

# **Towards an Urban Transformation Framework for New Zealand**

**Discussion paper prepared for the  
Ministry for the Environment**

**November 2006**

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# Towards and Urban Transformation Framework for New Zealand

## 1. Introduction

In November 2006, Cabinet Ministers considered proposals on how to manage urban change in New Zealand. Ministers have directed the Ministry for the Environment, in conjunction with Housing NZ, and DBH to engage with other interested government agencies and with Local Government NZ and selected regional and local authorities to determine what powers, funding and mechanisms are required to facilitate large-scale urban projects of national and regional importance. The requested report back for this work is June 2007.

This work will examine urban transformation with a particular focus on:

- affordable housing
- successful intensification
- effective transport systems (including public transport), and
- economic transformation.

The work will focus on Auckland, but will also be relevant nationally.

The purpose of this paper is to summarise current thinking on the urban transformation process, and suggest a framework to guide future discussions between officials. The paper draws heavily on an earlier review by SGS Economics and Planning<sup>1</sup>.

## 2. Context

Affordability difficulties in some areas and the decline in homeownership are working against key strategic goals of the New Zealand Housing Strategy. In Auckland, continuing population growth will put pressure on the supply of land for development.

The Auckland Regional Growth Strategy plans to accommodate projected population growth through a 'compact city' model, which is a mix of intensified development around growth nodes and along transport corridors, as well as some greenfield development. More intensive development is expected to build support for public transport, as a key means of reducing traffic congestion.

There is potential for strategic use of development projects to help expand the availability of affordable housing in communities where rents are creating hardship for families and individuals, or house prices are preventing them from owning.

Many councils and Housing New Zealand Corporation are already thinking along these lines, and regional growth strategies are being developed or reviewed in several cities (e.g. Auckland, Wellington, Christchurch and Tauranga). There is a growing recognition that urban development planning and implementation needs to be scaled up to meet the complex challenges of and intensified urban future.

New institutional arrangements and legislative change (or *urban transformation mechanisms*) may be required to help move beyond one-off projects, to a more comprehensive, integrated and *transformational* approach to urban development.

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<sup>1</sup> SGS Economics and Planning (2006) *Catalysing Positive Urban Change in New Zealand*. Report prepared for Ministry for the Environment

### 3. The Urban Transformation Experience

#### 3.1. Critical success factors – a four point ‘law of urban transformation’

Recent international research suggests that *urban transformation mechanisms* (UTM’s) work best when they conform to the following ‘four point’ specification:

##### 1. *Governance and Mandate:*

- There is a clear mandate from all participating levels of Government to the role and purpose of the UTM
- The UTM is incorporated as a separate legal entity, and functions discretely from its Government shareholders
- The UTM operates to a strict commercial charter, and is accountable to a competency-based board

##### 2. *Resource Planning and Service Delivery*

- The UTM has significant control over resource planning and service delivery functions within the designated urban transformation area.
- In some cases, this may involve taking over the responsibilities of the local authority, for such activities as issuing resource consents, setting development levies or facilities management.

##### 3. *Capitalisation and Development Finance*

- The UTM has a strong capital base, generally achieved by:
  - The UTM assuming ‘ownership’ of surplus/underutilised government land in the project area
  - Significant up-front equity investment and/or debt underwriting by Government
  - Creating joint ventures to facilitate private sector capital investment
  - Ensuring that non-commercial aspects of an urban transformation project are explicitly funded so as to safeguard its commercial viability

##### 4. *Development Powers and Value Capture*

- The UTM has explicit development powers to fast-track the development process and capture any windfall benefits from re-zoning and redevelopment. In particular, the UTM will have:
  - Power to compulsorily acquire land in the project area
  - Significant influence over the planning and resource consenting process.
  - Power to levy contributions from landowners to help pay for improved infrastructure and services

#### 3.2 International approaches to urban transformation

Although there is significant consensus on what is required to create a successful UTM, different countries have adopted quite different strategies for urban transformation. The SGS report<sup>2</sup> summarises approaches in Australia, the UK and USA, from which we note the following:

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<sup>2</sup> SGS Economics and Planning (2006).

USA:

US models of urban transformation take a more ‘hands off’ approach by providing private sector developers or local not-for-profit organisations with tax incentives and grants.

Australia:

Australian models generally operate at the state level. State-owned *land development corporations* (set up in the 1970’s) are significant players in the ‘greenfields’ market. Although they have few special powers, they have been financially successful by adopting a long-term land banking approach, capturing uplifts in land values (betterment) as land is developed and integrated into the urban mix<sup>3</sup>.

More recently, some states have set up *urban development and regeneration corporations* to tackle transformational ‘brownfields’ projects, or to perform a wider coordinating role. These corporations may be authorised to exercise powers not available to private developers (including compulsory acquisition and striking of a local levies to pay for infrastructure) but are generally subject to the same planning rules and resource consenting process. An exception is Western Australia, where development corporations also manage resource consents in their designated area.

United Kingdom:

The English approach is more structured. At the national level, *English Partnerships* plays a number of roles, including coordination and master-planning for projects of national significance, brokering local and regional projects, and carrying out smaller demonstration projects in its own right. *English Partnerships* also controls the use of compulsory acquisition powers, a point of leverage over local redevelopment entities.

At local level, *urban regeneration companies* work alongside English Partnerships and other local interests. Their principal aim is to engage the private sector in a regeneration strategy, working to a master plan which takes holistic view of problems and opportunities across the whole area.

Actual development is carried out by *urban development corporations*, funded by a combination of government grants and income generated from development activity. These corporations generally have a fixed term (7-10 years) and are run by boards with guaranteed local authority representation.

### 3.3 Recent New Zealand experience

Because New Zealand is still at the ‘problem definition’ stage, there are few such mechanisms for driving urban change at central, national or local government level.

