FREE TO BUILD

RESTORING NEW ZEALAND'S HOUSING AFFORDABILITY

MICHAEL BASSETT
LUKE MALPASS
JASON KRUPP

THE NEW ZEALAND INITIATIVE

Free to build

Restoring New Zealand's Housing Affordability

Michael Bassett, Luke Malpass and Jason Krupp

THE NEW ZEALAND INITIATIVE

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We develop and contribute bold ideas that will have a profound, positive, long-term impact.

About the Authors

Michael Bassett

Michael is the author of 12 books, a former history professor and retired politician, having twice been elected to government. During his tenure in Parliament, he oversaw the ministerial portfolios for health, local government, internal affairs, civil defence as well as arts and culture. Michael was educated in Auckland, New Zealand, and at Duke University where he took a PhD in modern American history.

Luke Malpass

Luke is a Research Fellow at the New Zealand Initiative. Luke joined The New Zealand Initiative from Sydney, where he was a freelance consultant and weekly columnist for the *Australian Financial Review.* Prior to this he spent three years as a policy analyst with the Centre for Independent Studies. Luke holds a first class Bachelor of Arts Honours degree in Politics from the University of Otago.

Jason Krupp

Before joining The New Zealand Initiative, Jason was a business reporter at *The Dominion Post.* He previously worked for Fairfax's Business Bureau where he was chiefly responsible for covering equity and currency markets for the group. Prior to that, he wrote for BusinessDesk, New Zealand's only dedicated business news agency. Jason has a degree in journalism from Rhodes University, and has previously lived in Hong Kong and South Africa.

Acknowledgements

The authors wish to acknowledge and thank all those who participated in interviews, reviewed, or commented on our reports. Any errors remain our own.

We would like to especially thank the Local Government Forum for their support and input on the project.

Executive Summary

New Zealand's housing market needs urgent reform. For too long, the rate of building has fallen below what is needed to keep up with household formation and demographics. It is difficult, costly, and time consuming to build a new house or dwelling. Rather than tinkering with demand-side stop-gap solutions, nominal subsidies, and bit-part changes to the Resource Management Act, even if some of them are desirable, long-term supply-side solutions are needed to fix New Zealand's housing crisis. The central government's new policies seek to reflect this reality but do not go far enough.

The New Zealand Initiative's three-part series on housing[1] offers solutions to restore some of the freedoms that have been stripped from property owners over the years, such as the ability to do what they like with their own property, provided they adhere to basic building regulations. This third report draws on the Initiative's previous two housing reports: *Priced Out* and *Different Places, Different Means.* Those reports examined the ways in which government and council regulation has become more centralised and the effect, combined with higher expectations, this has had on the housing market. With many councils complaining about the high costs of new development, incentives to local government also need to be improved. The following three reforms can help free up the housing market and augment the supply of new homes.

Establishment of Community Development Districts

To counteract the high costs charged by monopoly suppliers for infrastructure within new development areas, we recommend a new kind of infrastructural funding option.

Loosely based on Municipal Utility Districts in Texas, Community Development Districts (CDDs) must be created in New Zealand. CDDs are statutory taxing bodies that can privately finance debt to build new infrastructure – fresh and waste water, electricity connections, street lighting, and roads and footpaths – by issuing bonds and charging residents an ad-valorem tax to repay the debt.

Developers or landowners can create a CDD by submitting an application to regional or unitary councils, although Parliament could legislate in case of a council blockage. Regional or unitary councils would identify the areas where CDDs cannot be developed based on long-term environmental, tribal or practical concerns. The size of CDDs would be limited to a total proportion of the district and be subject to appeals to central government. This would compel councils to carefully consider their priorities. There would be an assumed right to develop outside the areas designated by a council for non-development. This way, CDDs would render land zoning irrelevant within the agreed area of coverage, while covenants would protect residents' rights.

The *Resource Management Act* would apply only to design or infrastructure features that affect properties and areas outside the CDD boundary. CDDs will spur large-scale developments beyond

[1] Bassett, Michael and Malpass, Luke. *Priced Out: How New Zealand Lost its Housing Affordability*, Wellington, 2013, and; Bassett, Michael and Malpass, Luke. *Different Places, Different Means: Why Some Countries Build More Than Others*, Wellington, 2013.

town boundaries aimed at house first-home buyers, with infrastructure costs paid for by residents of the CDDs.

Reforming local government incentives

Rates are not an ideal tax at a local government level. They do not reflect the ability to pay or the level of service received. Changes to income taxes and capitation grants should be investigated as part of reforming local government finance, and its sustainability and equity. Meanwhile, local government needs a structure to share in the proceeds of population and housing growth that is paid to central government. Councils must be entitled to a Housing Encouragement Grant for every new house built in their area, provided the house meets minimum delivery deadlines from application to completion.

Grants would be benchmarked on the GST levied on the house, recognising the impact of sales tax on house prices. For a house-and-land package with an inclusive price of $400,000, the central government would pay the council an grant of $60,000. It would be a straightforward calculation and involve no new compliance costs to infrastructure or service providers. These grants would also foster a pro-development attitude within councils, and provide a predictable cash flow to local governments by increasing their revenue from more development.

Reforming water provision

The current system of council-run water companies is often accompanied by opaque financial arrangements that muddy the actual cost of housing infrastructure, how much ratepayers pay, and how much is cross-subsidised by councils. Five regional water companies should be established in New Zealand with ownership vested in the councils. These water companies can use network pricing to create quality water infrastructure and make long-term infrastructure decisions free from political or electoral considerations. In turn, councils would be free from the burden of water provision to concentrate on social infrastructure (parks, libraries, and sports and community amenities). With this shift in the political economy of housing, no longer would councils and residents see new housing development as ‘cost exacerbaters’. The real costs of development and water infrastructure’s part in that too would be much more clear.

