

The Treasury

Housing Infrastructure Fund Information Release

Release Document

October 2016

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Auckland Housing and Infrastructure: Brief Note

Please Note: This is a preliminary note and much further work is needed before a final decision is taken

1 Summary

In our view, infrastructure funding is a constraint but overcoming that constraint will not alleviate the short-term house price pressures. If you were to do something to overcome the infrastructure finance challenges, we recommend **option 2b** – the contestable fund that fast-growth regions could apply to.

2 Context

The objective of this work is to identify options to improve the provision of infrastructure for new housing development by removing the financing constraint faced by Auckland Council and other fast-growing councils.

The following information has been pulled together at short notice and is based on existing information. We are happy to develop this further if needed.

Please note:

- The financing of infrastructure is just one constraint in the provision of infrastructure.
- The financing of infrastructure is not a short-term fix. Most of the projects that would be brought forward if additional financing was available are medium-term projects that will enable the supply of land in 5-7 years and therefore will not alleviate pressure on housing in the short-term.
- It is not clear that increasing the supply of infrastructure will significantly increase the competitiveness of the development market as much of the infrastructure would be releasing later stages or other land holdings of existing developers.
- We do not believe there is sufficient information to provide assurance that any specific project represents value for money. Our preference would be for a more general approach where the project specifics are worked out at a later stage.
- We want an approach that leaves decision-making and funding on the bulk of the infrastructure decisions with local authorities but where central government money is involved we would want some form of governance arrangement that provided central government input into decision-making.
- The choice of the vehicle for funding infrastructure will determine whether it hits Government operating expenditure or capital expenditure. The capital allowances provide for \$900 million per year or \$3 billion across the forecast period. Any funding for the City Rail Link would need to come out of that allowance. [37] Any spending above that would increase debt. Currently debt is forecast to be at 20.8% of GDP by 2020.

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3 Conditions/concessions

Some of the conditions/concessions will be dependent on the option chosen. If you want a solution that is able to be accessed by other regions as well as Auckland, the conditions you could require may be limited.

In general, the conditions/concessions should be related to the infrastructure funded. For example, requirements for planning rules that enable further intensification on the isthmus should be linked to offers for infrastructure that support that density e.g. public transport.

Auckland specific conditions

- We would like to accelerate Auckland Council's work on value capture and third party funding mechanisms for future infrastructure projects, particularly those that create large amounts of value such as big transport projects. This includes capturing part of the value for local residents, businesses and service users through targeted rates / taxes and user charges. It also includes enhancing the value from projects, such as building precincts around major pieces of infrastructure. Other jurisdictions around the world are demonstrating how third party funding can be maximised (for example, 60 percent of the UK's GDP15 billion (\$32 billion) Crossrail project is being funded by Londoners and London businesses, largely due to specific value capture tools). We understand the Council are doing some work on this, but we could explore a funding condition to accelerate this work. It should also be borne in mind that the key findings of the ATAP process highlight that addressing funding alone will not achieve a step-change in Auckland, and this is part of a wider policy response.
- Ideally you want to specify that Auckland can't use headroom that may be created (either as a result of the central Govt contribution or by positive financial "surprises") to be used for what we consider "low-value" projects. The difficulty is doing this in a way that doesn't undermine local autonomy over decision-making.

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4 Scope

1. Fund individual projects

Ministers may wish to fund individual infrastructure projects in Auckland, and a list of possible candidates has been provided by the Council. However, officials have not been able to formulate an adequate view of the costs and benefits of these proposals and therefore cannot offer a steer on their relative merits. Our initial view is that none of them would fundamentally address the housing issues facing Auckland, and there may be other projects that we are not familiar with that would be more beneficial.

2. Create an Investment Fund / Contestable Regional Investment Fund

Rather than fund specific projects, the Crown could establish a fund dedicated to Auckland infrastructure projects but subject to Crown scrutiny / approval before funding is committed. This could even be extended beyond Auckland to cover the five high-growth urban areas as defined in the recent *National Policy Statement Urban Capacity*, and made contestable such that only those projects providing the highest benefit-cost ratios across these regions were funded. This would ensure the funds were allocated to the highest value projects across growth regions, and not just Auckland.

The benefit of this approach is that the Crown could signal its commitment to addressing Auckland's infrastructure problems through the announcement of the fund without committing to individual projects until we have formed a view on the merits of those projects.

3. Special Purpose Vehicle

One step further would be to establish a joint venture with Auckland Council (or indeed other high-growth urban area councils). The desirability of an SPV depends on Ministers' appetite for a greater role in prioritising Auckland's infrastructure projects and directing how Crown funding assistance is used.

Currently, the Crown's role in determining Auckland's infrastructure investments is reactive; it is Auckland Council that determines land use and therefore infrastructure needs and how these are prioritised, and if additional funding is required then they approach the Crown. The Crown's role is therefore limited to granting or denying funding for a specific project under Council's prioritisation framework, which can create challenges if there is a lot of public pressure to fund something. Processes like the Auckland Transport Alignment Project (ATAP) are trying to change this dynamic by providing the Crown with a voice in how transport infrastructure projects are prioritised in the first place.

An SPV would allow the Crown a direct governance role in determining which projects are funded, prioritised and possibly even delivered using Crown financial assistance. Depending on level of ambition, an SPV could also be used to achieve wider outcomes such as overcoming wider difficulties in the construction market.

Summary: Scope options

Option	Pros	Cons
1. Fund individual projects	Benefits would be as per the benefits of the individual project. However, we cannot form a view on these or the relative costs at this stage and therefore this presents a risk.	No CBA available on these projects. We cannot say whether they are value for money.
2a Auckland Fund	Do not have to fund a specific project until officials have a view on relative benefits and costs.	Possible that Council may expect support for specific projects.
2b High Growth Urban Area Contestable Fund (i.e. covering all 5 high-growth areas in the <i>National Policy Statement Urban Capacity</i>)	Benefits as above, with the advantage of targeting other regions as well and signalling willingness to address problems beyond Auckland	Makes any conditionality harder to pin on to Auckland without pinning that same conditionality on other high-growth regions.
2c Auckland Joint Venture	Greater Crown role in prioritising and choosing Auckland investments; less reactive.	Crown or an arms-length governing body would take on greater element of risk in local prioritisation process; may be seen as less supportive of local decision-making
2d High Growth Urban Area Joint Venture (i.e. covering all 5 high-growth areas in the <i>National Policy Statement Urban Capacity</i>)	Greater Crown role in prioritising and choosing Auckland investments; less reactive.	Crown would take on greater element of risk in local prioritisation process; may be seen as less supportive of local decision-making

4 Funding options

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Summary: Funding Options

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