Infrastructure New Zealand

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Infrastructure New Zealand is the peak industry body for the infrastructure sector and promotes best practice in national infrastructure development through research, advocacy and public and private sector collaboration. Infrastructure New Zealand members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

This submission represents the views of Infrastructure New Zealand as a collective whole and may not necessarily represent the views of individual member organisations.

Infrastructure New Zealand submission on the Infrastructure Funding and Financing Bill

We support the Bill

Infrastructure New Zealand supports the Infrastructure Funding and Financing Bill (the Bill).

We agree that the current system for funding and financing key growth infrastructure is not working and is undermining housing supply and competitive land markets.

However, we expect that the provisions in the Bill (the Model) will only be applicable in a limited number of circumstances. There are several reasons for this.

Firstly, the process is comparatively complex. A “Recommender” must be engaged, local authority endorsement received, Ministerial approval gained, an SPV established and a levy raised, in addition to standard regulatory processes, including project consenting, which must also be traversed.

Secondly, the process carries costs. The number of parties involved in addition to existing challenges around resource consenting and construction means that the process will be long.

Third, the long and complex process will reduce the attractiveness of the model to smaller projects. Industry feedback indicates that projects of at least $50 million will be required to offset process time and cost.

Fourth, in locations where there are significant public or Māori land holdings, risks to the SPV increase, reducing the model's applicability. Public service bodies including schools and hospitals do not pay rates, reducing the levy take, and Māori land may not be developed in line with the programme and also cannot be acquired.

Fifth, the Bill will force developers to pay the true (higher) costs of development. The Auckland Mayoral Housing Forum found that developers typically pay circa 2/3 of the true cost of infrastructure through development contributions. Developers may choose to wait a decade to get a discounted, infrastructure serviced piece of land rather than pay the full price.

Finally, while the Bill provides a (comparatively long and complex) pathway around funding and financing barriers, it does not address the less tangible barriers which impede infrastructure and urban development. It is not clear that local communities will support new projects which enable change, let alone new levies. Nor is it clear that local authorities or their infrastructure providers will support third party project delivery. Until these parties benefit from growth and development, they can be expected to impede the delivery of critical infrastructure and further reduce the application of the model.

So, while we support the Bill and encourage its passage, we also consider it will only provide for a minor reduction in barriers which have contributed to New Zealand's housing and urban development crisis.

Can the Bill be improved?

There may be options to reduce complexity, lower costs and expand the number of opportunities to apply the Model.

We are aware of other feedback which focuses on these opportunities and support their consideration.

However, even then, it is not clear to us that the broad provisions described in the Bill will substantially promote the purpose of the Bill and of the Government, which is to enable functioning urban land markets.

Competitive land markets can only be enabled with the dual removal of infrastructure funding and financing constraints <u>and</u> planning restrictions.

Without the ability to access land at its uninflated, rural land value, the Model represents an additional ongoing cost to future homebuyers without a clear reduction in capital cost.

Successive studies in Auckland have shown the cost of land inside urban boundaries to be around ten times the cost of land outside urban boundaries.[1]

In Auckland's south in 2017, our analysis found rural land to cost around $250,000 per hectare while developed land in the desirable Karaka Lakes suburb inside the urban boundary cost around $12.5 million per hectare – a 50-fold increase.[2]

Even in comparison to more affordable developed land in Waikato's Pokeno (valued at $5.6 million/ha), the $250,000/ha average value of rural land in the Karaka/Paerata area was just 1/20th of the cost.

The land value per section in Pokeno and Karaka we found to be $370,000 and $625,000, respectively, while the cost of raw (unzoned and unserviced) land between the two was between $20,000 and $30,000 per section depending on assumptions of section size.

Between approximately $350,000 and $600,000 per dwelling is the value of planning approval, development, marketing and infrastructure in Auckland's south.

Separating out the infrastructure component is difficult, but if the Model could be used to access sections at the raw cost of land, new homeowners could expect to pay several hundred thousand dollars less for a new home.