*At the national level*, no single crown agency has an active mandate to carry out urban redevelopment, although the ability to do so is implicit in HNZC’s functions and powers. HNZC also has one-off approval to facilitate a model sustainable urban development at *Hobsonville*.

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<sup>3</sup> This approach is similar to that adopted by the Housing Corporation of New Zealand (HCNZ) which built up a significant supply of peri-urban land in the Auckland region between 1960 and 1984. The portfolio was sold in unimproved form after the housing reforms of the early 1990’s

On the policy front, efforts have also been made to improve central government's understanding of regional social and economic development issues (for instance the *GUEDO* office in Auckland), so that it can better support regional initiatives.

*At regional government level*, both Wellington and Auckland Regional Authorities are considering regional land development corporations, which can deliver wider economic development, urban regeneration and affordable housing outcomes.

*At local government level*, at least three councils in the Auckland region use council-controlled trading organisations to carry out land and property development. Waitakere Properties Ltd, for instance, has an ongoing programme of housing and commercial property development. In Manukau, the TPMC is developing a 20 hectare site in the new Flatbush Town Centre and has previously set up joint ventures with private sector developers.

As a general rule, council-controlled development companies are subject to the same constraints as private developers and (although commercially independent) restrict their activities to one-off projects commissioned by their parent council.

Our initial assessment is that, although all levels of government in New Zealand are keen to enhance their ability to deliver multi-outcome urban development, discussion on how this can be achieved (and who should drive the transformation process) is in its infancy compared to other countries. There is consensus, however, that the current mix of governance mechanisms, legislation and market performance will not deliver internationally competitive, equitable and sustainable outcomes over the long term.

### **3.4 Relevance of overseas urban transformation models for New Zealand**

None of the current overseas models reviewed to date is directly transferable to New Zealand. We note that:

*The 'land problem' is often different:* In the UK and US and Australia, urban regeneration is often proposed as a means of revitalising large tracts of derelict land (redundant docklands, factories etc). By contrast, New Zealand (particularly Auckland) has few such areas. Nor does New Zealand have large tracts of contiguous Crown land within its urban borders, or tracts of leasehold land. The problem in the New Zealand context is how to amalgamate small parcels of valuable urban land, into larger blocks that permit meaningful redevelopment.

*Focus of urban transformation activity:* Many overseas urban transformation agencies focus on turning around the fortunes of urban areas that have been left behind by economic restructuring and economic change, thus alleviating poverty and unemployment and 'renewing' urban centres. In the New Zealand context, the issue is one of improving the effectiveness of our cities, in part by recognising and rectifying land use patterns and infrastructure deficiencies that constrain economic performance or access to affordable housing.

*Statutory and governance framework:* Although all the countries cited have similarly democratic and decentralised political processes, the extent of direct intervention by governments (and their willingness to do so) varies greatly. In

contrast to the UK and Australia, for instance, the New Zealand Government has generally refrained from direct involvement and ‘top down’ statutory approaches.

*Funding mechanisms:* The US practice of offering incentives via the tax system is at odds with New Zealand’s more transparent approach to taxation. Also, the US approach is based on a history of local activism and market philanthropy, the conditions for which are not evident in New Zealand.

Notwithstanding this, there are elements of overseas exemplars, particularly Australia and the UK, that could be readily integrated into a New Zealand urban transformation framework. In particular:

- the role of a national coordinating entity
- how regulatory powers could be devolved (or at least simplified)
- How compulsory acquisition powers can be exercised
- Management and governance structures.
- Mechanisms for encouraging private sector investment

## 4. Towards an urban transformation framework for New Zealand

The attached matrix captures our initial thinking about what is required to implement large-scale urban transformation in New Zealand.

### 4.1. Underlying principles

Although largely self-evident, it is worth re-stating some underlying principles that guide urban transformation planning and implementation.

*Sound urban governance:* The extent to which the urban transformation process is aligned with New Zealand's decentralised government decision making process, and promotes community participation.

*Separation of regulatory and development activity:* The extent to which the planning and consenting process is open and transparent, especially if special powers are granted to urban development agencies whose success is measured in commercial terms.

*Urban transformation is an 'exceptional' process:* We take the view that special powers are only required if urban transformation cannot be achieved via existing institutional arrangements and market forces.

*Existing statutory framework:* Our current view is that urban transformation can be achieved without fundamental or wholesale changes to the RMA, PWA, LGA or rules governing public entities.

*Transferability:* The process of urban transformation is conceived here as a time-limited process. At some point, an area subjected to intensive urban transformation should return to the mainstream, and any special powers and management practices should lapse.

*Freedom to act:* To be successful, urban transformation agencies should not be unduly constrained by other planning and delivery systems, or individual sectoral considerations

*Shared costs and benefits:* The costs of creating benefits such as value uplift and profitability should be shared by those who stand to gain.

### 4.2 Steps in the Urban Transformation Process

The matrix suggests a *generic process* for vision-driven urban development projects, and identifies a number of gaps in current structural, financial and regulatory processes. A work programme is required to close these gaps.

