

THE QUESTION OF URBAN LIMITS

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Why urban development should be permitted only in defined areas is a question that has always tested planners.

In December 1994, North Shore City applied to the Planning Tribunal by for a declaration regarding the power of the Auckland Regional Council to use the Regional Policy Statement to direct territorial authorities' control over land use. This is the latest round in the long-running urban limits saga in our largest urban area. Subject to appeal, the declaration has resolved that regional policy statements can include directions which may establish just where urban Auckland will expand with reference to lines on a map.

The question of why such lines should be included in a regional policy statement is yet to be resolved.

Economic theory and the principles established in the Resource Management Act give scope to answer this question. In particular I suggest that:

- While alternative techniques are available that address resource management issues targeted by urban limits, they present significant practical difficulties.
- Urban limits promote outcomes that achieve greater sustainability of natural and physical resources than simply doing nothing.
- Urban limits permit:
 - i) Consideration of the most appropriate means to provide for urban population growth via, for example, urban consolidation or the sequencing of peripheral growth.
 - ii) Sequencing of urban expansion in an orderly manner consistent with funding and provision of "lumpy" regional infrastructure such as highways, bridges, water and drainage works.

THE EXTENT OF REGULATION

Urban development is a complex process involving the interplay of many individual decision makers within what I will call an urban market. The rationale for setting limits within urban markets relies on the existence of market failures and the theory of second-best.

Market failures arise as a result of poorly

defined property rights, information problems experienced by decision makers, and as a consequence of externalities. As a result, individual decision makers do not face the true costs of their activities, resulting in situations where resources are over-used and the community's overall level of welfare is lower than it would otherwise be.

The theory of second-best suggest that because market failures within the urban market do occur, it is not necessarily optimal to pursue a pure market outcome. The existence of market failures means some loss of efficiency. The "second-best" option, given this loss, may be intervention, either to correct these market failures or to compensate for their effects.

Measures to correct market failures include the provision of information and better specification of property rights. Improved information allows decision makers within the urban market to make more informed and perhaps better decisions. The use of education as an alternative method of achieving desired environmental outcomes is suggested in the Resource Management Act.

The specification of property rights permits externalities to be internalised by decision makers.

In many respects, the concept of zoning as adopted within many district plans, and the concept of urban limits within the proposed Auckland regional policy statement, are based on the idea of specifying property rights so as to isolate externalities and ensure they are considered by decision makers.

Often the externality at stake in zoning issues is the damage visited on one agent by the activities of another. Usually this takes the form of loss of amenity. The Resource Management Act also highlights adverse impacts upon sustainable management of natural and physical resources as the basis for intervening in the urban market.

Within the urban market, information problems, poorly defined property rights and externalities are so common that the use of unfettered markets to determine the form of urban development is undesirable.

In this situation, the theory of second-best implies that the ad-hoc application of market rationality without recognition of surrounding market failures may only make a bad situation worse. For example, allowing market forces to determine the location of urban development when that demand produces externalities, is likely to lead to inefficient levels of demand.

THE RATIONALE FOR RESTRAINT

To justify intervention in the urban market aimed at limiting the extent of urban development, one must identify market failures and show that intervention will either:

- correct the market failure,
- compensate for the market failure, or
- provide an outcome which is better, in terms of sustainable management, than doing nothing.

Market failures likely to arise in the process of urban expansion include: *failures by individual decision makers to adopt the appropriate time horizon*; in other words, the inappropriate discounting of time. This can lead to costs in the future being given too little weight while benefits in the present are given too much.

An example is access. Development on the urban periphery faces immediate costs associated with providing access. On-site access and upgrading of adjacent roads are increasingly required by local district plans. These represent the short-run marginal costs of providing access and in many cases resource management rules include procedures to ensure developers face such costs. However, approaches to resource management have not generally included similar procedures to ensure long-term marginal costs of providing access to the urban periphery are faced by developers. Such costs may include upgrading of highways, both within and outside the local district.

Related to this issue is *the irreversibility of change* and the fact that decisions taken now may compromise options in the future and create pressure for further public expenditure.

Change may be irreversible because the cost of reversal outweighs the economic advantages. This may impose higher costs on future generations. The loss of rural landscapes is an example of this.

Alternatively, change may be irreversible because of a subsequent chain of events which follows an initial decision. I have out-

LOCAL AUTHORITY

lined such a cycle in the diagram right with reference to accessibility and the resulting pressure for off-site expenditure by others in the form of public expenditure.

