I hereby give notice that an ordinary meeting of the Governing Body will be held on:

Date: Thursday, 19 April 2018
Time: 9.30am
Meeting Room: Reception Lounge
Venue: Auckland Town Hall

301-305 Queen Street
Auckland

Tira Kāwana / Governing Body

OPEN ADDENDUM AGENDA

MEMBERSHIP

Mayor
Hon Phil Goff, CNZM, JP
Deputy Mayor
Bill Cashmore
Councillors
Cr Josephine Bartley
Cr Dr Cathy Casey
Cr Ross Clow
Cr Fa’anana Efeso Collins
Cr Linda Cooper, JP
Cr Chris Darby
Cr Alf Filipaina
Cr Hon Christine Fletcher, QSO
Cr Richard Hills
Cr Penny Hulse
Cr Mike Lee
Cr Daniel Newman, JP
Cr Dick Quax
Cr Greg Sayers
Cr Desley Simpson, JP
Cr Sharon Stewart, QSM
Cr Sir John Walker, KNZM, CBE
Cr Wayne Walker
Cr John Watson

(Quorum 11 members)

Sarndra O’Toole
Team Leader Governance Advisors

17 April 2018

Contact Telephone: (09) 890 8152
Email: sarndra.otoole@aucklandcouncil.govt.nz
Website: www.aucklandcouncil.govt.nz

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Should Members require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.
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Submission on Land Transport Management (Regional Fuel Tax) Amendment Bill

File No.: CP2018/05115

Te take mō te pūrongo / Purpose of the report
1. To seek approval of Auckland Council’s submission to the Finance and Expenditure Select Committee on the Land Transport Management (Regional Fuel Tax) Amendment Bill.

Whakarāpopototanga matua / Executive summary
2. The Land Transport Management (Regional Fuel Tax) Amendment Bill (Bill) passed its first reading and was referred to the Finance and Expenditure Select Committee (Select Committee) on 28 March 2018. The deadline for written submissions to the Select Committee is 20 April 2018.

3. The Bill proposes to introduce a mechanism under which regional fuel taxes can be established, in order to enable regions to fund transport infrastructure programmes that would otherwise be delayed or not funded. The regional fuel tax would initially only be available to the Auckland region (and to other regions from 1 January 2021).

4. A draft Auckland Council submission has been prepared. The draft submission has had input by Auckland Transport officials. We are seeking Governing Body approval for the draft submission.

5. The main submission points are that:
   - Auckland Council supports the policy of the Bill to enable Auckland Council, and other regional councils from 1 January 2021, to obtain additional funding for transport infrastructure by way of a regional fuel tax;
   - We are pleased that the Bill will enable Auckland Council to take a number of actions prior to commencement of the Amendment Act;
   - Auckland Council supports the approach set out in the Bill to establish and maintain a Regional Fuel Tax scheme (RFT scheme) for an area;
   - Auckland Council supports a clearly defined exemption and rebate scheme, and we understand the Ministry of Transport will undertake consultation, in the near future, on the proposed eligibility for rebates and any further exemptions to be established by regulation; and
   - Auckland Council proposes some improvements to the drafting of the Bill that we would like to see, as we consider these improvements would better ensure that the Bill achieves its intent. This includes the Bill’s provisions regarding interest, and variation and termination of an RFT scheme, as well as other minor technical improvements.

Ngā tūtohunga / Recommendation/s
That the Governing Body:

a) approve the submission on the Land Transport Management (Regional Fuel Tax) Amendment Bill appended in Attachment A to the agenda report.

b) authorise the Deputy Mayor and Chief Executive to make any minor amendments to the submission prior to lodgement on Friday 20 April 2018.

c) note the Mayor and Deputy Mayor intend to appear before the Finance and Expenditure Select Committee to discuss the submission.
d) note the Ministry of Transport will undertake consultation, in the near future, on the proposed eligibility for rebates and any further exemptions to be established by regulation.

e) direct staff to prepare an Auckland Council submission on the Ministry of Transport’s upcoming consultation on the proposed eligibility for rebates or any further exemptions.

**Horopaki / Context**

6. The Bill passed its first reading and was referred to the Finance and Expenditure Select Committee on 28 March 2018.

7. The Select Committee has called for written submissions on the Bill. The deadline for written submissions is 20 April 2018.

8. The Bill proposes to introduce a mechanism under which regional fuel taxes can be established, in order to enable regions to fund transport infrastructure programmes that would otherwise be delayed or not funded.

