

Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Council will be held on:

Date: Tuesday 28 March 2017
Time: 9.30am
Meeting Room: Council Chamber
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Council OPEN AGENDA

Membership

Chairperson	Mayor A King
Deputy Chairperson	Deputy Mayor M Gallagher
Members	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr G Mallett
	Cr A O'Leary
	Cr R Pascoe
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman
	Cr P Yeung

Quorum: A majority of members (including vacancies)

Meeting Frequency: Monthly – or as required

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Governance Manager

22 March 2017

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Purpose

The Council is responsible for:

1. Providing leadership to, and advocacy on behalf of, the people of Hamilton.
2. Ensuring that all functions and powers required of a local authority under legislation, and all decisions required by legislation to be made by local authority resolution, are carried out effectively and efficiently, either by the Council or through delegation.

Terms of Reference

1. To exercise those powers and responsibilities which cannot legally be delegated by Council:
 - a) The power to make a rate.
 - b) The power to make a bylaw.
 - c) The power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan.
 - d) The power to adopt a Long Term Plan or Annual Plan, or Annual Report.
 - e) The power to appoint a Chief Executive.
 - f) The power to adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the Long Term Plan, or developed for the purpose of the Council's governance statement, including the 30-Year Infrastructure Strategy.
 - g) The power to adopt a remuneration and employment policy.
 - h) The power to approve or change the District Plan, or any part of that Plan, in accordance with the Resource Management Act 1991.
 - i) The power to approve or amend the Council's Standing Orders.
 - j) The power to approve or amend the Code of Conduct for Elected Members.
 - k) The power to appoint and discharge members of committees.
 - l) The power to establish a joint committee with another local authority or other public body.
 - m) The power to make the final decision on a recommendation from the Parliamentary Ombudsman, where it is proposed that Council not accept the recommendation.
 - n) The power to amend or replace the delegations in Council's *Delegations to Positions Policy*.
2. To exercise the following powers and responsibilities of Council, which the Council chooses to retain:
 - a) Resolutions required to be made by a local authority under the Local Electoral Act 2001, including the appointment of an electoral officer and reviewing representation arrangements.
 - b) Approval of any changes to Council's vision, and oversight of that vision by providing direction on strategic priorities and receiving regular reports on its overall achievement.
 - c) Approval of any changes to city boundaries under the Resource Management Act.
 - d) Adoption of governance level strategies, plans and policies which advance Council's vision and strategic goals.
 - e) Approval of the Triennial Agreement.

- f) Approval of the local governance statement required under the Local Government Act 2002.
- g) Approval of a proposal to the Remuneration Authority for the remuneration of Elected Members.
- h) Approval of any changes to the nature and delegations of the Committees.

Oversight of Policies:

- *Corporate Hospitality and Entertainment Policy*
- *Delegations to Positions Policy*
- *Elected Members Support Policy*
- *Significance and Engagement Policy*

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1 Apologies

2 Confirmation of Agenda

The Council to confirm the agenda.

3 Declaration of Interest

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

4 Public Forum

As per Hamilton City Council's Standing Orders, a period of up to 30 minutes has been set aside for a public forum. Each speaker during the public forum section of this meeting may speak for three minutes or longer at the discretion of the Mayor.

Please note that the public forum is to be confined to those items falling within the terms of the reference of this meeting.

Speakers will be put on a Public Forum speaking list on a first come first served basis in the Council Chamber prior to the start of the Meeting. A member of the Democracy Team will be available to co-ordinate this. As many speakers as possible will be heard within the allocated time.

If you have any questions regarding Public Forum please contact Democracy by telephoning 07 838 6439.

Committee: Council

Date: 28 March 2017

Report Name: Government's Housing
 Infrastructure Fund - Final
 Proposal from Hamilton City
 Council

Author: Luke O'Dwyer

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Council Financial Strategy Hamilton Urban Growth Strategy Future Proof Growth Strategy Hamilton Plan Partly Operative District Plan Growth Funding Policy 2015-2025 Long Term Plan 30 Year Infrastructure Strategy</i>
Financial status	<i>There is budget to continue participating in the Housing Infrastructure Fund (HIF) process. If Council is successful in its HIF application, and accepts an allocation, there may be potential impacts on Council's current Long Term Plan (LTP) and Financial Strategy, and consultation will be required before any commitments can be agreed.</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Council's Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

2. To explain recent growth and urban development initiatives (including Government decisions) that have the potential to impact Council functions and finances and how Hamilton grows in the future;
3. To seek Council approval to submit a **non-binding** Housing Infrastructure Fund (HIF) proposal to the Ministry for Business Innovation and Employment (MBIE), consisting of three indicative business cases, to fund new lead strategic infrastructure in the Peacockes and Rotokauri growth areas.

4. Structure of the Report

5. This report is comprised of three parts.
6. The first part is an executive summary.
7. The second part provides a brief overview of recent growth and urban development initiatives potentially impacting Council and the future growth of Hamilton.

8. The third part addresses in detail our participation in one of these initiatives – the HIF. The HIF is a funding tool announced by Government in mid-2016 to accelerate housing delivery in high growth areas. While the HIF is an opportunity, it also presents some challenges for Council.
9. At the time of completing this report, the business cases that need to be submitted to MBIE as part of the HIF proposal had not been fully completed.
10. The three business cases will be circulated to elected members shortly after this report has been issued. Given the extremely tight timeframes associated with the HIF process, the business cases will continue to be refined up until submission. (Attachments 6-8)
11. Nevertheless, the substantive analysis and key results associated with the business cases have been completed and are included in this report for elected member's information to inform and assist with their decision making obligations.
12. Relevant matters of strategic importance from the business cases that are of relevant from a governance perspective are included in this report.
13. The final details in the business cases will be consistent with the content of this report with respect to benefits, costs of risks associated with the HIF proposal and what is being asked for in terms of decision making.
14. The HIF proposal is being conducted under a formal tender/procurement process and must be lodged with MBIE by 31 March 2017.

15. Part 1 - Executive Summary

What is the HIF and what is trying to solve?

16. Recent Government initiatives have been implemented to address growth and funding challenges facing many parts of New Zealand.
17. The HIF is one tool developed by Government to assist local government solve these growth and funding challenges.
18. Hamilton is a high growth area of increasing importance to Government given we are the fourth largest city in New Zealand with a strong economy and a growing population.
19. Hamilton's importance as a major urban centre has been confirmed by being included as a high growth area in the National Policy Statement for Urban Development Capacity (NPS-UDC), and through the recent confirmation of a Housing Accord with the Minister for Building and Construction. The NPS-UDC will require Council to ensure enough zoned land is available to meet demand as our population grows.
20. **Even without access to the HIF, Council will need to fund future growth cells as part of the next Long Term Plan (LTP) to accommodate anticipated future population growth.** This is standard business for Council where Council has previously funded lead strategic infrastructure to facilitate urban development via the opening of new growth cells (such as in Rototuna).

The HCC HIF application is for \$273 million

21. A **non-binding** HIF proposal is recommended for \$273 million (2017 dollars) for road, water, waste water and stormwater infrastructure for Peacocke and Rotokauri growth areas. Approximately \$182 million is for Peacockes, and \$91 million is for Rotokauri. The proposal consists of three business cases – a joint Peacockes and Rotokauri business case, a business case just for Peacockes, and a business case just for Rotokauri.
22. The previous Council confirmed its participation in the HIF process by endorsing the preparation of an indicative HIF proposal on 25 August 2016.
23. Council submitted an indicative HIF proposal on 2 December 2016 seeking \$240 million (2015 dollars, before inflation, New Zealand Transport Agency (NZTA) subsidy or existing LTP allocations) to fund growth infrastructure in the Peacockes and Rotokauri growth cells.
24. The HIF eligibility criteria specifies that lead in growth strategic infrastructure necessary to enable urban development can only be sought through the HIF process.

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25. Feedback on Council's proposal was received from MBIE on 22 December 2016 and Council was confirmed as being eligible to progress to the final round of the HIF process.
26. A proposal in the form of three indicative business cases has been prepared in accordance with MBIE tender requirements (Attachment 6-8).
27. The proposal seeks funding for a bridge, associated arterial road and water and waste water infrastructure for Peacockes, and a floodway and an arterial road network for Rotokauri.
28. Significant additional consequential capital expenditure for local infrastructure for both growth cells would also be likely required over the full (approximate 20 year) development timeframe estimated to be \$480million (Rotokauri \$80m, Peacocke \$400m). These are **not included** in the HIF proposal.
29. Future estimated operational costs of \$300,000 per annum per growth cell for the HIF funded infrastructure are also **excluded** in the HIF proposal.
30. Further, the HIF proposal does not cover any community infrastructure (such as land for reserves, sports fields, playgrounds, public toilets), and these infrastructure elements and costs for each growth cell will be significant, but are unknown at this time.
31. These important infrastructure elements for each growth cell would need to be factored in as part of the next LTP.
32. Indicative business cases prepared in support of each proposal (as required by MBIE) demonstrate a positive benefit/cost ratio (BCR) of approximately 19 for both Peacockes and Rotokauri over a 30 year period. This means that for every \$1 of funding received under HIF, a wider economic return to the city of approximately \$19 could be achieved.
33. A benefit-cost ratio is one way to summarize the overall value for money of a project or proposal on an economic basis. A BCR is the ratio of the benefits of a project or proposal. The higher the BCR the better the investment from an economic perspective.

Council should stay involved in the HIF process

34. The HIF represents a good opportunity for Council to secure advanced funding for important growth infrastructure.
35. The primary benefit to Council and the City of a successful HIF application is that it would bring forward major growth infrastructure to enable new housing construction in two greenfield cells in Hamilton when compared to current Long Term Plan (LTP) settings, funded by interest free loans from the government for a maximum of 10 years.
36. This advanced HIF funding would also create new greenfield land supply and is vital for Hamilton meeting its future National Policy Statement – Urban Development Capacity (NPS-UDC) obligations for residential supply.
37. The HIF presents a formal (yet **non-binding**) mechanism by which Council can directly engage with central Government on addressing growth funding and housing delivery issues through a partnership approach.
38. Even so, there is a degree of uncertainty around the HIF allocation process in terms of refining key information, understanding full financial impacts and economic benefits, mitigating risks and in terms of what form any financial assistance to Council may take.
39. Given the length of time associated with the full HIF process (through to early 2018), Council has an opportunity to assess and model HIF related impacts concurrently during the development of the next LTP, and recommend to government alternatives that would reduce the impact on Council's financial strategy.
40. For these reasons, and noting that submitting a proposal **does not bind** Council to any future commitments, and that irrespective of the HIF framework the challenge of funding growth related infrastructure remains, there is merit in staying involved in the HIF process until its conclusion.

HIF benefits accrue to Hamilton as a whole, while costs are born by Council.

41. MBIE have established the tender parameters, assessment criteria and minimum requirements for eligibility for HIF funding assistance.