We suggest that the urban transformation process be conceptualised as a four-step process (discussed in greater detail below):

- Creating the context for urban transformation
- Empowering special purpose vehicles to carry out urban transformation
- Land and property development activity
- Securing longer-term transformation outcomes

#### 4.2.1 Creating a context for urban transformation

This step would set the scene for subsequent development activity. The main ingredients are:

1. *A process for establishing national and regional urban transformation priorities, and*
2. *A nationally-consistent structure for empowering and managing the urban transformation process*

Key issues to be addressed during this phase include:

- *Point of difference:* A clear distinction needs to be made between outcomes that require an *urban transformation* approach, and those that can be achieved via *mainstream* urban planning and delivery systems. This could be expressed spatially, by limiting the applicability of special powers to selected *urban transformation project zones* (TPZs), or in policy terms, by setting performance objectives for each zone that clearly transcend the likely outcome if market forces were applied.
- *Buildability:* At the highest level, urban transformation is about enhancing such aspects of urban life as equity and wellbeing, affordability and economic performance. The business of urban transformation, however, is about investing in and delivering changes to the built form. Future requests for Crown capital will need to present a solid evidential link between effective urban development and wider social and economic development outcomes.
- *Integration.* Although the current debate resides in the housing sector, there is a clear expectation that urban transformation will deliver improved outcomes in other areas, including economic efficiency and productivity, and the quality of life for families living in the urban environment. It is important that such outcomes are made explicit, even if the primary driver for change in a specified area is (say) increased provision of affordable housing.
- *Alignment:* We do not envisage the process for establishing regional transformation priorities will be independent from the mainstream regional and district planning process.
- *Consensus:* To succeed, urban transformation requires a high level of commitment from all levels of Government, from private sector investors, and from affected communities. Large-scale urban transformation is neither cheap nor short term. It is therefore essential that the process provides all parties with certainty over the process of development.

Turning now to *urban transformation mechanisms*, our initial view is that existing Government institutions lack the mandate, focus and capability to deliver large-scale urban transformation projects. New institutional forms will be required if urban transformation is to proceed beyond one-off development projects like (say) Hobsonville.

##### ***National level***

In our view, a pan-government coordinating agency is required to ensure that central government responsibilities are discharged in a consistent manner. The role of this agency could include:

- Ensuring that national priorities are considered when selecting transformation project zones
- Managing central government inputs (including Crown-owned land and other capital funding).
- Guiding amendments to the regulatory framework (discussed further below), and to existing statutes, and having authority to delegate special powers to local delivery mechanisms
- Reporting and monitoring functions

Issues that need further analysis include:

- *Whether a national urban development entity should assume a developer role, in preference to (say) transferring all development risk to the private sector, or limiting public involvement to projects carried out by existing Crown entities (like HNZA) with an urban development capability*
- *The extent to which the urban development agenda is driven by national priorities: a case could be made for more direct national control over urban transformation outcomes, especially if they are of national significance, and/or require significant new investment of special development powers*
- *The extent to which sectoral Government interests are subordinated to a single point of control within transformation project zones.*
- *National-level governance issues.* At the political level, for instance, is the Government's urban transformation agenda significant enough to warrant its own portfolio? Or is a more collaborative approach between participating Crown agencies more appropriate?

### ***Local/regional level***

We agree with SGS that an independent entity is required at local/regional level to shepherd large-scale transformation projects - from conception through development and subsequent community-building. Further, we believe that an *Urban Transformation Corporation* should be the locus of any special powers or features needed to effect change. Its key functions could be:

- Developing a programme of action for each TPZ
- Managing a master planning process and translating this into changes in permitted land uses and commitments from supply authorities around infrastructure
- Managing the land amalgamation process to a point where the UTC held enough development land within a TPZ, to control the pace and shape of development throughout the whole zone.
- Assembling development funding through shareholder contributions, development levies and bond issues
- Forming commercial joint venture partnerships to carry out development.

- Managing the flow of development outputs, and (as required) establishing a process for delivering longer-term community and economic development outcomes.

We envisage that the *Urban Transformation Corporation (UTCs)* would have a ‘long-haul’ interest in each TPZ, although its main task is to create the conditions for commercially-successful private development.

Some key issues are:

- *Local vs. regional?* Our preference is a single point of control in each region – especially Auckland where to do otherwise would simply compound existing regional integration problems. The exception may be regions where the ‘urban transformation problem’ is more localised (Queenstown, for instance).
- *Funding:* We envisage that UTCs would require significant start-up capital, but this should be returned over time through the sale of development land, or via development levies. The question of whether a UTC should have statutory authority to levy infrastructure contributions needs to be addressed. If not, a process for transferring contributions levied by participating territorial local authorities (TLAs) will be required.
- *Commerciality:* We support the view that UTCs should operate in a commercial manner. In this context, the owners’ ‘vision’ for each UTC may specify sub-optimal land uses and other non-commercial outcomes, but these will need to be funded by the owners, either directly or by foregoing a dividend.
- *Shareholding:* Although the UTC would have a local/regional base, it might be appropriate for central government to play a significant governance role – especially where it is a majority investor. We believe strongly that shareholding should be limited to agencies of Government.
- *Crown owned or council owned?* As described above, a UTC could be a joint venture between the Crown and participating local government agencies. There are precedents for this, although the details would need to be worked through as part of the work programme
- *Separation of development function from the exercise of planning and regulatory powers:* This is a critical consideration. We accept that urban transformation is unlikely to occur (at least not in a timely manner) unless parts of the mainstream resource planning process are suspended or resumed by the UTC. Because the UTC will also be judged by on its commercial success, however, it is important that planning powers are not used solely for the purposes of increasing UTC’s profitability.

#### **4.2.2 Empowering urban transformation corporations.**

The following discussion focuses on areas where changes to statute, or granting special powers, may be required for urban transformation corporations to function as intended.

### ***Establishment Requirements***

Based on the New Zealand legal stocktake developed by Simpson Grierson for the SGS report<sup>4</sup>, it would appear that there are few impediments to the establishment of stand-alone urban transformation corporations - either as Crown-owned entities (COE's) or council-controlled organisations (CCO's). Both permit an appropriate level commercial independence, allow the UTC to provide and charge for services. Either would allow the UTC to buy land and develop property, directly or via joint ventures. We note that:

- The Crown Entities Act 2004 and Public Finance Act 1989 govern the activities of COE's. Unless specifically exempted, COE's cannot raise funds through (say) bond issue or independent borrowing, without specific authority
- The LGA governs CCO's, and places similar limits on borrowing.

