



Submission

**Submission on Urban Development Authorities
19 May 2017 (Final)**

About the McGuinness Institute

The McGuinness Institute was founded in 2004 as a non-partisan think tank working towards a sustainable future for New Zealand. *Project 2058* is the Institute's flagship project focusing on New Zealand's long-term future. Because of our observation that foresight drives strategy, strategy requires reporting, and reporting shapes foresight, we developed three interlinking policy projects: *ForesightNZ*, *StrategyNZ* and *ReportingNZ*. Each of these tools must align if we want New Zealand to develop durable, robust and forward-looking public policy. The policy projects frame and feed into our research projects, which address a range of significant issues facing New Zealand. The six research projects are: *CivicsNZ*, *LivestockNZ*, *OneOceanNZ*, *PublicScienceNZ*, *TacklingPovertyNZ* and *TalentNZ*. In preparing this submission, the Institute has drawn largely on our *Project CivicsNZ* and *Project TacklingPovertyNZ*.

About the author

Wendy McGuinness, Chief Executive

Wendy McGuinness wrote the report *Implementation of Accrual Accounting in Government Departments* for the New Zealand Treasury in 1988. She founded McGuinness & Associates, a consultancy firm providing services to the public sector during the transition from cash to accrual accounting from 1988 to 1990. Between 1990 and 2003, she continued consulting part-time while raising children. Over that time she undertook risk management work for the public good. In 2002, she was a member of the New Zealand Institute of Chartered Accountants (NZICA) Taskforce, which published the *Report of the Taskforce on Sustainable Development Reporting*. From 2003–2004 she was Chair of the NZICA Sustainable Development Reporting Committee. In 2004 Wendy established the McGuinness Institute in order to contribute to a more integrated discussion on New Zealand's long-term future. In 2009 she became a Fellow Chartered Accountant (FCA).

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Defining the problem

We are sceptical that the proposal will solve the problem it aims to address. This may be because we do not fully understand the problem.

Our understanding of the problem (based on the Minister's foreword) is summarised as:

- (i) That redevelopment of existing urban areas is not of good quality or moving fast enough¹
- (ii) That a 'complex array of existing statues' exists.

Therefore, the solution is to follow international examples:

- (iii) That international 'special purpose urban development authorities' are successful, therefore
- (iv) New Zealand should legislate for these.

Our concern is that the discussion paper does not provide evidence that existing redevelopment is slow and of poor quality. It is hard to understand a problem if it is not described, and even harder to know which solution will be the most effective if there is only one option up for consideration. Lastly, if you have no measures of success or failure towards a goal, how do you know if you are going in the right direction? We appreciate that there may be other information and reports we are unaware of, but based on the discussion document, our concern is that there is not a clear definition of the problem the proposal is trying to solve.

Areas of priority within New Zealand

Further, the discussion paper seems to imply that the proposed authorities should be applicable to all New Zealand. This was unexpected, and, in our view, unnecessary. The focus should be on cities where populations are growing very fast and there is the greatest need to regenerate existing land. Statistics NZ projections indicate the areas where New Zealand's population is likely to grow are Selwyn (an average annual increase of 2.6%) and Queenstown-Lakes (2.2%), followed by the Waimakariri district (1.6%) and the Auckland area (1.5%).² Although projected growth in Selwyn and the Waimakariri district is high as percentages, we expect that, in terms of highest number of people affected by growth, Auckland and Queenstown will be the more significant areas. For this reason, we expect that Auckland and Queenstown are the two key areas that will benefit from the intervention of Urban Development Authorities (UDAs).

Use existing legislation

We are not experts in terms of understanding the existing urban development landscape of places such as Auckland or Queenstown, but we imagine there will already be some forms of UDA in existence. The challenge is therefore to group these in such a way that maintains competition, meaningfully engages the public, allows innovative ideas to be considered and adopted as appropriate, is not administratively expensive and delivers effective systems. For example, this might mean ten or fifteen UDAs in Auckland that are a healthy mix of central government, local government and private landowners. This could be a special addition to the current legislation rather than creating a new act. This

1 We also note the proposal outlines a need to develop co-ordinated planning across sizeable areas of land (p. 5). We are concerned that the size of parcel of land envisaged in this proposal is not stated. It means in a consultation process that it is difficult to engage with the ideas, deliverables and benchmarks that may result

2 See www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/projections-overview/subnat-pop-proj.aspx.

approach will help reduce administration costs and enable all other regional authorities and districts to go forward using the current legislative framework. We agree with the assertion that a national urban development corporation is not necessary (p. 17). Centralised control and further complication of legislation will not be helpful if one of the problems is a complex array of existing statutes.