42. The primary analytical tool set out in the tender process is for eligible councils to undertake indicative business cases to determine benefit cost ratios (BCR) based on existing processes designed and used by NZTA and Treasury. This analysis must be undertaken for Council to apply for HIF funding.
43. The indicative business cases reveal extremely favourable BCR's for both Peacockes and Rotokauri, indicating a positive economic return to Hamilton and the sub-region if HIF funding was received.
44. Despite this economic return, there are a number of risks associated with the HIF process, especially in terms of impacts on Council's financial strategy.
45. Even though the BCR's for both Peacockes and Rotokauri are high and represent a potentially good return on investment, it is important to note that these benefits accrue to Hamilton as a whole and the wider sub-region as opposed to just Council over a 30 year period.
46. The main cost impact associated with the current HIF structure and any potential allocation is a likely breach of our existing Financial Strategy, especially debt to revenue ratios, and the need for increased revenue to fund the capital expenditure programme required to open the new growth cells.
47. Ultimately, any decision made by Council will need to balance and evaluate the differing financial parameters associated with funding growth, with or without the HIF. That is, understanding that receiving a HIF allocation is a short term, interest free loan, to be repaid by Council, after a 10 year period where wider benefits for an investment into growth infrastructure accrue to Hamilton as a whole over a longer time scale.

Which option is better?

48. The best option under the MBIE process can only be determined by a benefit cost ratio. Even so, from Council's perspective there are other considerations to determine which option is best.
49. From a benefit cost ratio perspective, all three options are very similar.
50. From a housing delivery perspective, a combined HIF option advancing both Rotokauri and Peacocke growth cells yields more dwellings, while Peacocke by itself delivers more dwellings than Rotokauri.
51. From a Council debt and financial strategy perspective, Rotokauri is more affordable under current LTP parameters.
52. From a Hamilton Urban Growth Strategy perspective, Rotokauri Stage 1 is planned to be developed ahead of Peacockes.

There are options available – HIF is a long process that needs to be considered in tandem with the next LTP

53. Despite these potential benefits, there are a number of risks to Council in receiving the HIF allocation being sought.
54. These risks have been identified through standard Council risk management processes and appropriate caveats to mitigate these risks have been included in our funding proposal.
55. Primary risks identified include financial, delivery, development commitment and information certainty risks.
56. Due to the compressed timeframe imposed by MBIE, some aspects of the analysis informing our understanding of costs, benefits, and impacts on the Council's finances arising from the final proposal are likely to alter through more detailed investigations in the next phase of the HIF process.
57. Despite these risks, Council should continue to participate in the HIF process as our final **submission is non-binding and Council can withdraw from the HIF process at any time. Ongoing participation in the HIF process will not result in any immediate impacts on our debt profile nor have any rates implications.**

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58. Staying involved in the HIF process enables Council to continue to be formally engaged with MBIE and government ministers exploring alternative financial and delivery arrangements which have the potential to reduce the risks that exist under the current HIF structure including alternative options, such as:
- Crown Owned Special Purpose Vehicle;
 - CCO of Council funded by the Crown on a non-recourse basis to Council (risk sits with Crown);
 - A Crown-funded entity similar to the Crown Fibre Holdings model used for the broadband fibre rollout;
 - Extended repayment periods beyond 10 years to match the actual timing of new dwellings being constructed;
 - A FAR offset model where debt is off balance sheet;
 - Government suspensory loan with debt waived as development expectations achieved.
59. If submitted, a decision on Council's HIF proposal will be made by MBIE before the end of June 2017.
- 60. There are a number of additional decision making opportunities for Council before any final acceptance of a funding allocation under HIF needs to be made.** We are currently at stage two of a five stage process.
61. If the current HIF application is accepted by the Government (by June 2017), Council will have until December 2017 to finalise detailed business cases that are required to be completed before any funding can be allocated to Council. At the same time, Council will be required to consult the community on any application to the HIF, given the scale of the change to the current LTP.
62. During this next phase, Council will have sufficient time to complete substantially detailed and robust investigations on the financial and commercial aspects of any HIF allocation, and to better understand, and further mitigate, risks associated with the HIF, including any implications throughout the development of the 2018-2028 LTP.
63. As such, any final decision by Council to accept any HIF allocation can only be made as part of integrating potential HIF impacts during the wider LTP planning process, and after receiving and considering public submissions.
64. The final stage of the process would be for Council to approve a final agreement with the government, expected to be early 2018.
65. Staff will report back to Council on the outcome of MBIE's evaluation and on the next phases of the HIF process later in the year.

Recommendation from Management

That Council:

- a) receives the report;
- b) approves the submission of a **non-binding** application to the Housing Infrastructure Fund, including approving three business cases, to advance lead strategic infrastructure funding for the Peacocke and Rotokauri growth cells subject to the caveats and alternative funding proposals outlined in this report;
- c) notes that the three business cases will seek Housing Infrastructure Funding as follows:
 - (i) Rotokauri application \$ 91m (net HIF funding)
 - (ii) Peacocke application \$182m (net HIF funding)
 - (iii) Combined Rotokauri and Peacocke application \$273m (net HIF funding)

noting that these applications to the Housing Infrastructure Fund are based on 2017 dollars and are net of assumed NZTA subsidy of \$123m, net of assumed 2015-25 funding allocation of \$30m and exclude inflation;
- d) delegates to the Chief Executive authority to refine and edit the three business cases subject to the parameters outlined in this report, up to formal submission on 31 March 2017;
- e) delegate to the Mayor authority to sign all tender documentation associated with the proposal for formal submission to the Ministry of Business Innovation and Employment (MBIE);
- f) delegates to the Chief Executive authority to conduct any necessary **non-binding** commercial negotiations with government representatives consistent with the HIF proposal submitted to MBIE, including progressing the alternative proposals;
- g) notes that Council will have further opportunities to consider information on the HIF application and its implications for the 2018-28 Long Term Plan.

66. Attachments

67. Attachment 1 - Housing Infrastructure Fund Proposal Rotokauri Residential Growth: Business Case Overview
68. Attachment 2 - Housing Infrastructure Fund Proposal Peacocke Residential Growth: Business Case Overview
69. Attachment 3 - Housing Infrastructure Fund Proposal Rotokauri and Peacocke Combined Residential Growth: Business Case Overview
70. Attachment 4 - Capital expenditure associated with the HIF Bid
71. Attachment 5 - Impact on the debt to revenue ratio as a result of the HIF bid
72. Attachment 6 - Government's Housing Infrastructure Fund - Indicative Proposal - Rotokauri **(Under Separate Cover)**
73. Attachment 7 - Government's Housing Infrastructure Fund - Indicative Proposal - Peacocke **(Under Separate Cover)**
74. Attachment 8 - Government's Housing Infrastructure Fund - Indicative Proposal - Rotokauri and Peacocke combined **(Under Separate Cover)**

75. **Part 2 – Recent growth challenges and initiatives impacting Council**

76. Introduction

77. Many New Zealand cities and regions have recently experienced accelerated rates of urban growth and house price rises.
78. This growth has also put pressure on infrastructure delivery to ensure there is an adequate supply of serviced land to moderate the rate of house price inflation.
79. Addressing these issues has been a focus of central government policy initiatives since 2012. In summary, the range of policy interventions enacted by Central Government include:
- The Housing Accord and Special Housing Areas Act (allowing for the creation of Special Housing Areas);
 - Reforms to the Resource Management Act to streamline plan making and consenting functions;
 - Investigations by the Productivity Commission into how housing and urban development markets function to better understand the dynamics of housing affordability;
 - The creation of the National Policy Statement on Urban Development Capacity to require Councils in high growth areas to always ensure there is enough feasible, zoned and serviced land for residential and employment uses;
 - The creation of the Housing Infrastructure Fund;
 - Investigating the formation of Urban Development Authorities
80. Throughout these reforms, the local government sector has been in close dialogue with central government around infrastructure affordability and the extent to which the current regulatory frameworks assist in expediting growth.
81. The creation of the HIF is one policy initiative by Central Government that acknowledges it needs to do more to work in partnership with local government by assisting in the financing of growth infrastructure to accelerate housing delivery.

82. Why is funding infrastructure important?

83. One of the biggest challenges facing local government is the timely funding and delivery of infrastructure needed to support urban development.
84. This challenge also applies to Hamilton where we have zoned and structured planned most of the urban areas of the City, but under current LTP settings, are unable to fund all of these areas to unlock their full growth potential.
85. The challenge of ensuring that an adequate land supply is maintained has been re-enforced by the release of the National Policy Statement on Urban Development Capacity (NPS-UDC) by Government requiring Council to ensure there is enough feasible, zoned and serviced land for residential and employment uses.
86. The NPS UDC is requiring Council to have a sufficient supply of development capacity to meet the demand in the short (1-3 years), medium (10 years) and long term (30 years).
87. A comprehensive report outlining Council's residential supply and related growth challenges under the new NPS UDC was tabled on [30 August 2016](#).
88. In that report it was outlined how Council has invested sufficiently in zoning and strategic infrastructure to enable developer ready land to be brought to the market in the short and medium term to meet the growth requirements for new dwellings.
89. For the short to medium term 10 year period this means that the Hamilton Urban Area must have development capacity of 20% over the Statistics NZ medium projections to take account of the likelihood of higher than anticipated growth and that not all capacity will be developed in to sections.
90. When applying the 20% contingency this equates to 11,638 dwellings over the remaining 9 years of the 2015-25 10-Year Plan or 1,293 dwellings per year. **These dwelling estimates were revised upwards subsequent to the report presented on 30 August 2016 to reflect the latest growth trends to reflect forecasting changes made by Statistics NZ in December 2016.**

91. Council investment to date meant at the time of that report there was 4 years of greenfield development capacity remaining. Council has approved budget investments in the 2015-25 LTP to add a further 7 years of developer ready land in greenfield areas by 2025. **Given the recent revision in growth projections, the remaining development capacity will be less than these numbers.**
92. In addition, the August 2016 report found that there is also 16 years of developer ready land in infill areas (supported by the capital investments approved in the existing 2015-25 LTP).
93. Council has invested in the priority growth cells (Rototuna, Peacockes Stage 1, Rotokauri Stage 1 Industrial) taking a just in time investment approach to make efficient use of previous infrastructure investments. Further, Council has invested in land use (zoning) and infrastructure planning for the next priority growth cells (Rotokauri Stage 1 residential, Peacockes Stage 2) and worked with developers wishing to develop in advance of Councils infrastructure timing.
94. The demands of the NPS-UDC mean that significant lead strategic infrastructure funding decisions are likely to be required for Rotokauri stage 1 and Peacockes Stage 2 during the preparation of the next LTP to ensure enough residential land can continue to be brought on line to accommodate anticipated future growth in Hamilton.
95. These funding decisions will need to be made, irrespective of whether or not Council participates in the HIF process.
96. Funding infrastructure to enable the development of future growth cells is a core business for Council.
97. Past funding decisions by previous Council administrations enabled the opening of and development of new growth cells across the City, including Rototuna, Western Heights and parts of Ruakura and Peacockes.
98. Accordingly, any future decision to fund undeveloped areas of Hamilton is consistent with the City building function and responsibilities that sit with Council.
99. The risks of not funding new growth cells that have been identified in the Hamilton Urban Growth Strategy, and structure planned and zoned through the Partly Operative District Plan, in a timely and strategic way, include:
 - potential increases in house prices through limited supply of dwellings to meet demand;
 - reduced economic growth resulting from a potential erosion of Hamilton's competitive advantages in the availability and affordability of residential land for dwellings;
 - the loss of control around the pace and scale of urban growth resulting from having to address unforeseen plan changes and any consequential litigation arising from these processes;
 - private developer provided infrastructure that does not provide capacity beyond that of the individual development, subsequently vested in Council and potentially costing more to the city in the longer term to operate and maintain.