Under this scenario, not only would homeowners be willing to pay an ongoing levy, but developers would be prepared to increase ambition, scale and housing supply.

But this approach cannot work unless land near to its actual value (i.e. the value of its productive capacity), rather than its assumed potential value (i.e. its value if and when planning approval and infrastructure is provided by authorities), is accessible.

There remains at present no clear path to achieve this: local authorities continue to be exposed to the costs of the development, rather than the benefits, making them reluctant to open land; local communities continue to perceive development as a reduction in their living standard, not an improvement, making them reluctant to support new initiatives; the Resource Management Act 1991 continues to prioritise effects over outcomes; and district and regional plans remain complex, slow and difficult to amend.

Until existing interests are either unwilling or unable to prevent new development, we see little chance that a land market can emerge where price competition enables lower home costs to offset the introduction of the levy.

[1] For example, Grimes and Liang, Spatial Determinants of Land Prices in Auckland: Does the Metropolitan Urban Limit Have an Effect?, 2007.

[2] Infrastructure New Zealand, the Innovation City, 2017.

We anticipate instead that the Model, where able to be applied, will unlock some capacity, but that this capacity will be priced above the threshold for median household incomes and in line with existing developments.

Where this type of model works well

We have seen and examined models similar to that set out in the Bill.

In 2018, we took a delegation to the USA, including to Texas where similar models are successfully applied and which facilitate genuinely competitive urban land markets. Housing is affordable, supply is responsive and much higher growth than seen in New Zealand has been accommodated.

The fundamental difference between the application proposed in the Bill and our observations in Texas is the process by which a levy can be implemented.

In Texas, the levy is a product of "grassroots" local democracy. In New Zealand, the Model is an extension of top-down central policy making.

In Texas, local communities of interest vote on their desire to redevelop land and, by majority decision, can raise the levy, finance the infrastructure and commence development. Planning approval is required, but reflects environmental limitations, not existing community or central planning expectations. There are no urban boundaries which proscribe new towns and cities from emerging.

Under the Model, the Minister will need to be satisfied that a levy is appropriate and local authority endorsement will be sought. This is less a market-supporting mechanism than an alternative infrastructure resourcing process. New Zealand's dysfunctional planning system will still increase development risks, slow down development opportunities and undermine competition. The ability for visionaries to access cheap land, access capital and build new communities remains severely constrained.

What type of model does the Government want for New Zealand?

Does the Government want an urban development system guided by markets and choice where users and beneficiaries pay and the Government responds, or does it want an urban development system where national and local priorities determine urban form, land use and infrastructure provision?

There is, in our experience, no "right" answer to this question. We have seen the former work in Texas and the latter work in Singapore, as examples. Both states have been able to meet housing demand in the face of rapid growth.

But there are trade-offs. Property rights are very strong in Texas and very weak in Singapore. In Houston, a property owner can utilise their land in almost any way they wish, within environmental limits. Private property acquisition is very hard. In Singapore, the state owns most land and claims and reclaims property to guarantee public housing and infrastructure needs are met.

Consistent with a market, Houston is dynamic, but appears haphazard. Protection of property rights means cities grow “out” much faster than “up”.

Consistent with a planned society, Singapore is efficient and attractive, but the line between public and private property rights is blurred.

Our concern is that the Government, through this and other legislation, is unclear about whether it wants individuals and markets to make decisions about how the country and cities grow or whether it wants authorities to fulfil this function.

On one hand, the Bill provides a mechanism for individuals to overcome barriers and introduce competition to New Zealand’s broken housing “market”.

On the other, the Government and local authorities will make the final decision as to whether initiatives will proceed.

We do not know which direction the Government is moving or wants to move.

What we do know is that the housing “market” is commonly perceived to be a “market”, at the same time as authorities recognise that this market is dysfunctional and planning and funding restrictions prevent new supply.