We also noted that the purpose of the United Kingdom legislation appears more simplistic and clear: ‘to secure the regeneration of urban areas’, and sits comfortably inside their Local Government, Planning and Land Act 1980. It seems likely that New Zealand could adopt this ‘urban development corporation’ approach easily without undermining local government and local communities. Reviewing Appendix 3 indicates that this proposal is more extreme; it is more centralised, more costly (in terms of central administration, independent commissioners and consultation) and more time-poor (in terms of the time it takes to obtain a decision).

Clear lines of responsibility: Local government and the Crown

We note that many New Zealanders do not understand that local government is not technically part of the Crown; their accounts are not part of the Crown financial statements. This distinction is important, as the goals of the Crown are different from those of local government. For example, it is in the best interests of the Crown for Auckland to grow, as this will increase the Crown’s tax revenue, whereas it is in the best interests of ratepayers for Auckland to stay its current size. This is because, in periods of growth, infrastructure (such as water, sewage, roads or rail) suddenly hit tipping points, demanding significant new and large projects that take time to implement. Who should pay for fast rail between the airport and the city? Who should pay for additional health care or invest in social infrastructure in south Auckland? This tension and lack of alignment is not unique to New Zealand. Urban development requires a broad and considered approach and other countries are also struggling with how to align tax systems to achieve local and national goals. This tension between local governance (and ratepayer revenue systems) and national governance (and taxpayer revenue systems) is leading to many global cities failing to deliver core infrastructure.

Centralised versus decentralised decision making

We are interested in the extent to which New Zealand is already centralised in comparison with the countries mentioned as international examples. There is an interesting paper written by Norman Gemmill and Derek Gill titled *The Myth of the Shrinking State? What does the data show about the size of the state in New Zealand 1900–2015* (August 2016),³ which raises the question in our mind as to what extent New Zealand should centralise local challenges when those challenges are unique to the community they serve. In our view, this proposal takes power back to central government at the expense of local government. This is concerning because, in our research, we are seeing local government becoming more important due to the diversity of needs in local communities. Those differences lead us to believe this proposal is flawed; it is no longer possible to standardise approaches from the centre. Our cities are becoming increasingly diverse and we need to develop systems that empower communities to overcome their unique challenges and optimise their existing strengths and opportunities.

Trade-offs are at the heart of urban development and we believe such decisions require transparent processes and agreed values. If we had to choose between central control with decentralised reporting or decentralised control with centralised reporting, we would

³ See igps.victoria.ac.nz/publications/files/3e6c00ba15e.pdf.

choose the latter. We believe central government is not good at local decision-making, but it is good at setting up innovative processes, designing reporting frameworks and holding decision-makers to account. We do think decentralised pilots might work, provided they have lots of checks and balances added into the system.

Learning from Special Housing Areas and other models

We believe it would be appropriate for those perusing this proposal to be able to review what has or has not worked with similar proposals. We assume that an assessment of the effectiveness of Special Housing Areas (SHAs) has been undertaken and that a report will be made public. It would be useful to learn what lessons from the SHA initiative can be applied to this proposal.

We would be interested in a more strategic overview of the range of options the Ministry of Business, Innovation and Employment (MBIE) looked at when trying to find cost-effective ways to solve the problem. To this end, the other international examples (not mentioned in Appendix 3) might be a useful starting point. Some of these frameworks will have been more successful than others. We found Appendix 3 very interesting but note it does not include Canada, the United States, Singapore or New York (all examples mentioned in the Minister's foreword). We suggest more work be undertaken to learn about these other options and what makes one succeed and others (we assume) fail.

Designing limits into the system

We believe limitations should be designed into the legislation to prevent this proposal being used to undermine local democracy. For example,

- UDAs can only be located in a limited number of areas such as Queenstown and Auckland,
- There is a maximum number of UDAs per district such as 20,
- UDAs have time limits and can only exist for a maximum duration of time such as five years. (If 10% of the project is not started before this time they are rescinded and they must be 90% completed within ten years or penalties are charged),⁴ and
- UDA projects have a maximum size such as 300 ha.

We believe MBIE should keep a register of UDAs and establish a complaints system so that if this proposal is progressed, MBIE can be quick to respond to problems, weaknesses and opportunities in the system.