100. Part 3 – the Housing Infrastructure Fund

101. Background
102. On 3 July 2016 the Government announced a new \$1 billion HIF for local government. The fund is available to areas that are classified as "high-growth" under the National Policy Statement on Urban Development Capacity (NPS-UDC), which includes Hamilton.
103. The outcome sought by the government via the fund is to increase the pace at which housing supply is made available and to increase housing yield beyond what is otherwise planned.
104. The HIF is a one-off contestable interim fund to bring forward the transportation, water and other strategic infrastructure required for new housing.
105. The previous Council resolved on 25 August 2016 to prepare and submit an indicative proposal to the HIF based on advancing the Peacockes growth cell.

106. Council submitted its indicative proposal to the Ministry of Business Innovation and Employment (MBIE) on 2 December 2016. A copy of the indicative proposal was tabled at the Growth and Infrastructure Committee meeting held on 14 February 2017.
107. The total funding sought in the indicative proposal was \$240 million for lead strategic infrastructure (2015 dollars before inflation and net of NZTA subsidy and LTP funding) for transport and three waters infrastructure in the Peacockes and Rotokauri areas.
108. These areas were selected as they have been identified as strategic growth areas under the Hamilton Urban Growth Strategy and are structure planned and zoned and have, in some instances, infrastructure corridors or features consented and / or designated.
109. Further, these areas provide the best opportunity to unlock significant housing development to satisfy the key criteria associated with the HIF assessment framework, and were also areas of the City where key landowners and developers were able to provide written support to actually construct new housing should HIF funding be secured.
110. What problem is HIF is trying to solve?
111. The HIF was established to accelerate housing supply in growth Councils over and above business as usual settings under existing LTP funding arrangements.
112. Previous investigations by the Productivity Commission in to land and housing markets have indicated that supply side zoning measures on their own may not be sufficient to ensure houses can be delivered in a timely way, and that adequate and timely funding for new growth infrastructure is a key issue that growth council's need assistance.
113. The creation of the HIF is a tacit acknowledgement by Government that a partnership is required to assist local authorities in the urban development process to ensure housing markets function efficiently and timely as possible. Specifically the HIF was developed to mitigate the financial barriers for councils to fund lead strategic infrastructure development necessary for urban growth.
114. The HIF is only one tool to assist with addressing the growth issues facing Council.

115. Overview of the HIF process

116. The HIF process has been structured by MBIE as a standard commercial tender.
117. All tender timeframes, requirements and conditions have been issued by MBIE and these tender parameters have defined the deliverables that Council staff has been working towards completing and are the subject of this report.
118. The tender requirements stipulate that each participating Council must submit indicative business cases in accordance with the NZTA business case model, along with a summary table, before the final tender submission date of 31 March 2017.
119. Council has complied with these tender requirements, and the findings of the business cases are documented in this report.

120. Benefits of the Housing Infrastructure Fund

121. The HIF process represents a unique opportunity for Council to obtain one off advance funding for growth related infrastructure when compared to existing LTP funding arrangements.
122. The benefits of this advance funding largely accrue to Hamilton and the sub-region as a whole from additional housing and new urban growth.
123. The direct costs of any funding allocation would be carried primarily by Council, with the biggest cost being a potential breach in our Financial Strategy, depending on any financial mitigation that could be deployed throughout the development of the next LTP.
124. From a purely financial perspective the HIF is an interest free loan to Council over a 10 year period.
125. The interest free component of the HIF will to generate significant interest savings when compared to normal banking/financial arrangements for a similar amount of money that would be allocated under normal LTP settings.

126. The funding received under the HIF would create the potential for Council to;
- stimulate new greenfield housing development,
 - facilitate more housing choice in terms of greenfield options,
 - enable future economic and population growth, and
 - bring forward the economic benefits of infrastructure investment where those benefits could be realized over a longer time period.
127. Further, any HIF allocation would assist Council satisfying its NPS-UDC obligations relating to residential land supply.
128. The HIF opportunity also enables Council to work towards achieving some Hamilton Plan community outcomes - namely the goals of becoming New Zealand's third city economy, providing outstanding infrastructure, and access to affordable housing.
129. The Government acknowledges there is problem with growth funding and is interested in working in partnership with local government in resolving ongoing infrastructure funding issues in New Zealand. Staying involved in the HIF process enables Council to continue to be at the forefront of working to solve these issues.

130. Overview of the final proposal documents

131. The final proposal being submitted to MBIE (in accordance with their tender requirements) consists of the following three elements:
- One indicative business case and summary table for funding infrastructure in the Peacockes and Rotokauri growth cells (that is, a combined case);
 - One indicative business case and summary table for funding infrastructure in Peacockes only;
 - One indicative business case and summary table for funding infrastructure in Rotokauri only.
132. A summary of each business case was ready at the completion of this report and has been included as Attachments 1 – 3.
133. Each indicative business case prepared must follow the NZTA standard business case approach.
134. A business case is a standard appraisal methodology established by Government to assist decision making for large scale procurement and funding projects that have a value greater than \$10 million. It is typically used by a number of agencies (such as NZTA, MBIE, DHB's, Defence) for significant projects to understand not only accounting and financial costs but the wider economic costs and benefits arising from investment.
135. HCC also has its own business case methodology to understand investment and procurement value prior to committing funding of large capital projects, which is similar to the NZTA approach.
136. The indicative business cases prepared as part of our tender submission address five distinct elements of decision making. These include strategic, economic, financial, commercial and management aspects. Each business case looks at the potential impacts of the HIF allocation when compared to the status quo (that is, current LTP settings) to understand if the potential investment and financial allocation made by Government represents value for money. Broadly, each element of the business cases prepared for our HIF submission address the following areas:
- The strategic case examines if the investment is optimised against the strategic business needs and existing arrangements of Council;
 - The economic elements examine the investment options from a purely wider economic benefits perspective beyond the investment needs of the organisation;
 - Financial and commercial elements help to determine the feasibility of the investment and the Management case outlines how the project will be delivered and managed in a practical sense.
137. For the HIF process MBIE have made it clear that a high degree of detail was expected for the Economic and Strategic elements of the each business case, and our business case preparation

has ensured this is the case. Greater detail on the financial and commercial elements will be required in the next stage of the process. Further, MBIE also require additional, specific HIF criteria related to be addressed in the business cases to demonstrate if a return on investment to Government can be achieved.

138. Benefit cost ratio results

139. The combined output of the business cases is what is referred to as Benefit Cost Ratio (BCR).
140. A BCR is a proxy that enables investment decision makers to determine whether an investment represents value for money across broad economic measures and enables a standard way to assess tenders by MBIE.
141. The higher the BCR, the better the investment from a wider societal and economic perspective. Our analysis indicate that the benefits of any HIF investment accrue to Hamilton as a whole but the costs are born by Council in terms of debt impacts. In summary, the BCR results indicate:
- A BCR for Rotokauri Stage 1 of 18.91
 - A BCR for Peacocke Stage 2 of 18.80
 - For both scenarios (that is, a combination of both), a BCR of 18.83.
142. For each option, the BCR's reveal that large one off capital investments represent the bulk of the costs (e.g., a floodway in Rotokauri and a bridge for Peacockes). The benefits are largely derived from the economic activity generated by housing construction and subsequent household expenditure. There are also transport benefits network wide.
143. These transport benefits have been noted by NZTA during the formation of our final HIF proposal where NZTA have confirmed Point of Entry status for Peacocke and Rotokauri transport elements. This is significant and indicates clearly that our projects are strongly endorsed by the NZTA as being projects worthy of NZTA funding assistance.
144. Despite the above, the benefits that would accrue to Council in terms of rates revenue and development contributions are less substantive.
145. The BCR numbers indicate that for every \$1 invested an economic return of approximately \$19 could be anticipated over a 30 year period. Anything over a BCR of 1 indicates that an investment can be considered on an economic basis.

146. Housing delivery results

147. For Rotokauri HIF single proposal, the programme of works outlined in the HIF proposal will accelerate growth in the development of Stage 1 of Rotokauri, which will yield 1,610 dwellings within 10 years and 2,787 dwellings within 30 years. The 1,610 dwellings built in Rotokauri within 10 years will meet 13% of the projected future demand for housing in Hamilton in 2025.
148. For Peacocke the HIF single proposal programme of works will accelerate growth which will yield 3,153 dwellings within 10 years and 8,103 dwellings within 30 years. This will provide 26% of projected future housing demand in Hamilton by 2025.
149. A status quo scenario under existing LTP settings for Rotokauri and Peacocke would deliver 1440 dwellings over 10 years which is 13% of projected future demand for dwellings in 2025.
150. Under the combined HIF proposal for both Peacockes and Rotokauri, approximately 4,700 dwellings will be built within 10 years which represent 39% of new housing demand.
151. In addition, the average infrastructure spend per dwelling built in both growth cells is estimated to be approximately \$58,780 within 10 years, and approximately \$25,700 within 30 years. These figures do not represent indicative development contributions, and are just aggregated costs divided by dwelling yields across both growth cells.
152. The best option in terms of accelerating future housing delivery to accommodate anticipated population growth is to fund both proposals.
153. The next best option, in terms of meeting the demand for dwellings is Peacockes as HIF funding essentially opens up the whole growth cell, whereas Rotokauri funding only opens Stage 1 and delivers a smaller yield.

154. Non-financial risks

- 155. Non-financial risks associated with the HIF are identified in the table below with proposed bid mitigations.
- 156. These mitigations will be included as HIF conditional acceptance conditions for Council.

<i>Non-financial risk</i>	<i>Proposed mitigation / acceptance condition</i>
Securing developer commitment and resultant housing construction	Proposal submitted on the basis that final funding is subject to an agreed Private Developer Agreement (PDA) between Council and development partners addressing the following: <ul style="list-style-type: none"> • Confirmation of clear housing construction targets, • contributions are known, • caveats and appropriate payment clauses are included to allow for any substantial downturn in economic circumstances, • Letters of Intent to be provided by development partners.
Aligning HIF allocation with Local Government Act (LGA) and Land Transport Management Act (LTMA) processes	Final proposal submitted on the basis that it is subject to consultation with the community over the priority of advancing other capital projects in the LTP, including any consequential impact on debt and rates. Final proposal submitted on the basis that any changes to the Regional Land Transport Plan need to occur before funding is received.
Delivery risk	Creation of a new standalone HIF delivery team within Council and the formation of tailored industry best practice contractual and delivery arrangements.
Information	Due to the compressed timeframe imposed by MBIE, some aspects of the analysis informing our understanding of costs, benefits, and impacts on the Council’s finances arising from the final proposal are likely to alter through more detailed investigations in the next phase of the HIF process. Mitigated through the additional time and investigation phase of the next stage of the HIF process.