9. The process for establishing a regional fuel tax provided for in the Bill involves:
   - A council making a proposal that sets out the proposed tax rate, the duration of the tax, the transport programme and projects that the tax will fund, and how the proposal contributes to the relevant regional transport plan, the Government Policy Statement (GPS) on land transport, and any other relevant document specified by the Minister of Finance and the Minister of Transport
   - A council consulting the community before finalising a proposal
   - A council submitting its proposal to the Minister of Finance and the Minister of Transport
   - The Minister of Finance and the Minister of Transport accepting or rejecting the proposal and, if accepting it, recommending the making of an Order in Council to implement a regional fuel tax in that region.

10. The Bill implements a number of policy decisions relating to the introduction of a regional fuel tax, including that the regional fuel tax:
   - is to apply to petrol and diesel, but not to compressed natural gas and liquefied petroleum gas
   - be collected at the distribution level
   - be used toward the funding of capital expenditure, associated debt repayment, and associated operational expenditure
   - have a maximum rate of 10 cents per litre of fuel, and a maximum initial duration of 10 years (although may be extended)
   - be available initially only to the Auckland region and to other regions from 1 January 2021
   - will include an exemptions and rebates scheme, which will largely be prescribed by way of regulations
   - be subject to goods and services tax

11. The Bill provides that the New Zealand Transport Agency (NZTA) has administrative and enforcement functions, including collecting the tax and processing refunds. The NZTA has the power to charge the ongoing costs of administering the regional fuel tax scheme against the tax revenue from it.
Tātaritanga me ngā tohutohu / Analysis and advice

12. The Governance Group established to oversee the aligned delivery of consultation for the Regional Land Transport Plan (RLTP), the Regional Fuel Tax proposal, and the Development Contributions Policy has reviewed the Bill and recommended that a submission to the Select Committee be prepared. It has also provided recommendations on the drafting of Auckland Council’s submission.¹

13. On the basis of this guidance, a draft submission has been prepared and includes the following submission points:

- Auckland Council supports the policy of the Bill to enable Auckland Council, and other regional councils from 1 January 2021, to obtain additional funding for transport infrastructure by way of a regional fuel tax;
- We are pleased that the Bill will enable Auckland Council to take a number of actions prior to commencement of the Amendment Act;
- Auckland Council supports the approach set out in the Bill to establish and maintain an RFT scheme for an area;
- Auckland Council supports a clearly defined exemption and rebate scheme, and we understand the Ministry of Transport will undertake consultation, in the near future, on the proposed eligibility for rebates and any further exemptions to be established by regulation; and
- Auckland Council proposes some improvements to the drafting of the Bill that we would like to see, as we consider these improvements would better ensure that the Bill achieves its intent. This includes the Bill’s provisions regarding interest, and variation and termination of an RFT scheme, as well as other minor technical improvements.

14. Officials at Auckland Transport have had input into the draft submission.

15. The draft submission to the Finance and Expenditure Select Committee on the Land Transport Management (Regional Fuel Tax) Amendment Bill is attached to this report. The Governing Body’s approval of the attached submission is sought.

Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe / Local impacts and local board views

16. Local Boards have been consulted on the Bill, and any feedback provided will be provided to the Select Committee with Auckland Council’s submission.

Tauākī whakaaweawe Māori / Māori impact statement

17. We acknowledge that the Bill is relevant to Māori as it would enable an RFT scheme to be established in the Auckland region. In that regard, as part of the consultation on the LTP, Auckland Council has consulted with Māori on the concept of a regional fuel tax as a means of funding transport infrastructure investment. We will also consult with Māori as part of consultation on a specific regional fuel tax proposal in the coming weeks. Elected members will have a chance to consider that feedback in the context of the regional fuel tax proposal process.

Ngā ritenga ā-pūtea / Financial implications

18. Comments on the Land Transport Management (Regional Fuel Tax) Amendment Bill have no direct financial implications in relation to this submission.

¹ The members of the Governance Group are Shane Ellison (AT Chief Executive), Richard Morris (AT Chief Financial Officer), Cynthia Gillespie (AT Chief Strategy Officer), Ross Tucker (Auckland Council General Manager Financial Strategy & Planning), David Wood (Mayoral Office), Karen Lyons (Ministry of Transport), Peter Clark (NZTA).
Ngā raru tūpono / Risks
19. No risks with this draft submission have been identified

Ngā koringa ā-muri / Next steps
20. Auckland Council has indicated in the draft submission that it wishes to appear before the Finance and Expenditure Select Committee to discuss the submission. We expect to be advised of the date for a hearing following the deadline for submissions on 20 April 2018.

21. The Finance and Expenditure Select Committee is required to report back to Parliament on 21 May 2018, with the expectation that the law is passed in June 2018 ready for implementation in Auckland from 1 July 2018.