Contents

About the Authors ii

Executive Summary iv

- Establishment of Community Development Districts iv
- Reforming local government incentives v
- Reforming water provision v

Foreword ix

1: Introduction 1

2: Observations 5

3: The scope of reform 7

4: What we do not recommend 9

- Foreign ownership of homes 9
- A broad-based capital gains tax 9
- Loan-to-value ratios 10
- Availability of funding 10
- Rates 11

5: Community Development Districts 13

- Building a Community Development District 13

6: Housing Encouragement Grants 17

7: Water infrastructure 19

- Proposals 20
- CDDs and the new water infrastructure 21

8: Conclusions and recommendations 23

- Community Development Districts (CCDs) 23
- Rates and taxes 24
- Water 24

Foreword

Dr Oliver Hartwich
Executive Director
The New Zealand Initiative

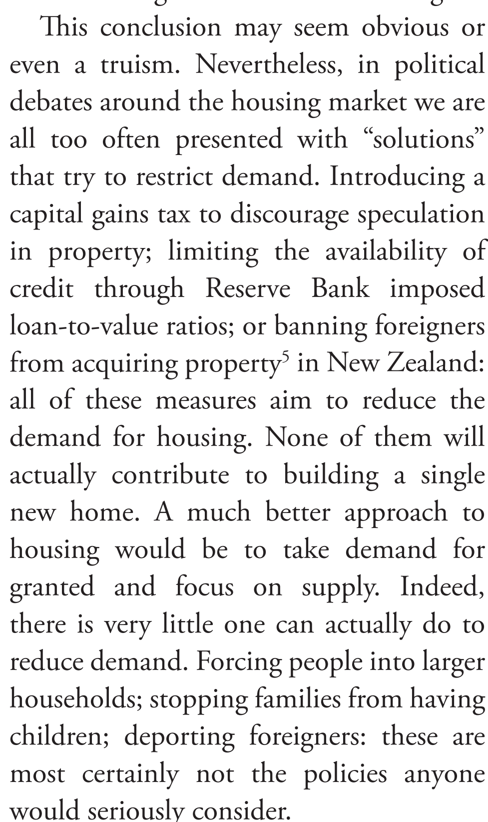
Housing is on top of the political agenda. It is such an important topic not just because everyone has an interest in it whether as a home-owner, a would-be home-owner, a tenant or, in the worst case, as a homeless person. The main reason why we have been talking about our housing market in recent years is the fact that housing has become severely unaffordable. This is particularly true for Auckland but, to varying degrees, it is a nationwide problem.

Whereas in previous times, houses could be bought for the equivalent of two or three times an annual household income, this so-called 'median multiple' for New Zealand's cities has reached worrying levels. For the whole country, it currently stands at 5.1. For Auckland it is 6.8, for Wellington 4.5 and for Christchurch 5.3. At such median multiples, New Zealand can be classified as unaffordable.

Economics students learn in their first semester that prices are the result of supply and demand (the additional complications are revealed in their postgraduate studies). For the New Zealand housing market, it actually is that straightforward. A growing demand, driven by an increasing population living in smaller households, had to be accommodated. At the same time, housing supply was not able to keep up with growing demand. On the contrary, completion figures have more than halved since the mid-1970s.

In The New Zealand Initiative's first two reports in this series, Michael Bassett and Luke Malpass documented how this situation has come about and how New Zealand compares internationally with its housing policies. Their research left no doubt that what we are witnessing today is mainly the result of a mismatch between slowly growing demand and sharply declining supply over the past four decades.

What economic conclusions could one draw from this analysis? And which policy recommendations should follow? If the housing problem mainly results from the supply side of the market, which has not delivered the housing that this country needs, then this is what must tackled to make housing more affordable once again.



This conclusion may seem obvious or even a truism. Nevertheless, in political debates around the housing market we are all too often presented with "solutions" that try to restrict demand. Introducing a capital gains tax to discourage speculation in property; limiting the availability of credit through Reserve Bank imposed loan-to-value ratios; or banning foreigners from acquiring property[5] in New Zealand: all of these measures aim to reduce the demand for housing. None of them will actually contribute to building a single new home. A much better approach to housing would be to take demand for granted and focus on supply. Indeed, there is very little one can actually do to reduce demand. Forcing people into larger households; stopping families from having children; deporting foreigners: these are most certainly not the policies anyone would seriously consider.

1. Introduction

In our first report, *Priced Out: How New Zealand Lost its Housing Affordability*, we traced the historical development of housing in New Zealand since 1900. We also mapped the policy changes that led to a record 34,400 new houses being built in 1975, and how this figure slid to 24,200 in 1978 and 14,000–15,000 houses in the early 1980s. At no point over the next 25 years did the number of new house authorisations per year reach the 1975 level, and it has hovered around 15,000 since the onset of the global financial crisis,[2] even though the country's population has continued to grow. Rates of household formation accelerated after the 1970s with lifestyle changes leading to fewer people living in the average house; indeed, the number of people living alone has risen. A shortfall in new house construction began accumulating as a result of these new demands. In 2011, 15,832 new dwellings were completed across New Zealand compared to the estimated 22,000 new households formed that year. The exact shortfall of new houses in New Zealand since the late 1970s is not known, but it is surely many tens of thousands, possibly as many as 100,000.

Our first housing report also pointed out something often overlooked by pundits on housing affordability: when too many people chase too few goods, prices will always rise. That is the case in New Zealand's housing market. The average sale price for a house in the year ending 31 December 2008 ($402,782) was 120% higher than in 1998 ($182,970),[3] which in turn was 47% higher than in 1993 ($125,609).[4] By mid-2013, Auckland City's median house price was $650,000, up $172,500 over the previous four years.[5] These were not years of high inflation except in housing. Nothing can disguise that there are far fewer houses being built each year in New Zealand than the population needs. In Auckland, the number of new houses that needed to be built in 2012 to keep abreast of demand was between 10,000 and 13,000, but only 4,000 were completed.[6]

As a result, house prices have kept rising so rapidly that many young New Zealand families find the stretch to homeownership beyond them. In 1998, one could buy a house in Auckland with four to five average annual incomes; by 2012, six to seven incomes were needed.[7] Consequently, the portion of the population obliged to rent keeps on rising. New Zealand once had one of the highest levels of homeownership in the world (nearly 80%). But the figure today is down to 66% nationally, and 57% in Auckland where nearly every second house is rented.[8]

Changing government policies largely driven by national economic turbulence (1973–93), were the major cause of new house building falling behind demand. The government's financial contribution towards a mortgage scaled back from the late 1970s. At the time, the private sector was not able to fully fill the gap due to a

[2] New Zealand Government, *New Zealand Official Yearbook (NZOYB)*, Wellington, 1994. p.426; 2000, p.469; 2010, p.415.

[3] *NZOYB*, 2010, p.407.

[4] *NZOYB*, 2000, p.463.

[5] *New Zealand Herald* (NZH), 24 July 2013, A17.

[6] *Priced Out*, p.28.

[7] *New Zealand Herald*, 23 May 2013, A16.

[8] *Priced Out*, p.18.

requirement that spare funds be invested in government stock. Private lending for housing picked up in the 1990s and the early years of the twenty-first century, but this, coupled with a shortage of housing supply, elevated prices rather than reduced them. The dramatic fall in interest rates after the global financial crisis drove demand even faster, while declining completion rates of new homes meant supply and demand diverged further, causing prices to rise further.

