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Infrastructure New Zealand Submission to Auckland Council

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1. Introduction

1.1 Infrastructure New Zealand (INZ) welcomes this opportunity to make a submission on '*Sharing the cost of Drury's growth – Contributions Policy 2022 variation A*'.

1.2 INZ is New Zealand's membership organisation for the infrastructure sector. We promote best practice in national infrastructure development through research, advocacy and public and private sector collaboration. Our members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

2. General Remarks

2.1 We welcome Auckland Councils consultation document, the supporting material provided and the ability to submit on this issue. We note that Auckland Council decided to delay the decision in late 2021 due to public feedback and has since undertaken extensive research and analysis. We appreciate the level of detailed analysis provided as part of the consultation pack.

2.2 As we all know, infrastructure doesn't fund itself. With Auckland City growing (while noting that Auckland's published population for 2021 has been revised downwards to 11,500 lower as we see the flow on effects of COVID-19 [1]), the city needs greater investment. INZ is focused on the

[1] https://www.infometrics.co.nz/article/2022-10-population-growth-slows-nearly-everywhere-in-2022

sustainable pipeline of world class infrastructure, delivered by both the public and private sector, for the benefit of all New Zealand communities. This includes ensuring the sustainability of funding and financing for this provision.

2.3 INZ therefore supports the move towards a longer-term view of the infrastructure needed for growth as a positive one. As noted in the consultation material, investment in Drury will take thirty years to deliver and the proposal looks to start funding a share of the Council's investment over this whole period. We see this as a positive step towards a long-term view of Auckland's infrastructure needs.

2.4 We also want to acknowledge that Auckland Council is in a difficult position given their current debt constraints and limited availability of funding tools.

2.5 However, we do have concerns about the impact this proposal will have on the developer in Drury, and the overarching development itself. These new charges have the potential to drastically change the development, and the phasing of it, that takes place across Auckland City. We also note that Auckland Council could additionally explore different funding and financing options.

3. Discussion Points

3.1 As mentioned above, INZ supports the move towards a long-term approach for infrastructure investment to provide certainty through a sustainable pipeline. As a country, we need to plan for infrastructure networks before they're needed.

3.2 That is why INZ sees this proposal as a positive move forward and agrees with the need to take a long-term view for development contributions, given that development will take longer than ten years. This includes ensuring that costs of this investment are fairly shared between developing landowners and ratepayers.

Impacts on development

3.3 That said, INZ do want to note some concerns about the broader impact of the proposal, in particular:

3.3.1 the cost impact on developers

3.3.2 the impact of a 'staged approach' on Drury development

3.3.3 lack of integrated planning.

Cost impact on developers

3.4 Under the proposed change, the average level of contribution in the area will be $83,251 per. In some areas, such as Drury East, that is an increase of over $70,000 for transport infrastructure alone. This excludes stormwater requirements for Drury beyond 2031, which we understand will be identified and added to the contributions policy at a later stage.

3.5 We also note that transport is a significant aspect of these costs. In Ōpaheke, most of the total proposed total transport contribution charge of $66,782 relates to the N-S Ōpaheke Arterial.

The N-S Ōpaheke Arterial also accounts for 50 per cent of the contributions funded transport investment in the Drury East funding.

3.6 While we note the supporting paper, '*Economic incidence of developer contributions*' which discusses the broader impacts and disputes the absorption of cost concerns. We still consider that the impact on developers will be significant and the ability for developers to absorb these costs is likely limited – especially in current times where we are also seeing significant supply chain shortages.

3.7 INZ consider this particularly relevant in the current market. In October 2022 the REINZ House Price Index in Auckland was down 11.2% and the price of homes sold dropped significantly. For example; homes sold by Barefoot & Thompson dropped on average by $47,000 from August to September but by $180,000 since last November. Supply chain constraints and inflationary pressure on developers mean are creating an already tight market. Many of these developers will either need to pass these costs onto homeowners or re-evaluate their developments in light of the current market.

The 'staged approach' on Drury

3.8 INZ understands the need for a staged approach to implementing the longer-term investment projects and for Drury projects to be added to the policy first. We also note the intent to add the longer-term investment projects for the remaining investment priority area.

3.9 However, there is a need to be cognisant of the broader impacts on development across Auckland. This proposal will indiscriminately impact Drury developers and development, making other areas more attractive. This has the potential to send market signals that shift growth out of Drury and into other areas of Auckland. Homeowners are likely to be attracted to other development areas with lower DCs.

