

Submission

By

**THE
NEW ZEALAND
INITIATIVE**

to Wellington Council

on

the Draft Economic Wellbeing Strategy

29 April 2022

Prepared by:
Eric Crampton, Chief Economist
The New Zealand Initiative
PO Box 10147
Wellington 6143
eric.crampton@nzinitiative.org.nz

1 INTRODUCTION AND SUMMARY

- 1.1 This submission in response to Wellington Council's Draft Economic Wellbeing Strategyⁱ is made by The New Zealand Initiative (the **Initiative**), a Wellington-based think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people.
- 1.2 The Initiative undertakes research that contributes to the development of sound public policies in New Zealand and the creation of a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.
- 1.3 The Initiative's members span the breadth of the New Zealand economy, many of which have a presence in Wellington or are based here. The views expressed in this submission are the views of the author, not those of our members.
- 1.4 The Initiative normally focuses on national-level policy. However, we are based in Wellington. Our researchers live and work here. We want the city to thrive.
- 1.5 We do not aim to comment on all aspects of this document. We focus on the areas within our policy expertise. Some objectives of the plan sound promising, like improving the reliability of core infrastructure and ensuring improving business satisfaction with core council services. We restrict our focus to areas that we believe require improvement or reconsideration, within our areas of expertise.
- 1.6 In summary, we submit:
- (a) Council should focus first on ensuring it is competently and cost-effectively delivering core council services before expanding into other policy areas that are more traditionally handled by central government;
 - (b) Council must fundamentally reconsider how it thinks about carbon emissions. Urban emissions are covered by the Emissions Trading Scheme. Council action in seeking to limit local emissions may have no effect at all on national-level emissions. But Council has a critical role in facilitating its residents' responses to rising carbon prices in the Emissions Trading Scheme;
 - (c) Rather than lobby central government for measures like subsidies for the local film industry, it should lobby central government to provide Council with the tools it needs to enable urban growth. In particular, better infrastructure financing options would let Council do a lot to improve the whole city – but require central government's assistance. Housing and the infrastructure required to support it are far too central to wellbeing to see so little attention in this plan.

2 OUTCOME 1: SUSTAINABLE BUSINESS AND CAREER PATHWAYS

- 2.1 The strategy notes Wellington's talent shortage, pointing to housing costs and job opportunities as main barrier. It suggests potentially untapped talent pools, including people with disabilities and recent graduates. It proposes that Council act as intermediary between people who could be employed, training schools, and employers.
- 2.2 It is not obvious that local council has a comparative advantage in this area. Central government is in the middle of restructuring the entire polytech sector, which would make Council intervention harder to implement. Does Council have any good reason to believe that employers in trades are not already talking with training colleges to address these kinds of issues, or that they are not already being

canvassed in the restructuring of the polytech system? Has Council asked employers whether they would see any value in these kinds of matching programmes? There may not be any opportunity for Council to improve outcomes here.

- 2.3 There is one specific area where Council really could do some good, however. There are hundreds of medical professionals in New Zealand who, because they were trained abroad, have been unable to secure employment here. Registration requirements that doctors work under supervision in a hospital setting, combined with a lack of central government funding for those supervised positions, prevent trained medical professionals who have passed New Zealand's exams from helping here during a pandemic. Council could fund bonded training positions at Wellington Hospital, requiring that doctors who achieve certification through that bonded pathway work in the Wellington region after completing their registration requirements or refund the cost of their supervision. Wellington has a hospital suitable for training and supervision. It could request that central government co-fund these positions, or just do it itself.
- 2.4 The strategy notes housing costs as a primary barrier, and includes reasonable and meaningful measures that would be consistent with success: increasing inbound migration, more houses being built, improving housing affordability, and fewer people leaving. None of the priority actions in this section can deliver these outcomes. And they are critically important for many of the strategy's other outcomes. Focusing on restoring housing affordability by enabling more housing is the single most important thing that Council should be doing for improving wellbeing and economic wellbeing.
- 2.5 To take a very simple personal example, I earn considerably more than the median wage and moved to Wellington from Christchurch on a job offer in 2014. If that job offer had come today, instead of eight years ago, it would have been impossible to convince my family to move to Wellington – I would not have wanted to move here either. Housing costs here, compared to Christchurch, would have meant a massive decrease in our family's wellbeing – despite the walkability, despite the gorgeous harbour, despite the city's amenities. It also makes it impossible for our organisation, as an employer, to attract staff to Wellington from places with more reasonable housing costs. The city will atrophy unless the housing shortage is addressed far more seriously.
- 2.6 The extent of the housing shortage, and its implications for employment here, make discussion of employer hubs really rather futile. Address the single biggest problem affecting ability to live and work here, and to attract and retain staff, first. It's housing, and high costs of living driven by restrictive land use planning in general.

