of medium growth local authorities would be a significant change to the NPS-UDC which was not supported by submissions. We therefore recommend inserting a note above the minimum targets policies that strongly encourages local authorities with medium growth urban areas to give effect to these policies.

Recommendations:

Amend the notified NPS-UDC by inserting new policies (PC9–PC11) requiring territorial authorities to set minimum targets as a proportion of RPS targets, and incorporate these targets into their district plans outside of the RMA Schedule 1 consultation process.

Insert a note strongly encouraging local authorities with medium growth urban areas in their region or territory to give effect to the policies to set minimum development capacity targets for housing in their RPS and district plans.

Minister's decision:

Agree.

Future land release and intensification strategy

132. Submissions generally supported the future land release and intensification strategies. These would provide some certainty to infrastructure providers and landowners, and a vehicle for community debate about intensification in their urban environments.
133. Some submissions sought clarity about the relationship between the future land release and intensification strategy and long term plans and infrastructure strategies already required under the Local Government Act 2002 (LGA). They suggested amending the NPS-UDC to make it possible to incorporate the strategy into existing documents (such as the Auckland Plan). They also suggested renaming the strategy to reinforce this.

134. While there was support for using the LGA consultative process to produce this strategy, some noted that this might result in duplication in consultation processes if the content is largely incorporated into a district plan.
135. As with the minimum targets, there would be benefits in medium growth as well as high growth urban areas producing future land release and intensification strategies. This would capitalise on the work undertaken in medium growth urban areas to prepare housing assessments. However introducing this as a requirement of medium growth local authorities would be a significant change to the NPS-UDC which was not supported by submissions. We therefore recommend inserting a note above the policies about the strategy that strongly encourages local authorities with medium growth urban areas in their region or territory to give effect to these policies.

Recommendations:

Amend policy PD7 in the notified NPS-UDC to rename the future land release and intensification strategy the “future development strategy”, and make it explicit that this can be incorporated into a non-statutory document prepared under other legislation.

Amend policy PD9 to allow local authorities to use either of the consultation processes under the Schedule 1 of the RMA or under Part 6 of the LGA.

Insert a note strongly encouraging local authorities with medium growth urban areas in their region or territory to also prepare future development strategies.

Minister’s decision:

Agree.

8 Coordinated decision-making

136. It is desirable for local authorities to align decisions affecting urban markets crossing their boundaries. Integrated land use and infrastructure planning is also important for efficient urban development. The notified National Policy Statement on Urban Development Capacity (NPS-UDC) contains three coordinated evidence and decision-making policies that encourage this across medium and high growth urban areas.
137. National direction under the Resource Management Act 1991 (RMA) cannot require autonomous, democratic entities to make joint decisions. Therefore the policies require local authorities to consult each other and infrastructure providers, and to agree as much as possible on evidence.
138. About one-third of all submissions commented on this part of the NPS-UDC. Some supported the policies and the use of medium and high growth urban areas to focus coordination (notwithstanding comments noted in section 4 of this report).
139. But it was clear from some of the submissions that the coordination requirements in the notified NPS-UDC are not direct enough. Submissions questioned the relative roles of regional councils and territorial authorities. They expressed concern that the NPS-UDC would result in duplicate housing and business land assessments, and future land release and intensification strategies. Submissions clearly assumed that each local authority would separately meet the requirements of the NPS-UDC, and this underpinned some of the concerns about the costs of meeting these requirements, especially for small councils.
140. Some councils, particularly those who do not have strong relationships with related councils, considered that the requirements to work together to agree on evidence, and about how growth should be accommodated, would be difficult to achieve.
141. Many submitters (including local authorities, infrastructure providers and the development sector) commented that central government should also be bound by the requirements in the notified NPS-UDC to work with local authorities to plan for growth, as the infrastructure they provide is also critical to development (such as schools).
142. Submissions also noted that the use of the word “consultation” was inconsistent with consultation requirements under either the RMA or Local Government Act 2002 (LGA). Some submitters (developers, iwi) sought stronger guarantees that they would be involved in the production of housing and business assessments and/or the future land release and intensification strategy.
143. These concerns can be addressed through amendments to the coordination policies, and as recommended in sections above to the policies that specify processes for preparing the housing and business land assessments and future development strategies.

Recommendations:

Amend policies PC1–PC3 in the notified NPS-UDC to (in new policies PD1–PD4), to strongly encourage local authorities that share jurisdiction over an urban area to:

- a) prepare a shared housing and business development capacity assessment
- b) agree on provision of sufficient development capacity
- c) agree on minimum targets in the regional policy statement (RPS) and district plans
- d) prepare a shared future development strategy.

