



Briefing

Competitive Infrastructure Fund – Detailed Design Features			
Date:	22 April 2021	Security level:	In Confidence
Priority:	High	Report number:	BRF20/21040912

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Agree to a number of detailed design features for the competitive component of the Infrastructure Fund Forward to the Minister of Finance	26 April 2021

Contact for discussion				
Name	Position	Telephone		1 st contact
Brad Ward	DCE Place-based Policy & Programmes	04 831 6035	s 9(2)(a)	
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Joey Shannon	Lead, Infrastructure Fund Policy			

Other agencies consulted
Kāinga Ora, Treasury, and the Ministry of Transport provided comments on the paper. The Department of Internal Affairs and the Infrastructure Commission were provided the paper, but did not provide comments. The Department of the Prime Minister and Cabinet was informed.

Minister's office to complete

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Declined
- ☐ Referred to (specify)

Comments

Date returned to HUD:



Briefing

Competitive Infrastructure Fund – Detailed Design Features

For: Hon Dr Megan Woods, Minister of Housing

Date: 22 April 2021

Security level: In Confidence

Priority: High

Report number: BRF20/21040912

Purpose

1. This briefing provides the detailed design features for the competitive component of the Infrastructure Fund.

Recommended actions

2. It is recommended that you:

1. **Note** you previously agreed to a number of high level settings for the competitive component of the Infrastructure Fund (the Fund):
 - 1.1 Objectives for the Fund;
 - 1.2 That a contestable process was the right approach for the Fund;
 - 1.3 That Territorial Authorities were the right entity to lead proposals in most cases;
 - 1.4 That the Fund operate with a two-path structure:
 - 1.4.1 A 'Programme Path' for places with more complex infrastructure investment and housing issues;
 - 1.4.2 A streamlined 'Project path' for places with less complex infrastructure issues;
 - 1.5 that we plan on funding with multiple funding rounds, with the appropriated funds planned to be allocated over two to five years;
2. **Note** that advice on the Fund supporting Māori housing outcomes remains subject to further Ministerial decisions. Some of the settings recommended in this paper (such as minimum scale and eligible costs) may need to be adjusted with respect to projects supporting Māori housing outcomes depending on the outcome of those decisions;
3. **Note** that advice on the settings below does not apply to the Infrastructure Fund support for Kāinga Ora large scale projects which have different requirements and are not currently expected to operate through a contestable process;

Noted

Noted

Noted

Eligibility and evaluation criteria

4. **Agree** that the scope of eligible projects be limited to:
 - 4.1 new or upgraded trunk infrastructure in the form of transport (including local roading, state highways, public transport

Agree / Disagree

- infrastructure, footpaths and cycleways) and three waters (water supply, wastewater and stormwater); and
- 4.2 which are wholly or primarily for the purpose of enabling the building of new or additional dwellings in the short to medium term;
 5. **Note** officials also propose a minimum scale for projects (defined in terms of number of dwellings enabled, with some geographic variation on the minimum). The precise minimums are still to be determined; *Noted*
 6. **Agree** to the following unweighted decision making criteria (described in more detail in paragraph 19):
 - 6.1 Housing outcomes;
 - 6.2 Impact of funding;
 - 6.3 Cost and co-funding;
 - 6.4 Capability and readiness; *Agree / Disagree*

Territorial Authorities within each path and role for priority places

7. **Note** we previously recommended the Fund have two paths:
 - 7.1 **Programme path:** Territorial Authorities where the scale and complexity of housing infrastructure investment requires more intensive engagement and alignment for the development and negotiation of proposals;
 - 7.2 **Project path:** Territorial Authorities with a lower expected scale and complexity of housing infrastructure investment where a streamlined approach focused on individual projects will be the most efficient and pragmatic approach; *Noted*
8. We now see the distinction between the two paths as purely one of likely complexity involved in preparing proposals, and later negotiation, rather than the extent to which they are 'priorities' or not; *Noted*
9. **Agree** that the following groups of Territorial Authorities be required to apply through the Programme Path to access the Fund (applying as a group through a single proposal):
 - 9.1 Auckland Council (including its council controlled organisations);
 - 9.2 'Smart Growth': Tauranga City Council and Western Bay of Plenty District Council;
 - 9.3 'Future Proof': Waipa District Council, Waikato District Council, and Hamilton City Council;
 - 9.4 Wellington Regional Growth Framework: Wellington City Council, Upper Hutt City Council, Hutt City Council, Porirua City Council, Kāpiti Coast District Council, Horowhenua District Council, South Wairarapa District Council, Carterton District Council, and Masterton District Council;
 - 9.5 Greater Christchurch Partnership: Christchurch City Council, Selwyn District Council and Waimakariri District Council; *Agree / Disagree*

10. **Note** that we have not included Queenstown in the Programme Path. Although Queenstown is within a developing Urban Growth Partnership, the lower need to interact with other Territorial Authorities and that it is a tier two (rather than one) urban area suggests the Project Path is more appropriate; *Noted*
11. **Note** all other Territorial Authorities would be eligible to apply under the Project Path individually; *Noted*
12. **Note** that the design and effective evaluation of the criteria is expected to drive investment toward places of highest need and opportunity; *Noted*
13. **Agree** to not proactively identify priority places in the context of the Fund, but to discuss in the Cabinet Paper how we will work with Priority Places across the broader housing package including the Residential Development Response Fund and the Kainga Ora Land Programme; *Agree / Disagree*
14. **Note** analysis of recent relevant infrastructure investment by central government is provided as Annex one *Noted*

Developers applying directly to the Fund

15. **Agree** to the following approach with respect to developers applying directly to the Fund:
 - 15.1 Developers are eligible to apply directly to the Fund through the project path, but encouraged to work through TAs where possible;
 - 15.2 Proposals from developers would need to demonstrate the degree of engagement and support from local government (and Waka Kotahi if the proposal related to State Highway improvements);
 - 15.3 Whilst developers can apply directly through the project path, proposals located in Territorial Authorities covered by the Programme Path will be considered alongside broader investment decisions for those Territorial Authorities; *Agree / Disagree*
16. **Note** Kainga Ora does not consider allowing developers to apply directly to be problematic from an operational perspective; *Noted*

Co-funding requirements

17. **Agree** the following principles apply to co-funding requirements for developers and relevant landowners:
 - 17.1 Developers and landowners should be paying a similar share of the costs of the infrastructure as would be the case if the infrastructure project was funded by traditional means through the local authority. This is generally the reasonable 'growth' portion of the total infrastructure cost;
 - 17.2 In some cases this contribution can be non-financial (e.g. land or commitments to sub-market housing), but any such contribution should be similar in value to the foregone financial contribution; *Agree / Disagree*
18. **Agree** that the Fund will provide for infrastructure traditionally paid for by local authorities and ultimately funded by rates, without requiring that this *Agree / Disagree*

funding be recovered (although co-investment from Local Authorities will be sought in many cases);

19. **Note** that this subsidy to local government, in addition to overcoming a barrier to those councils unable to fund additional infrastructure investment, acts as incentive to pro-actively support unlocking housing development;

Noted

Assessment process

20. **Agree** that both paths of the Fund operate as a two-stage process (with an initial expression of interest, and then invitations to submit full proposals) to improve efficiency for applicants and the Government;

Agree / Disagree

21. **Agree** to include a fast track process where some first-stage proposals can progress quickly to decisions, subject to some additional detail being provided. Projects being put through the fast track would be subject to the advisory group's satisfaction that:

21.1 The quality of the opportunity has already been validated through another process;

21.2 The proposal appears to align very well to the criteria – it is an 'exemplar' project;

Agree / Disagree

22. **Note** that indicative process maps with detailed timing are attached to this briefing as Annex two;

23. **Note** that subject to your agreement to recommendations 21 and 22 we anticipate that the indicative key dates with respect to the Infrastructure Fund (including LSPs) would occur at roughly the timeline below:

Noted

s 9(2)(j)			
Competitive Fund – Project Path	Fund launched (Expression of interest released): Late June 2021	First fast-tracked decision announced: Nov-Dec 2021	Other funding decisions begin to be announced: June 2022
Competitive Fund – Programme Path	Fund launched (Expression of interest released): Late June 2021	First fast-tracked decision announced: Nov – Dec 2021	Other funding decisions begin to be announced: October 2022

Decision making and advisory roles

24. **Note** that despite clear criteria and assessment, final decisions on investments will require significant judgement and in many cases negotiation;