3 OUTCOME 2: TRANSITIONING TO A CIRCULAR ECONOMY

- 3.1 The Strategy suggests measures to promote a zero carbon, zero waste city, including co-creating business sector plans, sector transition programmes, and targeting decreasing per capita emissions. It suggests that doing so will attract people to live in, visit, and set up business in the city.

- 3.2 The Strategy here seems severely misguided and risks working against the Strategy's other outcomes.
- 3.3 If the desired outcome is encouraging people to live in, visit, and set up businesses in the city, the single most important thing that Council can be doing is setting far more liberal zoning and consenting practices to enable vastly more housing. Mixed-use zoning enabling apartments above retail and hospitality would encourage vibrancy. Enabling restaurants and bars to purchase or lease the parking spaces in front of their establishments to use as outdoor patio areas would also help.
- 3.4 The Strategy sets as priority action the developing of a business and investment attraction strategy and action plan. But why would a business set up here if its employees cannot afford to live here, if the infrastructure is crumbling, if business rates differentials are among the highest in the country, if traffic remains terrible, and if zoning and consenting makes setting up shop too difficult? Believing that a circular economy change programme is what would drive businesses to want to locate in Wellington is wishful thinking.
- 3.5 Council should care less about the kilograms of waste each person sends to landfill, and more about ensuring that the charges set at landfill recoup the full cost of using up that space at landfill. Are current charges enough to cover the costs at the current landfill site, to build a fund to oversee it when it reaches capacity and needs to be closed off, and to commission and prepare a new site? Council could also investigate waste-to-energy plants that could be sited at the landfill, to vastly extend the lifespan of the landfill while generating electricity.
- 3.6 Setting zero waste requirements on construction, in the middle of a desperate housing shortage compounded by high building costs, seems a substantial error. The cost of disposing waste at landfill is trivial relative to the cost that Council could impose across the entire city by forcing higher-cost construction methods. Remember that prices of existing homes are in large part determined by the cost of building new houses. Nobody will pay \$1 million for a deteriorating house if good new housing can be brought to market for less than that. Driving up construction costs pushes up housing costs across the whole city. Please do not do this.
- 3.7 At the same time, the Commerce Commission has pointed to restrictive and risk-averse building approval processes as driving some of the country's high building costs. Council consenting and approval processes may not only be driving high building costs, but also discouraging builders from using new and innovative materials, often more eco-friendly materials. How? If architects, engineers, builders and developers all expect that Council will give them a lot of trouble in the consenting process if they use an unfamiliar material or method, they will not buy themselves that kind of grief. Council could very usefully examine whether its own practices are a barrier here. It would do far more good than investigating circular economy models.
- 3.8 There is critically important work for Council to be doing as part of the country's transition towards net zero. Unfortunately, the strategy as outlined at a high level fails to address the issues that Council needs to be thinking about, while proposing measures that will not contribute toward net zero.
- 3.9 Barring trivial levels of emissions from livestock on Council-owned land, all urban emissions are covered by the Emissions Trading Scheme. National-level net emissions are driven by the number of ETS credits issued by central government, plus any accumulated stockpiles of ETS credits.
- 3.10 It is difficult to think of any substantial urban emissions that are not covered by the ETS. Domestic transport is entirely covered by the ETS. Construction is covered by the ETS.

Heating and process heat are covered by the ETS. Every tonne of emissions in the covered sector requires the surrender of a New Zealand Unit (NZU) to cover those emissions. In the case of transport, fuel companies purchase and surrender ETS credits on behalf of later fuel users.