157. Financial risks

- 158. While there are financial benefits from receiving a HIF allocation (primarily in terms of interest payments saved from the fact the HIF would be interest free), there are potential issues with how any HIF allocation may impact Council’s current Financial Strategy.
- 159. The specific issue arising from receiving any HIF allocation relates to how any HIF debt will be treated both on the balance sheet and in terms of financial debt ratios, the level of increased revenue received by Council, the repayment arrangements and future commitments (especially for the transport activity) and how development contributions will be levied.
- 160. Any funds advanced under the HIF will be repaid through a combination of development contributions, private developer agreements, rates and refinancing to debt raised through current funding mechanisms (predominantly via the Local Government Funding Agency).
- 161. The table below includes the main financial risks and the proposed mitigation/bid acceptance conditions relating to them, which will be included in the final bid documentation:

<i>Financial risk</i>	<i>Proposed mitigation / acceptance condition</i>
Contingency costing	Project costs to be reviewed every 3 years to enable project updates for better project information (e.g. design, geotechnical conditions, inflation assumptions, changes in land value).
Lack of consequential and necessary infrastructure funding	The HIF proposal does not include any allowance for consequential upside and operating expenditure for local infrastructure, no ongoing operating expenditure, and no allowance for community

	infrastructure. Mitigation measures include the use of alternative funding arrangements, changes to service delivery and / or increased revenue as part of any future LTP considerations.
Financial reporting of HIF in Council accounts	Bid acceptance conditional on final accounting treatment of HIF fund to be agreed by all local sector stakeholders. Currently, there are different views on accounting treatment from the Local Government Funding Agency, credit rating agencies, NZTA and the Office of the Auditor General.
Development Contribution (DC) funding uncertainty	Final bid acceptance based on receiving confirmation that DC's can be legally collected under the HIF structure.
Impacts on financial strategy	HIF allocation would potentially result in a breach of the financial strategy with regard to debt to revenue ratios. Mitigation measures include the use of alternative funding arrangements, changes to service delivery and/or increased revenue.

162. In terms of the development contribution (DC) modeling undertaken at this stage of the HIF process it is worth noting there were significant limitations on understanding future cash flows from expected new urban development. Nevertheless, an estimate of increased DC revenue is included in the business case and there is a high level of risk associated with this assumption. This risk will be managed through the detailed business case preparation, LTP development, DC modelling and private development agreements.

163. Impacts on current Financial Strategy

164. A summary of the financial amounts included in the HIF application is as follows:

Peacocke	Total 2017 Dollars
Gross Capital Spend for HIF Capital Expenditure	\$272m
NZTA Subsidy Assumed	(\$90m)
Existing 2015-25 LTP Budget	(\$0)
HIF Application	\$182m

Rotokauri	Total 2017 Dollars
Gross Capital Spend for HIF Capital Expenditure	\$154m
NZTA Subsidy Assumed	(\$33m)
Existing 2015-25 LTP Budget	(\$30m)
HIF Application	\$91m

Combined Peacocke and Rotokauri	Total 2017 Dollars
Gross Capital Spend for HIF Capital Expenditure	\$426m
NZTA Subsidy Assumed	(\$123m)
Existing 2015-25 LTP Budget	(\$30m)
HIF Application	\$273m

165. Staff analysis indicates that the current proposal under the existing HIF structure would result in a substantial impact on the debt profile and financial strategy for Council.
166. Attachment 4 to this report indicates the analysis done to date of impacts arising from any HIF allocation on capital expenditure.
167. Attachment 5 also indicates the analysis done to date of impacts arising from any HIF allocation on our debt to revenue profile which is a core part of the current Financial Strategy.
168. The assumptions behind this analysis are also included in the attached graphs.
169. In summary, Rotokauri on its own has less impact on the financial strategy with respect to debt to revenue profile.

170. Even so, it is worth noting that that these assessment are based on existing LTP and annual plan settings and do not reflect any of the matters to be considered as part of the 2018-28 LTP (e.g. additional revenue, levels in service changes in and timing around expenditure or new services, such as Founders Theatre).
171. If HIF debt exceeds Council's existing debt to revenue ratio policy, and assuming rates remain as projected in the LTP, Council will exceed financial covenants and limits imposed by the Local Government Funding Agency and the Local Government (Financial Reporting and Prudence) Regulations 2014 (2014 Regulations).
172. The Local Government Funding Agency (LGFA) has formally advised Council that if it breaches the financial covenants applicable to Council in the LGFA documents, then it is likely that Council would be required to repay all debt owed to LGFA. The impact of exceeding the debt-to-revenue ratio could see a downgrading of the Hamilton City Council's credit rating and an associated increase in borrowing costs. This cost increase would affect not only any new debt, but also the cost of any debt that was refinanced.
173. While the LGFA debt could well be refinanced by Council, it will inevitably come at a higher cost.
174. To maintain a prudent Financial Strategy, under a successful HIF bid Council will need to consider balancing, reducing or delaying all forms of expenditure, raise additional revenue or alter maximum debt ratios.
175. The key financial ratios for Hamilton City Council show that the organisation (in providing for its community and growth) is already at the high end for debt. Bringing the identified package of works for Peacockes and Rotokauri forward from the HIF will change this debt profile.
176. This situation is exacerbated because Council would need to bring these projects forward in order to satisfy our obligations for land supply under the NPS-UDC.
177. Progressing discussions with MBIE on alternative funding structures to fund lead strategic infrastructure instead of the current HIF model could result in financial solutions to mitigate this risk.

178. Financial treatment of projects relating to water supply, wastewater and stormwater

179. The HIF proposal as it currently stands indicates that any allocation would be treated as subordinated debt (repaid after other debt) repayable within 10 years.
180. Council and the Local Government Funding Agency (LGFA) and the rating agencies look at total debt and do not differentiate between classes of debt.

181. Future HIF Repayment (Transport)

182. The HIF proposal is that the projects would be funded by NZTA as subsidised projects at HCC's current Funding Assistance Rate (FAR) of 51%. In the future, HCC's repayment obligation to government will be equal to the total value of the HIF application less any subsidy approved by NZTA. The repayment mechanism would be via NZTA subsidy on future subsidized works from future years until the total foregone subsidy is equal to the HIF.
183. There are differing views as to whether any HIF funding would be treated as a debt in Council's books and therefore retain the existing debt issues. Nonetheless, a future reduction in FAR subsidy will need to be reflected in Council's books.
184. Of concern under this arrangement is that Council may not receive enough FAR subsidy in 10 years to offset the initial receipt
185. There is also uncertainty as to whether this funding structure provides a lawful mechanism to levy development contributions.

186. Alternative funding proposals

187. Over the last six months discussions among high growth councils have been progressing concepts of alternative financial arrangements and structures that would allow accelerated delivery of waters and transport infrastructure for new housing development without undue impact on balance sheets.
188. A range of different options have been considered, with the preferred outcome revolving around the creation of a Crown-owned Special Purpose Vehicle (SPV). As part of the process, engagement occurred with Treasury and other Government officials.
189. In summary, a SPV would result in new infrastructure constructed and managed by a crown entity with Council effectively buying shares in the entity, and thus, the infrastructure, as development rolled out in each of growth cells over time.
190. HCC staff see merit in the SPV proposal and it is a viable financial delivery alternative that senior staff will continue to explore with MBIE officials throughout the HIF process.
191. If the HIF fund is established on a basis consistent with the SPV concept then it has the ability to transform HCC's financial situation. Unfortunately, in its current format it is likely to compound them.
192. Other alternative funding proposals worthy of consideration, and which will be put forward in our final proposal include the following:
- The Crown debt funding a CCO of Council on a non-recourse basis to Council, and the CCO owning the infrastructure assets that enable the HIF goals to be achieved (other than roads that would ordinarily vest in the Crown). The debt would be repaid with development contributions, payments from developers and rates, but the Crown would take the risk that timing of those payments was not sufficient to repay the debt at the end of the 10 year period. The debt and assets could be brought onto Council's balance sheet if financial ratios could be met on a pro forma basis. The debt of the CCO would need to be excluded from the LGFA financial covenants;
 - A Crown equity funding a vehicle that is owned by either the Crown or Council and otherwise on the same terms as above. The repayment mechanism would be akin to the government's Crown Fibre Holdings model, which would mean that government would take the risk that housing sales did not meet expectations and therefore funding was not available to purchase all of the government's shares.
 - A combination of the two options above, that permits private funding and allows charges for use of the relevant assets (e.g. toll roads/bridges or charges for availability).
 - All parties satisfying themselves that the FAR funding and offset is not accounted for as debt to Council. In addition, FAR eligible works (transport operating and maintenance, renewals, capital projects) for which the offset applies could occur as early as year 2 of the 10 year payback period. Council would debt fund these projects, undoing much of the benefit of the FAR funding from the perspective of Council's financial position and so some consideration of delaying these offsets until or beyond the end of the 10 year period should be considered.
 - Extended payment periods and cashflows tied to related cashflows being received by Council (e.g. developer contributions for sections sold in the growth cells being used to repay the government).
 - The creation of a suspensory loan whereby the Government loans Council the necessary funds and waives loan conditions if development expectations are realised.

193. Legal issues

194. Preliminary legal advice indicates that the Local Government Act (LGA) requires local authorities to manage their "revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community." (Section 101 LGA).

195. Local authorities are free to decide what this means. However, the Local Government (Financial Reporting and Prudence) Regulations 2014 (the 2014 Regulations) require reporting against various benchmarks; and failure to achieve these measures indicates to central government that the local authority may not be financially prudent. As a result, central government may exercise its powers of intervention contained in Part 10 of the LGA.
196. However, these regulations only require disclosure of Council's performance against these benchmarks - there are no direct (legal) consequences for breaching the benchmarks.
197. The Resource Management Act 1991 requires that district plans give effect to any national policy statement, in this case the NPS-UDC.
198. However, for the purposes of the HIF, there is no link between the NPS-UDC/District Plan and Council's operations. Therefore, Council's district plan could give effect to the NPS-UDC but not enable the growth to be carried out by not building infrastructure to those growth cells. While this leaves Council open to criticism, there does not appear to be a clear legal link between the two.
199. This is consistent with Council's current practice not to commit to expand its infrastructure network simply at the request of developers.
200. Accordingly, there is no conflict between the two pieces of legislation, and neither will be breached by HCC whether HCC chooses to participate in the HIF, or whether it does not.
201. However, there is a greater risk that the Crown will exercise its Part 10 rights if participation in the HIF causes breaches of the financial prudence benchmarks in the 2014 Regulations.

202. Proposed caveats/bid acceptance conditions

203. The terms and conditions included in the MBIE tender documentation do not prevent councils from withdrawing their proposals at any time up to the point that legally binding funding or loan agreements have been signed (expected to be early 2018).
204. Accordingly, while Council should take the process seriously, the Council will not be bound until formal legal agreements are signed.
205. While this is an important safeguard for Council, a list of caveats and bid acceptance conditions will be included in our HIF submission to MBIE that outlines and dimensions the key concepts around risk and alternatives identified in this report (such as financial and non-financial mitigation risks, and alternatives funding proposals).

206. Alternative proposal options

207. Alternative proposal options that were considered included making a single HIF submission for either just Rotokauri, or just Peacockes.
208. However, there is strategic merit in submitting a final, non-binding proposal for both areas. Importantly, Council's proposal seeking funding for both growth cells is non-binding.
209. Further, the benefit cost ratios results from the business cases indicate there is significant benefit in seeking funding for both projects as opposed to seeking funding for just one project.
210. Submitting a proposal that covers both Rotokauri and Peacocke leaves Council in a better negotiating position should HIF financial arrangements change, or for Council to make a final decision, if needed, on funding a single growth cell especially since the relationship between any HIF funding and how it can be integrated in the next LTP is not fully understood at this time.