Some key selection issues might be:

- The extent to which each entity is truly independent from departmental or council control
- The extent to which each entity enables joint shareholdings by participating central and local government agencies
- Whether constraints on debt-raising are insurmountable
- The ability of each entity to assume special powers without significant change to the regulatory framework

### ***Special powers:***

In our view, there are three critical areas where a UTC may need to exercise special powers:

- To drive the master planning and rezoning of land within the TPZ
- Land acquisition and disposal
- The ability to levy contributions and capture value uplift

### ***The master planning process:***

The use of master planning tools is gaining widespread support. The master planning process provides a range of opportunities for public and expert input, and allows for issues to be worked through without redress to more formal (and time-consuming) appeals processes. Its success is evident in urban transformation exemplars such as Regents Park (Canada), Melbourne and other Australian centres.

As a general rule, a master planning process for each TPZ should deliver:

- A detailed concept plan for the whole area
- Detailed specifications for *precincts* within the whole area, including a hierarchy of permitted activities and expected spatial/design elements
- Detailed specification of the bulk infrastructure and transit requirements
- Changes to district planning documentation in respect of local zonings, special features and other land use considerations

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<sup>4</sup> SGS Economics and Planning (2006), pp43-50.

In our view, a well-managed master planning process effectively negates the need for a subsequent plan change and notified resource consent processes. The prospect of TPZ master planning being subordinated by mainstream statutory planning and resource consenting processes poses significant risks. We make the following points:

- As noted in the SGS review<sup>5</sup>, the RMA is a blunt instrument, which does not distinguish between complex projects of strategic significance and (say) a proposal to install a septic tank. In short, there is a tendency to ‘pick apart’ the whole and explore weaknesses at the level of detail.
- The formal appeals process provides significant opportunity for opponents with purely commercial, NIMBY or single-issue motives, to delay and dilute the overall transformation vision

This is a complex area, and beyond our abilities to comment on in detail. We understand, however, that TLAs have very little ability to delegate statutory planning and consenting powers under existing legislation.

### ***Land acquisition and disposal:***

At the heart of urban change is the ability to re-package land parcels based on historic uses, into development blocks that permit large-scale development. For the most part, this can be achieved by market means, as the development potential of land overtakes its existing use value.

The alternative is compulsory acquisition via the Public Works Act 1981. The PWA is a well-tested mechanism that, until recently, authorised TLAs to take land for ‘urban renewal purposes’<sup>6</sup>. Key features of the PWA in its current form include:

- The ability to designate land for projects of ‘regional and national significance’
- The ability to set aside consideration of value uplifts as a consequence of future plan changes
- The fact that the PWA has been normalised by decades of use. There is a core of experience within Government (especially in the transport sector), and case law around how and when the Act should be invoked.

Some changes will be required for the PWA to serve the urban transformation process, in particular:

- Recognition of ‘urban transformation’ as a public work
- Clarification of the status of a UTC as a statutory authority under the Act.
- Confirming the UTC’s ability to dispose of land without recourse to the surplus land disposal provisions of the PWA – in particular s.40 considerations and Treaty settlement considerations – although this is likely to be contentious.

We reiterate the view (refer to *underlying principles on p.7* above) that special powers – especially powers of compulsion – should be used in exceptional circumstances only.

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<sup>5</sup> SGS Economics and Planning, p10.

<sup>6</sup> Repealed in 2002

### ***Development levies, service charges and ‘value capture’:***

Currently, only TLAs have power to levy contributions and rates from the development community and local property owners. There is no ability to delegate these functions. A key issue for consideration in the work programme is – how much will this constrain the UTC’s ability to commission infrastructure and other public works, and limit innovative approaches? Options include:

- Making the existing system work, perhaps by contracting with local TLAs to provide the type of services that would normally be funded out of development contributions
- Setting prices for development land that enable such costs to be absorbed by the UTC
- Recouping the costs by user charges over the long term
- Changes to statute that empower the UTC to levy development contributions

The issue of funding the costs of development through ‘value capture’ is more problematic – at least in the New Zealand context. We note SGS comments that urban transformation projects “...often push up land values, not just as a result of providing beneficial infrastructure, but also by granting implicit ‘licenses’ for the properties in question to accommodate higher order land uses.’ Capturing this benefit would generate a significant revenue stream, and reduce the call on Crown capital funding. Overseas approaches include:

- Direct acquisition of more land than needed to generate momentum within the TPZ, for resale at a profit once the land has been repackaged and rezoned.
- Development levies tied to a proportion of the uplift in land value
- Calculating the value of land placed in a joint venture after development is complete

We note that, although value capture mechanisms are often used by the New Zealand commercial development community (in partnerships between private landowners and developers), there is little appetite for exploring the issues at a public policy level. We recognise there is a risk that institutional arrangements based on value capture may be seen as a back door version of capital gains tax.

But the fact remains: any increase in value occasioned by the efforts of the UTC, passed over to land owners and developers as a ‘free good’, is effectively unearned income.

In our view, this issue should be included in an urban change work programme, if only to stimulate discussion and get a better understanding of how value capture mechanisms are used in exemplar projects.

### **4.2.3 Physical redevelopment - funding and control**

This is perhaps the most straightforward step of the urban transformation process. As a general rule, the pace of development will be shaped by market considerations. No special regulatory powers would be required provided that any development was commercially attractive – on its own merits or through additional public expenditure or other incentives.

The default position would be that the UTC, once it had re-packaged the land into effective development blocks and carried out whatever remediation or re-servicing was required, on-sells development blocks to the commercial development community. Unless specified in higher-order planning rules, the type and quality of buildings (and their distribution) would be based on each developers reading of the market. The public interest at this point is generally as a consumer of development product (e.g. state housing).