Failure to recognise the true costs of a resource use. The true cost of resources may be captured by the market value. Where this is the case, individual decision makers are in a position to make efficient decisions. However, for many natural resources there are relevant non-market values which are not reflected in the market value.

For example, land development costs may not reflect costs associated with:

- Water quality problems and pressure on habitats arising from increased contamination by stormwater flows from roads because of greater road transport.
- Air quality problems, mainly from vehicle emissions.
- Loss of valuable natural resources such as highly productive soils.

It may be possible to develop and implement resource management approaches that present information and costs to individual decision makers so they can make decisions taking into account the market failures I have outlined.

Such an approach, aimed at compensating for market failures, may be based on a series of economic instruments designed to tax resources so that their true cost is presented to individual decision makers. Alternatively, such an approach may be based upon detailed reviews of individual resource applications by resource management agencies with reference to previously established criteria.

However, a system based on the review of every development proposal would be unwieldy and impose significant administrative costs which would not always be justified. A system based on economic instruments would pose significant questions as to the value of non-market items – something economists have been grappling with for many years and which ecologists and others suggest is very difficult conceptually.

Furthermore, both techniques are associated with significant uncertainty. In the case of economic instruments, it is uncertain whether resources have been adequately costed and that the costs will influence individual behaviour in a way that maintains resources at sustainable levels. In the case of extensive reviews of individual resource applications, applicants are uncertain as to how their applications will be treated.

In summary, the means available to compensate for market failures associated with urban expansion are not practical. In such circumstances it may be appropriate to do nothing.

However, urban limits, by addressing a number of market failures, provide a better outcome in terms of sustainable management than doing nothing.

CIRCLE OF URBAN DEVELOPMENT

MARKET RESPONSE

Demand for rural-residential land on the urban fringe

POLICY FAILURE

Weak planning controls allowing de-facto residential subdivisions

DEMAND SHAPER

Construction of better roads to relieve congestion

EXTERNALITY

Increasing rural populations lead to increased congestion on arterial roads

In particular, urban limits provide a basis for:

- Considering the most appropriate means by which to provide for urban population growth. Enforcement of urban limits permits options such as urban consolidation and the sequencing of growth to be considered. These strategies are aimed at orderly development consistent with the sequencing of public infrastructure and efficient use of that infrastructure.
- Coordination and sequencing of urban expansion with the funding and provision of "lumpy" regional infrastructure such as highways, bridges, water and drainage works.

Clearly, as a basis for sequencing and orderly development, one would not envisage urban limits remaining static in the long term in the face of urban growth. However, urban limits do provide a basis for the review of options as to how urban growth is expressed in the light of sustainable management criteria.

Urban limits are a blunt tool. They are not enough on their own to target all resource management issues associated with urban expansion. They need to be implemented as one element of an integrated "tool box" of techniques which address particular resource management concerns such as adverse effects on habitats. The Resource Management Act indicates such techniques may be found in a variety of documents such as national policy statements, regional policy statements and plans, as well as district plans.

As tools, urban limits offer many advantages. They are easily communicated to the public, reduce uncertainty for the applicant and are relatively cheap to administer compared to the alternatives.

ROLE OF REGIONAL PLANNING AGENCY

Policies concerning urban limits are key elements of a regional resource management strategy. The impact of urban expansion

is felt throughout a region on shared infrastructure such as roads, as well as shared resources such as harbours.

If individual territorial authorities resolve upon urban limits, there is a danger that the local communities will give insufficient weighting to regional issues and adverse environmental effects. For example, a local authority may introduce urban limits within its district only to be frustrated by a neighbouring local authority permitting development to proceed.

Such a situation may lead to "beggar thy neighbour" attitudes being adopted by the parties involved. Auckland, with its multiplicity of local territorial authorities, may be more prone to such actions than regions with fewer local authorities.

Similarly, a local authority may proceed with an urban expansion policy when the adverse effects generated by, for example, a loss of amenity associated with increased traffic flows, mainly affect a neighbouring community.

A regional approach avoids such issues. By including policies within a regional policy statement, territorial local authorities will incorporate limits to urban development in their district plans, in conformity with objectives and policies of the statement and, if appropriate, a regional development plan.

SUMMARY

Urban limits are a practical means of promoting sustainable management of a region's natural and physical resources.

In particular, urban limits provide a basis for considering the most sustainable means by which to provide for urban population growth. Enforcement of urban limits permits options such as urban consolidation of sequencing development in an orderly fashion, consistent with the efficient use of public infrastructure.

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