

# Regulatory Impact Statement: Order in Council for Rotorua District Council under the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021

## Coversheet

Purpose of Document	
Decision sought:	<p>The purpose of this analysis and advice is to inform final decisions to proceed with a policy change to be taken by Cabinet.</p> <p>This change would introduce an Order in Council for requiring Rotorua District Council to undertake an intensification streamlined planning process (ISPP) under the Resource Management Act 1991.</p>
Advising agencies:	<p>Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development</p> <p>Ministry for the Environment</p>
Proposing Ministers:	<p>Minister of Housing</p> <p>Minister for the Environment</p>
Date finalised:	3 March 2022
Problem Definition	
<p><b>Problem Definition</b></p> <p>A major constraint to housing delivery is the planning system, under the Resource Management Act 1991 (RMA), which limits efficient land use.</p> <p>In recognition of this problem, the Government:</p> <ul style="list-style-type: none"> <li>put in place the <i>National Policy Statement on Urban Development</i> (NPS-UD)</li> <li>passed the <i>Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021</i> (the Amendment Act) to strengthen and speed up the NPS-UD.</li> </ul> <p>The Amendment Act required a group of specified councils ('tier 1' councils) to use the intensification streamlined planning process (ISPP) to implement the NPS-UD intensification policies and the <i>Medium Density Residential Standards</i> (MDRS). The MDRS are standards that enable three storeys and three dwellings on most sites as of right.</p>	

Via Order in Council, the Minister for the Environment can require 'tier 2' councils to implement the ISPP and MDRS if there is an acute housing need. Rotorua District Council (RDC), a tier 2 council, is demonstrating acute housing need and evidence suggests this is exacerbated by planning provisions.

RDC and its partners Te Arawa Lakes Trust and Te Tatau o Te Arawa have requested RDC be directed to undertake an ISPP to implement the MDRS.

## Executive Summary

This paper considers action to quickly increase the housing development capacity in Rotorua. The measures in this paper are designed to improve the efficiency of land use, significantly increase the volume of development opportunities, and bring forward housing development in the district.

There is strong evidence of acute housing need in Rotorua: the district is experiencing a high rate of homelessness and demand for housing support; house prices and rents have risen over a number of years; the cost of housing has become increasingly unaffordable for many residents; and, the supply of new homes has not kept pace with population growth.

This acute housing need has been exacerbated by a District Plan that largely restricts housing development to a single detached home per section. This has limited the opportunities for private and public development.

RDC made a joint request (with Te Arawa Lakes Trust and Te Tatau o Te Arawa) to the Minister for the Environment to be directed to implement MDRS using the ISPP. This request is supported by the Rotorua Business Chamber.

This paper considers two options:

- Option 1: take no action and RDC continues with work to implement intensification policies in the NPS-UD via schedule 1 of the RMA; or
- Option 2: direct RDC to implement the MDRS (in addition to the NPS-UD) via the ISPP. This is the preferred option.

Option 2 would have a number of impacts on the district relative to the counterfactual, including:

- a. enabling more homes to be built in Rotorua
- b. reducing the cost of housing relative to the counterfactual
- c. a greater ability to build public and affordable housing to address local acute housing need (particularly for those living in temporary housing)
- d. increasing the need to upgrade the stormwater network
- e. loss of sunshine and views to some sites adjoining developments implementing the MDRS.

This proposal has broad institutional support from iwi, business and the Council (RDC's elected members unanimously agreed to request to be directed to implement the MDRS). However, some Rotorua residents are likely to be worried about the impact of the proposals on their properties and neighbourhoods.

## Limitations and Constraints on Analysis

### *Modelling*

Formal modelling has not been carried out on the likely increase in housing supply for Rotorua. However, there is a wide range of evidence that can be used to infer the likely supply response and resulting impacts, including modelling for other centres. In utilising past modelling, analysis in this paper:

- Makes certain assumptions about the extent to which this modelling can be used to gauge the likely impact in Rotorua and articulates these where possible.
- Draws on additional information where modelling for other centres is likely to be less applicable.

### *Consultation*

There has been no public consultation on this initiative. Consultation was carried out by the Council and limited to iwi and key stakeholders. However, RDC and their partners indicated their wish to be included in an OIC in their written and oral submissions to the select committee for the Amendment Act.

### *Options*

Consideration in this RIS is limited to whether or not an OIC should be issued requiring RDC to undertake the ISPP to give effect to the NPS-UD intensification policies and incorporate the MDRS. Although there are other mechanisms that can be used to speed up plan changes, such as the streamlined planning process (SPP), none have been considered in depth. In the case of the SPP, this is not considered a feasible option.