This raises a number of issues, including:

- How can the ‘vision’ for each TPZ be safeguarded when applied to smaller development blocks like precincts, and control transferred to the development community?
- Will the default approach bring an optimal commercial return to the UTC’s shareholders?

### ***Comprehensive precinct planning process***

Although there is probably no *need* for major changes to the planning process at this level, we believe that the existing system could be enhanced by adopting a more participative, multi-building approach.

The Hobsonville Land Company and Waitakere City have already gone some way down this path. At Hobsonville, the proposed new District Plan rule (currently being considered under the LGA(A)A process) includes a requirement to prepare comprehensive plans for each precinct including buildings, internal networks and services, and connectivity to neighbouring precincts.

The comprehensive planning process is intended to be an open dialogue between developer, ‘vision’ owner and regulator, and should ensure that the integrity of the TPZ vision is preserved.

### ***Joint Venture Partnerships***

Provided that development land has been re-packaged right (and appropriate commercial incentives are in place) there should be no problem attracting private sector investment. It is also more appropriate to draw on the development community’s hands-on expertise at this time, rather than try to reproduce it in a public body.

There are reasons, however, for public investment to ‘stay in the game’ during the land and property development phase. An ongoing shareholder role would give the UTC:

- Significant control over the nature and type of development outputs
- Implicit ability to leverage cooperation from infrastructure providers (roading, water and other supply authorities)
- Ability to represent the interests of consumer agencies (e.g. HNZA or council)
- An ability to share the rewards (and risks) of development

This latter point is especially important in relation to the ‘value capture’ argument above. If value capture is not an option at the regulatory level, then joint venture (JV) participation offers a more entrepreneurial way of securing a some of the uplift in land values.

We believe this should be fully explored during the work programme, especially in view of its potential to improve the UTC's (and therefore the Crown's) financial position. Recent work by the Hobsonville Land Company (in respect of its own JV procurement strategy) might be a useful starting point.

#### **4.2.4 Securing longer-term development outcomes**

As noted earlier, urban transformation is about *changing the built form* of a designated area. As a general rule this is a time-limited process, suggesting that urban transformation institutions (and any special powers the have) should also have a limited shelf life.

In this context, a business model for urban transformation should include:

- A process for winding up UTCs and any special purpose development vehicles. This might also cover handing over assets and management responsibility to local authorities and mainstream service provider agencies
- The potential need for new special purpose entities to manage key outcome areas in the longer term, for instance local affordable housing organisations, community development agencies, or business clusters.

## 5. Focus of initial urban transformation projects

To date, the focus of discussions about urban transformation at national level has been on housing, and projects like Hobsonville and Glen Innes/Panmure. Our view is that this should be extended to include all areas where central and/or regional governments have a significant investment, including:

- Other areas where Government owns significant land holdings
- Proposed new transport corridors
- New town centres and growth corridors identified in, for instance, the Auckland and Wellington growth strategies

Our view is that large scale transformation projects based around housing investment are most likely to succeed in the short term, perhaps leveraging off already-planned transport and infrastructure projects. Demand for new housing should ensure a rapid uptake of development outputs – especially if the affordable housing component is supported (or purchased directly) for state housing or to supply new Government home ownership initiatives.

Regional concerns about *economic development* (especially in Auckland) should not, however, be overshadowed by the national preoccupation with housing. We understand that business land is in short supply in all areas except South Auckland, and failure to provide for business growth in these areas may have significant implications for longer-term community sustainability (employment and commercial activity), and the capacity of regional infrastructure.

Some planning work has already been completed on urban transformation in the Glen Innes/Panmure area (ref HNZA's 2002 *Community Renewal* concept plan), so there is a strong case for this area to become a demonstration project in the short term. Other areas where Government has significant land holdings include HNZA housing in Otara and Mangere, and NZDF land on the North Shore, in particular Kauri Point and Devonport/Northcote. The potential for Whenuapai to contribute in the shorter term is also worthy of consideration.

A full stock take of public land in the Auckland region is already planned, due to be completed in early 2007. This database should make decisions about short term projects more robust. Recent mapping by HNZA of Auckland TLAs does illustrate the opportunities for Government in areas like Glen Innes/Panmure, and we suggest that visual aids like these be used in future briefings to Ministers.

### *Options for urban transformation on non-Government land?*

While an opportunity exists to advance transformation in areas of substantial Crown ownership, the vast bulk of Auckland land is privately-owned. It is therefore essential that a UT work programme looks at how a UTC can command transformation activity in such environments as:

- *Privately-owned greenfields land:* where much of the on the periphery of Auckland's metropolitan urban limit is already owned by developers and land investors.
- *Inner city brownfields areas:* where land ownership is highly fragmented.

## 6. Summary and Conclusions

This paper and attached matrix takes a process approach to urban transformation, and identify key issues for institutional design. Each of the four 'steps' has its own challenges:

- *Creating a vision for urban transformation:* In the broadest sense, what does New Zealand want to achieve through urban transformation, and how will this be managed?
- *Empowering the urban transformation process?* What changes to the existing planning and regulatory framework are required?
- *Implementing urban transformation?* How to ensure that the process delivers quality housing and commercial property outputs – and a decent return for participating public agencies?
- *Delivering longer term outcomes?* How to ensure that investment in the built form can be translated into outcomes measured in equity, wealth, wellbeing and wider economic efficiency terms?

At first glance, New Zealand's existing regulatory framework has the potential to deliver urban transformation projects, although there are major shortcomings, especially in its ability to delegate planning and regulatory authority, and help fund development through value capture mechanisms.