Exacerbating this problem was the growing importance of planners, whose agendas after the passage of the *Town and Country Planning Act of 1977*, rapidly made land for new building more difficult to obtain. Despite official advice at the time that putting a Metropolitan Urban Limit around cities would likely increase prices, Auckland mayors and councillors allowed themselves to be taken in by what we call 'the compact cities cult'. It favours brownfield redevelopment rather than greenfield expansion, which was vital to affordable housing in the 1970s. The steady supply of new homes coming into the market from the 1950s to 1970s, usually for first-home buyers, kept the price pressures off older houses. Moreover, greenfield development appealed to young couples with children, who preferred homes with a garden. However, the planners relentlessly drove intensification and high-rise construction near city centres. The debate this year over Auckland's Unitary Plan revealed high levels of dissatisfaction with the focus on high-rises. Moreover, the overseas studies we cited in our previous reports show how planners grossly exaggerated claims about the adverse economic effects of greenfield expansion.[9] Much more new land is needed for housing than is being released by local authorities. Nothing short of central government intervention is likely to improve the housing situation.

In *Priced Out,* we also identified steep rises in levies, consent fees, and development contributions as factors that increase the costs of a new home: connecting a subdivision to water and wastewater mains ($20,000); roads, footpaths and drains ($85,000); and consent levies, development levies, and inspection fees ($40,000). Developers have to add these costs to the price of the raw land, so that the rock bottom price for the cheapest section in a major city like Auckland is around $300,000. The average section costs considerably more. This is before any money is spent on construction. In a small country like New Zealand, ex-ante costs are often determined by monopoly providers of infrastructure services – resulting in the total cost of a new house accelerating well beyond the average wage growth.

Clearly, councils don't encourage new development within their areas. Permission for new land outside a Metropolitan Urban Limit takes too long to obtain and is costly for a would-be developer. The consent process for a new building is inordinately long and excessively costly; the various levies add up to an exorbitant amount, and the inspection process is needlessly time-consuming.

New Zealand is unlike the other jurisdictions studied in *Different Places, Different Means*. Local authorities in Switzerland and Germany vie with each other to attract new home-builders and settlers into their areas by keeping a check on building costs. Houston, Texas, has developed a system of privately ring-fencing some of the most expensive infrastructural costs of a new development, thus allaying the fears of existing residents of having to pay extra for new neighbours. This report, building on an analysis of the problems associated with the great slowdown in house construction in New

[9] *Priced Out*, p. 20-25.

Zealand, offers solutions to rapidly lift new house building. If the freedom to build is not restored soon, many young people will be barred from the housing market for decades. Driving this three-part housing series is a belief that it is not in the interests of the councils or the country to tie up huge and unnecessary sums of money in unproductive assets like a house. As noted in *Priced Out*, high house prices and the resulting high mortgages are key contributors to New Zealand's high levels of private indebtedness. Indeed, investment in residential housing has risen at the expense of every other sort of investment in the country. We have an urgent national problem.

2.

Observations

Although we recommend increasing housing supply and greenfield development, we do not suggest ending housing intensification. We believe in choice, but choice has been in short supply since the 'compact city cult' caught on. Historically, greenfield developments in Tauranga, Wellington, Christchurch, and the west, south and north of Auckland sustained the flow of new first homes, which also kept house prices at reasonable levels across the country. This trend stopped with the passage of the *Town and Country Planning Act 1977* and the *Resource Management Act 1991*, and the ever-tightening Metropolitan Urban Limits that followed.

Second, we are not suggesting homeownership for all New Zealand households. Although this country has had a historically high level of homeownership compared to many other countries, the past high level of ownership may no longer be possible to achieve. Also, it is not practical, nor desirable, to rapidly reduce all current house prices because many of those who recently acquired mortgages would be saddled with negative equity. Rather, the supply of newly constructed houses should increase so the rate of price increases can be contained to more economically sustainable levels. The current situation where six or seven annual incomes is required to purchase a new home means that for the foreseeable future many low-income New Zealanders, particularly those with large families, will need to continue renting and accept various government income supplements. Our proposals would make homeownership for 70% of all houses a reality. Owning one's own home will continue to involve savings or assistance from families to accumulate a satisfactory deposit, just as it has always been for New Zealanders. It is unrealistic for couples aged as young as 22 to expect to be able to borrow almost the entire cost of a new home.[10] Several more years of saving lie ahead of them, just as it did in their parents' days. An excessive and dangerous sense of entitlement has crept into the younger generation over recent years. Too much money has been lent by financial institutions to people with little or no equity, posing a threat to the lenders' stability, as the Reserve Bank of New Zealand (RBNZ) acknowledges. Housing affordability requires balanced decision-making, which is why any solution has to consider the possibility of a banking crisis.

Nor do we believe that the size of all newly constructed New Zealand houses needs to be as big as the current average of 190m^2. Unreal expectations underpin the trend towards larger homes, especially first homes. Many entry-level homes in the 1960s and 1970s were no bigger than 110m^2, which young families could extend when they could afford it.[11] Of course, adding to housing costs are modern design improvements such as insulation, and health and welfare considerations.

[10] *NZH*, 28 September 2013, A1; 30 September 2013, A22.

[11] Graph in *Priced Out*, p.14.

A surge in house construction is needed to achieve the target of 70% of households living in their own home. That is particularly true for first-home buyers, who have been primarily disadvantaged in recent decades. There is also the historical link between an adequate supply of new entry-level houses and pressure on existing house prices. When government assistance with mortgage money was tied exclusively to constructing new houses the price of existing homes climbed only gradually, with some restraint noticeable at most levels of house prices. A substantial increase in constructing entry-level housing would once again restrain prices at subsequent levels in the housing chain. Greenfield construction on the edge of cities, which has houses with attached land, comes at extra cost. In some cases, motorways need to be extended, and careful planning is necessary to ensure availability of adequate employment within a development or at a reasonable distance from it. Bus and rail connections add to public costs. But the compact city cult too is not costless in basic or social infrastructure. Intensification has exacerbated the stress on limited community facilities like parks, schools and libraries; the extra wastewater generated by additional inner city living in recent times has necessitated costly upgrades to main trunk sewer lines, especially in Auckland.

3.

