More Homes, Sooner

A New Infrastructure Funding Tool

New Zealand is growing fast, but housing and associated infrastructure are not keeping pace. While zoning changes mean more land is available for homes, efforts to develop that land are stymied by a lack of supporting infrastructure – typically water, roading and community infrastructure.

Councils are responsible for most of this infrastructure but those in high-growth areas – Auckland, Hamilton, Tauranga and Queenstown – face constraints in funding and financing new projects.

Most are at, or near, their maximum debt-to-revenue ratios. They also face other constraints on borrowing – higher debt can increase the cost of borrowing and most ratepayers have not been convinced to invest in growth, preferring instead to see rates kept down.

These constraints mean viable infrastructure investment is postponed, creating a burgeoning infrastructure deficit for future generations while also forcing up the price of urban land and housing in cities unable to expand in response to growth.

Looking beyond traditional tools

To keep up with growth New Zealand needs to look beyond traditional funding and financing tools.

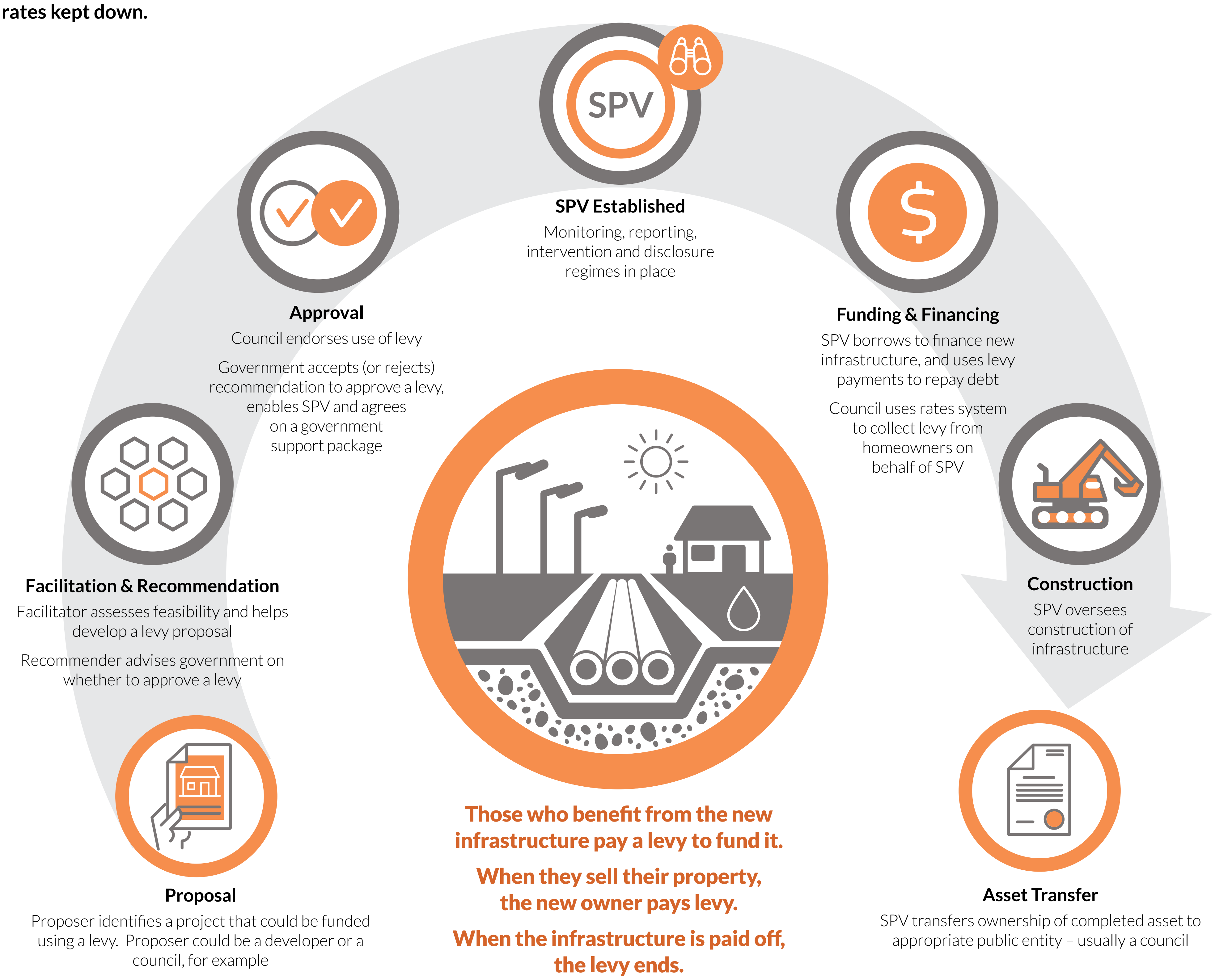
Working closely with the high-growth councils, the Government has developed a new alternative funding and finance tool so private capital can be accessed to get infrastructure built sooner than would otherwise be the case, without putting pressure on council balance sheets.