Noted

25. **Agree** that final decisions on investments and key conditions associated those investments rest with Ministers on the advice of an advisory group (see recommendation 28), with decisions made outside of Cabinet; *Agree / Disagree*
26. **Note** the following options for groups decision making Ministers:
- 26.1 The Minister of Housing and the Minister of Finance;
- 26.2 A group of the following Ministers: The Minister of Finance (and Infrastructure), the Minister of Housing, the Minister of Local Government, and the Minister of Transport;
- 26.3 The Urban Development Ministers; *Noted*
27. **Note** any of the above groups could also include the Prime Minister; *Noted*
28. **Agree** to one of the following options for who is responsible for recommending projects for funding to Ministers:
- 28.1 A cross-government senior officials group; *Agree / Disagree*
- OR**
- 28.2 An independent advisory group (possibly including agency representation) with independent members appointed by the Cabinet Appointment and Honours Committee; *Agree / Disagree*
- OR**
- 28.3 A committee of the Kainga Ora Board *Agree / Disagree*
29. **Note** There is scope to have some degree of hybrid models between those presented in recommendation 29. For example, an independent advisory group can include senior official members, and a committee of the Board of Kainga Ora could include independent representation as well; *Noted*
30. **Note** that, to help ensure balanced assessments and advice on recommended projects, **the Treasury** recommends an advisory board is appointed by Ministers with departmental representation and an independent chair, similar to the approach taken with 'shovel-ready' Infrastructure Reference Group, with a technical advisory group serving it; *Noted*
31. **Note** that under all options under recommendation 29, significant preparatory analysis and triaging will be done by Kainga Ora officials supported by the officials from key infrastructure and housing agencies including the Ministry of Housing and Urban Development, Waka Kotahi, the Department of Internal Affairs, Crown Infrastructure Partners and the Infrastructure Commission; *Noted*

Alignment with other infrastructure processes

32. **Note** the following steps we have identified to support alignment between this Fund and other central government infrastructure funding processes
- 32.1 Requiring proposals to identify:
- 32.1.1 where central government funding has previously been sought or received in relation to the project;

- 32.1.2 any other current central funding processes underway or being considered in relation to the project, or application to Ministry for the Environment for fast track consenting;
- 32.1.3 dependencies between this proposal and those other processes;
- 32.2 Inviting applicants to also identify how non-financial powers of central government (e.g. Ministerial RMA powers, RMA fast-track, Urban Development Act powers) could complement funding to maximise the impact; *Noted*
- 32.3 Utilising cross-agency groups, particularly for the programme path proposals, including the Urban Growth Partnership and place-based partnership structures;
- 32.4 Triaging all proposals for where review by another agency is required;
- 32.5 Including senior officials from those agencies in the advisory process, either as part of senior officials group, or involved in discussions with an independent advisory group or Kainga Ora Board in some capacity;
33. [REDACTED] s 9(2)(f)(iv) *Noted*
34. [REDACTED] s 9(2)(f)(iv) *Noted*
35. [REDACTED] s 9(2)(f)(iv) *Noted*
36. **Note** that further consideration of the relationship between the Fund and land transport funding is required; *Noted*

Consultation and next steps

37. **Agree** for officials to undertake targeted consultation with local government and pre-market soundings as proposed in paragraphs 104;
38. **Note** that our advice on some matters raised in this paper may change as a result of that engagement; *Noted*
39. **Note** that subject to your feedback on this paper, we will provide you with a draft Cabinet paper on 29 April 2021 covering:
- 39.1 The design of the competitive component of the Infrastructure Fund;

39.2 Brief updates on the Kainga Ora Land Programme and the Residential Development Response Fund, and the Land for Housing Programme;

Noted

39.3 Brief update on supporting greater provision of purpose-built rentals.

39.4 Next steps on LSPs s 9(2)(j)

40. Note we will also provide the following advice related to LSPs:

40.1 s 9(2)(j)

Noted

41. **Forward** this briefing to the Minister of Finance.

Forward



Hilary Eade
Kaiaki

22 / 04 / 2021

Hon Dr Megan Woods
Minister of Housing

..... / /

Background

3. You have been invited by Cabinet to report back on the design of the Infrastructure Fund, including the competitive and Large Scale Project components [CAB-21-Min-0061 refers]. You have directed officials to work toward delivering this report back to DEV on 19 May 2021, with Cabinet on 24 May 2021.
4. On 8 April we provided you with the briefing, *Infrastructure Fund - High Level Design of competitive (non-LSP) component* [BRF20/21040911]. That briefing proposed a number of high-level settings for the Fund, which you agreed to and provided comments on. These included:
 - a. Objectives for the Fund
 - b. That a contestable process was the right approach for the Fund
 - c. That Territorial Authorities were the right entity to lead proposals in most cases
 - d. That the Fund operate with a two-path structure:
 - i. A 'Programme Path' for places with more complex infrastructure investment and housing issues
 - ii. A streamlined 'Project path' for places with less complex infrastructure issues
 - e. that we plan on funding with multiple funding rounds, with the appropriated funds planned to be allocated over two to five years.
5. The Minister of Finance has also reviewed the briefing and is broadly supportive of the direction.
6. This briefing provides advice on most of the remaining issues necessary for your 19 May report back to DEV with the respect to the competitive component. This includes:
 - a. Eligible projects and expenditure;
 - b. Criteria and evaluation approach;
 - c. Territorial Authorities and groupings for each pathway;
 - d. Advice on developers applying directly to the Fund;
 - e. Co-funding approach;
 - f. Proposal for a two-stage process;
 - g. Decision making and advisory roles;
 - h. Alignment with other central government infrastructure funding processes; and
 - i. Approach to supporting Maori Housing outcomes.
7. Subject to your decisions on this briefing, we remain on track to provide you with a draft Cabinet paper on 29 April working toward DEV on 19 May and Cabinet on 24 May.

Analysis of recent funding

8. You requested a geographic breakdown of recent relevant infrastructure funding through the Shovel Ready process, New Zealand Upgrade Programme and the Three Waters Reform incentives. This is attached as Annex A.
9. Although there is a broad spread to the funding, the bulk has gone to main metro areas where growth and demand for infrastructure is concentrated.

Key Fund settings

Eligible projects and expenditure

10. In considering what projects should be eligible for funding we have focused on infrastructure that is genuinely critical for enabling housing development and addresses the critical local government funding gap.
11. On that basis we propose that projects be limited to:
 - a. new or upgraded trunk infrastructure in the form of transport (including local roading, state highways, public transport infrastructure, footpaths and cycleways) and three waters (water supply, wastewater and stormwater); and
 - b. which are wholly or primarily for the purpose of enabling the building of new or additional dwellings in the short to medium term.
12. Additionally, we consider that there should be a minimum scale threshold based on dwellings expected to be enabled. For this initiative to be essential to enabling some new development, they are funded by utility companies and do not face the same financial constraints.
13. While social infrastructure can be important to providing amenity in areas of development, they do not impactful it will need to be enabling projects that are of a meaningful size (relative to the area). We will provide further advice on a precise minimum.
14. For clarity, we propose that the following not be eligible for funding:
 - c. Energy transmission infrastructure;
 - d. Telecommunications infrastructure; and
 - e. 'Community infrastructure' such as libraries, parks or recreation facilities.
15. While transmission and telecommunications infrastructure represent as critical a factor as the proposed eligible infrastructure. Additionally, in recent years, the Government has made very significant investments in social infrastructure in particular through the Provincial Growth Fund and the Shovel Ready Projects.

Eligible costs

16. In determining what costs should be eligible for funding, we are seeking to limit these to the one-off costs necessary to enable the types of project discussed above, and avoid funding on-going activities. On that basis we propose that costs be primarily limited to:
 - a. costs of feasibility studies and other early stage development work;
 - b. costs of designing, consenting, tendering and acquiring land (where it is wholly required for eligible infrastructure projects); and
 - c. constructing eligible infrastructure projects.
17. In addition, we propose that in limited situations, non-capital administrative costs can be provided, where they are necessary to establishing complementary financing. In particular, we envisage that this could be applied to fund some upfront costs associated with establishing a Special Purpose Vehicle under the Infrastructure Funding and Financing (IFF) Act that may not be recoverable. We understand that these costs have been seen as a barrier to using the IFF framework. Helping unlock IFF deals represents one of the best ways the Fund can leverage its impact.