The scope of reform

What follows is a proposed regulatory environment designed to boost house construction, increase land supply, and give options to unclog the approval process. New Zealand does not build enough houses and needs to unlock short- and long-term supply-side constraints on housing. Our research in New Zealand and overseas jurisdictions has revealed the policies that spur local government involvement in housing.[12] These policies can facilitate different types of building and change the overall environment of house construction in New Zealand. As shown in our first report, it has become onerous and expensive to build new houses in New Zealand. Land is hard to obtain, and council fees for various consents and development contributions are too high – increasing the end price of land. New Zealand also has issues with delivering infrastructure. For example, all infrastructure development has to be exclusively negotiated with councils and paid for upfront, thereby escalating the initial price of a house and adding to the end price. Key aspects of council-provided infrastructure are accompanied by opaque financing arrangements. Housing reforms should alter the relationship between water providers and customers. This would allow councils to focus on what they do best: providing social infrastructure for residents rather than allocating scarce resources to provide unaffordable water supply because of fewer efficiencies of scale.

Infrastructure provision can be reformed in two ways: introducing debt-funded infrastructure based on the Municipal Utility Districts (MUDs) in Houston, Texas, or making new house construction eligible for Housing Encouragement Grants and paid to councils based on agreed delivery targets. This would reduce the adverse impact of a protracted process of planning and release land for construction, dull the NIMBY (Not In My Back Yard) sentiment arising from proposed developments, and make the relationship between new infrastructure and rates clearer and more transparent.

We call these MUD-like structures Community Development Districts (CDDs). These districts would be designed to defray the costs of infrastructure development over time, so they are not capitalised in the upfront costs of a new house. In the areas where they existed, CDDs would free councils from having to provide infrastructure for new housing, and be a new vehicle for developments outside existing town boundaries. By compelling councils to prioritise environmentally sensitive areas, localities of tribal importance, or sections completely inappropriate for residential development upfront, building on land outside city and town boundaries would be allowed, thus minimising delays, risks and exorbitant legal fees.

Most of these reforms may be undertaken in isolation and implemented

[12] *Different Places, Different Means.*

on their own merit. But if implemented as part of a reform package, they would produce the big bang needed to attain a more diverse housing sector quickly, and also reduce many of the costs associated with new housing. By dealing with several sectors simultaneously, some of the regulatory blockages and market controls can be unlocked.

4.

What we do not recommend

Due to the current political focus on housing affordability, a number of demand-side remedies to the crisis have emerged, including limiting overseas ownership of homes and capital gains tax (CGT). In addition, the housing affordability debate has become entwined with concerns over access to finance for first home buyers and the RBNZ's introduction of a loan-to-value ratio (LVR) restrictions. However, these are demand-side remedies to what essentially is a supply-side problem. Long-term changes to the rates system are being proposed (see below) which are desirable, but the pace of legislative reform will not address the housing affordability crisis New Zealand faces right now.

Foreign ownership of homes

The notion that New Zealand's housing affordability crisis is being driven by overseas cash buyers began with comments by economist Tony Alexander. He argued that foreign buyers should be barred from purchasing existing houses and instead be compelled to construct new residences.[13] This is not because foreign buyers are purchasing houses but to mollify a perception that they might be. Therefore, to reduce the chances of creating an environment where xenophobia could rise, New Zealand should direct foreigners towards the more acceptable goal of adding to the housing stock. (It is important to note that Mr Alexander's proposal is aimed at tackling a perception problem.) There is little quantitative evidence of cashed-up foreigners cutting a swathe through New Zealand's housing market. Jonno Ingerson, research director at Property IQ, recently said[14] that the best indicator of foreign buyer activity is the number of cash sales for homes, which have fallen rather than risen in Auckland.[15] Admittedly, the data are patchy, but on best indications, foreign buyers are not a factor driving up existing house prices, so restricting foreign ownership of housing would be an unhelpful policy. Even with a high level of foreign ownership, policies should focus on supply-side solutions rather than demand-side responses.

Broad-based capital gains tax

A broad-based CGT is meant to reduce the high demand-side pressures in housing (and buy-to-rent activity) by limiting the returns that short-term speculators seek from property investments, particularly in Auckland. But although a CGT may be a desirable tax reform and could take some of the heat out of the market, it is debatable whether a CGT – particularly one that exempts the family home[16] – will resolve the housing supply shortage. Rather, a CGT could make the situation worse. Landowners might also hold on to their properties for longer to avoid paying CGT, further limiting supply and hence

[13] *NZH*. Tuesday 9 July, 2013, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10895526

[14] Briefing by Jonno Ingerson at the New Zealand Bankers Association. Thursday 15th August, 2013.

[15] Jonno Ingerson, as above.

[16] Labour Party's Capital Gains Tax policy: http://www.labour.org.nz/sites/default/files/CGTWebdoct%20July%202011.pdf

the number of new houses. At the same time, demand would most certainly rise as immigration increases and emigration falls – a trend reported by Statistics New Zealand.[17]

Due to the supply-based nature of New Zealand's housing affordability problem, demand-side policy will give only temporary relief, as seen in other countries. For example, despite introducing a CGT in the 1980s, Australia is still grappling with housing affordability issues similar to New Zealand's.[18]

Even if the scope of the tax is widened to include the family home, research suggests it would only worsen the housing affordability problem. Stephen Kirchner, in *Reforming Capital Gains Tax: The Myths and Realities Behind Australia's Most Misunderstood Tax*, argued that Australia's CGT is not only ineffective at raising revenue, but increasing its scope to cover the family home would only add to a supply-side shortage in housing:

> "Australia faces a growing shortage of dwelling stock due to what RBA [Reserve Bank of Australia] Governor Glenn Stevens has called 'serious supply-side impediments' to building new homes. It is these supply-side constraints that are putting upward pressure on house prices and inflation, not the concessional CGT treatment of housing. Increasing the CGT burden on housing by abolishing the principal residence exemption would only add to the supply-side constraints that have put upward pressures on house prices and rents. As a tax on transactions, CGT on owner-occupied housing would reduce further turnover in the housing stock and lead to a less efficient allocation of that stock."[19]

If a CGT has been ineffective in Australia, there is nothing to suggest it would work in New Zealand. Even a cursory look at the housing markets in metropolitan Sydney or Melbourne suggests a CGT has had little impact on housing affordability.

Loan-to-value ratios

RBNZ's LVR kicked in at the beginning of October 2013. They require lenders to limit their lending to low equity borrowers to 10% of their total loan book.[20] This policy is ostensibly not aimed at lowering house prices but at bolstering banks' financial stability by curbing the risk that over-generous mortgage credit growth poses to lenders and the economy.