- 3.11 The ETS matters substantially for any Council-led efforts to reduce emissions within the city. If emissions from the city doubled, or halved, or quadrupled, or disappeared entirely, national-level net emissions would be entirely unchanged unless central government reduced the number of ETS credits that it releases each year.
- 3.12 If central government does not reduce the number of ETS credits that it issues, the only effect of reduced emissions in the Wellington region is a shift in the location of emitting activities. Every credit that is not purchased by a Wellington business or on behalf of a Wellingtonian will be purchased instead by someone else.
- 3.13 Determining the cost-per-tonne of emission reductions matters. If a Council initiative would cost \$700 per tonne of net emission reductions, and the current carbon price is \$70 per NZU, Council could instead choose to buy and retire ten tonnes worth of ETS credits for the same cost to the community – and do ten times as much good in reducing net emissions. Even if central government decided to reduce the number of carbon credits it issues in response to reductions in emissions in Wellington, the initiative here described would still do only a fraction as much good as simply buying ETS credits and retiring them, unused.
- 3.14 It is unlikely that Council will find areas where it can deliver net emission reductions for less than the going carbon price. But there are areas where Council will be critically important in enabling residents and businesses to respond to rising carbon prices.
- 3.15 Rising carbon prices will affect where people want to live, where businesses wish to locate, patterns of working from home versus commuting, preferred transport mode, type of desired housing and more. Council zoning needs to be flexible to enable changes in site use as resident and business needs change. Transport planning has to incorporate the likely effects of rising carbon prices.
- 3.16 To put it bluntly, the strategy ignores the key area where Council can really help enable residents to adapt to rising carbon prices, while pursuing initiatives that cannot reduce net emissions because of their intersection with the ETS.
- 3.17 Last year, the Urban Land Markets Group, a broad set of urban-oriented economists and analysts brought together by Associate Minister Twyford to provide an independent stream of advice on housing policy, prepared a submission to the Ministry for the Environment on the Emissions Reduction Plan and its implications for urban policy. That submission is attached to this submission. It argued that councils have a key role to play in ensuring that zoning and transport infrastructure can enable the ways that people will want to live, move, and work as carbon prices rise. Councils could also very usefully work in mitigating additional market failures that may become apparent as carbon prices rise, if such interventions pass cost-benefit assessment. However, councils attempting to directly target emissions within the sectors covered by the ETS would be unlikely to reduce net emissions. It also warned central government that councils could use carbon emissions as a new tool for frustrating the government’s urban growth agenda, and that central government should be vigilant.
- 3.18 More broadly, Council should be more sceptical of circular economy and doughnut economics arguments. If local expertise matters, Victoria University of Wellington’s Professor Arthur Grimes described doughnut economics as “contentless”, and that it has not “added anything except for a pretty diagram.”ⁱⁱ Council’s wellbeing strategy needs

sounder foundation. Council will find it challenging enough to competently provide core services while enabling residents to adapt appropriately to higher carbon prices.

3.19 Council should not be working with central government to subsidise businesses “committed to a circular economic model.” However, if some activities provide important environmental benefits that are not covered by the ETS, funding for those activities may be warranted.

3.20 The Strategy suggests supporting Māori economic success through measures like a procurement strategy target of 5% contracts with Māori businesses. While it would be appropriate for Council to ensure that its procurement and contracting does not inadvertently disadvantage local, smaller, or Māori businesses, targets of this sort should not be pursued. Defining a Māori business would be fraught, unless the definition were simply businesses directly owned by iwi. Council should be contracting with the best and most cost-effective providers of goods and services that Council requires rather than use service contracting for other purposes.

4 OUTCOME 3: A BUSINESS-FRIENDLY CITY

4.1 The Strategy aims for Wellington to be the city partner of choice for businesses, investors and developers.

4.2 The Strategy proposes several relevant success measures, including GDP per capita, improvements in the Business Perception Survey, reduced frequency of water supply interruptions, and reduced urban travel times. It suggests developing regulatory one-stop shops.

4.3 These measures all seem laudable.

4.4 The Strategy does not note that the rates differential facing businesses in Wellington is very high.

4.5 The Strategy does not consider that many of the other targeted outcomes will make Wellington less business-friendly.

4.6 And, the Strategy does not consider the extent to which the housing shortage affects business willingness to set up and stay in Wellington by making it harder for businesses to attract and retain staff.

4.7 The Strategy suggests that Wellington wants to be the city partner of choice for developers. Where the Mayor participates in protests against housing development, Councillors regularly seek to stymie new housing, and where urban height limits combined with other regulatory requirements make apartment development impracticable in too much of downtown, Wellington has a lot of work to do. Do minimum height limits in some parts of town wind up requiring that every building undertake an expensive wind tunnel test? If so, do maximum height limits in those same places prevent building high enough to cover the fixed costs of that testing? If zoning and other requirements wind up de facto banning development in parts of town where more housing is needed, is Wellington really business friendly? Being housing-friendly is an important part of being business-friendly.

5 OUTCOME 4: CENTRE OF CREATIVITY AND DIGITAL INNOVATION

5.1 The Strategy suggests that Council should advocate to central government for tax incentives to ensure that Wellington is competitive in global film markets. It also suggests that more support for the screen sector to overcome challenges of skills shortages.

5.2 Industries that can only continue to exist at current scale by virtue of substantial government subsidy are not a sustainable basis for a city's economic development. There is a global arms race in film subsidies.ⁱⁱⁱ If other places decide to further subsidise film, Wellington would become less attractive unless the New Zealand government ramped up its own subsidies.

