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TE TAI ŌHANGA
THE TREASURY

Infrastructure Funding & Financing (IFF)

Building Nations Symposium
22 August 2019

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Context

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- The Government’s Urban Growth Agenda has five interconnected focus areas, one of which is Infrastructure Funding and Finance (IFF).
- The aim of the IFF work is to improve housing affordability by enabling responsive infrastructure provision and appropriate cost allocation. This includes the use of project financing and access to financial capital.
- This presentation covers the Treasury’s current thinking about IFF.
It should not be taken as government policy.
- Definitions – funding and finance.

Why are we exploring alternative financing models?

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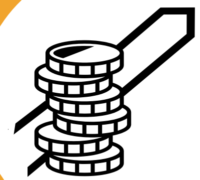

Overcome Council’s existing borrowing constraints (most high growth councils at or close to their maximum debt levels)

Costs of infrastructure fall on those who benefit across the life of the infrastructure

Alternative financing would speed up the delivery of new infrastructure projects by freeing infrastructure investment from local authority financial constraints.

Evolution of our thinking

- Our current IFF work represents an evolution of:
  - The Housing Infrastructure Fund (HIF) - interest free loans designed to facilitate the delivery of local infrastructure, and
  - The Crown Infrastructure Partners model (used to fund infrastructure at Milldale, North of Auckland).

Milldale encumbrance model

- Crown Infrastructure Partners (CIP) Auckland Council and Fulton Hogan. Encumbrance model.
- Financed $91 million of bulk infrastructure in 2018. Approx. 9000 dwellings.
- $33.5 million from Auckland Council.
- $49 million funded from CIP Special Purpose Vehicle (SPV) - 35 year fixed rate debt against encumbrance over land titles.
- Fulton Hogan responsible for all other funding.
- Encumbrance requires subsequent home owners to pay annual infrastructure payments to CIP SPV, collected on Auckland Council rates invoices.

INFINZ

2019 AWARDS

Debt deal of the year

Crown Infrastructure Partners

Milldale Development Transaction

Our current thinking

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Milldale	Our Current Thinking
Bulk housing infrastructure projects	Potentially wider scope - housing infrastructure and infrastructure related to urban development & regeneration
‘Commercial’ model • CIP SPV entered into commercial arrangements with developers • CIP SPV and developers agreed to charge imposed over land held by developers & subsequent owners	‘Legislative’ model • SPV empowered by legislation • Legislation enables charge over developers & future owners of land to be collected by the SPV • Crown facilitation and coordination

Key features needed for future model

- ***No financial or moral recourse for the local authority:*** Project to be ring-fenced from the individual local authority's borrowings.
- ***Funding:*** Could be via a fixed stream of payment by beneficiaries of the infrastructure.
- ***Financing:*** Market finance could be attracted by having a charge enabled by legislation.
- ***Government support:*** The Crown needs to be willing to take on some risks that would typically sit with the local authority.
- ***Partnership with local authorities:*** Local authorities need to be involved throughout.

Thoughts on Special Purpose Vehicles (SPV) and the Levy

- Broad and permissive legislation to cover multiple scenarios, and allow Model to evolve.
- SPVs project–specific, so not just one.
- Right to levy for up to 50 years
- SPV would build infrastructure then transfer assets to local authority.
- Would continue to levy beneficiaries, probably collection via local authority.
- Levy would be capped to protect landowners from cost overruns.

Potential roles and responsibility

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Proposer	→ Initial Feasibility Case →	Facilitator & Recommender	→ Funding Proposal →	Approver	→ Levy Approved →	SPV	→ Project Delivered →	Asset Transfer
Proposal for levy to fund infrastructure for (e.g.) a housing development		Facilitator & Recommender review proposal feasibility Recommend use of levy, seeks Government approval		Local authority endorses use of levy Government approves, enables this with legislation		SPV established to receive the levy, raise finance and construct assets SPV levies beneficiaries of project		SPV owns assets until infrastructure construction ends Asset transfers to council or other entity SPV continues to levy those who benefit

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