

Housing and Growth Infrastructure

Purpose

1. Provide options for proposed changes to the council's approach to investment in housing and growth infrastructure.

Summary

2. Auckland is growing rapidly, and the Auckland Unitary Plan provides for a significant amount of additional housing capacity. Challenges remain around the provision of infrastructure to support new development.
3. Auckland Council currently funds growth infrastructure through borrowing and then recovers the cost of this investment over time from Development Contributions and Infrastructure Growth Charges. Limitations on the council's borrowing capacity mean we cannot deliver the infrastructure required to service all our projected growth needs through this mechanism.
4. There are three options around how we could address this challenge over the long-term plan. These are:
 - **Status quo** – limited funding capacity and scattered and uncoordinated investment
 - **Focused strategy** – no increase to funding levels and targeted investment
 - **Increased funding** – increase to funding and investment levels (pulling funding levers) and targeted investment (bigger response to growth pressures)

Background and challenges

Our growth

5. Auckland is growing at a rapid pace, particularly over the last 10 years. Growth between 2021 and 2031 is expected to be 260,000 people. The updated Auckland growth projections to reflect new Statistics New Zealand data and anticipate COVID-19 impacts show a lower estimated starting point, and slower growth in the early years but it is anticipated that growth will increase once borders reopen. These projections include a high level of uncertainty at this stage.

Unitary Plan and Development Strategy

6. The Unitary Plan provides zoning for a significant amount of development. This includes one million additional homes enabled in existing residential zones, further capacity in mixed use and business zones, and 137,000 new homes through managed expansion into rural areas.
7. The Development Strategy within our Auckland Plan 2050 sets out how, where and when Auckland is expected to change and grow over the next 30 years. It also provides clarity as to where and when investment in infrastructure will be needed.

Spatial priority areas

8. The Auckland Council Group are already working on a number of spatial priority areas across the Auckland region. The resourcing of these projects in priority order was signed off by Auckland Council Group Chief Executives in November 2019. These areas provide for significant housing and employment growth and require a collaborative effort from across

council and the Council Controlled Organisations to unlock. However, the current number of spatial priorities is unsustainable given current and projected budget and resources levels. Further prioritisation is required.

Infrastructure requirement

9. Auckland Council has committed to high levels of growth investment, most notably through major projects such as the City Rail Link, the Central Interceptor, and the Eastern Busway.
10. Auckland Council has also committed to working with the Crown to unlocking areas within the Auckland Housing Programme (AHP) and the Auckland Council and Crown Joint Work Programme on Auckland Housing and Urban Growth (JWP). For many of these areas detailed assessments have been undertaken which indicate a need for significant additional infrastructure investment. These assessments have provided an insight into the scale of the challenges we may face in other areas.
11. There are also ongoing pressures from private plan changes, with 78 private plan changes notified, lodged, or requested since the moratorium on private plan changes ceased 2 years ago. While these plan changes, if approved, could deliver a substantial amount of new housing they will also require significant infrastructure investment in the next decade which may not have been planned for. This impacts our ability to fund and finance such infrastructure and to provide efficient and effective infrastructure at an appropriate scale.

Current funding approach

12. Auckland Council's current financial strategy is to primarily finance this kind of housing-related growth infrastructure through borrowings which are repaid over time from development contributions or Watercare's infrastructure growth charges which are paid by developers as and when they develop their land.
13. Development contributions are only payable on development. If no development occurs, then no payment is required. Developers can adjust the timing of development and their liability for development contributions to match the market and their cash position. However, this means that the council sometimes has to make major investments in infrastructure with no certainty of when costs will be recovered.

Council's constrained financing capacity

14. Even before the disruption from COVID-19 Auckland Council was facing borrowing constraints. Maintaining prudent levels of borrowing is a core tenet of our financial strategy. We define this prudence in terms of the ratio of debt to revenue.
15. Investment decisions like the City Rail Link and the Central Interceptor will address existing congestion and water quality issues while providing bulk infrastructure for Auckland's growth. Investments such as these, however, mean we expect to be at our debt-to-revenue limits over the short and medium term. Exceeding these limits would not only increase our borrowing costs in the short term but also put an additional cost on future ratepayers in terms of servicing and repayment. Increases to revenue through higher increases to rates or fees and charges need to consider affordability across the community.
16. Given these constraints we cannot prudently borrow the additional funds required to support all the infrastructure investment under the current model.

Options

17. To address the challenges and opportunities in relation to housing and growth infrastructure above, three options are proposed for the 10-year Budget 2021 – 2031.