## Responsible Manager(s) (completed by relevant manager)

*Fiona McCarthy*

*Acting Manager*

*Policy and Legislation Design*

*Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development*



*3 March 2022*

Rebecca Scannell  
Manager  
Urban and Infrastructure Policy  
Ministry for the Environment



3 March 2022

#### Quality Assurance (completed by QA panel)

Reviewing Agency:	Ministry for the Environment and Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development
Panel Assessment & Comment:	<p>A Quality Assurance Panel from Te Tūāpapa Kura Kāinga and the Ministry for the Environment reviewed the attached regulatory impact statement. The Panel considers the RIS partially meets the quality assurance criteria, as it concludes the assessment is complete clear and convincing. The analysis of costs, benefits and other impacts is framed by assessment criteria based on the intended outcomes of the policy intervention. The RIS presents evidence of that Rotorua is experiencing an acute housing need – which is a key pre-requisite for regulatory intervention. The RIS acknowledges that modelling has not be carried out on the likely increase in housing supply that will arise from the regulatory change but references other evidence that infers the anticipated impact. The RIS also acknowledges public consultation has not taken place. While key institutional stakeholders including the Rotorua District Council, iwi partners (Te Tatau o Te Arawa) and the Rotorua Business Chamber support the proposed Order in Council requiring RDC to undertake an Intensification streamlined planning process, the Panel considers wider engagement with affected parties would have been desirable.</p>

## Section 1: Diagnosing the policy problem

### What is the context behind the policy problem and how is the status quo expected to develop?

2. As established in previous analysis (outlined below), restrictive planning rules are a significant constraint on housing delivery and must be addressed to increase the supply of affordable housing.
3. The primary mechanisms in place to address these planning concerns are:
  - a. the National Policy Statement on Urban Development (NPS-UD), and
  - b. the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021 (the Amendment Act).
4. The NPS-UD came into force in August 2020. It requires, among other things, that councils amend their RMA plans to enable intensification in urban areas where people want to live. The intensification policies are designed to enable more houses to be built in or close to urban centres, in places that are well-served by public transport, and in other areas with high demand for housing and business space.
5. The Amendment Act, passed in 2021, aims to speed up and strengthen the implementation of the NPS-UD, particularly for tier 1 councils (councils in the wider urban areas of Auckland, Hamilton, Tauranga, Wellington and Christchurch).
6. The Amendment Act has two main features:
  - a. Tier 1 councils are required to undertake the **Intensification Streamlined Planning Process** (ISPP). The ISPP is an expedited planning process, chaired by an Independent Hearings Panel (IHP), and with no ability to appeal decisions (although there is still the right to judicial review).
  - b. The ISPP must be used to give effect to **Medium Density Residential Standards** (MDRS) in addition to the NPS-UD intensification policies. The MDRS are a package of standards that enable three storeys and three dwellings as of right. Councils that adopt them must permit at least this level of development in all urban residential areas unless sites have ‘qualifying matters’ – specified reasons that justify more limited heights and densities<sup>1</sup>.

#### *Ability to include tier 2 councils*

7. The Amendment Act allows for the Minister for the Environment, in consultation with the Minister of Housing and the Minister of Māori-Crown Relations – Te Arawhiti, to direct a tier 2 council<sup>2</sup> to adopt the MDRS and implement policy 5 of the NPS-UD through the ISPP. This is done through an Order in Council (OIC). The criterion for

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<sup>1</sup> Qualifying matters are listed in the Amendment Act and the NPS-UD and include matters such as: natural hazards, heritage protection, and the relationship of Māori to ancestral lands).

<sup>2</sup> Whangārei District Council, Rotorua District Council, Napier City Council, Hastings District Council, New Plymouth District Council, Palmerston North City Council, Nelson City Council, Tasman District Council, Queenstown Lakes District Council, Dunedin City Council

directing a council is if the Minister determines the district is experiencing acute housing need (considering the median multiple and other information).

*Previous analysis*

8. This RIS draws on a wide body of evidence that was developed as part of the above initiatives. These are outlined on the following table.

Table 1: Summary of previous analysis	
Document	Description
Cost – benefit analysis for the National Policy Statement on Urban Development <a href="https://environment.govt.nz/assets/Publications/Files/NPS-UD-CBA-final.pdf">https://environment.govt.nz/assets/Publications/Files/NPS-UD-CBA-final.pdf</a>	CBA estimating the impacts of the original NPS-UD, including the likely development to result
Regulatory Impact Statement: Bringing Forward the Upzoning of Land for Housing <a href="https://www.treasury.govt.nz/sites/default/files/2021-10/ria-hud-bfu-may21.pdf">https://www.treasury.govt.nz/sites/default/files/2021-10/ria-hud-bfu-may21.pdf</a>	The RIS supporting policy decisions for the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021
Cost-benefit analysis of proposed Medium Density Residential Standards <a href="https://environment.govt.nz/assets/publications/Cost-benefit-analysis-of-proposed-MDRS.pdf">https://environment.govt.nz/assets/publications/Cost-benefit-analysis-of-proposed-MDRS.pdf</a>	CBA estimating the impacts of the MDRS above and beyond the NPS-UD intensification policies. Provides results of modelling for tier 1 cities (tier 2 cities were not considered)
Rotorua Housing and Business Development Capacity Assessment 2021 <a href="https://rotorualakescouncil.nz/rotorua-housing-and-business-development-capacity-assessment-2021-main-report.pdf">Rotorua Housing and Business Development Capacity Assessment 2021- Main Report.pdf</a> <a href="https://rotorualakescouncil.nz">rotorualakescouncil.nz</a>	Under the NPS-UD tier 1 and 2 councils are required to undertake Housing and Business Capacity Assessments (HBAs) every three years. HBAs assess the demand and supply of housing in the relevant urban environment, and the impact of planning and infrastructure on that demand and supply

### What is the policy problem or opportunity?

*There is evidence of acute housing need*

9. There is strong evidence of acute housing need in Rotorua Lakes district:
  - a. **Housing costs have risen significantly in the District** in recent years with median rents up 83% and median house prices up 164% since January 2015. This increase in housing costs has put significant pressure on low income renting households and increased the barrier to homeownership. In terms of per week expenditure, lower quartile rents are up \$180 per week over the last 7 years.