We were unsure at what point in the process of a development project the cost benefit analysis (CBA) and risk assessment would be prepared. We consider CBAs and risk assessments to be necessary in the first stage of the process, with room for fine-tuning in the next stage. We believe the public deserve comprehensive and accurate documents to contribute to an effective public consultation process. Consultation, for the Crown, is expensive in terms of demand on time and finances, but this is also true for the public.

Consultations are an opportunity to scrutinise a proposal, stress-test a range of options and ideally develop better decisions and outcomes for all. Trust in processes and representatives are required for social licences to be created; a licence to use a public resource or take private land for the public good, done well, creates durable public policy. A social licence is hard to obtain and very easy to lose. Effort and quality

⁴ We note p. 22 states 'the powers could potentially remain active for 20 or more years'. This seems a very long time without review clauses and a detailed understanding of what those development powers might look like.

information needs to be put in to the front end of these processes to ensure voices are heard, ideas are tested and innovative and timely solutions are delivered.

Territorial Authorities

Appendix 1 to this submission is a map of the governance boundaries that currently exist within New Zealand. We believe the boundaries should be aligned with the boundaries of existing territorial authorities.

We believe that regional councils are as much a part of urban development as territorial authorities and it is a mistake to remove their veto rights.

We were surprised to learn that territorial authorities are not required to consider national objectives when making decisions about local urban development (p. 12). This would seem to be an easy change to make to the current legislation and is not a reason to create new law.

If a UDA fails

We are unsure what happens to property owners within the development area if the UDA becomes bankrupt, stops the development or sells to another developer. We are concerned that the existing property owners may be shouldering the majority of the risk in development.

Vision

The proposal should be developing a stronger focus on people and how New Zealanders might live in spaces together in the future. Sir Paul Callaghan coined the phrase creating ‘a place where talent wants to live’.⁵ In doing so, he was recognising the importance of urban and rural environments working together to grow, attract, retain and connect talent. We believe this proposal should fit within a strategic national goal.

Below we briefly answer some questions from the discussion paper. We have also included the following appendices:

- Appendix 1: Lines within New Zealand
- Appendix 2: Mail-out letter to MPs (May 2017)

We would appreciate the opportunity to speak to our submission.

⁵ See the video of Sir Paul Callaghan’s presentation where he coined the phrase. It now has over 49,500 views and can be seen here at www.youtube.com/watch?v=OhCAyIllnXY&t=1s

Consultation Questions

The proposal in general

1. To what extent do you agree (or disagree) with the overall proposal to enact new legislation?

We believe this is an idea worth exploring but only in terms of Auckland and Queenstown.

We do not think new legislation is necessary and instead recommend that provisions for UDAs be incorporated in the Local Government Act. This is because we believe the legislation is becoming increasingly complex and the law is only as effective as the extent to which it can be implemented, navigated and policed.

2. What additional development powers would you like to see enacted in the proposed legislation (if any)?

We would like to see power given to territorial authorities, not to central government. We believe that there are approaches other than central control. Decentralised control can be very effective, provided systems are designed for that purpose. Such systems as characterised by transparency and assurance, and tools such as goals, strategies, purposes, reporting, reviews and penalties.

3. What additional limitations or protections would you like to see included in the proposed legislation (if any)?

As noted in question 2.

Individual proposals

Our key observations are discussed above, with the following exceptions:

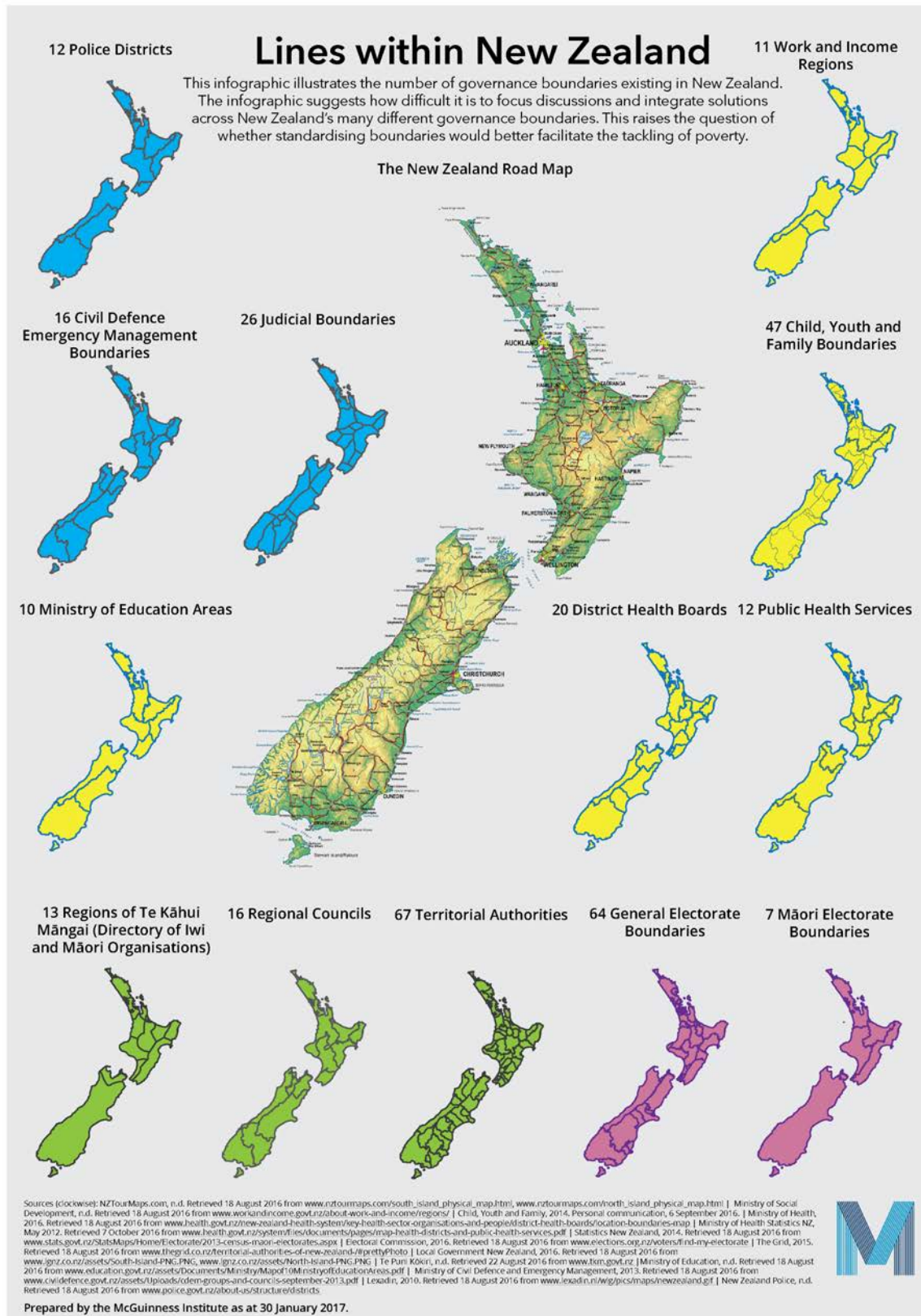
Proposal 123: Strategic objectives

This is a key part of the proposal and, as such, will be a key component in determining the shape and measures of success. We therefore suggest these must be specific and measurable.

Proposal 133: Power to levy targeted infrastructure charges on property owners within the development area

We are concerned that this may deliver poor outcomes for individuals such as retired people or others unable to pay such penalties. We recommend that any such charges be transparent and limited to a certain percentage above rates for others living in the same territorial authority. Our concern is that those living in the UDA are vulnerable to price hikes that they cannot afford to pay. We were unable to find the relevant section in this proposal on how this might be managed.

Appendix 1: Lines within New Zealand⁶



⁶ This infographic was prepared as a result of visiting six locations in New Zealand as part of our *TacklingPovertyNZ* project. See p. 55 of *Working Paper 2017/01 – TacklingPovertyNZ 2016 Tour: Methodology, results and observations*.

Appendix 2: Mail-out letter to MPs (May 2017)

22 May 2016

Rt Hon Bill English
Freepost Parliament
Private Bag 18 888
Parliament Buildings
Wellington 6160

Dear Prime Minister,

Update from the McGuinness Institute

Attached is our annual update to let you know what we have been working on over the past year and what we aspire to achieve going forward. We also provide this update to all members of Parliament in the hope that they will be interested in following our work and open to joining us at some of our events.

To this end, we have attached our work programme in Appendix 1 and a sample of our latest publications. Of course, I would welcome the opportunity to meet with you to discuss any of the following in greater detail.