In his speech at the launch of the new macro-prudential policy, however, RBNZ Governor Graeme Wheeler indicated that LVRs are a stop-gap measure to ease demand for houses while supply-side constraints could be loosened.[21] LVRs are a response to systemic risk in the banking sector and not an attempt at regulating the housing market. As has been documented elsewhere,[22] the likely effects of these policies are variable and market dependent. The larger point remains: supply-side constraints are a structural problem in the current market, and demand-side solutions won't deliver affordable houses.

Availability of funding

This report does not examine housing finance for would-be first home buyers, which is much more readily available in the private sector at competitive rates than it was before the reserve asset ratio was lifted in 1984.

[17] "*International Travel and Migration: August 2013*," Statistics New Zealand.

[18] Glynn, James and Raja, Shani. "Australia's Booming House Prices Spark Concern." Wall Street Journal 5 October 2013 http://online.wsj.com/article/SB10001424052702303722604579112722846385740.html

[19] Kirchner, Stephen. Reforming *Capital Gains tax: The Myths and realities behind Australia's most Misunderstood Tax.* Sydney: The Centre for independent Studies, 2013. p. 10.

[20] Wheeler, Graeme. *The Introduction of the Macro-prudential Regulation.* A speech delivered to Otago University in Dunedin. 20 August 2013.

[21] Wheeler, Graeme. *The Introduction of the Macro-prudential Regulation.* A speech delivered to Otago University in Dunedin. 20 August 2013.

[22] Malpass, Luke, "New Zealand's central Bank take on housing bubbles." *The Australian Financial Review* Monday 19, August 2013. http://nzinitiative.org.nz/Media/Opinion+and+commentary/New+Zealand+central+bank+takes+on+housing+bubbles.html

These days, the state lends much less by way of mortgages, preferring to direct its assistance to those with the greatest need, mainly through accommodation supplements. Unlike in the past, Housing New Zealand underwrites rather than finances the Welcome Home loan packages.[23] The biggest problem with finance is the deposit that first-home buyers have to raise to secure a mortgage. Today's young have to save diligently like their parents and grandparents did.

Rates

The increasingly hostile attitude of regional and local councils to development is linked to housing affordability. The pace of development drops when local government sees new residents as a cost exacerbater, and rises when they are seen as a revenue source. Councils in New Zealand raise most of their revenue from rates, which is expected to account for 60% of local government income in 2016.[24]

The structure of the system is such that rates are tied to property values, creating an institutional bias towards property owners and properties with a high rateable value. They also tax a fixed asset and not a person, so even if a resident or business is dissatisfied with the council's service, they are obliged to continue paying, or sell their property and move to a different jurisdiction. Either way, the council still receives its rates revenue and is under no competitive pressure to improve its service. The stability of rates as a revenue stream is questionable. As New Zealand's population ages and the number of retirees on fixed incomes increases, rates will become a key cost-of-living concern.

In the near future, an increasingly older population will put pressure on the system to keep rates flat. But while keeping council charges low is desirable, it could increase the charges for other services and intensify the pressure to keep development away for fear of raising infrastructure costs. Rates are clearly appealing from a council and taxation perspective. First, they are based on the improved value of land, and are not an overly distortionary form of taxation. Second, they are relatively easy to administer and every landowner gets a bill.

It is equally clear that rates stack the odds against property development and housing affordability. Ideally, the local government funding system should move from rates to taxing all individuals alike, be they property owners or tenants. To quote Dr Oliver Hartwich, we want to 'tax legs, not things'. In Switzerland, this type of local government funding system has successfully kept down the cost of municipal services, while encouraging development and holding house prices stable in real terms. Germany has achieved similar results with capitation grants. Municipalities in both countries have carefully aligned incentives and welcome development because each new resident is regarded as a source of additional revenue, not a cost. This is where policy changes will need to be made in New Zealand to achieve long-term stability, both in local government and in the housing market.

That said, reforming the rates system and local government funding are long-term legislative projects. Central government, which accounts for 89% of public spending in New Zealand, will not give up the tax teat without a protracted fight. Indeed, the rates system has been reviewed several times. The most recent independent inquiry into local government finance (2007)[25] recommended that central government provide more financial support to local and regional councils to limit to 50% the proportion of revenue raised

[23] *NZH*, 1 October 2013, B4.

[24] Shand, David et al. "Funding Local Government." August 2007, http://www.dia.govt.nz/Pubforms.nsf/URL/RISummaryReport.pdf/$file/RISummaryReport.pdf

[25] Shand, David et al. "Funding Local Government." August 2007, http://www.dia.govt.nz/Pubforms.nsf/URL/RISummaryReport.pdf/$file/RISummaryReport.pdf

from rates. Since then, two successive governments have largely ignored the recommendations, and the only changes have been to enforce greater transparency and accountability of councils through the Better Local Government Reforms of 2012. Tacking housing affordability policy to local government funding reform, while helping rebalance attitudes towards development, will delay any real action on housing affordability for years, if not decades. In that time house prices will continue to rise, locking more and more New Zealanders out of the market. So, although we shall continue to advocate for individual taxes as a better means of funding local government in other reports and forums, we will not recommend them here.

5.

Community development districts

As explained in *Different Places, Different Means,* MUDs have been successful in parts of Texas. While it is not feasible for all of New Zealand's suburban development to follow the same course, conducting some parts of housing infrastructure beyond councils' zoning and approval processes would foster competition in land use and result in a greater variety of homes and developments. CDDs would operate like MUDs[26] to boost housing development beyond town limits, provided new residents agree to pay for the infrastructure. A CDD would have a statutory taxing capacity based on its geographic location with powers to tax the community for providing water, electricity, and roading and footpath infrastructure but not for social infrastructure like parks, libraries and community halls, which would remain the responsibility of the appropriate council.

A CDD could be approved by regional or unitary councils, or via parliamentary authority from the Minister of Housing or the Minister of Local Government, who would seek approval by an Order in Council. The development would be funded by debt finance through bonds secured against the value of the land, which could be listed and traded on the NZX debt market. Unlike in Texas, bonds issued in New Zealand would not be tax free.[27] The United States has a history of tax-free municipal bonds, but these would not be desirable in New Zealand because such a system would move away from the widely held principle of the tax system being neutral to different types of investment.[28] There is considerable scope for CDDs: they may or may not be master planned. There should be no compulsion over how each one looks or is designed. In essence, the developer and residents of a CDD should have the right to build whatever they like on their property, and only be subject to the *Resource Management Act* where the CDD has an external impact.