211. Next steps in the HIF process

212. The HIF proposals will be evaluated from April 2017 and a final decision on funding is likely to be made by the end of June 2017.
213. If our proposal is successful, funding will be confirmed in principle and Council will need to develop detailed business cases before December 2017.
214. Final funding will only be released to Council once this work is completed and final agreements entered into, and would not be received until early 2018.

215. Conclusion

- 216. Considering and prioritizing the costs to Council and the community associated with opening new growth cells and providing lead strategic infrastructure is a significant decision.
- 217. Council will hold many discussions to debate the provision of infrastructure and funding of growth cells as part of the wider 2018-28 LTP deliberations. Council will also debate levels of service, community infrastructure provision and asset management plan recommendations during the LTP development process. Nonetheless, Council needs to investigate all options presented to it to meet the challenges and opportunities associated with supporting growth and the provision of land for dwellings supported by lead strategic infrastructure.
- 218. The submission of a proposal to HIF **does not bind** Council to any future commitments, and irrespective of the HIF framework the challenge of funding growth related infrastructure remains. As a consequence there is merit in staying involved in the process until its conclusion and continue discussions with the government on new partnership models to fund growth infrastructure.
- 219. Ultimately, any decision made by Council will need to balance and evaluate the differing financial parameters associated with funding growth, with or without the HIF. That is, understanding that receiving a HIF allocation is a short term, interest free loan, to be repaid by Council, after a 10 year period where wider benefits for an investment into growth infrastructure accrue to Hamilton as a whole over a longer time scale.

Signatory

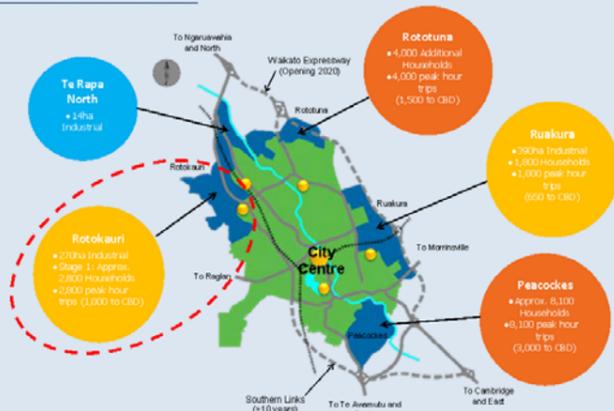
Authoriser	Kelvyn Eglinton, General Manager City Growth
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Problem: We need space and homes for a growing population.

We are heading to 250,000 people by 2045. Our community will need more homes to live in and strategic infrastructure to service them. Even with 50% infill we'll need access to large areas for greenfield development.

Rotokauri Stage 1 will accommodate 2,787 homes but needs transport and stormwater infrastructure. The strategic infrastructure needed to open up growth cells comes with large up-front costs. That puts significant financial pressures on Council and developers and constrains development.

Hamilton's Growth Cells:

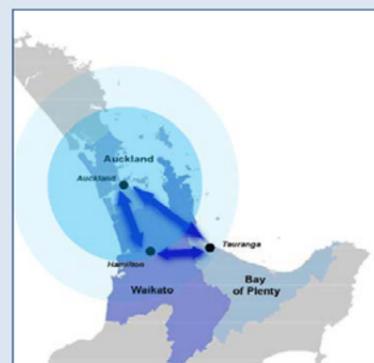


Hamilton's Projected Population and Dwellings Needed:



Strategic Context: Hamilton and Rotokauri: The right locations.

Hamilton is a young, strong and diverse economic node, part of the "Golden Triangle" of Auckland, Tauranga and Hamilton. Investment in Hamilton can leverage the HIF investment in conjunction with recent investment in the Waikato Expressway and the Ruakura and Horotiu inland ports and Innovation Park. Rotokauri forms part of the Northern Growth Corridor Agreement between NZTA, HCC and Waikato DC to integrate land use and infrastructure planning and make the most of collaborative investment.



Rotokauri is a key growth area zoned residential in the north-west of the city. Land is available but costly strategic connections for transport and stormwater have deterred developers. Integration of the Rotokauri Structure Plan with the Te Rapa Bypass provides efficient access to regional links and the Waikato Expressway, and local links to nearby commercial and industrial employment nodes.

Hamilton City Council Te kaunihera o Kirikiriroa **Rotokauri Residential Growth: Business Case Overview**
Housing Infrastructure Fund (HIF) Proposal - Rotokauri

Objectives: Room to grow, more dwellings and better choices.

Hamilton's objectives for investment in Rotokauri Stage 1 enabled by the HIF are to:

- Increase the amount of developer ready land:**
 - that supports Hamilton to be NZ's third city economy by 2025.
 - to support 11,638 dwellings by 2025.
 - to support the balance of the NPS-UDC dwelling requirements by 2045.

Support affordable housing by 2025 through allocation of developer ready land for infill, intensification and density increase.

Alternatives and Options:

Council considered strategic responses including doing nothing, delivery over 30 years in accordance with current plans and acceleration here and elsewhere.

Preferred Option:

Hamilton will work with NZ Government and NZ Transport Agency to invest \$154.2M over 8 years on gateway transport, water and stormwater systems to facilitate access to around 230 hectares of developable land and up to 2,800 new dwellings in the Rotokauri growth cell. The proposed transport system gives effect to key infrastructure in Hamilton's Northern Growth Corridor.

Outcomes and Benefits:

The Rotokauri Proposal will contribute to the business case objectives for early access for residential development and deliver over \$500M of additional economic benefits over 30 years. The road network is integrated with the Te Rapa section to leverage the benefits from HCC's and NZTA's joint investment in the Waikato Expressway. Infrastructure is bought forward by around 10 years. 75% of dwellings are put in place 9 years faster for HIF-assisted construction.

Year	Developable Land Area	Dwelling Yield	Affordable Housing
2025	Approx. 130 hectares	1,610 dwellings	Existing areas released
2045	Approx. 230 hectares	2,787 dwellings	Existing areas released

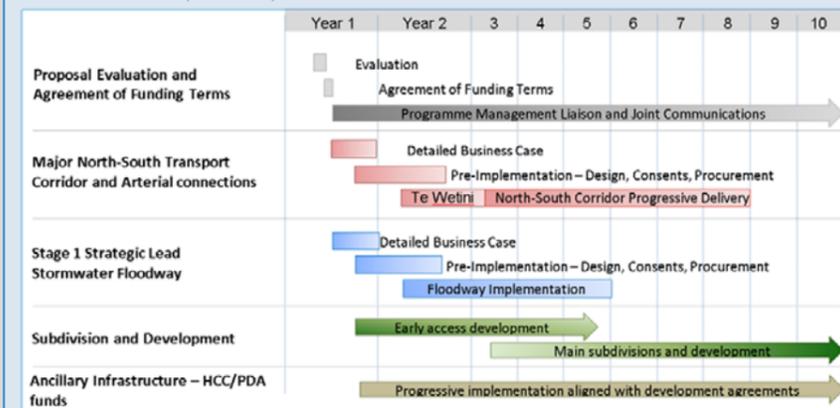
The proposal has a HIGH Strategic Fit, HIGH Effectiveness and HIGH Efficiency, with a BCR >5.

Next Steps:

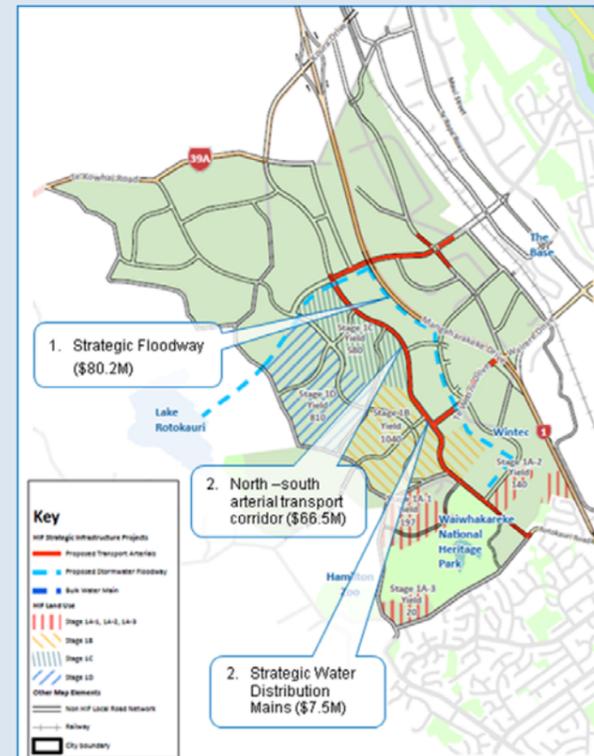
Funding agreement and detailed business case to optimise implementation.

Implementation: Careful procurement, collaborative delivery.

Both the road and stormwater proposals are at detailed business case stage. The land is zoned residential and the Catchment Management Plan is being finalised. The key infrastructure alignments are part of the Rotokauri Structure Plan. Preliminary designs are ready or under way. We propose procurement using traditional staged delivery for the infrastructure with price-quality evaluation to take opportunities for cost savings without losing opportunities for innovative construction techniques and specialist skills to add value and reduce risks.



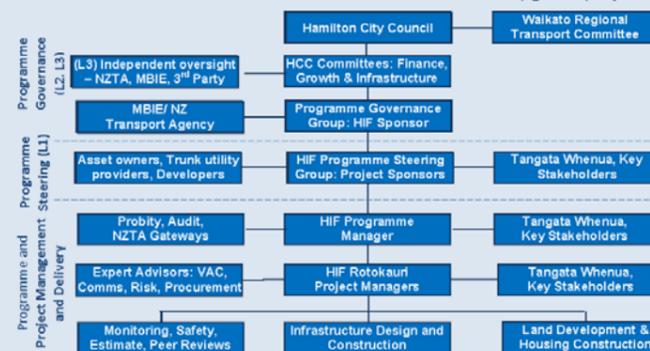
Proposal: Gateway Infrastructure for up to 2,787 households.



Strategic Infrastructure Element	Estimate (\$M, 2017)
Stage 1 Strategic lead stormwater floodway	\$80.2M
Major north-south transport corridor and network connections	\$66.5M
Strategic water distribution mains	\$7.5M
HIF Proposal - Rotokauri Project Total	\$154.2M
2015 10 Year Plan	\$29.8M
NZTA FAR	\$33.3M
HIF	\$91.2M

Governance and Management: Risks, opportunities and results.

We will collaborate with NZTA and NZ Government to minimise project risks, overcome barriers and ensure successful delivery. We have demonstrated our ability to deliver in the forward-funded Hamilton Ring Road and the W2 Hamilton Wastewater Treatment Plant upgrade projects.

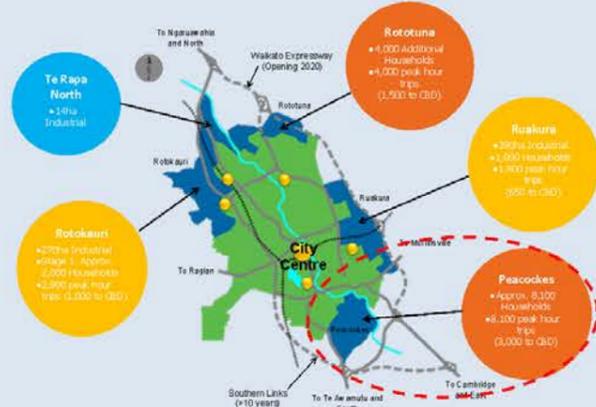


We have effective relationships with NZTA and developers. We will build on these relationships through comprehensive developer agreements to share risk and funding requirements. Working together with clear messages and direction we can assure the HIF benefits.

