

FINANCE FREEDOM

The Institutional Pathway Toward
Elastic Infrastructure Supply

Benno Blaschke

Foreword by Oliver Hartwich



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About The New Zealand Initiative

The New Zealand Initiative is an independent public policy think tank supported by chief executives of New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We are developing and contributing bold ideas that will have a profound, positive and long-term impact.

ABOUT THE AUTHOR



Dr Benno A. Blaschke is a Research Fellow at The New Zealand Initiative with a broad portfolio of interests spanning urban development, infrastructure, local government, science policy, public institutions and regulatory reform. He has contributed to several of New Zealand's major reform programmes, including the Urban Growth Agenda, the Infrastructure Funding and Financing Act 2020, Three Waters reform, Resource Management reform, and the Science, Innovation and Technology system overhaul.

Benno's policy career was shaped by public sector roles that explored the structural causes of housing unaffordability, including positions at The Treasury (urban planning and land markets), the Ministry of Housing and Urban Development (infrastructure financing), Local Government New Zealand (governance in alternative urban planning paradigms), and the Ministry of Business, Innovation and Employment (science and productivity).

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The capital market feasibility analysis in Annex A draws on discussions with senior finance professionals across the banking, commercial and financial advisory, and regulatory sectors. Their insights on market depth, aggregation requirements, and implementation pathways were instrumental in establishing that the constraint on infrastructure finance in New Zealand is institutional architecture, not capital availability.

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Foreword



People sometimes ask me how a think tank measures success. It is a fair question. We do not win elections and we have nothing to sell. All we produce are ideas.

And the surest sign of a successful idea is that people stop remembering where it came from.

By that measure, this report continues one of the great success stories of The New Zealand Initiative.

In 2013, the Initiative was a little more than a year old. That year, we published two reports asking why some countries build more houses than others. In *Different Places, Different Means*, Michael Bassett and Luke Malpass found part of the answer in an unexpected place: Texas.

There, new suburbs are financed by Municipal Utility Districts. A district borrows the money for the pipes and roads a development needs. The debt sits with neither the council nor the government. Instead, the families who later move in repay it over decades through a charge on their properties.

Two months later, joined by Jason Krupp, Bassett and Malpass turned diagnosis into prescription. *Free to Build* proposed adapting the Texan model for New Zealand.

To New Zealand ears in 2013, this sounded exotic. Here, councils borrowed for infrastructure themselves, and that was that. When they reached their debt limits, growth stopped. Councils then used their planning rules to hold back development they could not afford to service.

The suggestion that developers and communities might raise their own finance instead was, to put

it mildly, not mainstream thinking. For a young think tank still introducing itself to Wellington, it was a bold proposition.

But ideas, once published, develop a life of their own.

The Productivity Commission engaged with the model in its 2015 inquiry into land for housing. Economists at The Treasury, asking why land prices kept rising, reached similar conclusions. Phil Twyford took these insights into government in 2017 and made infrastructure finance a pillar of his Urban Growth Agenda. Our Chief Economist, Dr Eric Crampton, served on the advisory group that helped shape that agenda.

Then the idea became real. In 2018, the Milldale development north of Auckland was financed in just this way. Investors paid for the infrastructure upfront, and homeowners now repay them through annual payments on their rates bills. It was the structure we had sketched five years earlier.

In 2020, the Infrastructure Funding and Financing Act wrote the model into law. In 2024, the Government established a new Crown company, National Infrastructure Funding and Financing Ltd, to carry it further.

Three successive governments, led by different parties, have kept the idea alive and extended it. That is rare in New Zealand politics.

A lesser organisation might declare victory and move on. But as Dr Benno Blaschke shows in this report, the job is only half done. Six years after the Act was passed, just three projects have used it. The machinery exists, yet finance does not flow at anything like the scale New Zealand needs.

An amendment bill now before Parliament will improve matters. Benno supports it, but he also shows it does not go nearly far enough.