Ngā tāpirihanga / Attachments

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Ngā kaihaina / Signatories

Authors
Michael Burns – Acting Manager Financial Strategy
Dani Gardiner, Manager Public Law

Authorisers
James Hassall - General Counsel
Matthew Walker - Acting Group Chief Financial Officer
Stephen Town - Chief Executive
Submission to the Finance and Expenditure Select Committee

In the matter of the Land Transport Management (Regional Fuel Tax) Amendment Bill

Auckland Council, 19 April 2018
Mihimihī

Ka mihi ake ai ki ngā maunga here kōrero,
ki ngā pari whakarongo tai,
ki ngā awa tuku kiri o ōna manawhenua,
ōna mana ā-iwi taketake mai, tauiwi atu.
Tāmaki – makau a te rau, murau a te tini,
wenerau a te mano.
Kāhore tō rite i te ao.

I greet the mountains, repository of all that has been said of this place,
there I greet the cliffs that have heard the ebb and flow of the tides of time,
and the rivers that cleansed the forebears of all who came those born of this land
and the newcomers among us all.

Auckland – beloved of hundreds,
famed among the multitude, envy of thousands.
You are unique in the world.
Ko te tāpaetanga o te Kaunihera o Tamaki Makaurau

Auckland Council Submission 19 April 2018

1. Overview

This is Auckland Council’s submission on the Land Transport Management (Regional Fuel Tax) Amendment Bill.

The address for service is Auckland Council, Private Bag 92300, Victoria Street West, Auckland 1142. Please direct any enquiries to Michael Burns, Manager Financial Strategy or Dani Gardiner, Manager Public Law.

Auckland Council wishes to appear before the Finance and Expenditure Select Committee to discuss this submission.

This submission has been approved by the Governing Body of Auckland Council.

2. Introduction

Thank you for the opportunity to submit on the Land Transport Management (Regional Fuel Tax) Amendment Bill (the Bill).

Auckland Council supports the amendments proposed in the Bill which will enable regional councils to fund transport infrastructure programmes that would otherwise be delayed or not funded.

This is an issue of critical importance to Auckland, and we welcome the opportunity that the Bill provides for Auckland Council to access funding that will enable it to deliver the level of investment in transport that Auckland needs to be a world-class city.

3. Context

Transport is one of the top concerns of Aucklanders, and it is estimated that congestion costs our economy between $1 and $2 billion per annum in lost productivity. All rely on an efficient transport system to keep Auckland productive. As our population grows, and housing and businesses expand, the demand for new transport infrastructure increases.

In recent years the government has partnered with Auckland to align our transport investments through the Auckland Transport Alignment Project (ATAP). However, there is insufficient funding currently available to deliver the level of investment that Auckland needs.

Auckland Council’s usual approach to funding investment in long-life assets, such as transport infrastructure, is from borrowing. However, the capacity to borrow sustainably is limited. Other options for funding such as increasing general rates or
continuing with the existing Interim Transport Levy have been considered. Neither of these is considered as suitable in the medium to long term because of:

- the rate increases that would be required to fund a similar level of investment would be significant (9% to 10%) and this would likely be unacceptable to Auckland ratepayers; and

- linking the funding of transport investment to property owners rather than transport users is not considered to be the fairest option.

It is clear that Auckland needs additional funding mechanisms to deliver our transport programme.

4. Land Transport Management (Regional Fuel Tax) Amendment Bill

*RFT as a funding mechanism*

Auckland Council supports the policy of the Bill to enable Auckland Council, and other regional councils from 1 January 2021, to obtain additional funding for transport infrastructure by way of a Regional Fuel Tax (RFT) scheme.

We welcome this opportunity, as we consider that a funding mechanism that links the additional funding of transport investment with transport users is the fairest available option for delivering Auckland more of the transport infrastructure it needs. In the long term, a congestion charging mechanism may be an appropriate option, but it would take time to develop and implement such a scheme.

We are pleased that the Bill enables Auckland Council to take a number of actions prior to commencement of the Amendment Act, including preparing and consulting on an RFT proposal and submitting an RFT proposal to the joint Ministers for consideration and recommendation.

Given the priority of this issue for Auckland, on the basis of the transitional provisions we are preparing a draft proposal, which will set out the programme of capital projects we propose should be funded by the RFT. Consultation on the draft proposal will occur in the coming weeks.

*RFT scheme*

Auckland Council supports the approach set out in the Bill to establish and maintain an RFT scheme for an area.