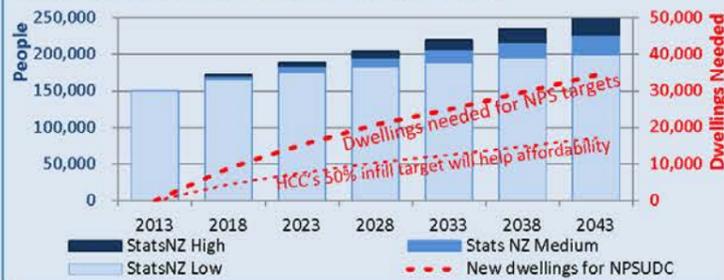
Problem: We need space and homes for a growing population. We are heading to 250,000 people by 2045. Our community will need more homes to live in and strategic infrastructure to service them. Even with 50% infill we'll need access to large areas for greenfield development.

Peacocke will accommodate 8,103 dwellings but needs access for transport and utilities. The strategic infrastructure needed to open up growth cells comes with large upfront costs. That puts significant financial pressures on Council and developers and constrains development.

Hamilton's Growth Cells:

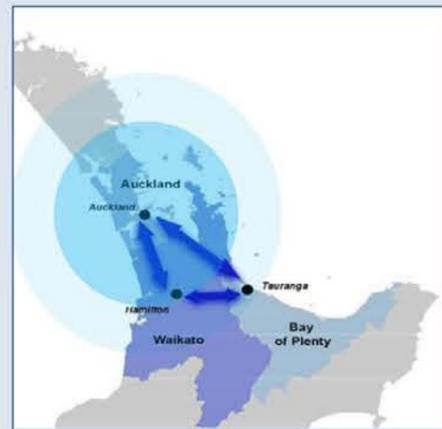


Hamilton's Projected Population and Dwellings Needed:



Strategic Context: Hamilton and Peacocke: The right locations.

Hamilton is a young, strong and diverse economic node, part of the "Golden Triangle" of Auckland, Tauranga and Hamilton. Investment in Hamilton can leverage the HIF investment in conjunction with recent investment in the Waikato Expressway, Southern Links, Ruakura inland port and Innovation Park.



Peacocke is a key growth area zoned residential only around 5km south of the city centre. Land is available but costly strategic connections for transport and wastewater have deterred developers. The Hamilton Southern Links is designated and integrated with the Peacocke structure plan to provide efficient access to the airport, regional links and the Waikato Expressway.

Hamilton City Council Te kaunihera o Kirikiriroa **Peacocke Residential Growth: Business Case Overview**
Housing Infrastructure Fund (HIF) Proposal - Peacocke

Objectives: Room to grow, more dwellings and better choices.

Hamilton's objectives for investment in Peacocke enabled by the HIF are to:

- that supports Hamilton to be NZ's third city economy by 2025.
- to support 11,638 dwellings by 2025.
- to support the balance of the NPS-UDC dwelling requirements by 2045.

Support affordable housing by 2025 through allocation of developer ready land for infill, intensification and density increase.

Alternatives and Options:

Council considered strategic responses including doing nothing, delivery over 30 years in accordance with current plans and acceleration options in Peacocke and elsewhere.

Preferred Option:

Hamilton will work with NZ Government and NZ Transport Agency to invest \$271.8M over 6 years on gateway transport, water and wastewater systems to facilitate access to around 415 hectares of developable land and around 8,103 new dwellings in the Peacocke growth cell. The proposed transport system gives effect to parts of Southern Links and connects to the ring road.

Outcomes and Benefits:

The Proposal will contribute to the business case objectives for early access for residential development and deliver over \$3B of additional economic growth benefits over 30 years. The road network brings forward sections of the Hamilton Southern Links local arterial and regional state highway network, bringing benefits forward. 100% of the wastewater system and 50% of the transport links is brought forward by over 10 years, delivering over 70,000 extra house years.

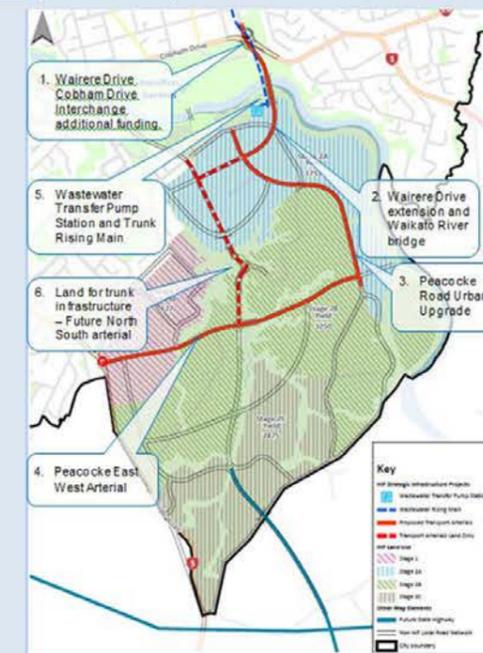
Year	Developable Land Area	Dwelling Yield	Affordable Housing
2025	Approx. 160 hectares	Approx. 3,150 dwellings	Existing areas released
2045	Approx. 415 hectares	8,103 dwellings	Existing areas released

The proposal has a HIGH Strategic Fit, HIGH Effectiveness and HIGH Efficiency, with a BCR >5 .

Next Steps:

Funding agreement and detailed business case to optimise implementation.

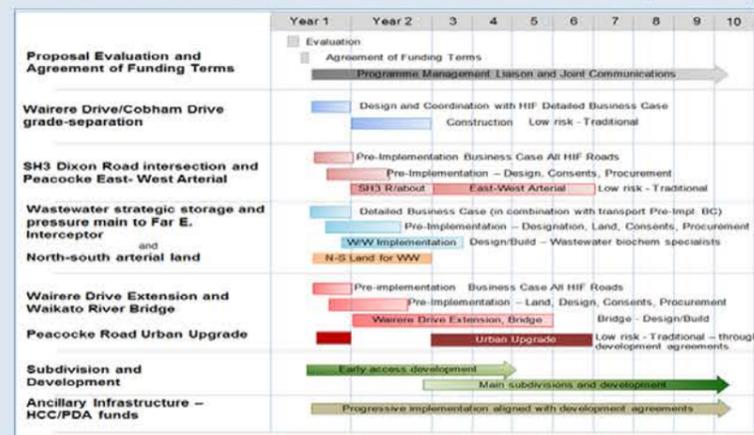
Proposal: Gateway Infrastructure for 8,103 dwellings.



Strategic Infrastructure Element	Estimate (\$M, 2017)
Wairere Drive/Cobham Drive overbridge	\$20.8M
Wairere Drive extension and Waikato River bridge	\$113.0M
Peacocke Road urban upgrade	\$9.7M
SH3 intersection and east-west arterial	\$35.5M
Wastewater strategic storage and pressure main	\$43.3M
North-south arterial land	\$26.7M
Internal strategic wastewater network	\$17.6M
Internal strategic water distribution main	\$5.2M
HIF Proposal – Peacocke Project Total	\$271.8M
2015 10 Year Plan \$0M	NZTA FAR \$89.5M
HIF	\$182.3M

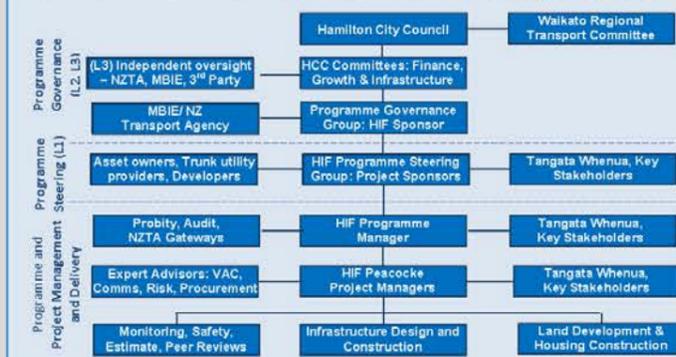
Implementation: Careful procurement, collaborative delivery.

Both the road and wastewater proposals are at pre-implementation stage, with road designations, key consents, and some land secured. Preliminary designs are ready or under way. We propose a combination of traditional staged delivery for routine infrastructure and design and construct models for the bridge and wastewater system where construction techniques and specialist skills can add value and reduce cost and risks with innovative and optimum designs.



Governance and Management: Risks, opportunities and results.

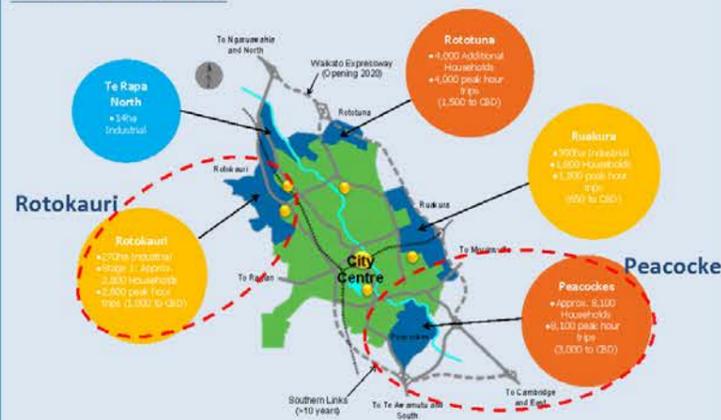
We will collaborate with NZTA and NZ Government to minimise project risks, overcome barriers and ensure successful delivery. We have demonstrated our ability to deliver in the forward-funded Hamilton Ring Road and the W2 Hamilton Wastewater Treatment Plant upgrade projects.



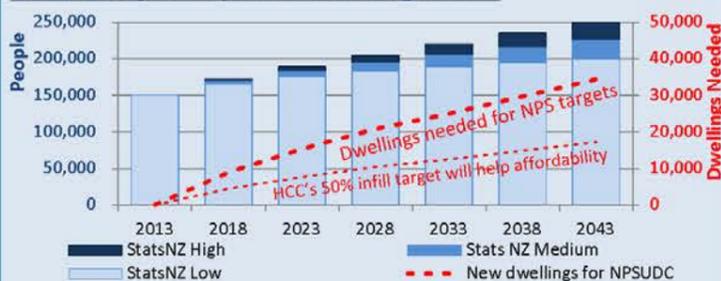
We have effective relationships with NZTA and developers. We will build on these relationships through comprehensive developer agreements to share risk and funding requirements. Working together with clear messages and direction we can assure the HIF benefits.

Problem: We need space and homes for a growing population. We are heading to 250,000 people by 2045. Our community will need more homes to live in and strategic infrastructure to service them. Even with 50% infill we'll need access to large areas for greenfield development. Our residential growth cells at Rotokauri (north) and Peacocke (south) will accommodate 10,890 dwellings but need access for transport and utilities. The strategic infrastructure needed to open up growth cells comes with large upfront costs. That puts significant financial pressures on Council and developers and constrains development.