Criteria and evaluation approach

18. Informed by the Fund objectives you previously agreed to, and the investment principles you noted, we have developed draft evaluation and decision-making criteria. Under each of the four broad criteria, we have proposed a set of factors or 'sub-criteria' required to be assessed under each. We have sought to limit these to factors we are confident can be meaningfully assessed for most proposals.

19. These criteria would form the basis of advice provided to Ministers by the advisory group (see below for discussion). They are provided in the table below.

Criteria (no particular order)	Key factors to be assessed
Housing benefits of the proposal – How will the proposals, if delivered, contribute to the housing outcomes that are the purpose of the Fund?	<ul style="list-style-type: none"> • the number of additional dwellings that the funding will enable relative to demand in that area • the timeframes in which those dwellings are expected to be delivered • the extent to which the location where housing will be enabled has unmet demand and provides access to amenity and opportunity • the proportion of lower-cost houses expected to be enabled by the infrastructure • the extent to which the infrastructure supports intensification, in particular that required to be enabled by councils under the National Policy Statement on Urban Development (i.e. typology and density). • the extent to which the proposals supports housing development on land owned by Māori and to which mana whenua been involved in developing the proposed solution.
Impact of funding – How critical is this funding to advancing the infrastructure and housing development?	<ul style="list-style-type: none"> • the impact that this funding will have on the housing development advancing, or on the pace and scale at which it will advance compared to what is currently expected, including the extent to which investment would displace any existing funding commitment. • demonstration that other means to fund the infrastructure without displacement of investment elsewhere (i.e. rate rises, prudent borrowing, or use of the IFF framework) have been exhausted.
Cost and co-funding	<ul style="list-style-type: none"> • the average government funding per dwelling expected to be enabled. • alignment with co-funding principles for the Fund (set out below). • the operating costs of the infrastructure.
Capability and Readiness – If funding is approved, how certain is it that the project will advance, and at what pace?	<ul style="list-style-type: none"> • when houses enabled by the infrastructure are expected to be built • the extent to which other barriers to housing development that the infrastructure will serve have been (or will be) removed if funding is approved • the degree of developer commitment or interest in building housing quickly

Criteria (no particular order)	Key factors to be assessed
	<ul style="list-style-type: none"> • demonstrated alignment between all parties including local government, mana whenua and developers needed to advance the development • confidence in the ability of all parties to deliver the infrastructure and housing as proposed

Approach to evaluation

20. Evaluation of the proposals against the criteria will be informed by an assessment of the credibility and robustness of the claims made in proposals. For example, an applicant stating that 1,000 dwellings will be enabled by an investment may not mean this is the basis on which the proposal is assessed if this does not stand up to scrutiny.
21. Where proposals include complementary actions the local authority or developers commit to (e.g. planning changes or commitments to support sub-market housing), these would be accounted for in the assessment, particularly under the 'housing benefits' criterion.
22. We do not propose a mechanistic approach to evaluation for the Fund. Specifically, we do not propose to quantitatively weight these criteria (assign a percentage to each). The nature of the proposals we expect to receive will vary widely in terms of scale, nature of the development, approach to financing and other factors. The relative importance of specific factors will vary.
23. Nevertheless, it remains important that the relevant factors are all adequately assessed to provide a holistic view of proposals' alignment with objectives.
24. However, if you consider there are particular criteria that need to be strongly prioritised, weighting remains an option. Alternatively this can be achieved through additional guidance, or direction from decision-making Ministers to the advisory body (discussed below).

Territorial authorities by pathway

25. We previously recommended the Fund have two paths:
 - a. **Programme Path:** Territorial Authorities where the scale and complexity of housing infrastructure investment requires more intensive engagement for the development and negotiation of proposals;
 - b. **Project Path:** Territorial Authorities with a lower expected scale and complexity of housing infrastructure investment where a streamlined approach focused on individual projects will be the most efficient and pragmatic approach.
26. In proposing these paths we noted two key advantages:
 - a. to enable focused engagement in the parts of the country where it would be most valuable, while allowing a more time efficient process where this is fit for purpose; and
 - b. provide a path to investment for all of New Zealand while enabling the balance of investment to focus on places of greatest need and potential impact.
27. To inform which Territorial Authorities are invited to submit bids through the Programme Path we suggested the following criteria:
 - a. Housing need;
 - b. Scale and complexity of housing developments;
 - c. Complementary investment;

d. Expected need and readiness to engage;

28. We also indicated that, subject to further analysis, the programme path could be used by those Territorial Authorities within the Government's Urban Growth Partnerships (UGP) and HUD's place-based partnerships.
29. Based on further analysis of Territorial Authorities against Programme Path criteria and the key advantages noted in paragraph 26 above, we recommend that the programme path is best suited to the main urban areas, in particular those included as Tier 1 urban areas under the National Policy Statement on Urban Development (NPS UD). All other Territorial Authorities should use the faster project path, with the Government identifying those places that are a higher priority for investment.
30. Our thinking on the two paths has evolved somewhat from our 8 April briefing. We now see the distinction between the two paths as purely one of likely complexity involved in preparing proposals, and later negotiation, rather than the extent to which they are 'priorities' or not. We would expect to communicate the distinction around alignment with the Urban Growth Partnerships approach, rather than suggesting that the Territorial Authorities in the Programme Path have any inherent preference or advantage over places in the Project Path.
31. We consider that that our evaluation criteria are well suited to driving investment towards places that are our priorities for infrastructure to support housing development without the need to pre-judge in the context of the Fund.

A programme path for main urban areas with more complex infrastructure needs

32. The Government's current and emerging UGPs have been established to develop a long-term and integrated approach to land use and infrastructure planning. These partnerships respond to strong population growth and are mostly characterised by complex infrastructure needs across multiple development areas involving greenfield and brownfield growth. Significant transport investment to support increased public and active transport modes is also a feature.
33. A number of UGP councils are reaching debt caps with a number of IFF projects being considered. As noted above, coming in alongside an IFF deal is one of the best ways the Fund can leverage impact, but likely also one of the more complex. Additionally, even where there are not current IFF processes underway, we have an opportunity to use the Fund to incentivise them being established. It is largely in these Territorial Authorities where this is a realistic possibility.
34. We recommend inviting the main urban centres to participate in the programme path. This would involve a single bid that brings together a number of interdependent infrastructure projects, multiple funders, and different potential funding and financing mechanisms, including key trade-offs involved. We recommend the following groups of Territorial Authorities are invited to participate in the programme path:
 - a. Auckland Council
 - b. Smart Growth: Tauranga City Council and Western Bay of Plenty District Council
 - c. Future Proof: Waikato Regional Council, Waipa District Council, Waikato District Council, and Hamilton City Council
 - d. Wellington Regional Growth Framework: Wellington City Council, Upper Hutt City Council, Hutt City Council, Porirua City Council, Kāpiti Coast District Council, Horowhenua District Council, South Wairarapa District Council, Carterton District Council, and Masterton District Council.
 - e. Greater Christchurch Partnership: Christchurch City Council, Selwyn District Council and Waimakariri District Council.
35. We do not recommend including Queenstown within the programme path. Although we are entering into an UGP with Queenstown, the infrastructure context is less complex so would be better suited to the project path. Significant investment has already been made through

the New Zealand Upgrade Programme and Shovel Ready process (as shown in maps in Annex A). There is much less need to align with other Territorial Authorities. Unlike the other urban areas included, Queenstown is not a Tier 1 Council under NPS-UD.

36. This is not to suggest that Queenstown is not a priority for the Fund or will necessarily receive less funding than Territorial Authorities within the programme path.

A faster project path for other Territorial Authorities

37. A number of other Territorial Authorities face infrastructure constraints but don't have the same level of complexity as the main centres. In these locations, the more intensive and longer programme path would risk delaying investment.
38. Excluding places like Rotorua, Hastings, Gisborne and Northland from the programme path does not mean these are no longer a priority. It merely reflects that the infrastructure needs are more straight forward in a relative sense, and there is less of a need for complex multilateral discussions with multiple territorial authorities and central government agencies. The poor development economics in many locations also mean that other parts of the Government Housing Package, such as the Kāinga Ora Land Programme and the Residential Development Response Fund may be as much, or more, important than infrastructure. These locations remain priorities for the Government regardless of the infrastructure path.
39. In contrast to the programme path, Territorial Authorities that are in close proximity to each other would not be required to submit a joint bid though the project path, but may choose to do so. This also supports faster negotiation and decision making.
40. We considered pre-defining priority places within the project path based on HUD priority places, public housing plan priorities and other areas with high housing need. However, we determined that the list of 'priorities' would become problematically long and create risks. The few urban centres not on our list (i.e. Dunedin, New Plymouth and Invercargill) would be notable by omission. In contrast by identifying so many priorities across the two paths we would be setting an expectation that all would receive substantial funding, an expectation that we may not be able to meet and, depending on the quality of applications, might not wish to. We are better off retaining more flexibility to respond to the quality of proposals.
41. We anticipate that the draft Cabinet paper will still speak to our approach to priority places across the package and how we will be working with places to proactively identify which parts of the package might best address their challenges.