We note that clause 65E of the Bill provides that the RFT is to be used to fund a programme of capital projects, and an RFT proposal must describe the particular features of the programme and each project in the programme. Auckland Council understands that the programme is what is funded by the RFT scheme and is made up of a number of capital projects. We also understand that the term “project” is not intended to be limited to an individual project only (for example, Skypath), but can
include groups of related projects (for example, an Auckland wide “road safety project” which includes red light cameras, minor safety improvements, safer communities and speed management across the Auckland region). We think this is a pragmatic approach given the scale of the potential investment and the duration of any scheme. It is also consistent with the way in which projects are set out in the draft Regional Land Transport Plan for Auckland as well as in ATAP. We intend to adopt this approach for our RFT proposal.

Clause 65E also makes clear that a regional council may use the RFT to fund capital expenditure, associated debt repayment, and operational expenditure when it is associated with the delivery of a package or programme of projects. We consider that this is a critical component of the Bill. From our perspective, it avoids unbalanced investment in large infrastructure assets without providing for the maintenance of these assets, or the services provided through them.

We also understand that the scope of “operating expenditure expected to be required from regional fuel tax for the delivery of the project” includes pre-feasibility work, as well as the operating expenditure needed to deliver services through a new asset (including, among other things, cleaning, maintenance, energy costs or drivers). We welcome this.

We support the requirement for regional councils to demonstrate how programmes in an RFT proposal align with any relevant regional land transport plan, GPS on land transport, or other documents which set out transport priorities for a region. We also support the joint responsibility of regional councils and Ministers to approve a proposal.

Auckland Council welcomes the accountability requirements included in the Bill including that a regional council must consult with its community in accordance with s 82 of the Local Government Act 2002, when preparing a proposal to establish an RFT. We also support the requirement for regional councils to report on the RFT scheme in its annual report.

**Liability to pay**

Auckland Council notes that the Bill limits the maximum rate of a regional fuel tax to 10 cents per litre, and notes that cl 65ZD allows the maximum rate of 10 cents per litre to be increased or reduced by way of Order in Council.

Auckland Council supports the collection of the tax at the distribution level, with NZTA having responsibility for the collection of the tax (and processing of refunds).

We also support a clearly defined exemption and rebate scheme. We consider this is critical to a robust and transparent RFT scheme. In that regard, we note that:

- the Bill provides that a person is not liable to pay the RFT in certain circumstances, including where there is an “exempt use” as defined in cl 65A (under cl 65O(2)). The defined categories of “exempt use” in the Bill are narrow
with some provision for further categories to be prescribed in regulations (other than use in a vehicle on a public road).

- cl 65W of the Bill also provides for a rebate scheme. Eligibility for rebates is currently limited to fuel that has been used for an exempt use (where an exemption is not claimed), or as otherwise prescribed in regulations.

- the explanatory note to the Bill makes clear that the intention is that there will be similar exemptions to those under the local authorities fuel tax provisions (part 11 of the Local Government Act 1974), and that the Bill will allow for rebates consistent with those available for fuel excise duty for off-road fuel use.

- Auckland Council understands that the Ministry of Transport will undertake consultation, in the near future, on the proposed eligibility for rebates and any further exemptions to be established by regulation. We welcome this and look forward to an opportunity to comment during the consultation period.

5. Suggested improvements

We have also identified some improvements to the drafting of the Bill that we would like to see, as we consider these improvements would better ensure that the Bill achieves its intent. These improvements are outlined below.

**Interest repayment**

We are concerned that cl 65E(c)(vi) of the Bill will require a regional council to state the amount of operating expenditure expected to be required from the regional fuel tax for the delivery of the project. We would prefer that where this operating expenditure related to interest it is recognised at a programme rather than a project level.

This is because to specify interest costs by project would require a council to choose, at the outset of the RFT scheme, which projects are cash funded from the RFT and which use borrowing to spread the cost across the decade. Given an RFT scheme may be established for 10 years, we consider too many assumptions would need to be made and so would render that level of specificity unhelpful.

To that end, we consider that cash flow management would be best managed at a programme level and that any interest earned or incurred by the RFT account is accounted for at that level.

Our suggested amendments:
After cl 65E(b)(iv), insert: "(v) state the net amount of interest expenditure expected to be required from the regional fuel tax for the delivery of the programme"

**Variation**

Clause 65G of the Bill provides that a council may "vary" an RFT scheme. We agree that an ability to vary an RFT scheme is necessary, but we consider that the Bill could be clearer as to when a variation is required under cl 65G(a), and particularly what constitutes a change to the programme of capital projects supported by the RFT scheme.