Benno knows this territory from the inside. Before joining the Initiative, he worked at The Treasury, the Ministry of Housing and Urban Development and Local Government New Zealand. Few people understand better why a system designed to say yes keeps saying no.

He also reminds us of something we have forgotten. For most of the twentieth century, New Zealand communities could vote to tax themselves, borrow independently and build the harbours and power networks they needed. We dismantled that system between 1989 and 1996. What Benno proposes is not so much a Texan import as a homecoming.

Thirteen years have passed between *Free to Build* and this report. If that sounds slow, it is roughly how long good ideas take to travel from the fringes of debate to the statute books. Benno maps the next stage of the journey.

I commend this report to anyone who wants to understand how New Zealand can finally build the homes and infrastructure it needs.

And I commend it, too, to anyone who wonders whether think tanks make a difference. This is what it looks like when they do.

Dr Oliver Hartwich

Wellington, June 2026

Introduction

New Zealand's infrastructure finance system is not keeping up and cannot support a new urban planning system with a different economic logic than our current one. Councils hit their debt ceilings and say no to growth because the maths does not work. The result is rationing: too few houses, too little infrastructure, and land prices driven by artificial scarcity of available land. Young New Zealanders are priced out of homeownership. Older New Zealanders face a future where the services they depend on cannot be funded. Both generations pay into a system that cannot deliver now or in the future.

The Infrastructure Commission's first National Infrastructure Plan confirms the scale of the problem. New Zealand is among the highest infrastructure spenders in the OECD as a share of GDP, and among the least efficient. We are spending more and getting less. If nothing changes, Crown debt will reach unsustainable levels. The Commission's advice is to do better with existing institutions: plan more carefully, spend more wisely, prioritise more rigorously. That is necessary. It is not sufficient.

The reason is structural. New Zealand finances virtually all of its local infrastructure through a single channel: council balance sheets, backed by general rates and constrained by debt limits. Think of this channel as a pie. It can raise debt cheaply, but at the cost of three challenging characteristics:

1. The pie cannot grow fast enough. Councils are wage earners being asked to fund an entrepreneur's ambition. Their "salary" is capped. Costs keep rising. They can budget more carefully, but it is difficult to invest to grow.
2. What is in the pie is used poorly. There are no intrinsic efficiency incentives. It is other

people's money, so nobody has skin in the game. You can layer on external oversight, audits, better planning (and so we should), but you are imposing discipline from outside a system that has no internal mechanism for it.

3. What gets prioritised is driven by politics, not value. Politicians allocate capital to projects that generate headlines and votes, not projects that generate returns. We get less because a lot of our money goes into what we do not need.

What is missing is a second finance channel. In 2019, the Productivity Commission's report on local government infrastructure funding and financing concluded that our current system works in a static environment with no change, but breaks the moment we need to grow. Both the Infrastructure Commission and the Productivity Commission point to the same answer: an alternative finance system that complements the first and can handle the demands of a dynamic, growing country. Another way to say "yes".

This second channel works like an entrepreneur rather than a wage earner. It creates something valuable, and the value it creates pays for the investment. Roads and pipes are built, houses follow, the people who benefit pay over time through a charge on their property, and the investment is repaid from the value it generated. The pie grows. Efficiency is built in, because investors who put up the money care deeply about what they are paying for. And investment follows value rather than politics, because those who benefit now have the power to do something about what they need, so they are motivated to discover value to meet those needs. They can also decide whether a project is worth its cost.

Risk is not something to be avoided. It unlocks everything. If a project fails, the investors who backed it bear the loss, not ratepayers or taxpayers. Instead of pushing risk onto councils or the Crown, risk is owned by those who choose to take it. All this risk has a cost and a price, yes. But accepting risk is what empowers you to act when you know it is worth it. It keeps the politics out of investment decisions, removing uncertainty, rigidity, cost escalation and delay. That single difference protects the public and enables those who are willing and able to act.