We recommend developers be able to apply directly to the Fund

42. As previously indicated, we have considered further whether developers should be able to apply directly into the Fund.
43. The primary case for enabling developers to apply directly is that there may be developments that could advance that align closely with central government objectives, but where the relevant Territorial Authority (TA) has chosen not to prioritise it. Nevertheless, if the TA is specifically opposed to a development the likelihood of it advancing at pace is very low.
44. In general having proposals aligned with the TA and coming through the TA is preferable, but not at the cost of missing out on good opportunities that meet the Government's objectives. We therefore recommend the following approach:
- Developers are eligible to apply directly to the Fund through the project path, but encouraged to work through TAs where possible;
 - Proposals from developers would need to demonstrate the degree of engagement and support from local government (and Waka Kotahi if proposal related to State Highway improvements);
 - Whilst Developers can apply directly through the project path, proposals located in TAs covered by the Programme Path will be considered alongside broader investment decisions for those TAs.

45. Beyond misalignment with TAs, the other risk of developers applying directly is the potential for a very large number of applications that do not align with the objectives of the programme. The proposal discussed in paragraph 66 below, which includes an initial 'expression of interest' stage to the process, should address this by declining poorly aligned proposals early before too much effort is invested. The proposed minimum scale for proposals also reduces this risk.
46. Subject to those settings being agreed, Kainga Ora do not consider allowing developers to apply directly to be problematic from an operational perspective

Co-funding approach and repayment

47. One of the objectives you previously agreed to was, "maximise value for money including through co-funding, contributions, and non-financial commitments including incentivise councils to use non-funding levers that enable housing development."
48. Related to this objective, we also identified the following risks in our 8 April advice:
 - a. Investment simply leads to increases in land values that manifest as windfall gains for current owners;
 - b. Crowding out of investment by councils or developers, including disincentivising the use of new financing mechanisms under the IFF Act.
49. A principled approach to co-funding requirements is required to both achieve the objective and manage the two identified risks. With respect to co-funding requirements, there are three primary groups to consider (these are the typical funders of the type of infrastructure the Fund will provide for):
 - a. Landowners / Developers;
 - b. Local Government; and
 - c. Waka Kotahi.

Landowners/Developers

50. In our high-growth priority areas, the financing constraints that are slowing relevant infrastructure development are primarily public, not private. If this initiative significantly reduced costs to developers from what they would otherwise be, it would both be poor value for money, and lead to the windfall gain risk referred to above.
51. Nevertheless, in some cases, there may be justification for reducing the normal contributions a developer would make, if the developer can provide commensurate value through some non-financial commitment (such as release of land or commitment to provision of sub-market housing). While we consider the Fund should allow for this, we anticipate there would be relatively few instances where this will be employed.
52. On that basis, we propose the following principles for developer co-funding:
 - a. Developers and landowners should be contributing a similar share of the costs of the infrastructure as would be the case if the project was funded through other means. This is generally the reasonable 'growth' portion of the total infrastructure cost;
 - b. In some cases this contribution can be non-financial, but any such contribution would have to be similar in value to the foregone financial contribution.

53. s 9(2)(j)

55. s 9(2)(j)

58. s 9(2)(f)(iv)

Local Government

59. In contrast to developers, the Fund is expected to be primarily providing grants to local government. It is anticipated the Fund will provide for infrastructure normally paid for by local government and ultimately funded by rates, without requiring that this be recovered.
60. Broadly speaking, the situations where this will be appropriate are:
- a. where the council would normally be funding a portion of the growth component of the infrastructure that it cannot recover from developers;
 - b. where a project to enable growth would also need to include renewal or service upgrades, but the council was not otherwise planning for those at that time.
61. This subsidy to local government, in addition to overcoming a barrier to those councils unable to finance additional infrastructure investment, acts as incentive to pro-actively support unlocking development. However, the Fund should not be applied in a way that enables councils to avoid raising rates in a manner commensurate with other councils.
62. Additionally, we will still be seeking co-funding from local government in many cases, particularly when there are significant non-growth components to the investment, or where we are seeking to accelerate or scale-up an already planned investment.

Waka Kotahi

63. Where infrastructure requirements include improvements to State Highways, Waka Kotahi will need to be a partner in the initiative, and it may be necessary and appropriate to fund this activity through the Fund in some cases.
64. As discussed below, further consideration is needed about appropriate financing arrangements when providing funding to Waka Kotahi for State Highway improvements.

We recommend a two-stage process, but with an expedited path

65. You previously agreed to operate the Fund on a contestable basis. One of the key process design choices for a contestable fund is whether to operate on a one-stage, or a two-stage basis.
66. In a one-stage process, applicants submit a single proposal that must include all evidence necessary to evaluate the proposal, and it is assessed. At a high level, the advantage of a one-stage process is that it is typically faster than a comparable two-stage process. The disadvantage is that many applicants will over-invest in complex proposals with little chance of success, or be unwilling to commit sufficient resource to an uncertain outcome and skip the process altogether.
67. In a two-stage process, a relatively straightforward initial proposal is provided, after which a reduced number are invited to submit full proposals, in some cases with feedback or specific

requests for information in the final proposal. The advantage is that it reduces wasted effort from applicants while encouraging a wider range to engage with the process.

68. We consider that a two-stage process best fits the Fund, for both the project and the programme paths. Experience from Shovel Ready Projects and comparable initiatives suggest that Kainga Ora may receive a very large number of applications, many of which will be low quality and not align well with the objectives of the Fund. Likewise many non-priority local authorities may be reluctant to invest in detailed proposals without some indication of their chances.

Fast track

69. We further propose that both paths in the Fund include a fast track process where some first-stage proposals can progress quickly to decision, subject to some additional detail being provided. These will typically be projects already well-known to some parts of central government, such as those involved in an IFF process, and well-validated. The decision to put them through the fast track would be subject to the advisory group's satisfaction that:
- The quality of the opportunity has already been validated through another process
 - The proposal appears to align very well to the criteria – it is an 'exemplar' project.
70. We anticipate there would be few such projects, but some. One possible example identified to date is the Tauriko West development in Western Bay of Plenty, for which there is an IFF process underway.
71. This approach fits with the broader approach we've taken around the two paths of trying to make easier decisions more quickly, and providing more time where it is needed to make smart decisions and effectively negotiate.
72. Attached as Annex B are indicative process and timeline diagrams for the programme and project pathways, as well as the fast track process. These are indicative and reflect the initial views of Kainga Ora on the operational steps and time required. The diagrams reflect the advice in this briefing.
73. The table below summarises some of the key indicative timeframes for the two components of the Infrastructure Fund (subject to your agreement to the recommendations above).

s 9(2)(j)			
Competitive Fund - Project Path	Fund launched (Expression of interest released): Late June 2021	First fast-tracked decision announced: Nov-Dec 2021	Other funding decisions begin to be announced: June 2022
Competitive Fund – Programme path	Fund launched (Expression of interest released): Late June 2021	First fast-tracked decision announced: Nov – Dec 2021	Other funding decisions begin to be announced: October 2022

Decision making and alignment

We recommend sub-Cabinet Ministerial decision making

74. Cabinet agreed that Kainga Ora would administer the infrastructure fund. However, Cabinet did not consider who would be responsible for making investment decisions or providing primary advice on those investment decisions.
75. In light of the scale of investment anticipated, and the ambition to align the Fund with cross-government objectives and investments, we consider that Ministers should make final

decisions on investments. The proposed minimum scale means there will likely be no very small projects for which delegation is appropriate, although we propose to consider this further.