In that regard, we consider it would be impractical and unnecessary if a regional council was required to vary a scheme if the specific elements of a project change as it progresses, for example if a project’s proposed completion date or costs change, which is normal for infrastructure projects. In addition the long term nature of the programme means that the estimated costs and completion dates may change over the ten year period. That being said, we agree that it is appropriate to vary a proposal if there is a significant or material change to the programme of capital projects, such as a decision to remove one project from the programme altogether and replace it with a different project.

*Our suggested amendments:*

- In cl 65G(a) and before “the programme of capital projects supported by the RFT scheme” insert: “a significant or material aspect of”

**Termination**

Clause 65L(1)(b) and 65L(2) provides that the Minister of Finance and the responsible Minister may terminate an RFT scheme if:

- they have reasonable concerns that a regional council is not duly carrying out the proposal on which the RFT scheme for their region is based; and

- following a 3 month opportunity to respond to those concerns, the joint Ministers are satisfied, on reasonable grounds, that the regional council has not adequately responded to those concerns.

Auckland Council agrees that an express ability for Ministers to terminate an RFT scheme under regulations is appropriate, as an important aspect of accountability and transparency for regional councils when implementing an RFT scheme for their region. However, as with our understanding of the scope of cl 65G relating to variations, we understand that the intention in relation to the Ministers’ ability to terminate is that this discretion will be limited to instances where a regional council is not duly carrying out the proposal in a significant or material way. We consider this could be clearer in the legislation.
Our suggested amendments:

- In cl 65L(2) immediately after “that a regional council is not duly carrying out the proposal on which the RFT scheme for their region is based” insert: “in a significant or material way”.

Other technical improvements

Other, minor technical improvements to the Bill are set out in the table below.

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<th>Clause</th>
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<tr>
<td>65D</td>
<td>A regional council may prepare a proposal to establish or replace an RFT scheme if the council, having regard to the views of the regional land-transport committee, considers that there are 1 or more capital projects that…</td>
<td>Section 5 of the Land Transport Management Act defines “regional transport committee” not regional land transport committee.</td>
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<td>65E(b)(iii)</td>
<td>explain how it is expected to contribute to achieving the objective of any relevant current or draft regional land transport plan, …</td>
<td>We consider that it needs to be clear that a proposal may align with a draft RLTP, or GPS. In some cases, an RFT proposal may be prepared concurrently with the preparation of those documents, and we would expect them to align as opposed to aligning with current (but shortly to be superseded) documents.</td>
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<tr>
<td>65E(b)(iii)</td>
<td>… and any other document that sets out transport priorities for the region and that the Minister of Finance and the responsible Minister specify in writing</td>
<td>We consider that it needs to be clear how the joint Ministers will specify which other documents are relevant for the purposes of explaining how a programme is expected to contribute to the objectives of it.</td>
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<tr>
<td>65I(1)</td>
<td>After a proposal to establish, replace, or vary an RFT scheme has been prepared consulted-on, the regional council may submit it to the Minister of Finance and the responsible Minister</td>
<td>We consider that it needs to be clear in the Bill that a proposal may change following consultation, and before it is submitted to the Minister. Consistent with the approach in the Local Government Act 2002 (LGA) regarding consultation when adopting a plan or proposal, we suggest amending this section to provide that a proposal may be submitted once it has been prepared (noting that to prepare a proposal under cl 65G inherently requires consultation.)</td>
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| 65V | (a) Operate a regional fuel tax reserve fund account  
(b) Deposit into or credit to that reserve fund account all funds received by the council under section 65U;  
(c) Ensure that all payments from that reserve fund account are... | For the avoidance of doubt, we consider that cl 65V should be amended to make clear that a council should manage the scheme through a specific reserve fund (as opposed to requiring a separate bank account to be opened). We note that sch 10, cl 31 of the LGA requires a council to report on each reserve fund in its annual report (there is no such requirement in relation to separate bank accounts). |
Te take mō te pūrongo / Purpose of the report
1. To seek approval of the council group’s submission of a detailed business case in relation to the Government’s Housing Infrastructure Fund.

Whakarāpopototanga matua / Executive summary
2. On 23 March 2017 the Governing Body considered and approved Auckland Council’s final proposal for Housing Infrastructure Fund (HIF) funding across four areas. Of the four areas, Ministry for Business, Innovation and Employment (MBIE) assessed that only the North-West area complied with HIF criteria and made an indicative assignment to Auckland Council of $300 million.

3. The detailed business case sets out a proposal for $300 million of HIF funding to unlock an estimated 6,200 dwellings in the North-West area. The North-West area focuses on the higher density zones to enable the maximum number of dwellings. This results in the greatest potential for rapidly increasing housing.