- b. There has been high and growing **demand for government housing support** with the number of applicants on the Public Housing register in Rotorua increasing from 81 in September 2016 to 861 in September 2021. The new supply of Public Housing has been insufficient to meet this growth in demand, resulting in increased reliance on motels to provide accommodation.
- c. **Homelessness rates are particularly high** in Rotorua given the limited availability of affordable rental options. Reliance on Emergency Housing Special Needs Grants (EHSNG) (given to those in emergency need for housing and cannot access Transitional Housing (TH) contracted by HUD) has been one of the highest in the country. Through the Rotorua Housing Taskforce, the Government has directly contracted 13 motels which are currently supporting around 250 households with wrap around support services. However, reliance on EHSNGs remains high, and reflects an acute shortage of housing across the district. People are in motels because private residential accommodation is not available.

10. Table 2 summarises key housing indicators in Rotorua Lakes district and the change from 2020 to 2021. Note that one indicator, EHSNG recipients, decreased as a result of the government directly contracting 13 motels as Contracted Emergency Housing.

Year	Price-cost ratio <sup>3</sup>	EHSNG recipients <sup>4</sup>	Housing Register <sup>5</sup>	Median Multiple <sup>6</sup>
2020	1.53 (2020)	606 (Q3 2020)	637 (Q3 2020)	7.01 (2019)
2021	1.69 (2021)	581(Q3 2021)	861 (Q3 2021)	8.27 (2020)

#### *Lack of housing supply*

- 11. The high levels of homelessness and lack of affordable rental options are driven by a shortfall in housing that is not catching up with population growth.
- 12. RDC's 2021 Housing and Business Development Capacity Assessment (HBA) identifies a current shortfall of 1,500 homes in Rotorua (with upper estimates as high as 1,750). The HBA identified a shortfall in plan enabled dwellings that are reasonably expected to be built in the short, medium and long terms (-1,890, -1,400 and -320 respectively). The proportion of attached dwellings (townhouses/apartments etc) in this

<sup>3</sup> The ratio between the cost of infrastructure-serviced land and the cost to build a home on it.

<sup>4</sup> Emergency Housing Special Needs Grants are given to individuals/households in emergency need for housing (i.e about to become homeless) and cannot access Transitional Housing (TH) contracted by HUD.

<sup>5</sup> This is the waitlist for those seeking Public Housing accommodation in a city/district.

<sup>6</sup> The ratio between the median annual household income and median house prices in a particular place.



shortfall across the short (2021-23), medium (2023-30) and long term (2030-50) is -400, -960 and -1490 respectively.

13. The HBA concluded that the current shortage of housing capacity in Rotorua has put upwards pressure on house prices. This shortage is in large part due to the constraints on the supply of new homes (such as planning rules and infrastructure provision).
14. There is also a constrained/limited supply of readily developable greenfield land in Rotorua, which has further exacerbated the undersupply of new homes.
15. As a result, the number of building consents for new dwellings issued per year by RDC are very low, particularly compared to the other tier 2 councils. RDC only issued 3.8 consents per 1000 residents in the year to October 2021. This is half the national rate, and lower than Napier and Hastings – both tier 2 councils with similar housing pressures.

#### *Planning restrictions*

16. There is a range of evidence suggesting that the Rotorua Lakes District Plan is contributing to a shortfall in housing.
17. Following a long period of low or no growth, population in the district has increased by 8,500 (12.9%) since 2013. Despite this, under the current plan there is little provision for medium density in the city, and only single one or two-story homes per site are permitted in the main residential zone.
18. RDC considers that the current planning environment is a consequence of previous low or no growth and planning provisions that have been rolled over in successive District Plan reviews. The restrictive and outdated provisions mean the district faces a significant planning deficit, that has contributed to the inadequate supply response to the major shift in demand in recent years. In light of the significant shortfall in housing, and high numbers of people being housed in motels, RDC considers a rapid step change is required in development opportunities.
19. Developers have indicated that although they can apply for resource consent for more intensive developments, this requires notification and is a significant deterrent, making some projects unviable. Development in Rotorua is reasonably risky for a number of reasons including poor development economics (addressed further below) and geothermal issues. The added cost of planning restrictions, or unnecessary resource consent processes, is highly likely to be limiting development. Other cities that have had these restrictions removed have seen an increase in development (as outlined in the CBA for the MDRS).
20. This conclusion is supported by the HBA which found that the requirement for large, detached dwellings under the plan was resulting in a lower supply of affordable, smaller, medium density housing than the market has appetite for.