76. We recommend that decisions be made below Cabinet level. Although officials will seek to bring as many decisions together at one time as possible, if we wish to make some decisions as quickly as practical, there will need to be multiple packages of recommended projects to be considered over a period of months. Additionally, in some cases further negotiation may be required following feedback from Ministers. This will not suit Cabinet decision making.
77. We have identified three options for a Ministerial group:
 - a. The Minister of Finance and the Minister of Housing;
 - b. A bespoke group of Ministers focused around portfolios identified in the previous Cabinet Paper as priority for alignment: The Minister of Finance (and Infrastructure), the Minister of Housing, the Minister of Local Government, and the Minister of Transport;
 - c. The current Urban Development Ministers Group including: The Minister of Finance (and Infrastructure), the Minister of Housing, the Minister of Local Government, the Minister for Building and Construction, the Minister of Transport and the Associate Minister for the Environment (Hon Twyford).
78. In addition, the Prime Minister could be added to any of the groups above.
79. We would like to discuss with you which of these three groups is most fit for purpose for the decision making in the Fund.

Advisory

80. We have identified three options for who could be responsible for advising Ministers on which investments to make and under what terms. This group would also be responsible for agreeing which proposals advance past the initial expressions of interest process (which would not be confirmed with Ministers).
81. Under any of these options, the primary analysis and assessment would still be undertaken by Kainga Ora, supported by cross agency officials. Additionally, under any options the Board of Kainga Ora would have accountability for the quality of administration and the analysis by Kainga Ora staff. Any group would be supported by independent technical experts when needed.
82. The three options are:
 - d. A Senior Officials Group – primarily tier-two officials from a number of relevant agencies, likely chaired by the Chief Executive of Kainga Ora. Cabinet would agree which agencies are to be represented on the group and the Chief Executive of each of those agencies would appoint a member. Agencies would likely include housing and infrastructure provision agencies including Kainga Ora, HUD, DIA, NZTA and could potentially include the Infrastructure Commission, the Treasury, Te Puni Kokiri or Crown Infrastructure Partners (CIP).
 - e. An independent advisory group – an independent panel of 3-6 members appointed by you following agreement by the Cabinet Appointments and Honours Committee (APH). The group would require expertise in areas including:
 - i. Housing development;
 - ii. Māori Housing
 - iii. Infrastructure delivery
 - iv. Local government
 - v. Finance and risk management.
 - f. The Kāinga Ora Board (or likely a sub-committee thereof).
83. These options are analysed below, with regard to five considerations:

- g. Efficiency and timeliness;
- h. Alignment of advice with policy objectives;
- i. Management of conflict of interest;
- j. Alignment with cross-government infrastructure investment;
- k. Accountability; and
- l. Capability.

Option	Strengths	Weaknesses
<i>A Senior Officials Group</i>	<p>Relatively expedient option (although some set-up required).</p> <p>Greater certainty that the expectations set by Ministers regarding the objectives and focus of the Fund will ultimately be reflected in advice.</p> <p>Supports the intention of the fund to join up investments and negotiation across government and align with urban growth partnership and other placed-based approaches.</p> <p>Lowest degree of material conflict of interest of the options.</p>	<p>Lower degree of accountability flow through Kainga Ora (although mitigated if the CE of Kainga Ora is the Chair of the Group).</p> <p>May not contain all required subject matter expertise (mitigated by supplementing with technical advisors).</p>
<i>An independent advisory group</i>	<p>Provides a greater independence in assessment than is likely with a senior officials group and increases the likelihood of innovative perspectives and challenges to the status quo within the group.</p> <p>Able to attract subject-matter experts directly into advisory group.</p>	<p>With the time necessary to identify, assess and formally appoint members through APH, there is a risk that the process is delayed, or the group is unable to engage in the earlier stages of assessment.</p> <p>Finding qualified candidates who are not materially conflicted may be challenging.</p> <p>Advice being too detached from Kainga Ora leadership and thus creating accountability risk in terms of delivery (could be mitigated through clear accountabilities in the agency agreement).</p>
<i>Committee of the Kainga Ora Board</i>	<p>Strong accountability through Kainga Ora, with the Board being responsible for both effectiveness of administration and quality of the advice on investments.</p> <p>Administratively straightforward.</p> <p>Joined-up investment decision with other Kainga Ora investments.</p>	<p>The Board would be materially conflicted for investments that relate to land in which Kainga Ora has an interest. With core analysis also sitting within Kainga Ora, this could be very challenging to manage, with either very significant second opinion necessary, or separating out of some advice entirely. However, it remains unclear how frequently this will occur.</p>

Option	Strengths	Weaknesses
		<p>May not contain all required subject matter expertise (mitigated by supplementing with technical advisors).</p> <p>Having both the core analysis and the recommendation to Ministers held purely within Kainga Ora risks organisational priorities impacting the specific policy objectives of this Fund. This risk could be mitigated by having a more structured approach to evaluation.</p>

84. There is scope to have some degree of hybrid models between these. For example, an independent advisory group can include senior official members, and a committee of the Board of Kainga Ora could include independent representation as well.
85. We are seeking your agreement to one of the three options identified. If you choose:
- A Senior Officials Group – we will advise you on the specific agencies represented following further consultation.
 - An independent advisory group – we will begin the process of identifying potential candidates so as to move as quickly as possible with an APH process.
 - The Kainga Ora Board – we will advise you on the approach to managing conflicts of interest and the role for second opinion advice (this would likely require a delegation from Cabinet as we may not be able to resolve the detail in time).

Alignment with other infrastructure funding processes

86. Included in the report back to Cabinet on the design of the infrastructure was an expectation that the design would align with existing infrastructure processes (in particular with three waters and transport). We have held workshops and had discussions with the Ministry of Transport, the Department of Internal Affairs, the Infrastructure Commission, CIP, the Treasury's National Infrastructure Unit, Waka Kotahi and Kainga Ora on this issue.
87. Aligning with other infrastructure processes can have two broad aims in the context of the Fund:
- General alignment - ensuring decisions made in this fund are informed by the most up to date understanding of other central government investments already made or under consideration, and any interdependencies or conflicts are identified and addressed;
 - Joined-up negotiation – bringing together negotiation and decisions on this Fund with other investments or discussions with local government authorities to more effectively negotiate.
88. Informed by our discussions across government, both issues are discussed below.

General alignment across central government

89. Alongside Kainga Ora, we have identified a number of practical measures we can put in place at a policy and operational level to align with other key infrastructure funding processes. These include:
- Requiring proposals to identify:
 - where central government funding has previously been sought or received in relation to the project;

- ii. any other current central funding processes underway or being considered in relation to the project, or application to Ministry for the Environment for fast track consenting;
- iii. dependencies between this proposal and those other processes
- b. Inviting applicants to also identify how non-financial powers of central Government (e.g. Ministerial RMA powers, RMA fast-track, Urban Development Act powers) could complement funding to maximise the impact;
- c. Utilising cross-agency groups, particularly for the programme path proposals, including the urban growth partnership and place-based partnership structures;
- d. Triaging all proposals for where review by another agency is required;
- e. Including senior officials from those agencies in the advisory process, either as part of a senior officials group, or involved in discussions with an independent advisory group or Kainga Ora Board in some capacity.

Joined-up negotiation

90. At this stage, there appears to be some, but modest, scope for joining up negotiation on Fund decisions with other central government investments. One challenge is timing.

s 9(2)(f)(iv)

91. However, this modest scope is based on processes underway at the moment. This could change if the Government considers further infrastructure investment through bespoke initiatives, timeframes change for current processes or other critical areas of negotiation with local government emerge.

Three Waters Reform incentive package

92. We understand that Ministers are interested in considering a coordinated approach across government programmes when negotiating with Councils on Three Waters Reform.

93. s 9(2)(f)(iv)

IFF framework

95. In general, the amount of funding available through the Fund may be sufficient to influence council concessions with respect to individual projects, but is unlikely to be sufficient to incentivise broader policy change unless highly concentrated in a few places.

96. s 9(2)(f)(iv)

Land transport funding

97. A critical interface for the Fund will be the land transport funding system. Waka Kotahi can play multiple relevant roles in relation to the Fund:

- a. As a co-funder of local roads supported by the Fund;

- b. As a recipient of the Fund to enable State Highway improvement (as part of an application led by a TA or Developer); and
 - c. As a developer of related infrastructure projects that relate to proposals.
98. We are engaging with the Ministry of Transport and Waka Kotahi on their role in the Fund, but this requires further consideration. Issues include:
- a. How to align with land transport planning and funding processes (noting that the 2021-2024 National Land Transport Programme is soon to be finalised) as well as Government transport objectives;
 - b. The financial treatment when funding flows to NZTA, in particular when this is to enable to a planned project to be brought forward significantly. A critical question is where grants versus loans are more appropriate; and
 - c. How to manage conflicts of interest when NZTA is involved in advising on investments under the Fund as we propose.