There are five key observations that are figuratively keeping me awake at night, which I would like to share with you:

1. I am concerned that current governance boundaries in New Zealand are hindering rather than helping the problems currently facing communities.
2. I am concerned that the MPI proposal to relocate salmon farms in the Marlborough Sounds is progressing before the public consultation on the national direction for aquaculture scheduled to take place as soon as mid-2017.
3. I am concerned that central government proposals to override local democracy will exacerbate problems currently facing regional communities. Local government is a key instrument for delivering local solutions and bringing together economic, environmental and social issues.
4. Accountability and transparency are of vital importance and we need to develop a work programme to improve reporting of information in the public domain.
5. New Zealand needs to help build a more stable and certain world, learning about the future and how best to position ourselves in order to make the most of the challenges and opportunities ahead.

These five observations are outlined in more detail below.

1. We believe tackling poverty requires local solutions

Working Paper 2017/01 – TacklingPovertyNZ 2016 Tour: Methodology, results and observations (attached) was published in February of this year but we have waited until now to send it out to you so that we could include a think piece by Conal Smith (attached). *Think Piece 26 – Doing Something About Poverty in New Zealand* contains his independent reflections of the *TacklingPovertyNZ 2016* nationwide workshops and was launched on 12 May at the Community Boards Conference in Methven.

We are concerned that our current governance boundaries around New Zealand are problematic. A map on page 54 of *Working Paper 2017/01* illustrates the range of institutional governance boundaries that exist, which together act as obstacles for communities to solve problems. These boundaries will take time to unpack and realign. Therefore we have suggested a ‘fast-track’ option. This would involve creating three pilot demarcation zones in Rotorua, Gisborne and the Far North. To learn more, read our *Demarcation zones for public policy innovation* proposal on the publications page of our website.

The 2016 workshops collected 240 'hows' to tackle poverty from six different communities. Page 61 of the working paper shows that each area is different and therefore requires local solutions – a one size fits all approach will not deliver the best solution.

2. We are seeing commercial demands overriding environmental considerations

Working Paper 2017/02 – Letter to the Minister on New Zealand King Salmon was published this month in response to the MPI consultation *Potential relocation of salmon farms in the Marlborough Sounds*, which involves a proposal to 'relocate' six New Zealand King Salmon (NZKS) 'farms' using section 360, a novel piece of RMA legislation. Our interest in NZKS has been ongoing since the 2013 Board of Inquiry decision in a NZKS request for plan changes and resource consents to operate new sites in the Marlborough Sounds. An overarching question raised by the MPI proposal is what a swap of water space means in practice; is it swapping like for like?

- The Institute would argue the MPI proposal to relocate low-flow sites was already taken into account as part of the BOI decision in 2013, with the BOI deciding that farms should not be located in the sites where MPI are now proposing they should be.
- The MPI proposal is asking for a 34% increase in the total consented area and 35% increase in the total feed discharge from the existing farms, which, in our view, constitutes much more than a swap. See page 43 of *Working Paper 2017/02*.
- Three of the six farms are not operating as farms; two have never been operated by NZKS and the other has not been operated since 2011.

If the Minister was to pursue a swap in principle, we would argue the Minister should only swap the farms currently in operation. This means the Forsyth Bay farm and the two Crail Bay Farms would be removed from the MPI proposal, leaving only three farms to be swapped. Further, we would suggest that the remaining three farms should carry across the same footprint in terms of expiry date, consented area and feed discharge. This way the existing consents for the three newly relocated farms would expire in 2021 and 2024 (x2) and NZKS would need to reapply for consents using the traditional legislative framework involving public consultation.

We are left wondering why this proposal being progressed ahead of the MPI public consultation on the national direction for aquaculture set for the middle of this year. If this type of swap is approved, we believe it will have implications for resource management across the country, setting a precedent for central government to override local government and the needs of the local community. *Working Paper 2017/02* explains our concerns about the process in more detail.

3. We are seeing a growing tension between central and local government

Last year we learnt of the importance of local government as a key body to deliver local solutions, and of the need to bring together economic, environmental and social issues when problem solving. For this reason, we have concerns that central government proposals to override local democracy will exacerbate the problems regional communities currently face.

We believe that transparency in local government allows members of the community to engage in public processes and scrutinise the results. This means that failures of local government over recent years have been visible. Given that there are 67 territorial authorities throughout New Zealand, failures are inevitable and expected. What is important is that failures are analysed and assessed to determine what went wrong and to prevent similar failures occurring in the future. I believe we do not have the equivalent public engagement and scrutiny existing in central government. Our failures (speaking as a past public servant working in central government) are not transparent and they are not always being analysed, meaning that lessons are not being learnt.