4. Access to HIF is a one-off opportunity which would result in estimated saving to council of between $50-$60 million in interest costs over 10 years. Under the proposal part of the HIF funding will show on the council balance sheet and this can be managed within council debt limits. Transport projects will utilise a New Zealand Transport Authority (NZTA) Financial Assistance Rate (FAR) adjustment which means this part of the HIF funding will not impact council debt levels.

5. The detailed business case must be submitted to MBIE before the end of April 2018 and funding agreements between Auckland Council and MBIE will need to be completed by June 2018. Proceeding with the detailed business case and completion of the funding agreements enables Auckland Council to progress with the HIF process until further information on risks associated with potential cost escalation and developer commitment can be further assessed.

6. Auckland Council will have the option not to proceed. Final draw down and commitment to deliver the associated infrastructure will be conditional upon:
   - final costs for transport infrastructure coming within the budgeted envelope
   - developer commitment to:
     - proceed within the timeframes envisaged under the HIF programme.
     - fund the costs of the collector road and any cost sharing required for three waters bulk infrastructure via development agreement.

Ngā tūtohunga / Recommendation/s
That the Governing Body:

a) agree that Auckland Council will submit a detailed business case that proposes $300 million for funding from the Housing Infrastructure Fund to unlock an estimated 6,200 dwellings in the North-West area.

b) authorise the Mayor and Deputy Mayor to approve the final business case documentation.

c) delegate authority to the Chief Executive and Group Chief Financial Officer to undertake all necessary steps to implement any successful bids for funding from the Housing Infrastructure Fund (including but not limited to discussion of funding terms with the Government and executing funding agreements), provided that implementation remains broadly consistent with the detailed business case.
Horopaki / Context

Background

7. In July 2016 the Prime Minister announced a $1 billion Housing Infrastructure Fund (HIF) to accelerate the supply of new housing. The fund was intended to provide an interim funding source to bring forward specific transport and water projects for high-growth councils with infrastructure financing constraints. The high-growth cities and regions are Auckland, Hamilton, Tauranga, Christchurch and Queenstown.

8. On 23 March 2017 the Governing Body considered and approved Auckland Council’s final proposal to unlock an estimated 37,100 dwellings across four areas with an estimated cost of $973 million. Alternative funding arrangements were also presented at meeting due to the financing constraints that Auckland Council operates within. The proposal included directly accessing HIF for North-West and Northcote areas and the use of a Special Purpose Vehicle (SPV) for North and South.

9. MBIE assessed that only the North-West area complied with HIF criteria and made an indicative assignment to Auckland Council of $300 million, which was intended to unlock 10,500 dwellings. Proposals for the North and South were rejected as they were contingent on an SPV arrangement which were outside the criteria set by the Government. The Northcote proposal was not of sufficient scale.

Tātaritanga me ngā tohutohu / Analysis and advice

Strategic review and detailed business case

10. Since the indicative assignment of HIF funding from MBIE, officers have been progressing with the implementation process. This has involved a strategic review of the HIF proposal along with the preparation of the detailed business case. The strategic review set out to test the original case for investment in the North-West area and confirmed that these were still valid and that progressing with the HIF proposal was justified.

11. Preparation of the detailed business case has involved a review and an in depth analysis of project costs along with a reassessment of the expected dwelling yields. This has been carried out in conjunction with AT and NZTA and followed industry best practice. This level of analysis has only been able to be undertaken for the detailed business case due to the short timeframes involved in preparation of the original bid. To fit within the assigned budget for the North-West area the detailed business case has focused on a smaller area that includes the higher density zones to enable the maximum number of dwellings. This results in the greatest potential for rapidly increasing housing.

12. The detailed business case supports proceeding with the proposal to invest in the North-West. The detailed business case to support the HIF application includes a $300 million budget envelope with an estimated 6,200 dwellings being unlocked.

North-West Context

13. Auckland Council has invested significantly in bulk infrastructure and community facilities in the Westgate area. The HIF proposal compliments this investment. Westgate, Redhill’s and Whenuapai are also considered a strategic investment area due to being:

- live zoned
- currently delivering housing
- the location of the first Council led Unitary Plan change for the region (Whenuapai)
- a major beneficiary of the proposed North-Western rapid transit project.
Cost per dwelling

14. Unlocking 6,200 dwellings for a public investment of $300 million results in a cost of around $48,000 per dwelling. Further enabling the remainder of the zones in the North-West area will require significantly more investment for a comparatively lower dwelling yield. Enabling the higher density areas now at a lower cost will result in the lower density areas facing higher costs in the future when compared to an average cost of enabling the entire area and averaging the costs across all land owners.