It will also help make the cost of new infrastructure more transparent while spreading that cost so it falls primarily on the homeowners who benefit over time, including across generations.

Water and transport infrastructure (including cycleways, roads and public transport infrastructure) could be funded using the tool, as well as certain community facilities, and environmental resilience infrastructure, such as flood protection.

The tool will be an important addition to councils' infrastructure provision toolkit, helping them start viable housing and urban development projects sooner. It will not replace existing council planning and decision-making processes.

While at Milldale (see over page) a similar funding and financing approach was negotiated with the sole landowner, the new tool will be enabled through legislation, so it can be used for a wider variety of projects.



How the tool works

Key to the tool's success will be the ability to ring-fence infrastructure projects from the relevant council's balance sheet.

A Special Purpose Vehicle (SPV), a stand-alone entity, will be created for each project (or a bundle of projects). It would be enabled by legislation to raise finance for the infrastructure project, collect a multi-year levy to repay the finance, and contract for the delivery of the infrastructure.

The levy would be paid by those who are expected to benefit from the infrastructure project, for a period of up to 50 years. A government support package would be agreed by Cabinet to cover certain tail-end risks that can't be managed by either the SPV or the council.

Who pays what?

Affordability is a key issue that both local and central government have to consider when deciding whether to apply the tool.

The levy amount and term, along with who pays for the infrastructure (the project beneficiaries) will be agreed by Cabinet based on the specifics of each project. The total amount to be collected will be capped.

When the homeowner sells, the requirement to pay the levy will shift to the new owners. That requirement ends altogether once the infrastructure is paid for.

Allocation of the levy between beneficiaries could be determined by a range of factors, including land area, value and use. In broad terms the homeowners will know in advance how much they will need to pay, based on what the project is expected to deliver.

The term could be for up to 50 years, reflecting the life of the infrastructure, and helping ensure the costs are spread across the generations that benefit from it.

Initially it is likely only new housing developments will be funded through the tool. Those looking to buy into one of these developments will be told about the levy so they can consider it when deciding whether to opt in, and the price implications.

When it is eventually used for projects involving existing homeowners, there is flexibility in the tool to address potential impacts and to tailor solutions to the specific project.

Where to from here...

Legislation enabling the tool is expected to be passed by mid-2020. Councils and developers will then need time to work through the usual planning and consenting issues involved with getting large and complex projects underway, with the first project funded through the new tool expected to start in late 2021. In the meantime, a pipeline of possible projects is under development.

The Government is also exploring other ways to give councils greater flexibility in funding and financing infrastructure, including exploring how development contributions and the targeted rate regime could be improved.

Options for further evolving the new tool to meet the needs of a wider range of councils will also be considered.

Have your say...

To have your say on the legislation, consider making a submission to Parliament's Transport and Infrastructure Select Committee. Keep an eye on their webpage for the submission deadline and other updates.

Milldale – creating a community

The new tool has evolved from the model used at Milldale, north of Auckland, in 2018.

A Crown Infrastructure Partners Special Purpose Vehicle was used to raise finance to fund infrastructure there.

Landowners pay an 'infrastructure payment' to repay this borrowing – $650 for an apartment or $1,000 for a home a year over 30 years. Auckland Council collects these payments through the rates system, on behalf of the SPV.

The resulting infrastructure will eventually support the creation of a community of 9000 new homes.

Read more on Milldale.