The starting point for this paper was the SGS report. Although the SGS analysis is robust, we believe its prescriptive conclusion is neither practical nor necessary in New Zealand. Our hope is that a more elegant business model, aligned with New Zealand's mainstream urban planning and regulatory framework, will emerge from the programme of work proposed by the Ministry for the Environment.

The extent any work programme will, of course, depend on both the scale and focus of urban transformation envisaged for New Zealand.

*If urban transformation activity is limited to a few demonstration projects*, then the focus should be on clearing the few road blocks that agencies like HNZC face. A look at past practice will provide some useful lessons here

If, however, *urban transformation is to become a significant organising feature for our cities* (as it has in the UK and cities like Melbourne), then a more comprehensive approach is required, that contemplates more significant institutional forms and a shake-up of the current rules.

## Urban Transformation Process: Snapshot of Key Steps and Issues

### 1. Create the context for urban transformation ('owner'-led)

Steps in the urban transformation process	Elements	Outcome(s) sought	Key issues	Enablers			
				Regulatory	Funding	Management	Governance
<b>Set the Urban Transformation Vision</b>	<p>Develop high level Urban Transformation strategy:</p> <ul style="list-style-type: none"> <li>• Priorities derived from relevant national and regional strategies</li> <li>• Translated into 'built form' objectives and expected longer-term outcomes</li> <li>• Process to be driven by 'owners' not by delivery mechanism</li> <li>• UTCs are participants to advise on issues – but not an owner</li> </ul>	<ul style="list-style-type: none"> <li>• Set of regional/local transformation goals approved</li> <li>• Specific urban transformation project zones (TPZ) identified</li> <li>• Specific performance objectives set for each TPZ</li> <li>• SOI targets for UT implementation entities</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Integration</i> – vision must reflect all aspects of urban transformation - housing, econ dev, transport, infrastructure</li> <li>• <i>Deliverability</i> – vision must be translated into measurable changes to built form</li> <li>• <i>Consensus</i> – across national/regional/local govt. Buy-in from commercial sector/ public</li> </ul>	<p>Formalise status of TPZs in relevant legislation:</p> <ul style="list-style-type: none"> <li>• LGA (District Plan)?</li> <li>• Other?</li> </ul>	<p>Within existing baselines?</p>	<p>Driven by::</p> <ul style="list-style-type: none"> <li>• Coordinating national agency?</li> <li>• Regional Council?*</li> <li>• Individual TLAs?</li> </ul>	<p>National:</p> <ul style="list-style-type: none"> <li>• Dep Sec's group reporting to Ministers Group?</li> <li>• Sole minister with Urban Transformation portfolio responsibility?</li> </ul> <p>Regional:</p> <ul style="list-style-type: none"> <li>• Extension of existing regional strategic f/work</li> </ul> <p>Local:</p> <ul style="list-style-type: none"> <li>• Integrate into District Plan process?</li> </ul>
<p><b>Establish Urban Transformation Mechanisms</b></p> <p><i>National Coordinating Mechanism</i></p>	<p>Manage:</p> <ul style="list-style-type: none"> <li>• Govt capital inputs (inc land) into UTCs</li> <li>• Participation by other Crown agencies</li> <li>• Process for setting up TPC's</li> <li>• Transfer of statutory functions/powers</li> <li>• Reporting/monitoring</li> <li>• Carrying out UT projects in own right?</li> </ul>	<ul style="list-style-type: none"> <li>• Central Government priorities reflected in UTC mandate</li> <li>• Nationally consistent approach to UT implementation</li> <li>• Better integration of departmental inputs</li> <li>• Sound policy advice and single-point reporting to Minister(s)</li> <li>• Strong focus on managing statutory and fiscal risks</li> </ul>	<p><i>Mandate</i> - Whole of Government approach will depend heavily on entity's ability to direct participating public agencies</p>	<p>If stand-alone entity, may require establishment legislation. If subsidiary – Cabinet approval OK</p> <p>Ability to delegate stat functions and powers will require changes to relevant statutes (PWA, RMA, LGA etc)</p>	<p>Separate Vote?</p> <ul style="list-style-type: none"> <li>• Operating costs – met by Govt or charge on TPZs</li> <li>• Capital costs incl seeding capital transfer value of Crown assets</li> </ul>	<p>Stand-alone entity with strong commercial focus but also ability to resume/ delegate statutory powers:</p> <ul style="list-style-type: none"> <li>• Crown-Owned Entity most appropriate?</li> </ul>	<p>Separate Minister or subsume under existing portfolio (ref. <i>issues</i>)?</p> <p>Board will require:</p> <ul style="list-style-type: none"> <li>• Commercial backbone</li> <li>• Understanding of statute and regulatory environs</li> <li>• Broad networks across Govt and commercial sector</li> </ul>
<p><i>Regional implementation mechanism - Urban Transformation Corporation(s):</i></p>	<p>Manage large scale urban transformation projects from conception thru development</p> <ul style="list-style-type: none"> <li>• Develop programme of action for TPZ</li> <li>• Transfer of all public land within TPZ to UTC</li> <li>• Raise funds through</li> </ul>	<ul style="list-style-type: none"> <li>• Fully-costed programme of action for each TPZ</li> <li>• Amalgamation of national/regional/ local land and other fiscal inputs</li> <li>• Discrete planning and approvals framework</li> <li>• Commercial JV</li> </ul>	<p><i>Relative Autonomy</i> – UT mechanisms should not be constrained by rules/ culture of individual shareholder agencies – suggests stand-alone entities?</p> <p><i>Capacity</i> – High level of</p>	<p>Ability to independently exercise statutory functions and powers will require changes to relevant statutes (PWA, RMA, LGA etc)</p>	<ul style="list-style-type: none"> <li>• Operating funds needed for set up period</li> <li>• Capital assets: Land bank and funds for land acquisition &amp; initial works</li> <li>• Ongoing capex</li> </ul>	<p><i>Getting UTC structure right is critical.</i> Need to ensure:</p> <ul style="list-style-type: none"> <li>• Strong on outcomes but commercial focus</li> <li>• Independence</li> </ul>	<p>Ref. SGS principle of subsidiarity - Suggests Board should include a mix of stakeholder interests BUT with a strong commercial backbone</p>