3.10 INZ recommends that Auckland Council expand the use of this policy to other priority areas as soon as possible and communicate the staged approach to provide certainty to developers and development areas.

3.11 INZ also considers that there is the potential for Auckland Council to explore the potential for the DCs to be applied to a shorter timeframe as an intermediary step, such as 20 years rather than 30 years as mitigation.

Integrated planning

3.12 Drury is a classic example of the disconnect between spatial planning, structural planning, and infrastructure provision. Earlier this year over 330 hectares of land in Drury was rezoned through a private plan change. Developers first applied for this plan change in July 2020 however there was always uncertainty of infrastructure provision. Put simply, the planning and infrastructure were not integrated.

3.13 The ability to designate and funding mechanisms to purchase the required land early for significant infrastructure for the Drury development, such as the arterial roads would positively impact the overall costs. This would also reduce the resulting DCs to be levied. However, INZ does note that it is difficult for the Council to raise the capital for the early land acquisition for this infrastructure now rather than waiting until the land is further subdivided and its value has massively increased. There are limitations too with the current designation sunset clause under the Resource Management Act.

3.14 That said, we note that the future Resource Management Reforms will go some way to address this. The National Planning Framework will establish the high-level policy and rule framework for infrastructure and for the first time will have its own Infrastructure chapter under the Natural & Built Environments Act (NBA). This will guide decisions made at regional level in the development of each Reginal Spatial Strategies. Designations are

Other tools

3.15 Given the significance of the impacts outlined above, there is a need to ensure all other funding and financing avenues have been explored and exhausted. As such, INZ recommends that Auckland Council consider the use of other funding and financing tools – such as targeted rates, congestion charging, Special Purpose Vehicles through the Funding and Financing Act and Specified Development Areas through the Urban Development Act – alongside DCs.

3.16 Auckland Council decision not to pursue an alternative solution also means that Council has to fund this through borrowings until the DCs can be charged, which are typically when title for lots is issued.

3.17 An Infrastructure Funding and Finance solution would not be able to fund all of the infrastructure but could still be used in conjunction with DCs. It would also have the advantage of being able to charge differentiated levies to a wider pool of beneficiaries than just the greenfield lots. The infrastructure costs could be spread to a wider group and and over a much longer period.

3.18 We note for example that the N-S Ōpaheke Arterial discussed above, will benefit the wider Auckland, and South Auckland in particular. This cost should be shared with all road users of this piece of infrastructure. Therefore, even though we note that half of the costs will be paid for by Waka Kōtahi, Auckland Council should explore other transport charging options that allow for a broader set of beneficiaries.

Broader policy implications

3.19 INZ considers that the potential impacts from this policy change highlight broader policy implications for local and central government in how infrastructure for priority areas is delivered. The policy demonstrates the true costs of a 'beneficiary pays approach' and the cost that is placed on developers. The significant impact on developers and the development shows the need for local and central government to agree to a fair basis for funding priority project areas.

3.20 This is in line with the recently released, *Future of Local Government Review Draft Report* which states that, 'the absence of a sustainable and equitable co-investment model is undermining the potential for central and local government and iwi to partner for better community outcomes'[2]. INZ agrees with this sentiment and considers co-invest as essential in these priority areas.

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[2] Draft report – He mata whāriki, he matawhānui (futureforlocalgovernment.govt.nz)

3.21 Further, INZ considers that this also highlights a recommendation outlined by the Productivity Commission in their 2019 report on Infrastructure Funding and Financing. The Productivity Commission noted that DCs are understandably not popular because they add to development costs, including the prices of residential sections. The Commission recommended that the Government, Local Government New Zealand and the New Zealand Society of Local Government Managers work together to develop templates to standardise the structure and format (but not the content) of:

3.21.1 councils' development contribution (DC) policies

3.21.2 council assessments of DC charges for individual property developments.

3.22 INZ considers that there is still promise in this recommendation, especially as a longer-term approach is taken across Auckland, and potentially other councils.

4 Conclusion and recommendations

4.1 Given the above points, INZ recommends that Auckland Council:

4.1.1 **better considers the use of alternative funding tools**, including transport charging options for major road infrastructure projects, the Infrastructure Funding and Financing Act and the Urban Development Act.

4.1.2 **expand the use of the policy to other priority areas as soon as possible** and communicate the staged approach to provide certainty to developers.

4.2 INZ thanks Auckland Council for this opportunity to make a submission on 'Sharing the cost of Drury's growth – Contributions Policy 2022 variation A' and are happy to discuss any points made in this submission.

ML McCormick

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