Supporting Māori housing through the Fund

99. To place some additional priority on Maori housing outcomes, the proposed criteria for the Fund include *the extent to which the proposals supports housing development on land owned by Māori and to which mana whenua been involved in developing the proposed solutions*.
100. The Programme Path groupings intersect with the UGAs which include iwi, and we would be seeking use those forums to bring parties together around those larger programme proposals.
101. We had previously advised that Maori should have a path to apply directly to the Fund, but further work was required to define this further. In light of our advice that all developers are eligible to apply directly to the Fund, there is no need to define this further, as any land owner that has a proposal that meets the terms of the Fund can apply.
102. Nevertheless, some of the settings proposed, including the eligible costs and the proposed minimum scale would not be conducive to some Maori-led investments. The Fund as designed is likely not fit-for-purpose for many small Maori-led projects. Whether exceptions to these settings, or a different path for Maori-led projects is required, is dependent on further Ministerial decisions regarding the use of the Infrastructure Fund to support Maori housing. Subject to those decisions, we will advise further on this matter.

Consultation and market assessment

103. In the limited time available, we propose to undertake targeted consultation with local government, iwi and Te Matapihi.
104. With local government we will engage with a small group of TAs focused on our priority places, including both larger metros and regional TAs. Subject to your feedback on the advice in this briefing, we propose to test the following with TAs:
- a. The definition of eligible projects and activities;
 - b. The approach to co-funding;
 - c. Options for how to structure agreements; and
 - d. Process and timelines.
105. We do not propose to consult on the high-level structure and objectives of the Fund that was the focus on our 8 April briefing.
106. We are waiting to confirm our approach to engaging with iwi until there is greater clarity on the broader approach for use of the Infrastructure Fund for Maori-led projects.

Market assessment

107. We are coordinating work across HUD, Kāinga Ora and CIP to obtain the best possible view of the housing developments already known which may be expected to apply to the Fund. We will seek to gain at least a very high level understanding of the expected funding required, the housing outcomes which might be expected and the timeframes involved.
108. This work will help test the design parameters of the Fund and help design the nature of the funding agreements. It will also help us understand the resource required to process the applications and ultimately administer the funding on an ongoing basis.
109. The second aspect of this work involves developing two real life examples we are all familiar with through the proposed process so we can better test and understand the process and the resources required and cross-agency implications of a typical development.
110. The intention of this exercise is only to test and inform the design settings of the Fund, not to pre-judge any particular project.
111. We will provide you with an update on this work.

Risks

112. You requested a table including the risks identified in the 8 April briefing and how these are to be mitigated. The table provided in Annex C sets out those risks, and how we consider that our proposed approach mitigates risk, as well as what will be needed to do so in the future.

Consultation

113. Kainga Ora, Treasury, and the Ministry of Transport provided comments on the paper. The Department of Internal Affairs and the Infrastructure Commission were provided the paper, but did not provide comments. DPMC was informed.

Next steps

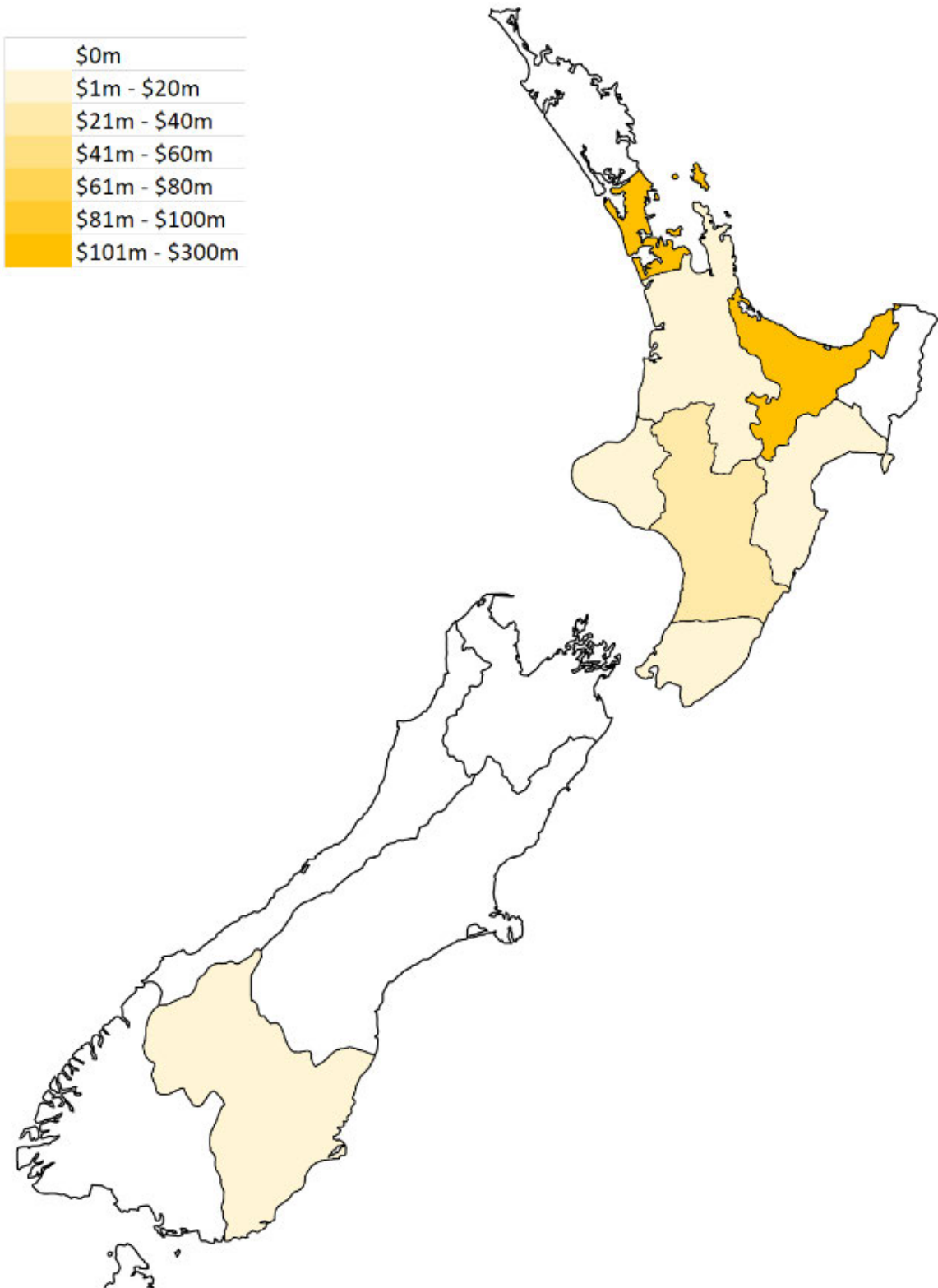
114. Subject to your feedback on this paper, we will provide you with a draft Cabinet paper on 29 April 2021 covering:
- The design of the competitive component of the Infrastructure Fund;
 - Brief updates on the Kainga Ora Land Programme and the Residential Development Response Fund, and the Land for Housing Programme;
 - Brief update on supporting greater provision of purpose-built rentals.
 - s 9(2)(f)(iv)
115. In addition we will also provide you with the following advice:
- s 9(2)(f)(iv)
 - s 9(2)(j)