Financial impact

15. Access to HIF is a one-off opportunity which would result in estimated saving to council of between $50-$60 million in interest costs over 10 years. Around $130 million of the $300 million HIF funding is proposed to be in the form of an interest free loan. This part will be reflected in council’s financial liabilities but this is able to be accommodated within council’s prudential debt limits.

16. The detailed business case sets out how council intends to primarily fund this via a combination of development contributions, infrastructure growth charges, and developer agreements. There is also potential to look at using infrastructure targeted rates as a funding source. This combination of funding tools provides council with the opportunity to best incentivise developers to deliver within the planned timeframe.

Risk of cost escalation

17. At this stage there is uncertainty about how any escalation in transport project costs will be shared between Auckland Council and NZTA. To maximise access to HIF funding while reducing the impact on councils balance sheet the HIF proposal included bringing forward NZTA FAR funding to early years with a subsequent reduction in later years.

18. For transport projects NZTA would typically fund around 51 per cent of total completed project costs and the risk of cost escalation is shared between council and NZTA. The terms of the FAR adjustment are still being negotiated with NZTA. One potential outcome is that NZTA limit the funding available via the FAR rate adjustment to the estimated costs in the proposal. This would expose council to funding the entire increase in costs if the final costs exceed funding available from HIF.

19. MBIE have advised that a small portion of the HIF fund has not been allocated and that any increase in costs may be met from the unallocated funds. The additional funding available is estimated to be around $50 million across all growth councils. Escalation in costs beyond any additional HIF funding that may be approved by MBIE may need to be met by council.

20. There is uncertainty around the level of risk that council is exposed to through potential escalation in costs for capital projects associated with the HIF bid. Project costs will continue to be refined as the HIF work programme progresses. More robust project cost estimates will be available prior to council committing to provide the infrastructure.

Developer commitment risk

21. Developers will be required to finance an accelerated programme of all local infrastructure to enable faster delivery of housing. The proposal is also based on developers agreeing to fund costs of the collector road and any cost sharing required for three waters bulk infrastructure via development agreements.

22. Developers will need to assess the viability of borrowing on this scale in the context of business risk. Officers are currently unable to ascertain developer willingness to proceed under the revised proposal. Discussions with developers will be held once a decision has been released from the Environment Court regarding the Redhills precinct plan (expected May 2018).

23. There is a risk that developers may not be able to proceed at the speed that the council will be seeking. Developers may also face financial constraints of their own which limit their ability to access the financing required to fund their portion of the local infrastructure.
Other demands on infrastructure investment

24. Unlocking the proposed area requires additional investment in parks of around $140 million. This has been approved and allocations have been made in council budgets. Further investment in community infrastructure will be required once the wider area is unlocked. This is not expected to be in the near future.

25. Proceeding to unlock this part of the North-West area may result in increased expectations to unlock the remaining land in the wider area. This may result in operational pressure to prioritise investment in the North-West ahead of other regional priorities, particularly transport investment. Fully unlocking the wider area now is not feasible within council’s current financial constraints and would require further work with central government on transport funding and priorities for this area.

Conclusion

26. Officers recommend that the HIF detailed business case be submitted to MBIE for $300 million to unlock an estimated 6,200 dwellings. This will keep the option of HIF funding open to council while further work is undertaken to better understand the risks of costs escalation and to gauge developer commitment.

27. The detailed business case must be submitted to MBIE before the end of April 2018 and funding agreements between Auckland Council and MBIE will need to be completed by June 2018. Completion of the agreements will not require Auckland Council to continue with the proposal. If further changes to costs undermine the benefits of continuing with the proposal or developers are unwilling to meet their commitments then Auckland Council will have the option not to proceed.

Alternative options

28. The council could withdraw from the HIF now. This would allow more detailed work to be undertaken on the costs and development potential in other areas supported by investigation of alternatives to financing growth infrastructure. However, withdrawal from the scheme at this stage may be viewed unfavourably and impact on the council’s discussion on other alternative funding/financing solutions. Withdrawing from HIF will also mean the council will be unable to benefit from the interest cost savings.

29. To fully unlock Redhills and Whenuapai will cost substantially more but enable around 13,000 dwellings. This would not fit within the indicative HIF assignment of $300 million or within council’s debt constraints. Choosing to unlock just one of these areas over the other would not maximise the dwelling yield for the funding available.

30. In the absence of HIF funding and subsequent infrastructure provision, some development would still occur in Whenuapai and Redhills in accordance with the AUP. Development on this basis will not progress housing and development outcomes and will not allow council to ensure that the wider transport network effects would be addressed.

Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe / Local impacts and local board views

31. If successful, the Housing Infrastructure Fund will support the development plans set out in the Auckland Plan Development Strategy, the Auckland Unitary Plan, the Future Urban Land Supply Strategy and the Transport for Urban Growth programme business case. Local board views on these development plans have been extensively canvassed over recent years.
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Tauākī whakaaweawe Māori / Māori impact statement
32. If successful, the Housing Infrastructure Fund will support the development plans set out in the Auckland Plan Development Strategy, the Auckland Unitary Plan, the Future Urban Land Supply Strategy and the Transport for Urban Growth programme business case. The views of mana whenua and mataawaka on these development plans have been extensively canvassed over recent years.

Ngā ritenga ā-pūtea / Financial implications
33. Proceeding with the detailed business case and funding agreements will enable the council to eventually make use of the HIF funding and potentially realise estimated interest cost savings of $50-60 million over ten years. Withdrawing from HIF will mean the council will be unable to access these potential cost savings.
34. Around $130 million of the $300 million HIF funding is proposed to be in the form of an interest free loan. This part will be reflected in council’s financial liabilities but this is able to be accommodated within council’s prudential debt limits.

Ngā raru tūpono / Risks
35. Proceeding with the detailed business case and funding agreements will not commit council to deliver the associated infrastructure. Should the risks associated with continuing to access the HIF funding eventuate then council will be able to appropriately address them at that time.
36. Withdrawal from the HIF scheme at this stage may be viewed unfavourably and impact on the council’s discussion on other alternative funding/financing solutions.

Ngā koringa ā-muri / Next steps
37. The detailed business case must be submitted to MBIE before the end of April 2018 and funding agreements between Auckland Council and MBIE will need to be completed by June 2018.
38. The terms of the FAR adjustment are due to be agreed with NZTA by the end of April.
39. Discussions with developers will be held once a decision has been released from the Environment Court regarding the Redhills precinct plan (expected May 2018).
40. Delivery programme is expected to commence from early 2019.

Ngā tāpirihanga / Attachments

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>HIF project areas - Redhills and Whenuapai</td>
<td>25</td>
</tr>
</tbody>
</table>

Ngā kaihaina / Signatories

Authors
Bobbi Psarkinson – Principal Advisor, Financial Policy
Fiona Docherty Wright – Head of Infrastructure Funding Agreements, Development Programme Office

Authorisers
Ross Tucker - Acting General Manager, Financial Strategy and Planning
Matthew Walker - Acting Group Chief Financial Officer
Stephen Town - Chief Executive
### Attachment A

#### Item 11

**Auckland Council**

<table>
<thead>
<tr>
<th>Projects</th>
<th>Cost ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ngā Rarawa Road</td>
<td>$138</td>
</tr>
<tr>
<td>Hore Road</td>
<td>$128</td>
</tr>
<tr>
<td>Cosmo Drive Extension</td>
<td>$120</td>
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<tr>
<td>Tātāke Road Extension</td>
<td>$116</td>
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<tr>
<td>Otakou Road Extension</td>
<td>$110</td>
</tr>
<tr>
<td>Ngā Rarawa Road Extension</td>
<td>$105</td>
</tr>
<tr>
<td>Slaughterhouse PS (Interim)</td>
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<tr>
<td>Kauri Link</td>
<td>$95</td>
</tr>
<tr>
<td>Total HIF</td>
<td>$604</td>
</tr>
</tbody>
</table>

Developer to fund land and road up to local or collector road standard.

**Map**

- **Whenuapai**
  - Yield: 1800 dwellings ($107,000 per dwelling)
  - Projects:
    - Ngā Rarawa Road
    - Hore Road
    - Cosmo Drive Extension
    - Tātāke Road Extension
    - Otakou Road Extension
    - Ngā Rarawa Road Extension
    - Slaughterhouse PS (Interim)
    - Kauri Link
  - Cost: $138

- **Redhills**
  - Yield: 4400 dwellings ($24,000 per dwelling)
  - Projects:
    - Arterial (Auckland Transport)
    - Redhills BS (rising man)
    - Redhills BS (gravity - Kennedy Rd Pct)
    - Redhills BS (gravity - North Redhills)
    - Redhills BS (gravity - South)
    - Kauri Link
    - KHR receiving chamber - SH16
    - Stormwater
  - Cost: $105

**Legend**

- **Redhills & Whenuapai Project Areas**
- **HIF Only**

**Scale @ A3**

**Date Printed:** 12/04/2018