<p><i>Local delivery mechanism (if different from UTC)</i></p> <p><i>Mechanisms for achieving post-development outcomes</i></p>	<p>shareholder contributions, development levies and bond issues</p> <ul style="list-style-type: none"> <li>• Resume local regulatory functions and statutory powers as required</li> <li>• land and property development works</li> <li>• Form partnerships with commercial developers</li> <li>• Carry out development activity</li> <li>• Transfer of public assets and mgmt responsibility to TLA post-development</li> <li>• Creation of specific entities to facilitate longer-term sectoral outcomes eg: <ul style="list-style-type: none"> <li>- affordable housing operators</li> <li>- Industry clusters</li> </ul> </li> </ul>	<p>partnerships to carry out development works</p> <ul style="list-style-type: none"> <li>• Single control point for urban transformation activity within TPZ(s)</li> <li>• Separates property development activity from wider urban transformation agenda</li> <li>• Commercial dev disciplines applied</li> <li>• Risk and rewards of development shared with private sector</li> <li>• 'Normalisation' of TPZ once there is enough momentum to ensure physical transformation of TPZ</li> <li>• Structure in place to leverage long term transformation outcomes from changes to built form</li> </ul>	<p>professional experience and wide range of competencies required to deliver complex projects of scale</p> <p><i>Leverage</i> – off existing development mechanisms (e.g. Auckland TLA LATE's)</p> <p><i>Alignment</i> – Rules governing operation of TPZ can be merged with TLA operation</p> <p><i>Relevance</i> – justify need for special purpose entities compared to (say) mainstream entities e.g. HNZZ or MED</p>	<p>None. Actual commercial development activity needs to be carried out in accordance with rules governing sector</p> <p>LGA already has flexibility to provide for site-specific rules?</p> <p>Depends on entity</p>	<p>and opex funded thru debt or drawn from profits on dev activity</p> <p>Shareholder equity backed by Commercial debt to meet peak funding requirements</p> <p>Funding through expanded rating base, development levies</p> <p>Operating subsidies as required</p>	<ul style="list-style-type: none"> <li>• Transparent use of statutory functions/powers</li> </ul> <p>Each JV partnership set up as separate company.</p> <ul style="list-style-type: none"> <li>• Solely commercial focus</li> <li>• Role limited to land/property development &amp; disposals</li> </ul>	<p>While JV Board's drivers are commercial success of JV, UTC reps must also act as guardians of urban transformation outcomes, i.e. ensure these are not diluted</p>
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## 2. Empowering UT - Role and Function an 'Urban Transformation Corporation'

Steps in the urban transformation process	Elements	Outcome(s) sought	Key issues	Enablers			
				Regulatory	Funding	Management	Governance
<b>Land acquisition and management</b>	<ul style="list-style-type: none"> <li>Transfer Crown land holdings within TPZ to UTC</li> <li>Transfer other public land within TPZ to UTC</li> <li>Acquire private land as required to effect master plan</li> <li>Manage land holdings prior to development</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient land acquired to provide catalyst for redevelopment</li> <li>Holding costs reduced by optimising revenue flows from land and improvements <i>and</i> minimising debt servicing requirements</li> </ul>	<ul style="list-style-type: none"> <li><i>Power to acquire</i> – ability to assemble land parcels of scale and location required to deliver master plan</li> <li><i>Holding</i> – ability to hold land until conditions are right for development</li> </ul>	PWA <ul style="list-style-type: none"> <li>Review s224 of PWA?</li> <li>Specific powers to acquire and on-sell</li> <li>S40?</li> <li>PWA allows for value capture – make explicit?</li> </ul>	All public land transfers fiscally neutral reflected as shareholder equity? Other funded by: <ul style="list-style-type: none"> <li>New capital?</li> <li>Subordinated Crown debt?</li> <li>UTC bond issue?</li> </ul>	•	•
<b>Master planning</b>	<ul style="list-style-type: none"> <li>Develop master plan for TPZ</li> <li>Secure changes to District Plan etc to enable delivery</li> </ul>	<ul style="list-style-type: none"> <li>Master plan adopted as basis for future development within TPZ</li> <li>Planning risks (public opposition, competing schemes) minimised</li> <li>Significant reduction in actual/time cost</li> <li>Transition strategy for business/residents/ services affected by future development</li> </ul>	<ul style="list-style-type: none"> <li><i>Priority</i> – Master Plan implementation takes precedence over RMA and other urban planning imperatives</li> <li><i>Credibility</i> – Master planning process provides scope for meaningful input from key stakeholders.</li> <li><i>Certainty</i> – Master plan is 'locked in' to minimise costs associated with changing policy and planning context</li> </ul>	<ul style="list-style-type: none"> <li>Enhance RMA &amp; existing TLA regulatory role?                <i>Or</i> </li> <li>UTCs to resume all regulatory control?                <i>Or</i> </li> <li>Establish TPZ 'commissions' with powers delegated by Central Govt – this maintains separation of UTC's regulatory &amp; developer roles</li> </ul>	•	•	•
<b>Land reconfiguration</b>	<ul style="list-style-type: none"> <li>Amalgamate land parcels into development 'precincts'</li> <li>Address land quality issues incl. land clearance as required</li> <li>Bulk infrastructure and other works</li> </ul>	<ul style="list-style-type: none"> <li>Land reconfigured into viable development blocks</li> <li>All land remediated to appropriate standard</li> <li>Bulk infrastructure in place to service site</li> </ul>	<ul style="list-style-type: none"> <li><i>Viability</i> – land parcel scale must be aligned with capacity of potential development partners to deliver</li> <li><i>Levels of public investment</i> –land must be 'development ready' thru prior investment in infrastructure, external connections etc</li> </ul>	•	•	•	•
<b>Development Partnerships</b>	<ul style="list-style-type: none"> <li>Develop high level procurement strategy</li> <li>Identify/select commercial partner(s)</li> <li>Form JV development partnership</li> </ul>	<ul style="list-style-type: none"> <li>input value of Crown's land investment set</li> <li>Risk/reward split between public and private partner(s)</li> <li>Governance f/work</li> </ul>	<ul style="list-style-type: none"> <li><i>Commerciality</i> – need to ensure returns to UTC and developer are commercially realistic</li> <li><i>Capacity</i> – of</li> </ul>	<ul style="list-style-type: none"> <li>Reduce legal barriers to transfer of public land to JV entity, and to sale of developed land:</li> </ul>	•	•	•