Building a Community Development District

The following steps can be followed to establish a CDD:

- A group of landowners or developers formally express a wish to create a CDD.
- They submit an application to the appropriate regional or unitary council for approval outlining the geographic scope of the development, its environmental impact, a water source, and the financing arrangements – similar to the process for proposing a subdivision.
- Similar to a body corporate, a developer board composed of voting residents is formed. Most likely, sections in the proposed development would be sold to board members at a

[26] *Different places, Different means.*

[27] *Different places, Different means*, p33.

[28] Victoria University of Wellington Tax Working Group. *A Tax System for New Zealand's Future. Wellington*:Centre for Accounting, Governance and Taxation Research, 2010. p. 54.

favourable price. These section owners would be deemed the initial 'developer board' responsible for making key decisions about the direction of the development.

- Building begins with the board contracting a developer to undertake and manage the construction process. CDDs are planned in stages, and the developer obtains finance for the first stage of the development.
- The developer and the development board sign a reimbursement agreement acknowledging that once a bond issue is made, the developer is reimbursed for the infrastructure cost. This cost would be held in debt by the taxpaying CDD residents.
- The debt financing is paid off through a CDD ad-valorem tax of a fixed maximum value for every $1,000 of value in the residential property.
- These developments are not limited to residences; businesses and commercial enterprises could be part of the CDD and subject to an ad-valorem tax decided by the developer board.
- Once there is some value in the development and a taxable base, a bond is issued for 30 years. Subsequent bonds are issued for each stage of infrastructural construction so that costs are not capitalised into the price of each new house before occupancy.
- Debt-funded parts of development are restricted to infrastructure costs. The statutory taxing authority of the CDD is for basic, clearly defined infrastructure provision.
- CDD residents are not required to pay infrastructural levies to the developer or the council but have to pay rates for social infrastructure like parks, libraries and halls provided by the local council.
- Elections for the CDD board are held at regular intervals.

The following changes to the existing council regulatory environment would have to be made:

- As part of the regional or unitary councils' Long-Term Plans (LTP), areas may be deemed inappropriate for CDDs on grounds of foreseen environmental value or sensitivity, tribal importance, or notified practical considerations; these areas cannot exceed a set proportion of a regional or unitary authority's jurisdiction. This would make regional councils consider environmental priorities before floating potential developments rather than responding after the fact to a CDD application.
- The regional water and electricity line companies would approve the CDD's infrastructure plans on a case-by-case basis and ensure compatibility with the wider network.
- The same companies are empowered to annex the CDD's infrastructure if the CDD fails for any reason. The companies take on any remaining bond liabilities and raise a charge against the original or subsequent people living within the CDD.
- After the initial approval, the CDD complies with the legislation covering residential or mixed-use areas.
- Once approved, the CDD is exempt from the *Resource Management Act* for any decisions affecting internal operations,

dynamics or appearance except for matters with ramifications outside the CDD's jurisdiction such as storm water overflow.

If these bold suggestions are accepted, they would alter the provision of new housing by allowing competitive forces to address the housing shortage and provide genuine choices to prospective home owners about how much infrastructure they wish to develop, and when. But the principal motivation for CDDs is to reduce the huge upfront cost loaded on to the new home buyers at the point of settlement. Costs of infrastructure would be carried via bond issuance and the levy attached to it. CDDs could also encourage competition in the broader regulatory sense. Because regional and unitary councils under this proposal can only plan for areas unavailable to CDDs, the scope for competition over land available for new housing developments would significantly increase. Developers and people who wish to open up land for new development would not be constrained by councils with an anti-development bias, or land bankers who buy land likely to be developed, and who enjoy something akin to monopoly status once it is opened. Likewise, consumers would have greater choice. Under our proposals, developers can compete on margin and volume, a choice unavailable now due to the fragmented nature of the building sector and the small scale of many developments after many years of minimal greenfield development. Our proposals create a two-tiered system of development regulation: those created by councils through zoning and those created privately by people who opt for a CDD.

However, although these new structures, and their privately funded infrastructure, are a move towards delivering a greater supply of houses, more needs to be done to free the planning process.

Even if CDD legislation is passed, councils will still exercise monopoly-like control on the building approvals process within zoned areas. That process, as structured under the Town and Country Planning Act and later subsumed into the Resource Management Act, has been subordinated to local government and rendered unresponsive to the needs of the market.

As Mark Pennington[29] states, what is needed is a means of introducing competition to planning both outside and inside zoned land. In Germany and Switzerland it is not so much a mechanism but an extension of property rights. Owners of land are presumed to have the right to maximise the full enjoyment of their property without the interference of centralised planners (provided they adhere to building regulations). Property owners in these two countries are assumed to have the right to build.

This right, which has been co-opted by councils in New Zealand, needs to be restored. Far from a free-for-all urban sprawl[30], opening the planning process to competition with the use of restrictive property covenants has delivered well-managed town developments internationally. Historically this can be seen in the British cities of Bath, Cheltenham, Eastbourne and Southport, and the more contemporary private housing developments in the United States.

In New Zealand use of covenants, which contractually restrict certain property rights with the aim of limiting negative external effects, are widely practiced. The right to build is not.

CDDs are a beachhead towards restoring this right, but more needs to be done to relieve the bureaucratic gridlock that is slowing the flow of new houses

29 Pennington, Mark. *Competition in Land Use Planning: An Agenda for the Twenty-First Century*. London. 2005.

30 Pennington, Mark. *Competition in Land Use Planning: An Agenda for the Twenty-First Century*. London. 2005. p159 - 160.

onto the market. Although outside the scope of this report, The New Zealand Initiative will continue to work towards delivering policy recommendations that will foster private competition to government controlled planning.

6.

Housing encouragement grants

Councils need to create the right incentives to welcome more people into their area and shed the attitude that each new person in an area is an exacerbater who worsens an existing problem or tightens the margins within which councils operate. Water should be taken away from councils and vested in five different water companies to take the pressure off councils that are struggling to meet the costs of water provision, and remove the possibility of political manipulation of water revenues like occurred with the Auckland City Council in 2007.[31]

Equally, local authorities need to receive their share of the economic benefits of a growing community. With the introduction of a 10% GST on all goods and services from 1 October 1986 (raised to 12.5% in 1989 and 15% in 2010), a substantial additional price was added to the cost of a new house and the raw land on which it was built. Today, central government coffers benefit from new housing by approximately $60,000 on an average new house costing $400,000 that comes to the market. This extra tax is added to the mortgage raised on that house by the new home buyer. The introduction of GST has been an obvious, direct contributor to the rapidly rising cost of new homes. The government should acknowledge this and energise local government's new housing endeavours by making annual Housing Encouragement Grants (HEGs) to local authorities. These grants would be made on condition that a significant proportion is spent on opening new land for housing and providing the required social infrastructure, which is now the subject of local authority levies. Speeding consent processes should be another condition of receiving a grant.