Hamilton's Growth Cells:

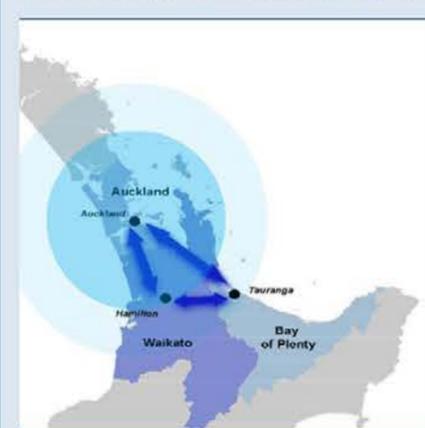


Hamilton's Projected Population and Dwellings Needed:



Strategic Context: Hamilton and Peacocke: The right locations.

Hamilton is a young, strong and diverse economic node, part of the "Golden Triangle" of Auckland, Tauranga and Hamilton. Investment in Hamilton can leverage the HIF investment in conjunction with recent investment in the Waikato Expressway, Southern Links, Ruakura and Horotiu inland ports, industrial development at Rotokauri, and Innovation Park.



Peacocke and Rotokauri are residential zones 5km and 10km south and north of the city centre respectively. Both have operative structure plans. The high cost of infrastructure needed for strategic services for each cell has deterred individual developers:

- Peacocke: river and gully crossings for transport and wastewater connections.
- Rotokauri: stormwater floodway and arterial road links.

Hamilton City Council
Te kaunihera o Kirikiriroa
Residential Growth: Business Case Overview
Housing Infrastructure Fund (HIF): Hamilton Proposal

Objectives: Room to grow, more dwellings and better choices. Hamilton's objectives for investment in Peacocke enabled by the HIF are to:

- that supports Hamilton to be NZ's third city economy by 2025.
- to support 11,638 dwellings by 2025.
- to support the balance of the NPS-UDC dwelling requirements by 2045.

Increase the amount of developer ready land:

Support affordable housing by 2025 through allocation of developer ready land for infill, intensification and density increase.

Alternatives and Options: Council considered strategic responses including doing nothing, delivery over 30 years in accordance with current plans, and separate acceleration options elsewhere in Hamilton.

Preferred Option: Hamilton will work with NZ Government and NZ Transport Agency to invest \$426M over 8 years on gateway transport, water and wastewater systems to facilitate access to around 645 hectares of developable land and around 10,890 new dwellings in Hamilton's Peacocke and Rotokauri growth cells. The proposed transport systems support regional and national state highway links.

Outcomes and Benefits: The Proposal will contribute to the business case objectives for early access for residential development and deliver over \$3.5B of additional economic growth benefits over 30 years. The Peacocke road network brings forward benefits from sections of Hamilton Southern Links. Rotokauri will complete most of the Northern Growth Corridor infrastructure. The gateway infrastructure is brought forward by around 10 years, delivering over 75,700 extra house years.

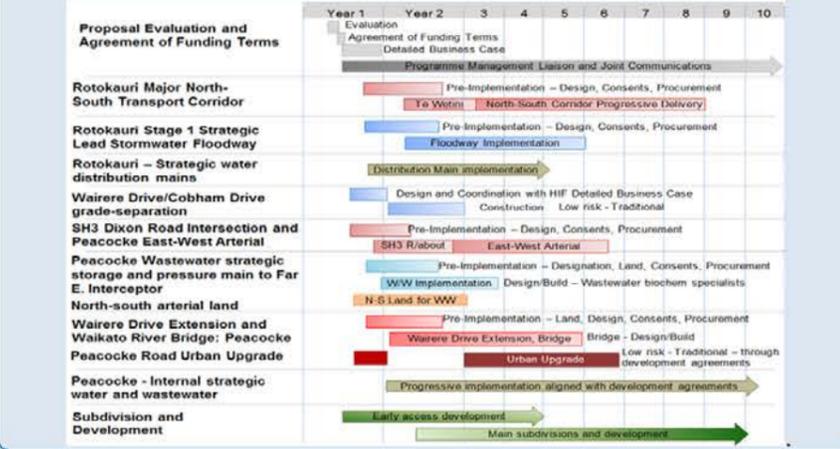
Year	Developable Land Area	Dwelling Yield	Affordable Housing
2025	Approx. 160 hectares	Approx. 4,760 dwellings	Existing areas released
2045	Approx. 645 hectares	Approx. 10,890 dwellings	Existing areas released

The proposal has a HIGH Strategic Fit, HIGH Effectiveness and HIGH Efficiency, with a BCR >5 .

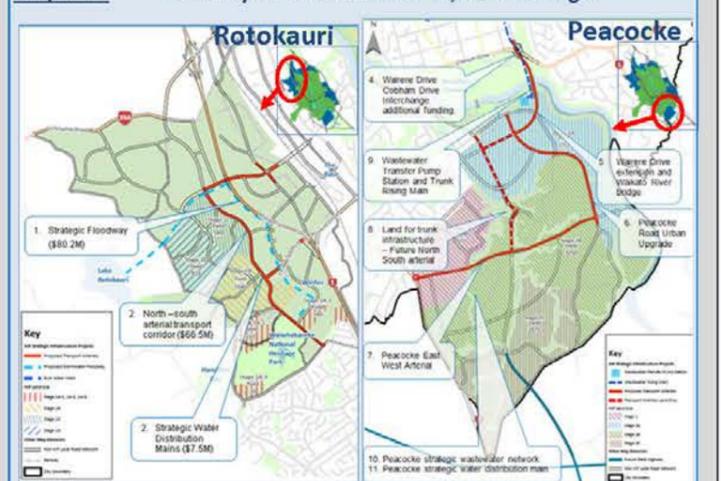
Next Steps: Funding agreement and detailed business case to optimise implementation.

Implementation: Careful procurement, collaborative delivery.

All of the infrastructure proposals are at or beyond detailed business case stage, with some road designations, key consents, and land secured. Preliminary designs are ready or under way. We propose a combination of traditional staged delivery for routine infrastructure and design and construct models for the bridge and wastewater system where construction techniques and specialist skills can add value and reduce cost and risks with innovative and optimum designs.



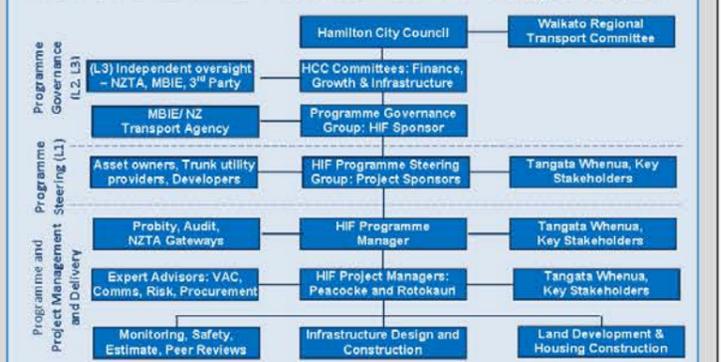
Proposal: Gateway Infrastructure for 10,890 dwellings.



Strategic Infrastructure Element	Estimate (\$M, 2017)
1. Stage 1 Strategic lead stormwater floodway	\$80.2M
2. Major north-south transport corridor and network connections	\$66.5M
3. Rotokauri water distribution mains	\$7.5M
4. Wairere Drive/Cobham Drive overbridge	\$20.8M
5. Wairere Drive extension & Waikato River bridge	\$113.0M
6. Peacocke Road urban upgrade	\$9.7M
7. SH3 intersection and east-west arterial	\$35.5M
8. North-south arterial land	\$26.7M
9. Wastewater strategic storage and pressure main	\$43.3M
10. Peacocke strategic wastewater network	\$17.6M
11. Peacocke strategic water distribution main	\$5.2M
HIF Proposal – Peacocke Project Total	\$426.0M
2015 10 Year Plan	\$29.8M
NZTA FAR	\$122.8M
HIF	\$273.5M

Governance and Management: Risks, opportunities and results.

We will collaborate with NZTA and NZ Government to minimise project risks, overcome barriers and ensure successful delivery. We have demonstrated our ability to deliver in the forward-funded Hamilton Ring Road and the W2 Hamilton Wastewater Treatment Plant upgrade projects.



We have effective relationships with NZTA and developers. We will build on these relationships through comprehensive developer agreements to share risk and funding requirements. Working together with clear messages and direction we can assure the HIF benefits.

Capital expenditure associated with the HIF bid

There are three scenarios for which we are considering applying for HIF loans.

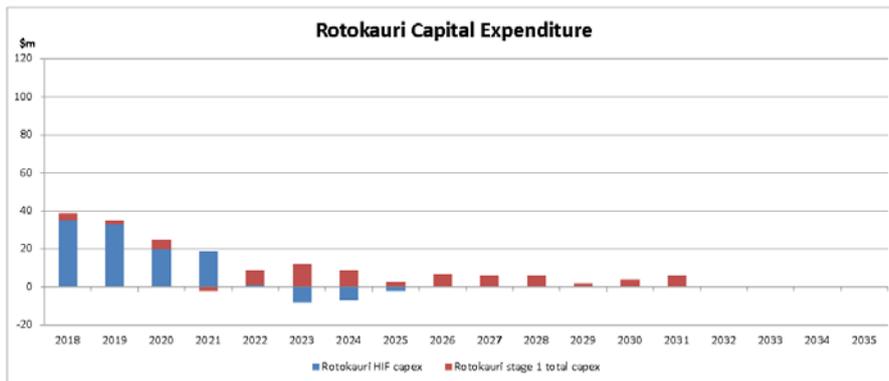
The charts below show the capital costs of each of the scenarios.

It is important to note that the costs include the infrastructure to be funded by HIF loans and additional infrastructure that is required for the growth cells but would need to be funded by other loans.

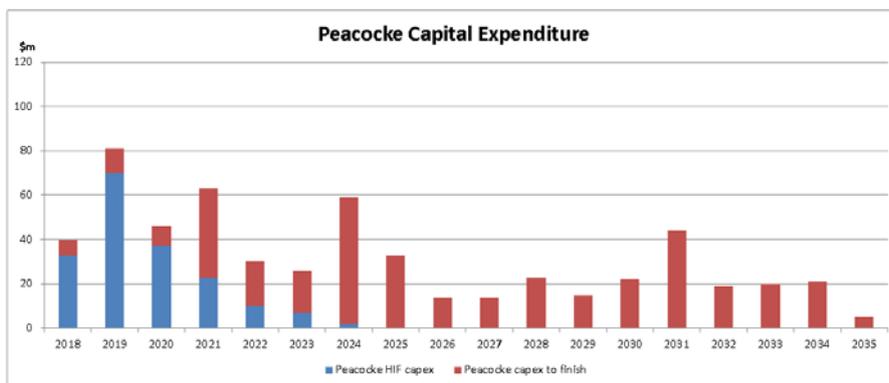
The amounts in the charts are stated at today's cost. This means that no inflation or expected cost increases have been adjusted for.

The Rotokauri scenario shows some negative costs. This is where existing budgets were set aside for some of the work but will no longer be required at that time because the HIF bid will accelerate the timing of the spending.