Option 1 – Status Quo

18. Existing housing and growth infrastructure spend is scattered across different development areas. Often it is responsive to private plan change pressures from developers and the Crown. This leads to uncoordinated and inefficient infrastructure provision.
19. The Status Quo option would allow for this approach to continue to the degree to which our limited funding envelope will allow. It does not allow for us to target growth funding towards joint work programmes with the Crown (AHP, Auckland Transport Alignment Project and the JWP).
20. The lack of focus also restricts our ability to use new funding tools like those enabled through the Infrastructure Funding and Financing Act.

Option 2 – Focused Strategy

21. A focused strategy would involve Auckland Council making deliberate choices around the areas to be supported with infrastructure investment in the 10-year Budget 2021-2031. This would enable us to clearly communicate where we will support growth infrastructure and by omission where we will not.
22. Within this option finances are still constrained so it will require a prioritisation of project areas and prioritisation within those areas. A starting point for this are the existing Auckland Council Group spatial priority areas. Criteria can be used to enable this prioritisation in line with the lenses that have been applied to this 10-year Budget of Recovery/Auckland Plan outcomes, Climate Change, Māori Outcomes and timing in line with the Development Strategy.
23. A Focused Strategy also provides the opportunity for a more efficient infrastructure investment and better coordination across asset types and with the Crown. It enables a focus on joint programmes with the Crown (the AHP and JWP), supporting areas such as Mangere, Mount Roskill, Northcote, Tāmaki, Oranga, Drury and the North-West (Redhills/Westgate/Whenuapai). Many of these areas have received funding from the Crown through Housing Infrastructure Fund, Shovel Ready fund and the New Zealand Upgrade programme. It also provides an opportunity to support development around jointly funded and regionally significant projects like the CRL and align with future investment decisions in ATAP.
24. A focused strategy also provides an opportunity to support the continued work on the infrastructure requirements/costs of these focused priority areas and how best to stage and sequence delivery to efficiently support housing growth.
25. By focusing our limited capacity growth investment on some select areas it means that some areas will need to slow down or stop. As such greater scrutiny will be put on areas that are out of sequence and/or are not supported by existing growth infrastructure commitments.

Option 3 – Increased Funding

26. An Increased Funding option requires the pulling of funding levers to target investment. This will enable a stronger response to growth pressure, but funding levers will not be able to be pulled hard enough to cover the significant cost of the infrastructure across all areas and prioritisation will still be required.

27. Additional funding will put Auckland Council in a better position when negotiating Infrastructure Funding and Financing Agreements or investigating IFF schemes. It will also enable more benefit by being able to better leverage off Crown investment.

28. Attachments

No.	Title
A	Options analysis table

Attachment A: Options analysis table

	Rationale	Implications / Financial	Consequences of proceeding	Risk and opportunities
Option One: Status Quo	Proceeding with the status quo supports continuation of a responsive, scattered and uncoordinated investment in growth infrastructure. This investment will be limited by reduced funding capacity.	<ul style="list-style-type: none"> • COVID-19 has severely reduced the capacity for investment for the next three to five years 	<ul style="list-style-type: none"> • Responding to demands from consent provisions etc leads to uncoordinated infrastructure provision 	<ul style="list-style-type: none"> • Existing planned investment is scattered across different development areas • Doesn't allow us to deliver on joint work programmes with Crown • The lack of focus restricts the ability to use new funding tools • Limited opportunity to reassess investment to respond to climate commitments, Māori outcomes, and less support for economic recovery and jobs.
Option Two: Focused Strategy	A Focused Strategy does not provide for any increase in funding levels but does create an opportunity to target any future investment.	<ul style="list-style-type: none"> • Council funding and financing limited, plus impacts of COVID-19 • Focus investment on key, prioritised areas – leverage government investment and joint priorities 	<ul style="list-style-type: none"> • Focused approach supports new funding options but limited by capacity for council to contribute 	<ul style="list-style-type: none"> • Declared focused approach supports council position with respect to Development Strategy approach • Opportunity to assess areas against climate change, recovery and Māori outcomes • Risk that the focus areas, while delivering best value for money, may be counter to Development Strategy timing.
Option Three: Increased Funding	Increased Funding requires pulling funding levers and enables a bigger response to growth pressures through targeted investment.	<ul style="list-style-type: none"> • Additional council funding provides a better position when negotiating Infrastructure Funding Agreements or investigating IFF schemes 	<ul style="list-style-type: none"> • Will still face funding gap – need to focus on priority areas • Challenges around enabling additional funding with respect to prudent borrowing levels and cost acceptability. 	<ul style="list-style-type: none"> • Declared focused approach supports council positions with respect to proposed changes to Development Strategy timing • Deliver more benefit by leveraging crown investment • Will provide for a focus on climate goals, support economic recovery and provide opportunities to work with and for Māori.