	<ul style="list-style-type: none"> <li>• Establish JV Company</li> </ul>	<p>established</p> <ul style="list-style-type: none"> <li>• Roles and responsibilities determined</li> <li>• Owner approval to form JV entity</li> </ul>	<p>development partner(s) to deliver</p> <ul style="list-style-type: none"> <li>• <i>Transparency</i> – process for JV partner selection is robust</li> <li>• <i>Control</i> over vision – remains with UTC on behalf of 'owners'</li> </ul>	<ul style="list-style-type: none"> <li>• S40 of the PWA</li> <li>• Treaty of Waitangi issues?</li> </ul>			
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### 3. Land and Property Development Activity within a ‘Transition Project Zone’ (developer-led)

Steps in the urban transformation process	Elements	Outcome(s) sought	Key issues	Enablers			
				Regulatory	Funding	Management	Governance
<b>Precinct Planning</b>	<ul style="list-style-type: none"> <li>• Complete detailed precinct planning</li> <li>• Obtain statutory clearance to progress development (land use and built form)</li> <li>• Set timeframe and commercial parameters for development</li> </ul>	<ul style="list-style-type: none"> <li>• RMA/other consents in place</li> <li>• Shareholder approval of precinct development plan(s) and peak funding requirements</li> <li>• Significant reduction in actual/time costs assoc. with development approvals</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Transparency</i> – process is robust/transparent especially where it departs from RMA</li> <li>• <i>Buildability</i> – Plans are realistic given industry capacity, demand and peak funding constraints</li> </ul>		•	•	•
<b>Precinct Development</b>	<ul style="list-style-type: none"> <li>• Appoint project manager</li> <li>• Let main development contracts</li> <li>• Gear up marketing strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Effective project management and reporting</li> <li>• Phased release of Project outputs</li> <li>• Sound knowledge of market</li> </ul>	<ul style="list-style-type: none"> <li>• <i>No surprises</i> – all costs budgeted and risks managed thru robust procurement method</li> <li>• <i>Flexibility</i> – to adjust content of later phases to meet market</li> </ul>	•	Funded by: <ul style="list-style-type: none"> <li>• commercial partner(s)?</li> <li>• Bond issue?</li> </ul>	•	•
<b>Managing project outputs</b>	<ul style="list-style-type: none"> <li>• Manage flow of developed land/buildings into market</li> <li>• Create bow-wave of demand for project outputs</li> </ul>	<ul style="list-style-type: none"> <li>• Controlled release</li> <li>• Certainty over take-out/realisations thru advance sales – especially to public agencies</li> <li>• Financial commitment</li> </ul>	•	•	•	•	•

#### 4. Managing post-development outcomes

Steps in the urban transformation process	Elements	Outcome(s) sought	Key issues	Enablers			
				Regulatory	Funding	Management	Governance
<b>Wind up Transition Project Zone</b>	<ul style="list-style-type: none"> <li>• Lift TPZ zones and remove any special powers and functions</li> <li>• Wind up special purpose development vehicles</li> <li>• Transfer public land and property assets to TLA or</li> <li>• Contract out disposal/mgmt of residual holdings</li> </ul>	<ul style="list-style-type: none"> <li>• All commercial and statutory obligations discharged</li> <li>• Ongoing mgmt and statutory functions transferred to TLA/other agencies</li> <li>• Residual development risks minimised</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Closure</i> – TPZ should have a limited shelf life. Special functions and powers terminate on completion of project</li> </ul>	<ul style="list-style-type: none"> <li>• Removal of statutory designation and associated functions/powers</li> </ul>	<ul style="list-style-type: none"> <li>• Repayment of debt/shareholder equity</li> <li>• Distribution of profit/loss</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<b>Deliver longer-term urban transformation outcomes</b>	<ul style="list-style-type: none"> <li>• Transfer responsibility for TPZ outcomes to TLA and sector agencies</li> <li>• Create new Special Purpose Vehicles as required to manage long term outcomes:</li> </ul>	<ul style="list-style-type: none"> <li>• Achievement of long-term sustainability goals</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Transferability</i> – Responsibility for delivering longer-term outcomes: <ul style="list-style-type: none"> <li>• <i>Affordable housing</i></li> <li>• <i>Econ dev</i></li> <li>• <i>Community dev</i></li> <li>• <i>Public assets</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<b>Evaluate impact of transformation</b>	<ul style="list-style-type: none"> <li>• Ongoing evaluation of urban transformation impacts of TPZ</li> </ul>	<ul style="list-style-type: none"> <li>• Scheduled TPZ impact assessment reports during and post-development</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Measurability</i> – extent to which UTC performance can be measured against original TPZ project objectives</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<b>Plan New investment</b>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>