We believe it is time to be honest with ourselves about the problems that our current processes are creating, rather than moving to increasingly central control. New Zealand has a tendency to problem solve by adding further complexity to the mix, rather than by simplifying and supporting the systems we have. Simplicity and clarity are important characteristics of any operating system; New Zealand needs durable processes and transparent institutions. I am concerned we are moving in the wrong direction. We believe

that central government should realign their boundaries to those of districts; working together to solve local problems, share ideas that work and empower local communities. (This would mean removing the complexity in the map on page 54 of *Working Paper 2017/01*.) The recent proposal to create Urban Development Authorities is a further example of taking power away from local communities; implying that central government is more effective and valid as an agent of change. This has not always been my experience.

4. We are seeing the need to revisit and improve accountability and transparency

Our work programme in 2017 includes a number of surveys that aim to inform our work programme next year. We are undertaking a survey of significant companies (both the Deloitte Top 200 and the companies listed on the NZX main board) and a user survey on extended external reporting in collaboration with the External Reporting Board. The results will be published in November. We are also working on a survey of Chief Financial Officers of government departments. We expect the results will illustrate ways we might improve reporting of information in the public domain. My mantra for this year is 'knowledge is great but scrutiny and critical thinking is even better'. There exist some cheap and effective solutions to improve transparency and accountability:

- The Department of Internal Affairs should prepare a consolidated local authorities annual report.
- Central government departments should prepare ten year planning documents for the public, along the lines of local government.
- The *Financial Statements of the Government of New Zealand* should become an integrated report; reporting on the four capitals (economic, natural, social and human). We also consider that this should include a list of all approved strategies driving change in the public service. There are about 140 government department strategies (GDS), see our GDS Index at www.gdsindexnz.org

5. We are seeing the need for New Zealand to help build a more stable and certain world

What we have seen over the last ten months is not a one-off event but a range of developing trends, which together might develop into a significant storm. It is therefore important to note that, when a figure such as Mikhail Gorbachev (the eighth and final leader of the Soviet Union from 1990 to 1991) says, 'It all looks as if the world is preparing for war' (*Time*, 26 January 2017), now is the time to listen, reflect, discuss and act. This means creating and maintaining good relationships will increasingly be of vital importance. New Zealand needs to stay alert, look to understand ourselves (our own assumptions and myths), track what is happening (both in terms of real and fake news), explore linkages and connections (i.e. developing scenarios), build on what we know (and accept what we do not know), and identify what we are prepared to live with (and not live with).

New Zealand has a strong vested interest in ensuring that the world manages itself well. This was a key finding in some scenario work we undertook in 2008 when writing *Report 6 – Four Possible Futures for New Zealand in 2058*. The report identified two main tensions in exploring the ways in which New Zealand could change between 2008 and 2058: (i) how New Zealand manages itself, and (ii) how the world manages itself. Accounting for these tensions, the report then lays out four possible scenarios. Applying a combination of insight and foresight, the team then examined the events that might occur within each scenario. Scenarios are not projections but allow us to learn about a future world/worlds and how to best position ourselves in order to make the most of the opportunities and challenges ahead.

Recent events overseas reminded me of our 2008 'what to watch for' list:

1. A fortress mentality versus a desire to work with others, both between individuals and between countries.
2. Disparities in wealth, health, education and technological adoption within societies and between countries.
3. The type of leadership style, in particular whether it is proactive and forward thinking or complacent and reactive.
4. The extent to which privacy and secrets are accepted norms in government, or whether transparency and public accountability are the more common ethic. (p. 47)

To conclude

There are a number of challenges and opportunities ahead. New Zealand will enjoy a good future, provided we pull together and continue in the right direction. You are well placed as members of

Parliament to help shape the dialogue through quality foresight, effective strategy and insightful reporting. We look forward to a challenging and invigorating election year.

We are undertaking another youth-oriented workshop in collaboration with the New Zealand Treasury, called *ForesightNZImi*. It will cumulate in a final presentation at Parliament on Wednesday 22 November 2017 from 6.30pm. We will send you an official invitation later this year, but in the meantime, please save this date. It will be important to hear from youth about their preferred future for New Zealand.

In November we will send you a complimentary copy of our signature book *Nation Dates*. We are currently preparing the third edition.

Thank you for your continued support and hard work.

Yours sincerely,

Wendy McGuinness
Chief Executive

Attachments

Working Paper 2017/01 – Tackling Poverty NZ 2016 Tour: Methodology, results and observations (February 2017)

Working Paper 2017/02 – Letter to the Minister on New Zealand King Salmon (May 2017)

Think Piece 26 – Doing Something About Poverty in New Zealand (May 2017)

McGuinness Institute 2017 Work Programme