Amend policies PC1–PC3 to (in new policies PD1–PD4) require local authorities to work with providers of development infrastructure and other infrastructure to:

- e) provide sufficient development capacity
- f) prepare a future development strategy.

Minister's decision:

Agree.

9 Timeframes

144. Timeframes for giving effect to different National Policy Statement on Urban Development Capacity (NPS-UDC) requirements were noted throughout the notified NPS-UDC. These timeframes were:

a. *to take immediate effect:*

- the objectives and outcomes policies applying to all local authorities
- The monitoring policies applying to medium and high growth urban areas
- Some of the responsive planning and coordinated evidence and decision-making policies.

b. *by 31 December 2018:*

- the first housing and business assessments required of medium and high growth urban areas
- minimum development capacity targets for housing in the regional policy statement (RPS)
- the future urban land release and intensification strategy.

145. Several of the submissions commented on these timeframes. In particular, they noted that it would not be possible to use the housing and business assessments to inform the minimum targets in the RPS, or the future land release intensification strategy, when all of these requirements had to be completed by the same date. Some submissions also noted that the end of 2018 was also too late to inform long term plans, which must be completed by June 2018. Some local authorities have already begun work on their long term plans.

146. None of the submitters suggested that housing and business assessments should be prepared earlier, however. Many submissions expressed concern about the amount of work that would be involved in preparing the housing and business assessments, as well as undertaking the monitoring. This concern was greatest for local authorities that would be classified as medium growth.

147. Local authorities need sufficient time to produce comprehensive and high quality housing and business development capacity assessments, staged to inform minimum targets and long term plans and strategies. For high growth urban areas this would mean keeping the 31 December 2018 date for producing the housing and business development capacity assessment, and pushing out the deadline for the minimum targets and future development strategy to 31 December 2019.

148. As outlined earlier, in section 6 of this report, it is recommended that the deadline for housing and business development capacity assessments for medium growth urban areas be pushed out by 31 December 2019, to enable them to establish coordination processes and resource the work.

149. The assessments would inform the 2021 long term plans and infrastructure strategies of all of these local authorities.

150. It is also recommended in section 6 of this report that medium and high growth urban areas begin monitoring indicators of housing affordability, price changes and consents relative to population growth by the middle of 2017; and indicators of price efficiency by the end of 2017.

Recommendations:

- a) Insert a new timeframes section that brings together all the different requirements in one place.
- b) Amend the notified NPS-UDC to require local authorities to begin monitoring indicators of housing affordability, changes in prices and rents, and consents relative to population growth, within six months of the NPS-UDC being made operative.
- c) Amend the notified NPS-UDC to require local authorities to begin monitoring indicators of price efficiency by 31 December 2017.
- d) Amend the notified NPS-UDC to require medium growth urban areas to prepare the first housing and business development capacity assessment by 31 December 2019.
- e) Amend the notified NPS-UDC to require minimum targets for both RPS and district plans by 31 December 2019.
- f) Amend the notified NPS-UDC to require the future development strategy to be prepared at the latest by 31 December 2019.

Minister's decision:

Mostly disagree.

Agree: a) b) and c)

Disagree: d) e) and f)

Local authorities should complete the requirements as soon as possible so that they can effectively respond to the growth pressures they are facing. In light of this, amend the recommended timeframes to the following:

- d) Require medium growth local authorities to prepare the first housing and business development capacity assessment by 31 December 2018. Require high growth local authorities to prepare the first housing and business development capacity assessment by 31 December 2017.
- e) Require minimum targets for both RPS and district plans by 31 December 2018.
- f) Require the future development strategy to be prepared at the latest by 31 December 2018.
- g) Add a new section that outlines timeframes for local authorities who become medium or high growth local authorities as a result of Statistics New Zealand revised population projections in 2017:
 - Local authorities that become newly classified as a medium growth urban area shall begin monitoring indicators under policy PB6 and PB7 by 31 March 2018
 - Local authorities that become newly classified as high growth urban areas shall complete the housing and business development capacity assessment by 30 June 2018.

10 Review

151. As discussed in section 4 of this report, it is recommended that a review of medium and high growth urban area definitions be undertaken by 31 December 2018, and the expectations of local authorities that are classified in or out as a result of this review be clarified.
152. It is also recommended that a full review of the National Policy Statement on Urban Development Capacity (NPS-UDC) be undertaken by 31 December 2021, five years after it becomes operative.

Recommendations:

Insert a new review section that:

- a) notes the review of medium and high growth urban areas by 31 June 2018, and clarifies the expectations on local authorities that are classified in or out as a result of this review
- b) notes that a full review of the NPS-UDC will be undertaken by 31 December 2021.

Minister's decision:

Agree.