#### *Request*

21. In recognition of these issues, RDC requested to the Minister for the Environment that RDC be required to implement the ISPP and MDRS. This request was unanimously agreed by the elected members of RDC and jointly made alongside Te Arawa Lakes



Trust<sup>7</sup> and Te Tatau o Te Arawa<sup>8</sup>. The action was supported by the Rotorua Business Chamber.

22. RDC considers the District Plan provisions are now too restrictive and outdated, preventing affordable housing for the future. It intends to overhaul the plan with a focus on the future growth of the city and has aspirations for more dense development moving forward. Alongside a desire to enable much more height and density in the CBD through NPS-UD implementation, the MDRS is seen as a key tool to modernising the District Plan.
23. RDC considers that implementing the MDRS in Rotorua will significantly reduce the barriers to building new homes, allowing the market and Kāinga Ora to increase housing supply to meet local demand.

### **What objectives are sought in relation to the policy problem?**

24. The Government Policy Statement on Housing and Urban Development (GPS-HUD) sets out the Government's objectives for the housing system.
25. The Government's overarching vision for the system is that everyone in Aotearoa New Zealand lives in a home, and within a community, that meets their needs and aspirations. Four outcomes are identified as necessary components of this vision:
  - a. Thriving and resilient communities
  - b. Wellbeing through housing
  - c. Māori housing through partnership
  - d. An adaptive and responsive system
26. Increasing development capacity, especially with an ample supply of alternative development opportunities, contributes primarily to outcomes b. and d. Sufficient development capacity is a necessary factor for an adaptive and responsive system which is in turn necessary for wellbeing through housing.
27. Directing RDC via an OIC to notify an IPI to implement the MDRS and NPS-UD Policy 5 will also support the Government's climate policy objectives, particularly the requirement in the Climate Change Response (Zero Carbon) Amendment Act for New Zealand to have net-zero carbon emissions by 2050.
28. The new housing supply enabled by this action will be more energy efficient than existing housing stock, which will reduce emissions. Increased housing density also better supports residents to uptake active and public transport over private motor vehicle use, further reducing future emissions compared to the counterfactual.

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<sup>7</sup> Te Arawa Lakes Trust owns the beds of the Te Arawa lakes on behalf of all Te Arawa iwi and hapū, and represents their interests particularly in respect of waterways.

<sup>8</sup> Te Tatau represents Te Arawa in respect of the Partnership between Council and Te Arawa.

## Section 2: Deciding upon an option to address the policy problem

### What criteria will be used to compare options to the status quo?

29. The proposal is assessed against a set of criteria to evaluate the impact of the proposals:
  - a. The magnitude of development capacity unlocked, and the likelihood that there will be a supply response as a result.
  - b. The speed of the process, particularly when additional development capacity becomes available.
  - c. Wider urban outcomes, including the minimisation of negative impacts, such as traffic congestion and infrastructure costs, and the increase in a city's productivity due to denser markets (agglomeration effects).
  - d. Ease of implementation, including the minimisation of costs for central and local government and in the risk of poor decision-making.

### What scope will options be considered within?

30. Consideration in this RIS is limited to whether or not an OIC should be issued requiring RDC to undertake the ISPP to give effect to the NPS-UD intensification policies and incorporate the MDRS.

### What options are being considered?

#### Option One – *Counterfactual*

31. Under the NPS-UD, RDC is a tier 2 council and must notify a draft plan change to implement the intensification policy (Policy 5) by August 2022.
32. Policy 5 in the NPS-UD requires regional policy statements and district plans applying to tier 2 and 3 urban environments to enable heights and density of urban form commensurate with the greater of:
  - a. the level of accessibility by existing or planned active or public transport to a range of commercial activities and community services; or
  - b. relative demand for housing and business use in that location.
33. Policy 5 provides significant discretion to councils to determine the scope and spatial extent of district plan changes to increase zoning for density. This will inevitably result in less plan-enabled development capacity than more prescriptive policies, such as the MDRS or the NPS-UD Policy 3 (the requirements for tier 1 councils).
34. Under the status quo, there are two plan making pathways in the Resource Management Act available to RDC, to give effect to policy 5. Either the standard plan change process under schedule 1 or they can apply to use the streamlined planning process (SPP).
35. The standard schedule 1 process is open to appeal rights to the Environment and High Court and may result in lengthy processes for legal challenge. Capacity would not be added for two years or more depending on the number and nature of legal challenge – so mid-2024 at the earliest and likely later.

36. The SPP can be expedient and tailored to the specific issues of the plan change, with appeal rights limited. However, RDC would need to prepare an application for the SPP which then is processed and considered by the Minister for the Environment. RDC have not indicated that they would make an application for an SPP, it would require considerable work and time to do so, and this is not considered a realistic counterfactual.