Until the Government is clear about which way it wants to go, we consider that neither a market system will evolve capable of responding to demand nor will authorities have the courage to cut through barriers and fill the gap left by market failure.

Our preferred approach

Central government must set a vision for housing. The upcoming debate on the Ministry of Housing & Urban Development’s ‘GPS’ must set targets for affordability, quality, equity of outcomes, demand versus supply conditions and other key indicators, plus timeframes for achieving these.

Infrastructure New Zealand’s Building Regions report calls for a local government and central government to coalesce around a new form of regional partnership. This partnership would be co-governed, including iwi, local government and the regional heads of central government agencies such as Kainga Ora, Department of Education and NZTA. A regional spatial plan would be jointly agreed, with this plan being guided by both national imperatives (housing, clean water, environmental standards, efficient transport etc) as well as matters that are driven ‘bottom up’ by local communities, iwi and businesses. The ‘bottom up’ buy in of communities will be critical to enable faster resource management approvals. These regional entities would be responsible for scaled up transport and water delivery for their region.

In return for this collaborative approach, we would support central government making a grant to the regional partnerships of a share of central taxes. The grant would reflect regional economic growth and would provide a key incentive for local and regional bodies to collaborate with the Crown – they benefit from outcomes that matter to the Crown and which are jointly agreed as being important.

We recommend that the regional entities (not existing regional government) obtain a Treasury-issued Investor Confidence Rating. This rating would reflect how well central agencies such as the New Zealand Transport Agency, the Ministry of Education, NZ Defence Force, etc plan, maintain, procure and make investment decisions in key capital assets.

If a regional entity were able, for example, to obtain a rating of 'C', this would allow the region to be 'on the same page' with critical Government capital efficiency guidance and it could allow that regional entity to say that they invest public money as well as an equivalently rated central government entity. With new grant funding, local government could borrow additional money to build regional infrastructure, further increasing outcomes form this partnership.

Appendix 1 below sets out a case study process by which a comparatively small grant from central government can be used to catalyse significant investment in urban development in Waikato.

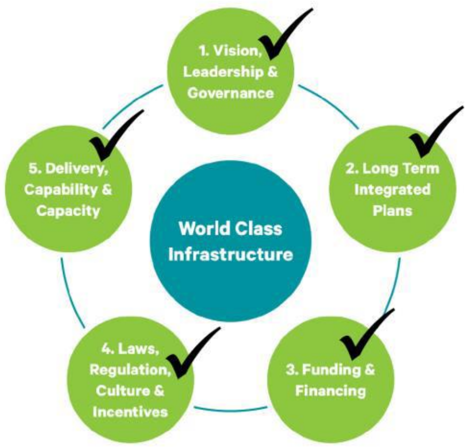
Not only would this process yield a high return on investment for the Government, it would closely align with New Zealand's existing governance and responsibility arrangements.

We thank the Committee for this opportunity to submit

Paul Blair
CEO
Infrastructure NZ

Appendix 1

Building Regions: A Waikato Example



1. The Waikato Regional Partnership established to deliver *Waikato 2050* vision. Regional heads of key Crown agencies, Tainui, and representatives of 11 Mayors govern and appoint WRP SPV as delivery agent
2. Waikato Spatial Plan translates the vision into joined-up 30-year investment plan
3. Crown borrows $100m at 1.3%, provides 10-year grant funding to WRP. Waikato councils borrow $250m against grant income. WRP funds 7,000 new home lots ($50k infrastructure per home)
4. IFF and Kāinga Ora powers further assist delivery. 'Mum and Dad' buyers put up 150 sqm home at $2,000/sqm ($2.1b investment on $350m infrastructure). Crown receives $367m GST (ignoring personal & corporate taxes) on $100m investment.
5. WRP obtains 'C' Investor Confidence Rating (same as NZTA). WRP can obtain 10% cost savings ($35m) through 10-year procurement deal that also specifies local employment, purchasing, and apprenticeship content.