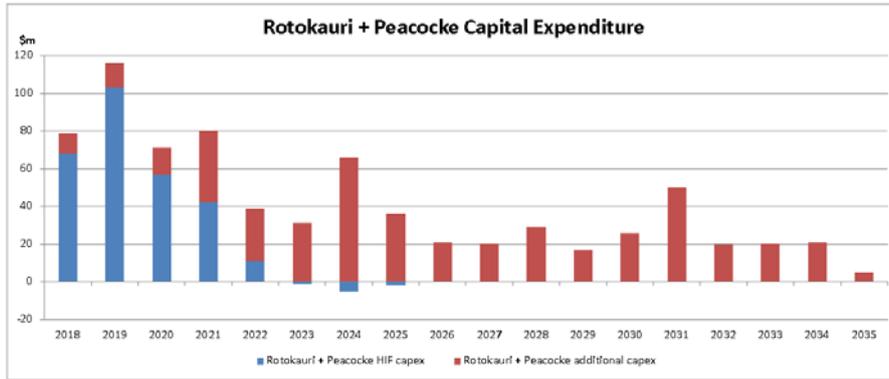
The Rotokauri scenario models stage 1 of the growth cell only.



The Peacocke scenario models the entire growth cell to completion.



The combined scenario is a simple addition of the two scenarios above.



The above charts show that the capital expenditure to be funded by the HIF loans is only part of the total capital expenditure required on infrastructure to complete Rotokauri stage 1 and Peacocke growth cells.

The charts exclude any consideration of community infrastructure that may be required or desirable for the development of the growth cells.

Impact on the debt to revenue ratio as a result of the HIF bid

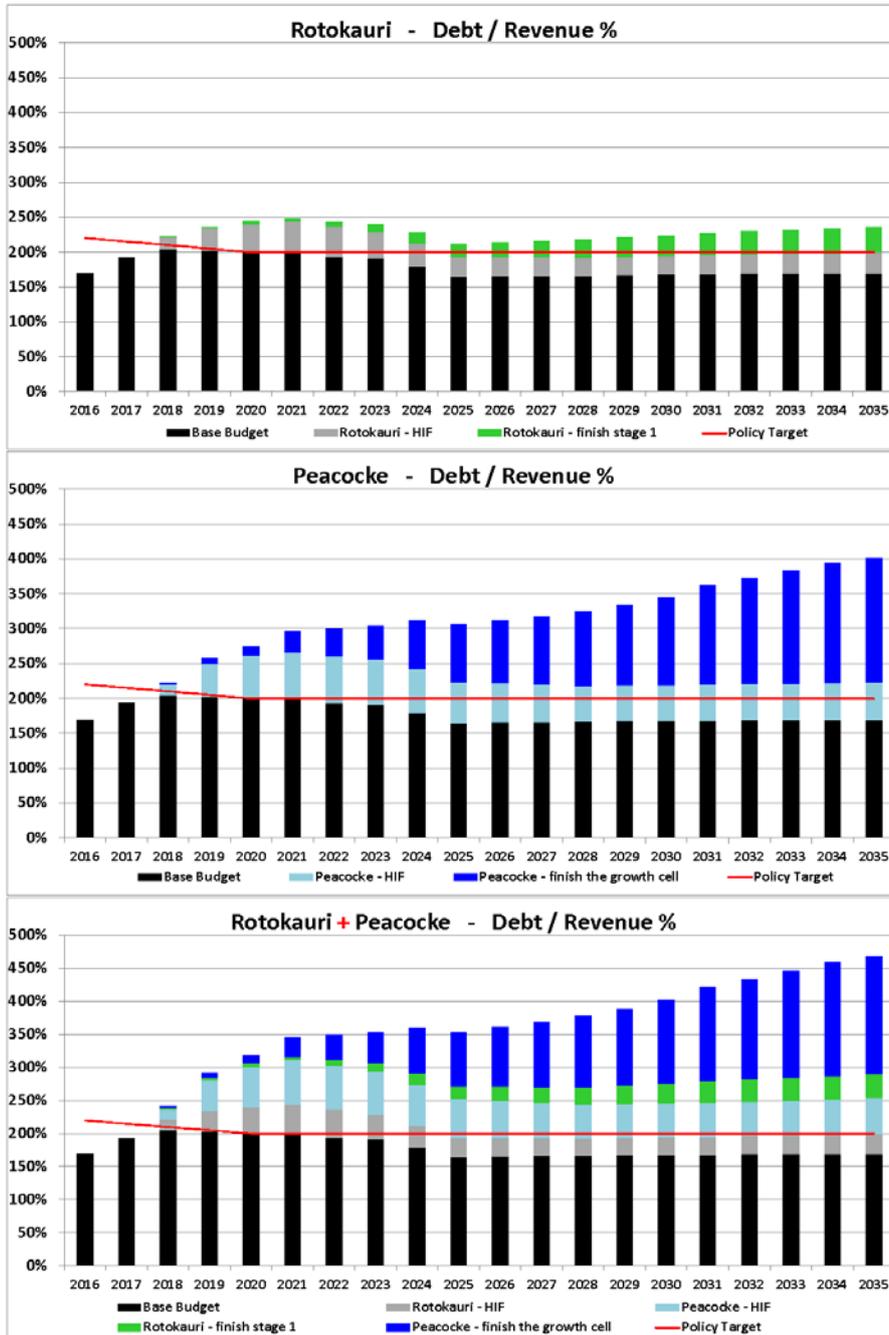
The charts below show the forecast impact on council's debt to revenue ratio from participating in the Housing Infrastructure Fund (HIF).

Many assumptions have been required to be made in forecasting these outcomes. Relevant assumptions to financial outcomes are:

- The "Base Budget" is the 10-Year Plan plus decisions made since. It excludes the 2017/18 Annual Plan proposals and any potential future impacts on budgets (eg a new Founders Theatre, a new rubbish collection contract).
- The "Base Budget" from the 2025/26 year and beyond is estimated based on a debt to revenue ratio that is constant at about 2024/25 levels.
- Inflation has been applied at the rates used in the 2015-25 10-Year Plan and from 2025/26 the average BERL rate is used per their 2016 report to local authorities.
- The Rotokauri and Peacocke scenarios include the capital cost of the funding to be requested from the HIF and consequential operating costs and revenues associated with completing the infrastructure early.
- Additional revenues include increased Development Contributions expected from increased growth expenditure and increased growth in the rating base to 1% per annum (from 0.8%). There is considerable risk that the investment in infrastructure does not lead to increased revenue from these sources. To a large extent the rate of growth is out of our control and is impacted by external factors.
- All funds advanced either directly from the HIF or through NZTA on behalf of the HIF are assumed to be recognised as debt by HCC.
- There will be considerable costs of community infrastructure required at the growth cells that are not included in this analysis.
- The debt to revenue charts use HCC's calculation method. The LGFA use a different method that is more favourable.

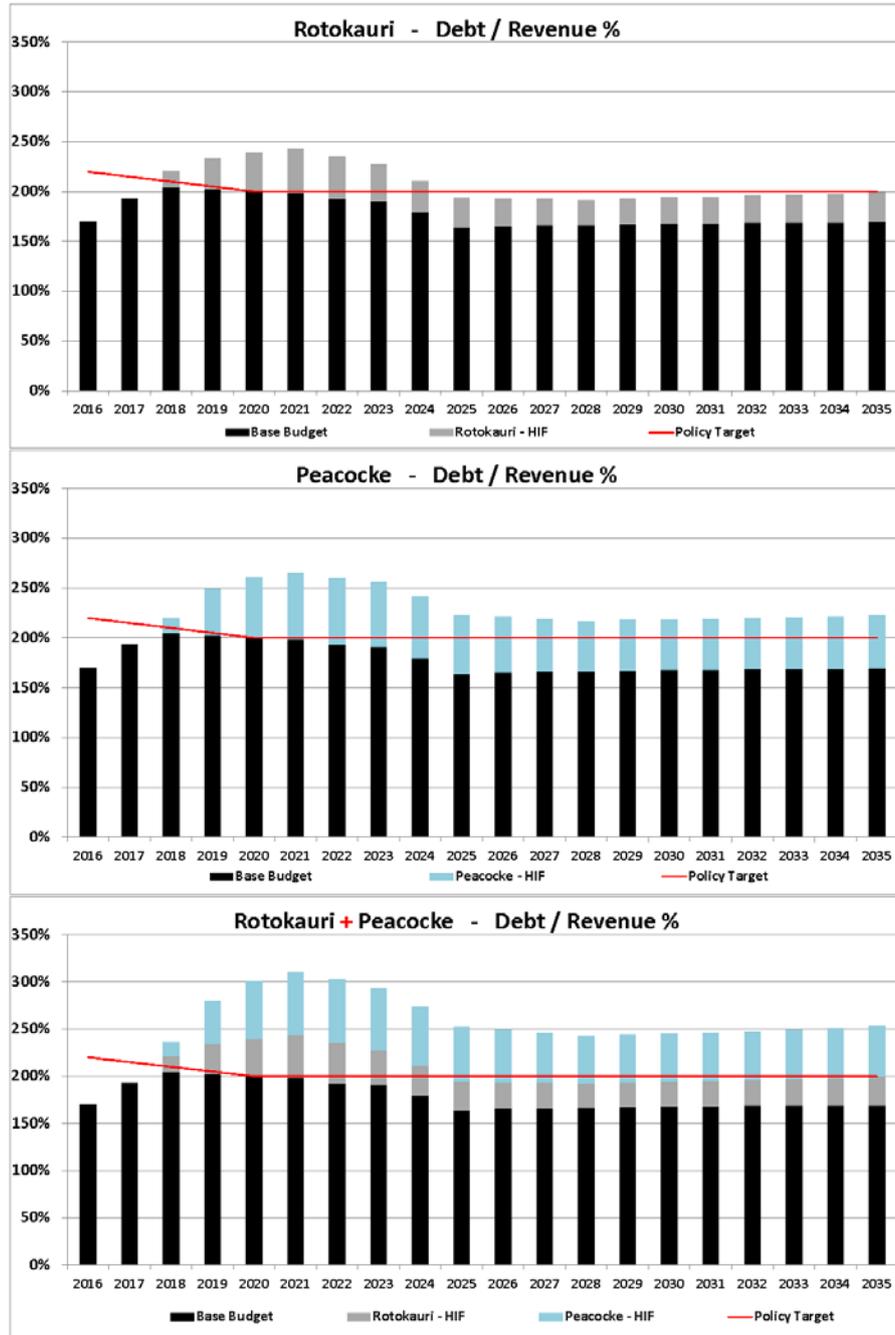
The first set of charts for the three scenarios includes spending on infrastructure funded by HIF loans *and* spending on additional infrastructure required to complete the growth cell (noting that the Rotokauri scenario is for stage 1 only, while Peacocke is for the entire growth cell).

A. Debt to revenue ratio - Total infrastructure spending required



The second set of charts for the three scenarios includes only the spending on infrastructure to be funded by HIF loans.

B. Debt to revenue ratio – HIF infrastructure spending required only



What we can see from the charts is that development of the Peacocke growth cell has a greater financial impact than Rotokauri stage 1 (but it provides more housing).

The Rotokauri plus Peacocke scenario where both growth cells are accelerated appears to be beyond our means. Only Rotokauri on its own appears financially feasible given the assumptions that are used in the analysis.

A full 10-Year Plan budget process and associated 30-Year Infrastructure Plan would be required to fully explore the options along with the many other needs of the city.