Whether developers and potential new home buyers opt for a CDD or pursue their dream of a new home through traditional channels, councils would remain responsible for providing social infrastructure – parks, libraries, sports fields, skate parks, community halls, etc. HEGs could significantly contribute towards funding these costs, and a compensating drop should occur in council development levies hitherto extracted from developers before issuing a consent. HEGs would help councils view more favourably the construction of new homes in their areas.

The introduction of HEGs must be handled carefully by the government and the local authorities that would benefit from them. The government would fix the amount of funds it would allocate such that they would cover the extra tax costs currently being borne by new home buyers. We do not suggest a strictly tied tax – we want to ensure New Zealand's clean GST regime remains in place. The sum paid to councils should be sufficient to encourage more positive attitudes to development at city hall. It is vital for the central government to monitor local government performance. Targets should be negotiated between the Minister of

[31] Bassett, Michael. *City of Sails: The History of Auckland City Council 1989-2010,* Auckland 2013, chapter 12.

Housing and councils, and the annual payments of HEGs dependent on councils reaching those targets.

Importantly, these targets should be structured to incentivise the efficient processing of approvals. For every planning application that is processed within a set timeframe – from application to delivery – the council would become eligible for an HEG. Importantly, central government should allocate HEGs to the councils that meet these targets rather that handing out building quotas.

As demonstrated by Oliver Hartwich and Alan Evans in their report on the Irish housing boom,[32] a centrally mandated quota system saw an explosion in building projects that catered almost exclusively to the lower end of the market. However, this had the effect of fragmenting the market with an oversupply of low-cost 'cookie cutter' houses, while exacerbating the shortage of middle- and upper-market houses. Incentives should be structured so that the market, rather than bureaucrats in Wellington, decides what kind of houses are built.

[32] Evans, Alan and Hartwich, Oliver. *Bigger Better Faster More – Why Some Countries Plan Better Than Others*. June 2005.

7.

Water infrastructure

Councils cite the cost to the community, particularly for supplying water and dealing with sewerage, as a reason for not wishing to have more houses in their area. Many councils struggle to manage water, while baulking at the cost of extra connections and upgrades to their water infrastructure.[33] There is no central regulation of water and no single act of parliament covers water. Most local authorities don't even have meters and can't charge for water based on use. Some councils find it difficult to pay for improvements in water quality or provision, and often undercapitalise or overcapitalise their infrastructure.[34]

Different charging methods also create opaque financial arrangements. Most councils have a basic water and waste water charge through general rates or a special water rate. Much of Auckland has been metered in recent years and water charges are based on volume. However, end users in most parts of the country are unaware of the true cost of the water they use.[35]

The basic problem is one of scale: there is simply not enough demand for many water providers to produce drinking water in a cost-effective manner to the end user. The cost of new connections is primarily borne through development contributions or connection fees charged by individual councils. Outside the three main cities, the size of the water network is often so small that economies of scale are difficult to achieve, nor can any meaningful network pricing be developed (the practice by which large centres subsidise smaller centres).

A recent report by TDB Advisory on the potential of Wellington as a 'supercity' noted that the clearest benefits of amalgamation within that region would be in network infrastructure such as water and roads, not necessarily in social infrastructure.[36] The problem in housing is that some councils cross-subsidise water provision from general rates, while others use income from water rates to subsidise general council activities.[37] Because there are 78 territorial councils in New Zealand it is difficult to generalise. There is a lively political debate on water partly because of the long-held belief that water is a free resource, and shouldn't be charged. Council ownership of water is a historical oddity. Councils in New Zealand have been responsible for water since the earliest days of colonisation. Water-borne diseases were endemic in early New Zealand as many colonists put down artesian bores near their neighbours' long drops. Local councils were made responsible for water sanitation because there was no Department of Health until 1900. The local government reforms of 1989 envisaged further reform of water delivery. In 1998, the government began consulting over new water governance arrangements, but the 1999 election stalled progress. Nothing of significance has occurred since.

33 Barry, Phil. *Governance Options for the Wellington and Wairarapa Regions: An Economic and Financial Assessment.* Wellington: TDB Advisory, August 2013. p.2. http://www.huttcity.govt.nz/Documents/news/TDB%20- %20Assessing%20regional%20governance%20options%20-%20Final%20report.pdf

34 National Infrastructure Unit. *National Infrastructure Plan 2011*. Wellington, 2011. p. 38.

35 National Infrastructure Unit. *National Infrastructure Plan 2011*. Wellington, 2011. p. 38.

36 Barry, Phil. Governance Options for the Wellington and Wairarapa Regions: An Economic and Financial Assessment. Wellington: TDB Advisory, August 2013. p.2.http://www.huttcity.govt.nz/Documents/news/TDB%20- %20Assessing%20regional%20governance%20options%20-%20Final%20report.pdf

37 National Infrastructure Unit. *National Infrastructure Plan 2011*. Wellington, 2011. p. 40.

This situation is at odds with many other countries, probably due to the small size of New Zealand. In Australia, where water is very scarce, most states have large water providers and a water regulator. Tasmania and Victoria have a water supplier each, and all of Sydney's water is provided by Sydney Water. In England and France, water utilities have long been privatised or privately franchised under a strict regulator. Scotland has reformed its water provision under one supplier, Scottish Water.[38] Like many natural monopolies around the world, ownership is not the key issue in performance; rather, the regulatory environment and quality of governance determine the outcomes.

In short, water provision in New Zealand is not in accordance with international norms, with complicated rules for determining who pays for what and how reasonable the charges are. One catch phrase at the council level is 'exacerbater pays': new buildings pay for their services, a clear distinction with long-established residents who received their connections under easier and less costly rules.

Proposals

To bring some certainty, equity and transparency to the provision of potable and waste water for new housing, water provision needs to be radically overhauled with the following goals in mind:

- Improving economies of scale by consolidating national water providers: international literature suggests that at least 200,000 connections are needed to give water network providers the scale needed to operate efficiently.
- Changing the relationship between water consumers and water providers from an administrative one to a customer focused system based on contractual arrangements
- Improving the quality of all water services through network pricing and monitoring.
- Providing transparency and different charging options so the real cost of a new connection is known and priced accordingly.