Annexes

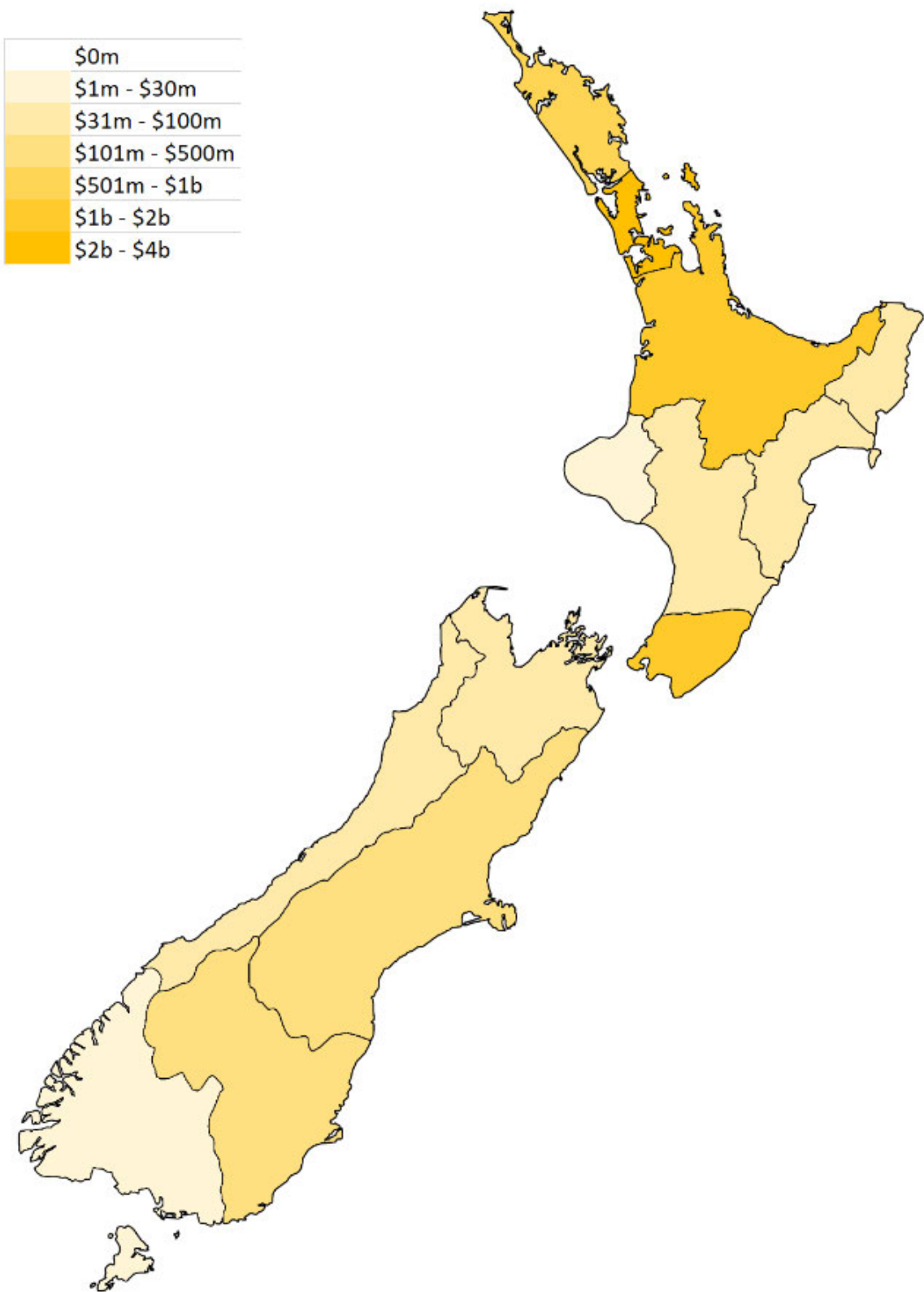
- Annex A: Geographic analysis of recent Government infrastructure investment
- Annex B: Indicative fund process maps
- Annex C: Policy risk table.

Annex A:Recent housing-related infrastructure funding

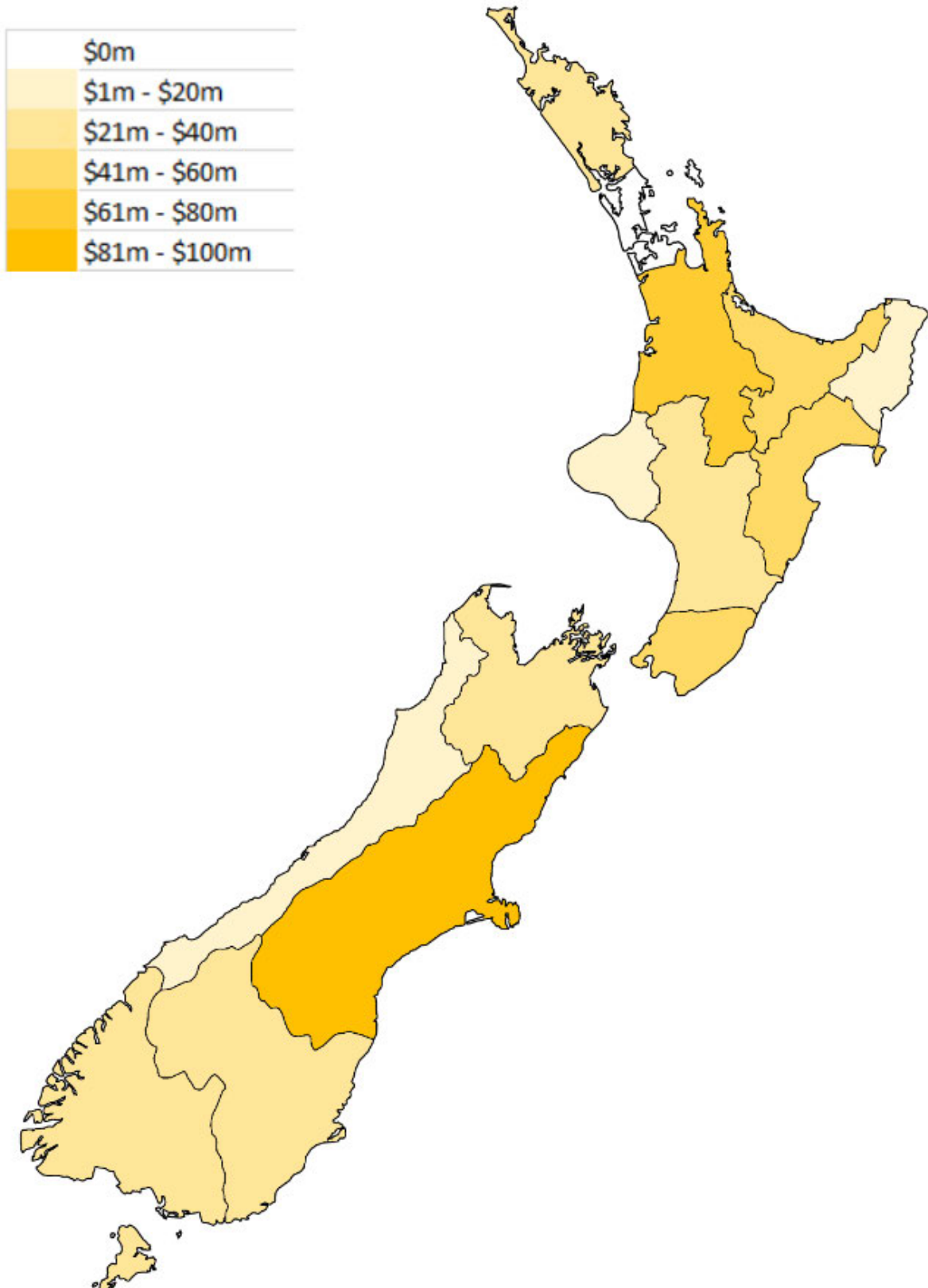
Heatmap of IRG (shovel-ready) Housing Projects Funding across New Zealand Regions



Heatmap of Combined NZ-UP & IRG (shovel-ready) funding (Transport and Housing) across New Zealand Regions