#### **Option Two – Requirement to implement the MDRS through the ISPP**

37. Via an OIC, RDC can be directed to change its District Plan to implement the MDRS. RDC would be required to notify a draft plan change that both incorporates the MDRS and gives effect to Policy 5 of the NPS-UD. This plan change would then go through an ISPP to become operative.
38. The MDRS are a set of baseline standards that must be incorporated into all urban residential zoning for given councils (with some exceptions) and specify rules on landscaping, boundary setbacks and recession planes. Once incorporated into plans, the MDRS enable the construction of up to three stories and three units per section without a resource consent. Councils can reduce heights and densities permitted on sites where qualifying matters have been identified.
39. The MDRS would make development within Rotorua that complied with the standards significantly easier and shorten the process. Any development that is consistent with the MDRS will not need to gain a resource consent from the council, and neighbours will not be able to prevent or slow down development.
40. The ISPP is faster, easier, and less costly than the standard process under the RMA. It limits appeals, which can delay a plan becoming operative by years. The ISPP involves an independent panel reviewing public submissions on a council's proposed plan change and making recommendations to the council. The council then either agrees with the recommendations, resulting in the plan change becoming operative, or disagrees with the recommendations resulting in the Minister for the Environment becoming the final decision maker.
41. When going through the ISPP, at notification of the plan change in August 2022, provisions consistent with the MDRS will have immediate legal effect. This will enable MDRS development to commence without resource consent from this time.
42. If is directed to undertake the ISPP, RDC is likely to complete the process by mid-2023, around a year earlier than the standard process, and by 2-3 years relative to the standard process with appeals.

#### **Consultation**

43. This proposal has broad institutional support from iwi, business and the council (RDC's elected members unanimously agreed to request to be directed to implement the MDRS). Some Rotorua residents are, however, likely to be worried about the impact of the proposals on their properties and neighbourhoods.
44. Although there has been no public consultation specifically on whether to require Rotorua to implement the ISPP via an OIC, an understanding of stakeholders' views has been incorporated into this analysis based on:

- a. Consultation as part of the select committee phase of the Amendment Bill. This included:
    - i. RDC and Te Tatau o Te Arawa noting that Rotorua has an acute housing need and calling for the introduction of the MDRS in the area.
    - ii. Te Arawa Lakes Trust expressing a desire to be included in the decision making on whether Rotorua is determining an acute housing need (which they have been) and proposing a requirement for understanding of Te Ao Māori to be reflect in any constituted IHP (changes to this effect were made for the final Act) and for Iwi and Hapū to be included throughout the development and decision making on plan changes to implement the MDRS.
  - b. Direct work with RDC and Kāinga Ora to assess housing need in the area and the likely impact on the region, including on infrastructure
  - c. Communication from RDC and its iwi partners (as per the request above)
  - d. Communication from the Rotorua Business Chamber which wrote to Minister Woods in early November 2021 expressing its unanimous support to apply the MDRS across the entire Rotorua urban area
  - e. Further consultation carried out by RDC with a wide group of mana whenua and key stakeholders.
45. As a result of this work outlined above, it is unlikely that additional consultation with affected people in the area would raise unique perspectives on the impacts of the intervention.
46. Consultation remains an important part of the ISPP itself. After a council notifies an IPI, public feedback is sought on the draft plan change. The independent hearings panel then considers all submissions before reporting back to council with any recommended changes to the draft plan change.
47. This public consultation will enable some negative impacts to be identified and managed appropriately. This includes where a qualifying matter is identified, or where an additional change is required to manage an effect of the MDRS or NPS-UD intensification policies.

## How does the option compare to the status quo/counterfactual?

Table 3: assessment against criteria		
	Option One – <i>Counterfactual</i>	Option Two – Require RDC to implement the MDRS via the ISPP
<b>Magnitude</b>	0	<b>++</b> Would likely release much more capacity than a plan change based on NPS-UD intensification policy 5 alone.
<b>Speed</b>	0	<b>++</b> Use of the ISPP would bring forward additional capacity by 2-4 years. Some development capacity will be enabled from August 2022.
<b>Urban impacts</b>	0	<b>+/-</b> There would be a mixture of urban impacts that arise commensurately with the realised housing delivery. These are a mixture of costs (e.g., sunlight loss for neighbours), benefits (e.g., agglomeration effects) and foregone costs relative to the counterfactual (e.g., lower infrastructure and environmental impacts as a result of less greenfields development).
<b>Ease of implementation</b>	0	<b>+</b> Although there is some additional work required upfront, the process would reduce some work over the medium term for the council.
<b>Overall assessment</b>	0	<b>++</b> Option is highly likely to have net-benefits relative to the counterfactual.

<b>Key:</b>		
<b>++</b>	much better than doing nothing/the status quo/counterfactual	<b>0</b>
<b>+</b>	better than doing nothing/the status quo/counterfactual	<b>-</b>
<b>+/-</b>	a mixture of positive and negative effects	<b>--</b>
		about the same as doing nothing/the status quo/counterfactual
		worse than doing nothing/the status quo/counterfactual
		much worse than doing nothing/the status quo/counterfactual

**What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?**

**Option 2 –**

48. Issuing an OIC directing RDC to implement the NPS-UD intensification policies and the MDRS via the ISPP (option 2) is officials’ preferred option.

*Magnitude*

- 49. This option provides for more development capacity than NPS-UD Policy 5 implementation alone and much greater certainty that the capacity added will lead to a supply response.
- 50. MfE and HUD have not undertaken modelling of the development capacity that the MDRS would bring online in Rotorua. However, modelling was completed for tier 1 urban environments to support the Resource Management (Enabling Housing) Amendment Bill 2021. Modelling for other cities has showed a sizeable increase over the status quo where the MDRS is applied.
- 51. Table 4 shows the projected impacts of the MDRS (compared to NPS-UD implementation alone) from the cost-benefit analysis (CBA) undertaken by PWC in 2021.