The following suggestions will help realise these goals:

- Splitting all drinking and wastewater infrastructure into five state-owned water providers based in Dunedin, Christchurch, Wellington, Auckland and Hamilton for uniform network pricing.
- Vesting shareholding in the new water providers in the local councils that previously owned the infrastructure; councils will have voting rights and the right to select a board.
- Operating the companies on a commercial basis.
- Using network pricing to lift water standards across the network. Achieving economies of scale by merging smaller operations with larger ones.
- Deciding capital expenditure on a network-wide basis.
- Allowing water companies to raise debt through the Local Government Funding Agency. The credit ratings of the water firms should reflect that of regional councils, since they are backed by local government, which in turn is backed by central government.

[38] Scottish Water. http://www.scottishwater.co.uk/about-us

- Revoking council rates for water and charging customers on volume consumed.
- Setting up an independent water regulator to monitor and regulate the new companies.
- Replacing all the existing Acts governing water with a new Water Act.
- Allowing central government to drive this process.

These new arrangements will deliver transparency to the real costs of the water network, facilitate a provider-customer relationship, and improve water quality across the country. Water companies could adopt the Scottish Water pricing model for new connections,[39] where the provider has to budget for a projected number of new connections each year. This is one of the functions Scottish Water has to undertake under its statutory right to exist. Developers or people requiring new connections have to pay a contribution, capped at a low level and based on general costs for system upgrades, rather than anticipated expansion costs.

Connection charges should be tied to a residence or place of work, and be paid to the water provider over time so the cost of a water connection is not capitalised into the upfront cost of the house. Most of all, these proposals will slow the NIMBY sentiment since the whole community bears the cost of development. By outsourcing water to a third party better able to handle the long-term costs and risks associated with the service provision, councils should change their attitude towards development, especially if it brings additional revenue through the HEGs.

CDDs and the new water infrastructure

Outside their geographic boundary, the new water utility companies would be able to compete for other work. A CDD would come under the ambit of the new water regulator, but it would not be compelled to accept infrastructure construction services from the regional provider. While any CDD- provided water infrastructure would need to be compatible with the wider network for future integration or annexation by the local water company, it would not have to be built, or provided for, by that particular operator.

Reforming New Zealand's water provision would have the following advantages:

- Bring clarity to funding arrangements, raise quality, and bring transparency to the true costs of new water connections and housing infrastructure.
- Remove political arguments from providing water and the provider-customer relationship
- Overcome councils' objections to new developments, since it is the water provider, not the local government body, that must manage the infrastructure costs on its balance sheet.

[39] Water Commission for Scotland. *New Connections to the Water and Wastewater Networks of Scotland.* Stirling: Water Commission for Scotland, March 2013. p. 4.

8.

Conclusions and recommendations

Since the 1970s, New Zealand housing has become progressively less affordable. This is partly due to higher expectations, better building quality, higher standards of homes, but mostly due to the forces of supply and demand. Each year since about 1980, demand for new homes has exceeded supply. In New Zealand, not only has the market been unable to respond to short and sudden spikes in demand, but it has also struggled in general, reaching a point where house price inflation has become institutionalised. Between 1993 and 1998, house prices rose across the country by 45% and by another 120% over the following 10 years.[40]

New Zealand's market reforms, particularly the liberalisation of financial markets leading to greater availability of credit, coincided with a decline in government funding for first-home buyers and a progressive tightening of regulations in building and development. These supply-side constraints have reached a point where they make it extremely difficult for the market to respond to demand. This problem is particularly pronounced in Auckland. In 2012, the Minister of Finance estimated that 13,000 houses needed to be constructed per year in Auckland – but only 4,000 houses were actually built.

Although the anti-development *Resource Management Act* is being reformed, we should not forget that the Act has been reformed about every 13 months in its 20-odd years in existence and now reads at around 800 pages. A fundamental re-think is required. Some of our recommendations might seem radical but are necessary to kick start the building and development industries in New Zealand. As we said in our first report, individuals may accrue wealth out of housing, but a nation cannot.

Community Development Districts (CDDs)

- A new type of statutory taxing authority called a Community Development District (CDD) should be formed. This authority would have the right to tax its residents up to a set level for basic infrastructure such as footpaths, electricity and water.
- A CDD could be set up anywhere a new development is taking place, but it must provide its own infrastructure. To do this it can bond finance part of its development.
- These CDDs would be set up with regional or unitary council approval. There would be an assumed right to have them unless compelling reasons to the contrary emerge, making them undesirable in a particular location.

[40] *NZOYB*, 2000, p.464; 2010, p.407-408.

- Regional or unitary councils would need to identify areas of unsuitable land in their long-term plans. This would oblige regional or unitary councils to think seriously about the true environmental value of all parts of their region. It would also warn developers about areas unsuitable for CDDs.
- CDDs would be governed by a board, the first appointed by a developer or landowners and then with elections every two years. Only residents of the newly designated area can be board members.
- CDDs would not be bound by the *Resource Management Act* within its borders, but any actions with a potential impact outside its borders would be covered by the Act.
- The CDD would not be protected by any zoning restrictions but by covenants set by the developer and the resident board.

Rates and taxes

- Rates are not an ideal way to raise revenue at a local level. However, they are easy to administer and continue to be charged even if a disgruntled owner moves elsewhere. They do not provide councils with a great incentive to look after residents or businesses.
- A local tax tied to people rather than property would give councils the biggest incentive to attract both people and businesses. This should have a flow-on effect for housing.
- More detailed study of a local income tax should be conducted. It would be a big reform and better placed in the broader context of local government taxation reform, rather than just housing affordability.
- To spur housing development by giving local councils incentives, councils should receive Housing Encouragement Grants from central government to compensate for the 15% that GST has added to the cost of new houses. It would be payable annually from central government for all new homes completed within a set timeframe.
- This would be a cheap and efficient grant with no additional cost to anyone in the sector. It is not a tax increase. Indeed, the more houses are completed each year, the more tax money will be generated. It would be a different form of redistribution between central and local government.
- Councils would also have a strong incentive to make sections available for development and expedite housing approvals.

Water

- Water infrastructure does not operate well in New Zealand. Water should be rationalised and set up in five regional statutory water companies. Shareholding would be vested in the councils included in the regions.

- A new Urban Water Act and water regulator should be created to give regulatory clarity for the new water companies. The regulator would have price monitoring powers. This would improve the quality of water provision, create economies of scale, take water out of local political debate, and reduce water provision competing with other council priorities.
- Reforming water provision would create clarity by transforming water provision to a customer-provider relationship, rather than an administrative relationship with councils.
- It would make the real cost of water transparent, remove opaque council funding arrangements, and separate the cost of provisioning extra infrastructure for housing development from other council planning concerns.