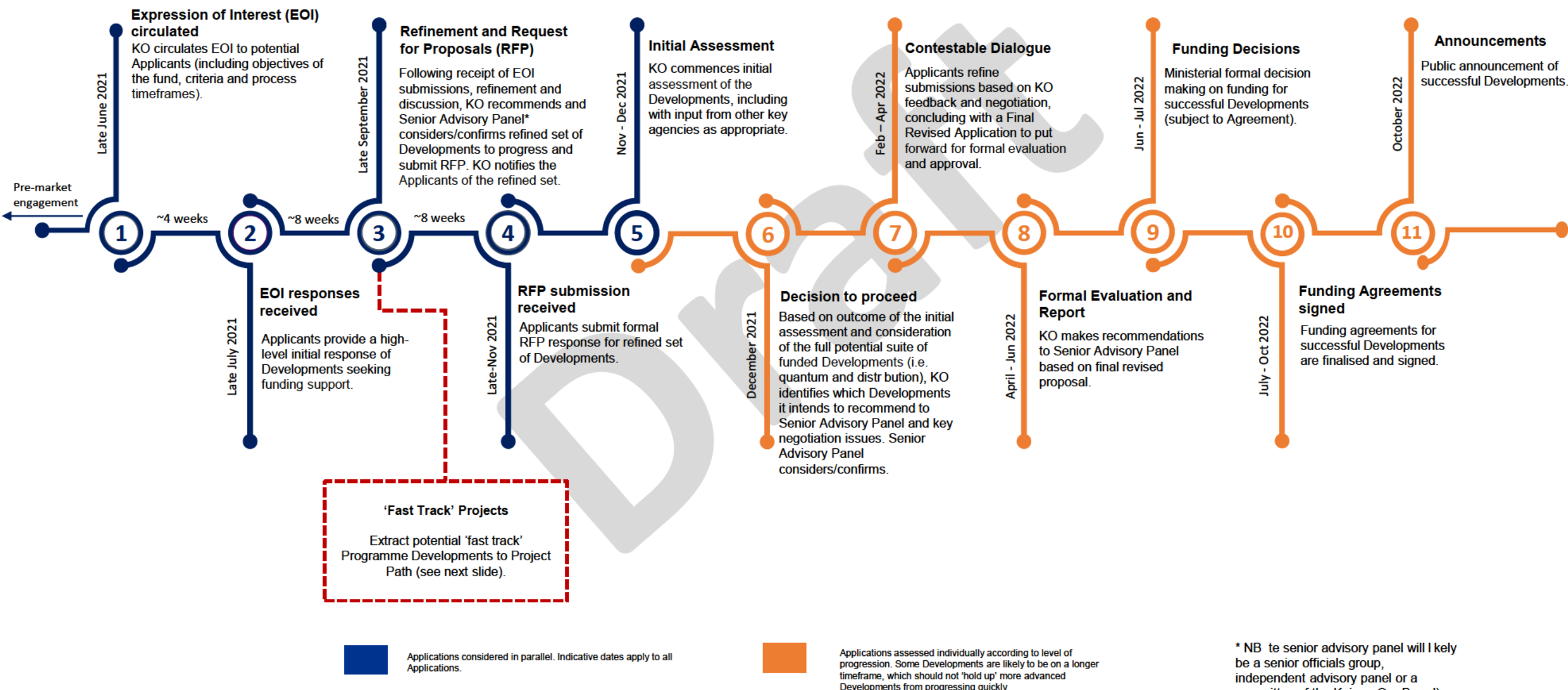


2020 Three Water's Incentive Fund allocation across New Zealand Regions



Annex B: Indicative Process Maps

Contestable Housing Infrastructure Fund – Process Overview Programme Path



No. of Applications

Contestable Housing Infrastructure Fund

– Process Overview

Project Path

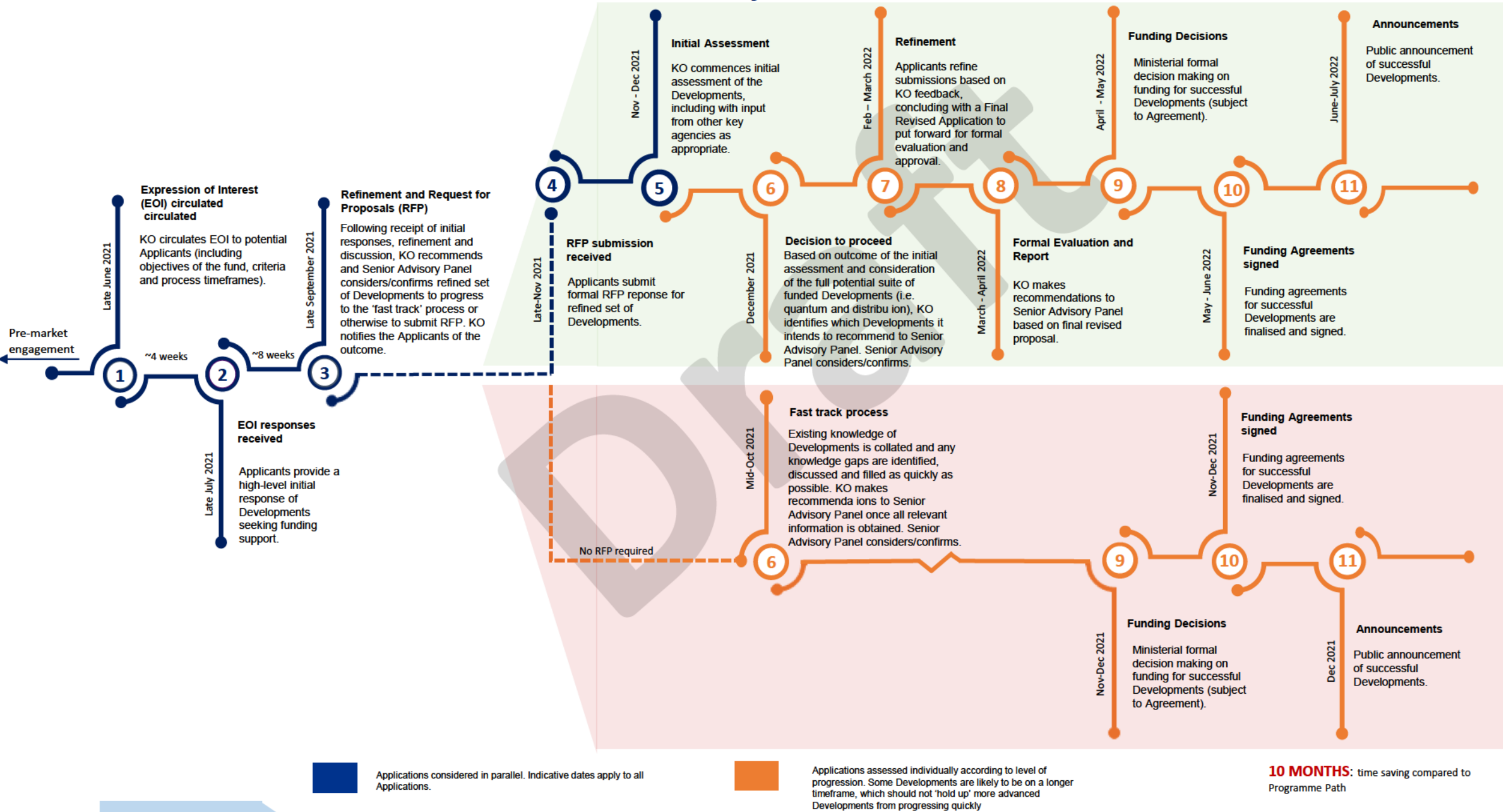
3-6 MONTHS: time saving compared to Programme Path

Standard Projects

Less advanced projects will likely require additional refinement and evaluation steps prior to a formal funding decision being made.

Fast Track Projects

More advanced projects will be 'fast tracked' by eliminating the additional refinement and evaluation steps.



No. of Applications

Annex C: Policy risks and mitigations

Policy-level risk	Design mitigations
Investment simply leads to increases in land values that manifest as windfall gains for current owners.	<ul style="list-style-type: none"> Co-funding principles recommended in this paper address this risk. As identified, further work is needed to ensure we have the right mechanisms to secure this co-funding.
Crowding out of investment by councils or developers, including disincentivising the use of new financing mechanisms under the Infrastructure Funding and Financing Act 2020.	<ul style="list-style-type: none"> Criteria include the extent to which other opportunities to fund the proposal have been exhausted. Further mitigation will occur through communicating this principle to stakeholders and giving appropriate regard to it in advice and decision making.
Contributing to construction cost inflation.	<ul style="list-style-type: none"> Focusing on a mix of short and medium term investments to support a pipeline of activity. Aligning closely with other cross-government investment decision making.
Potential conflicts of interest for Kāinga Ora as administrator of the Fund, including that, in some cases, it will be the owner of land that could benefit from investment.	<ul style="list-style-type: none"> Subject to further decisions on advisory and decision making roles.
Cost overruns, and potential ambiguity as to who is responsible for meeting these.	<ul style="list-style-type: none"> Further consideration of this issue required.
Securing meaningful commitments from developers on the pace of housing development is difficult or impossible.	<ul style="list-style-type: none"> s 9(2)(f)(iv)
The amounts applied for far exceed the amount available, leading to disappointed applicants (and developers/ landowners).	<ul style="list-style-type: none"> The proposed two-stage process manages this risk, but providing an early indication of potential for success reduces work on proposals unlikely to receive funding. Communications soon after Cabinet on the scale of Funding available through the competitive fund will also help. Nevertheless, there are limitations on how much this risk can be mitigated.
Stakeholders may have unrealistic expectations of the Fund in terms of delivery of housing (and affordable housing) and do not appreciate this is a medium term intervention directed at enabling developable land (and	<ul style="list-style-type: none"> Clarity on the medium-term nature in Fund documentation and public communication post-Cabinet

needs to be seen in context of it being just one of a suite of Government interventions that are intended to have the supply outcomes).	
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