City	Projected development without MDRS	Projected development with MDRS	MDRS impacts
<b>Auckland</b>	40,609	79,776	39,167 (+96.4%)
<b>Hamilton</b>	9,509	17,769	8,260 (+86.9%)
<b>Christchurch</b>	14,100	25,601	11,501 (+81.6%)
<b>Wellington</b>	7,249	17,082	9,833 (+135.6%)
<b>Tauranga</b>	4,500	10,318	5,818 (+129.3%)

- 52. There are some reasons to believe that the MDRS would have a lesser marginal impact in Rotorua than in the tier 1 cities. Development economics in Rotorua may not support market uptake of new homes enabled by the MDRS in the same way as expected in tier 1 cities. House prices are lower in Rotorua compared to main centres meaning that redevelopment is less profitable.
- 53. However, there are good reasons to think that implementing the MDRS (in addition to the NPS-UD intensification policies) would lead to an increased supply response relative to the counterfactual:
  - a. There is some uncertainty how Policy 5 should be implemented in Rotorua, heightening the risk that there would be an insufficient development response if Policy 5 alone drives rezoning. This is in part because:

- i. accessibility varies less than in major centres (as all areas are relatively accessible) and so is a difficult basis to assess suitability for rezoning
  - ii. the low rate of intensification to date (as a result of the restrictive plan) provides limited information on the relative demand for medium and higher density housing
  - iii. development opportunities in Rotorua will likely be of an ad hoc nature and difficult to predict in advance. In other centres high land values are a good predictor of both high demand for housing and redevelopment. This is less likely to be the case in Rotorua where areas that have high land values also have more recent development and higher improvements values. This means that areas that appear to be of high demand may not support high volumes of profitable re-development.
- b. in contrast, applying the MDRS across the city provides developers the greatest set of development opportunities and does not limit these to areas where on paper re-development might be most desirable from an access or demand perspective but may not be profitable. The cost of development in Rotorua can also be highly variable and uncertain due to geotechnical risk and existing deficits in stormwater capacity. The blanket nature of the MDRS along with funding sought through the Infrastructure Acceleration Fund (see para 63 (a) below), would together provide the greatest near term uplift in commercially feasible development capacity that is both realisable and likely to be taken up
- c. applying the Medium Density Residential Standard will mean Kāinga Ora can develop at higher density earlier than otherwise. The Public Housing Plan sets regional targets for Kāinga Ora to deliver new Public Houses (PH). The Minister for Housing has set an expectation that Kāinga Ora over deliver against its intention to deliver 190 public homes under the 2021 Public Housing Plan. Kāinga Ora is staging development on two recently acquired sites<sup>9</sup> to enable the second stage to be developed at medium density. Kāinga Ora is also developing plans for redevelopment of existing public housing across the city, including the community of Fordlands. Applying the MDRS would enable Kāinga Ora to accelerate development and would provide certainty that current and future sites could be developed to medium density.
- d. the MDRS will likewise reduce land costs for Community Housing Provider and iwi/Māori led developments, which will make it more feasible and attractive for these groups to develop property in Rotorua.
- e. the blanket nature of the MDRS would ensure that the local development sector could more efficiently respond to any sudden future increases in demand. If there is high demand for specific areas that have not previously seen growth, developers will be able to build immediately, rather than wait for a future plan change.

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<sup>9</sup> On the corner of Ranolf and Malfroy Kāinga Ora is delivering 37 one and two story homes in stage one and a further 37 one and two story homes as part of stage one at Collie Drive.



54. In addition, in implementing Policy 5 the council may choose to enable heights and densities greater than the MDRS in targeted places. However, even in these areas, option 2 will better support development. This is because the other MDRS standards (in addition to those regulating heights and densities) are also likely to be more enabling than those that would result from a plan change under option 1.

*Speed*

55. Under this option capacity would be added in two tranches:
- a. August 2022 when the plan is notified and relevant areas have immediate legal effect
  - b. once final decisions are made under the ISPP, likely mid to late 2023 (as there is no opportunity for appeals).
56. This is a significant improvement over the counterfactual where capacity would only be added at the end of the plan change process, in 2024 or later if there were appeals. Under that scenario, the current restrictive plan would be in place as is for at least 2 and half more years.
57. The following table summarises these differences in timing.

Table 5: Impact of option 2 on timing		
	Option 1 (counterfactual)	Option 2: ISPP and MDRS
Capacity added at notification (immediate legal effect)	No additional capacity at notification.	Rules in plans that incorporate the MDRS without modification Expected date: August 2022
Capacity added at end of process	Capacity added following decisions (or once appeals on decisions are complete) Expected date: mid-2024-2026 (dependent on appeals)	Additional capacity in areas where qualifying matters have been identified and zoning is more enabling than MDRS Expected date: mid-2023

58. The MDRS also means that development is more likely to occur quickly than other types of residential zoning, including that which would likely result under the counterfactual. Where new homes meet the standards, these will not need resource consent from the council.