5.3 Urging more training for film workers, when employment in film depends on continued central government willingness to throw billions of dollars at film subsidies, makes Wellington economically fragile. The city risks winding up spending a lot of money training people for roles that should not exist in any rational framework, and that are hostage to international film subsidy bidding wars. It makes no sense. Council should, if anything, be preparing for the transition that may be required if the film subsidy spigot ever shuts off.

6 OUTCOME 6: A DYNAMIC CITY HEART AND THRIVING SUBURBAN CENTRES

6.1 The Strategy aims to promote a compact city with thriving suburban centres. It proposes a range of credible and reasonable success measures, including measures of city safety, improving perceptions of a lively and attractive CBD, and business confidence. It suggests regeneration plans, events programmes, weather resilient spaces for markets, and 'activating' empty buildings and shop fronts.

6.2 A thriving downtown will require that more people are able and willing to live downtown. Substantial attention to the infrastructure that can enable housing growth will be required, as well as to the zoning and consenting barriers to building more apartments and townhouses near the city's core. Council must ensure that other priorities do not work to thwart housing development.

6.3 Councillors seem split between those who wish to encourage more downtown growth, to the exclusion of suburban growth, and those who wish to encourage more suburban growth, while maintaining restrictive height limits and character designations within town.

6.4 Perhaps surprisingly, allowing suburban expansion can be critical for ensuring an affordable downtown. In a well-functioning city, land prices are high downtown, reflecting the value placed on downtown amenities and short commutes, and decline as one moves further away from downtown. The price anyone is willing to pay to live downtown is bounded by the cost of housing at the city's fringes, plus the cost of commuting. The availability of ample housing potential at a city's fringes means that downtown apartments will be far more affordable – subdivisions at the edges of the city anchor the land price gradient for the entire city. If development at the fringes is frustrated, downtown land prices can become prohibitive. Encouraging an affordable downtown can require allowing development further afield.

6.5 The Strategy suggests enabling opportunities to transform spaces to outdoor dining. This would be welcome – especially as the continued pandemic makes indoor dining less attractive for those who are more worried about contagious disease. Restaurants and bars could be offered the opportunity to buy or lease the parking areas in front of their venues to put to better use. Council could consult with venues along Allen and Blair Streets to see whether either could be pedestrianised, with ample space for outdoor seating for the adjacent bars and restaurants.

6.6 The Strategy notes the importance of night-time activities as part of a thriving downtown, and that a night-time economy plan will be developed. In 2019, the New Zealand Initiative released a report, *Living After Midnight*, providing several recommendations for improving night-time wellbeing.^{iv} It noted the success of the "Night Mayor" approach in Amsterdam, where the city takes active measures to ensure that regulatory structures set for the

daytime economy do not hinder things at night. The report also cautions against designated entertainment precincts, which can stymie dynamism.

7 CONCLUSION

- 7.1 The Economic Wellbeing Strategy covers a lot of ground, but with little sense of priorities across areas. We urge that highest priority be set on improving housing affordability, and especially in cases where other objectives may conflict with enabling the delivery of affordable housing. Substantially improving economic wellbeing will be far too difficult if housing costs are not contained. Ensuring that zoning and consenting enable rather than thwart new development will matter.
- 7.2 The Strategy often recommends lobbying central government, but ignores opportunities to ask central government for help in delivering the government's housing supply agenda. How much more permissive could Council consenting and approval practices be if Council did not bear all of the downside cost of any failures under joint and several liability? How much more housing could be delivered if Council could issue bonds to fund the infrastructure to service it, financed by payments from the beneficiaries of that infrastructure, but without recourse to Council's main balance sheet? What proportion of Wellington's transport difficulties would disappear if the city were allowed to use congestion charging? Any of these initiatives would do more to help the City's economic wellbeing than, for example, lobbying central government for film subsidies.

ⁱ Wellington Council. 2022. *Draft Economic Wellbeing Strategy*. Available at <https://www.letstalk.wellington.govt.nz/economic-wellbeing>

ⁱⁱ Mandow, Nikki. 2019. "Is Growth Bad?" Radio New Zealand. 5 July, available at <https://www.rnz.co.nz/programmes/two-cents-worth/story/2018702058/is-growth-bad>

ⁱⁱⁱ See for example the most recent edition of the Olsberg-SPI Global Incentives Index, available at <https://www.o-spi.com/projects/blog-global-incentives-index>.

^{iv} Rother, Natanael, and Jenesa Jeram. 2019. "Living after midnight: For a better night-time environment". *The New Zealand Initiative*. Available at <https://www.nzinitiative.org.nz/reports-and-media/reports/living-after-midnight-for-a-better-night-time-environment/>