*Urban Outcomes*

59. The CBA for the Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill<sup>10</sup> identified a range of impacts can be expected from implementation of the MDRS, including:
- a. infrastructure costs not able to be recovered through development or financial contributions
  - b. the impacts of congestion
  - c. loss of sunshine and views to properties neighbouring new development
  - d. environmental costs, including the impact on fresh and coastal water and on air quality
  - e. implementation costs (for councils)
  - f. agglomeration effects (a positive impact). Agglomeration effects, resulting from a larger labour and consumer pool, benefit households and firms in the form of greater productivity and more diversity in labour, service and product markets.
60. The CBA reviewed a wide range of national and international evidence and estimated impact of each effect on tier 1 areas. Overall, the CBA found that:
- a. the benefits for homeowners and renters of lower housing costs, along with other benefits such as agglomeration benefits, would significantly outweigh any negative impacts
  - b. impacts tend to arise commensurately with development. This means that even if development is lower or higher than expected, the ratio of benefits to costs should be similar
  - c. the MDRS would be likely to reduce infrastructure costs and the impact on the natural environment as these are lower on average for intensification than in greenfields development.
61. Broadly we can expect these findings to apply similarly to Rotorua, as they do not generally vary significantly from city to city (with the potential exception of infrastructure, addressed below). Some costs may be more limited in Rotorua, in particular,
- a. The costs of sunlight and view loss may be more limited on a site by site basis than in Auckland and Wellington owing to Rotorua's less varied typology. The height standard was also reduced as a result of a select committee recommendation during the legislative process, meaning costs will be lower than estimated in the MDRS CBA.
  - b. The impact on traffic congestion (a high expected cost in tier 1 cities) may be more limited in Rotorua as these pressures are currently less acute.
62. Regarding infrastructure, local conditions can have a sizeable impact on costs. However, infrastructure costs are unlikely to be significantly higher in Rotorua than in other centres. The HBA highlights that based on investment already committed through

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<sup>10</sup> <https://environment.govt.nz/assets/publications/Cost-benefit-analysis-of-proposed-MDRS.pdf>

the Long Term Plan, the city's stormwater system will need additional investment, while its wastewater system is not expected to see capacity constraints.

63. Existing storm water capacity constraints are expected to be managed by:
  - a. new investment in the storm water system, including potentially with the assistance of Infrastructure Acceleration Fund. Targeted investment in stormwater systems to cover the central and western areas of the city would successfully address stormwater constraints
  - b. a new development contributions policy to support investment
  - c. management at a site level where necessary (e.g., with stormwater retention tanks or at a subdivision level with retention ponds). In this regard, the ISPP can be used for changes to relevant district wide matters which could be used to manage storm water issues.
64. Rotorua's wastewater network should not experience capacity constraints from implementation of the MDRS. RDC estimates that in the short to medium term (to 2026) household and business demand will amount to less than half of the Rotorua Waste Water Treatment Plant (WWTP) capacity. Significant investment is planned for 2027, increasing the capacity by around two thirds. Projected household demand would amount to around one-third of the total WWTP capacity from 2027 to 2050.
65. It is important to note that ultimately the city's infrastructure network, including stormwater systems, will require upgrades as population and housing stock grows, irrespective of whether or not the MDRS is implemented.

#### *Ease of implementation*

66. While developing a plan change to implement both the MDRS and the NPS-UD's Policy 5 would involve more work than a plan change for Policy 5 alone, the prescriptive and clear nature of the MDRS makes this additional work fairly straightforward.
67. The MDRS provisions within a draft plan change would become operative when RDC notifies the change. This means the additional housing development capacity would be brought online sooner than the additional capacity from implementation of Policy 5 alone.
68. RDC would also be required to implement the MDRS and Policy 5 through the ISPP. This process is simpler and quicker than standard RMA schedule 1 plan change processes. This includes because there is no right to appeal decisions reached at the conclusion of the ISPP.

#### *Summary*

69. As outlined in the RIS for the Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill and in the CBA, there are strong reasons for expecting the benefits of planning reforms to outweigh the costs. This includes in the case of Rotorua.

## What are the marginal costs and benefits of the option?

Table 6: Impact Assessment of Option 2			
Additional costs of the preferred option compared to taking no action			
Type of impact	Affected group	Impact	Evidence Certainty
Supporting <b>infrastructure</b> – will need to be funded by a combination of private and public sources	Ratepayers (where not recovered by contributions)	Low, possibly negative. Dependent on the extent to which costs are outweighed by less greenfields development	Low to medium. Infrastructure servicing is expensive but there is limited evidence on the infrastructure pressures which would be triggered by rezoning and subsequent uptake of development opportunities. It is unclear how much urban development will shift from greenfields to existing urban areas
Additional pressure on infrastructure in existing urban areas ( <b>congestion</b> ), including both transport and access to parks and open space	Residents in rezoned areas	Low – medium. Dependent on extent to which development opportunities are taken up, and marginal to avoided cost of providing new facilities in greenfield locations	Medium. Transport congestion is currently lower than in tier 1 cities
Loss of <b>sunshine and views</b>	Neighbours to developed properties	Low- medium	Low to medium. These costs are well documented but vary based on development uptake and typology. Typology suggests they will be more limited in Rotorua than in some cities
<b>Environmental</b> costs, including impacts on fresh and coastal water and on air quality	Natural environment	Low, possibly negative. Dependent on the extent to which impacts will be outweighed by less greenfields development	Low. The MDRS CBA included some estimates for these impacts. They are, however, highly dependent on the scale of development realised and the degree of greenfield development foregone
<b>Implementation</b> costs	Councils	Low	High

### Additional benefits of the preferred option compared to taking no action

Type of impact	Affected group	Impact	Evidence Certainty
Additional <b>consumer surplus from lower house prices</b> : Where additional supply leads to a net increase in supply (rather than displacing supply elsewhere), it will improve affordability and allow more households to become homeowners or rent at a more affordable level.	New homeowners, renters	High. The CBA for the MDRS estimated that in tier 1 cities this would be the greatest impact as a result of their implementation.	Medium. Although evidence is high that cities with strong development economics see a strong supply response, the likelihood of this resulting in Rotorua is less certain.
<b>Agglomeration</b> benefits: these result from a larger labour and consumer pool and benefit households and firms in the form of greater productivity and more diversity in labour, service and product markets.	Regional population	Medium	Low. An extensive literature exists on the agglomeration benefits that arise from density but it would depend on the supply response.
<b>Avoided soil loss</b> : increasing the amount of development capacity within existing urban areas through the MDRS may reduce pressures at the urban fringe to rezone highly productive land for housing.	Regional population	Medium to High depending on extent to which greenfield development is avoided versus the status quo	Low to medium. These (avoided) costs are well documented, but applying them to this option requires information about how much urban development will shift from greenfields to existing urban areas.

## Section 3: Delivering an option

### How will the new arrangements be implemented?

70. If the OIC is in place by 21 March 2022, a relevant plan change must be notified by 20 August 2022. If the OIC is made after this date, the notification date for the plan change will be specified in the OIC. RDC will then develop and notify a plan change to amend the Rotorua District Plan (RDP) to be consistent with the NPS-UD Policy 5 and the MDRS.
71. HUD and MfE have been discussing the implications of this policy with RDC. RDC is prepared to produce a plan change to implement the MDRS by August 2022.
72. HUD and MfE currently have an implementation work programme for the tier 1 councils who are required to adopt the MDRS that includes:
  - a. relationship management with each council through regular communication over email and Microsoft Teams calls
  - b. developing an MDRS Design Guide
  - c. facilitating discussions and answering questions on the Microsoft Teams Channel that is accessible to all relevant councils
  - d. assessing the need for additional council funding and support.
73. Regular contact with RDC will be incorporated into this wider implementation programme. Support offered to tier 1 councils will extend to RDC.
74. A direction will be developed following the OIC coming into force. The direction will set out timeframes for RDC to complete the ISPP. If they are unable to complete the ISPP in the timeframes set in the direction, they can apply to the Minister for the Environment to amend the timeframes. MfE and HUD will monitor RDC's completion of process steps in the ISPP (e.g. notification, hearing dates, and when the independent hearing panel makes their recommendations).
75. If RDC fails to comply with the requirements which are set through the OIC and in the ACT, there are options in the RMA available to the Minister for the Environment to:
  - a. investigate the performance of local authorities in giving effect to the MDRS
  - b. provide recommendations to the councils on improving their performance
  - c. direct plan changes
  - d. as a last resort, apply residual powers to appoint someone to carry out the local authority's functions and duties.
76. Central government may also choose to comment generally on the plan change proposal when it is notified or make a formal submission. These submissions would be considered by RDC and the independent hearing panel and may influence the final decision. This could be used where MfE and HUD find that the exemptions have been applied in a manner that is not consistent with the Act.

## How will the new arrangements be monitored, evaluated, and reviewed?

77. Following notification of their draft plan change, a public consultation process will be run, which will give the public a chance to submit on aspects of the plan that go above and beyond what is required by the MDRS. This will also provide an opportunity to ensure the plan complies with the requirements of the NPS-UD and the MDRS.
78. Beyond this, councils are required to monitor development capacity in the following ways:
  - a. All councils have ongoing monitoring and reporting requirements under the NPS-UD
  - b. Tier 1 and 2 councils are required to undertake Housing and Business Capacity Assessments (HBAs) every three years.
79. Under the NPS-UD, every tier 1, 2, and 3 council must monitor the demand and supply for dwellings, prices and affordability, and the proportion of housing development capacity that has been realised. This data must be published at least annually and will be an early indicator of the success of this measure.
80. RDC is also required to produce an HBA in 2024. This assessment will estimate the increased capacity as a result of the MDRS and the initial response from developers. The HBA will also consider certain negative impacts, including pressures on infrastructure.
81. Beyond these assessments, the impacts of the change will show up in broader housing data. HUD collects a wide range of housing data and regularly assesses issues across New Zealand. In areas where the Government has partnered with the relevant council(s) to address acute housing need, HUD undertakes additional quarterly monitoring to assess the impact of interventions. This monitoring includes Rotorua and will support the assessment of additional development that has occurred as a result of this change and its likely impacts.