The two channels suit different types of infrastructure. The central channel draws on an existing taxpayer base that can raise debt cheaply. It is most efficient for renewals, maintenance, and extensions of what we already have. The second channel creates a new taxpayer base: the future beneficiaries of infrastructure that does not yet exist. Upfront costs are large and lumpy, delivery risk is real, and the value created by the investment itself generates the revenue to repay it. The second channel finances new assets at higher cost, but with risks borne and benefits enjoyed by those with a direct interest. Both channels are needed. Neither can do the other's job well.

New Zealand used to have both channels. For most of the twentieth century, communities could vote to tax themselves for specific projects, borrow independently of councils, and build what they needed. Harbour Boards, Electric Power Boards, and hundreds of other special purpose entities financed and delivered infrastructure at scale. The system had democratic consent mechanisms, ring-fenced funding, and credible consequences for failure. It sustained borrowing levels roughly four times what current rules allow, while delivering over half of all public infrastructure investment.

Between 1989 and 1996, we dismantled that finance system. We threw away our shot. Three decades later, we are still trying to rebuild it.

The Infrastructure Funding and Financing Act 2020 was conceived to create that second channel: infrastructure finance where investors, not councils, bear the risk and hold the debt, with costs recovered over time from those who benefit. But, six years on, the initial model has not yet delivered the second channel it was intended to enable.

The Infrastructure Funding and Financing Amendment Bill 2025 (the Bill) takes the next step. Its changes are directionally correct and should be passed. But the Bill only optimises the current model. It does not set a course for where we need to go.

This report argues that the Bill should be the beginning of a journey, not the destination. It outlines a realistic pathway, built over 10 to 15 years, toward an infrastructure finance system where communities can act, investors bear the risk, and infrastructure supply responds to demand rather than political rationing. The pathway draws on New Zealand's own history, international experience, and operational evidence from the practitioners working within the current model.

In a system with two functioning channels, infrastructure can follow demand. Housing affordability could be determined by what it costs to build, not by the number of places in which councils allow building. Older New Zealanders can have hope to get the services they need. Younger New Zealanders can have hope to get the homes they deserve without a price of admission that cripples their financial future for life. The country stops bleeding money and starts building its future.

After nearly a decade of incremental reforms, built on bipartisan consensus, we have another shot. This report explains what has been tried, what has worked, what has not, and where to go from here.

Executive Summary

New Zealand's housing affordability crisis is fundamentally a crisis of land supply. The first place to look is at our planning system. Restrictions on land use justifiably receive substantial attention. But a deeper constraint sits underneath: infrastructure finance.

Councils cannot afford the infrastructure that urban growth requires and have little incentive to service land with infrastructure for those that are not already existing incumbents who vote in local elections. To constrain spending on infrastructure, councils use the planning system to restrict development. When land is withheld landowners cannot enter the market to compete against each other. The dynamic shifts. Instead of landowners competing on how much land they can provide to the market (the amount is less relevant than the threat of being undercut), buyers compete against each other for scarcely available land by bidding up its price. Housing becomes unaffordable.

The Competitive Urban Land Markets framework developed in Part 1 explains the underlying dynamics and shows that reversing them requires two interlocking conditions:¹

- **Regulatory elasticity:** the ability to quickly and reliably bring land into the market. When the market can respond to demand in a fairly frictionless manner, supply becomes “elastic.”
- **Financial elasticity:** the ability to raise finance to pay for the infrastructure that new development needs, when it is needed. Until recently, council balance sheets have been the only channel. When finance is readily available from investors willing to back viable projects, supply becomes “elastic” on the financial side too. If the council stops being

a gatekeeper of finance, investors readily fund projects “on demand” (where returns justify the risk).

Neither condition is sufficient on its own. Planning reform without infrastructure finance leaves developers legally entitled but physically unable to build. Infrastructure finance without planning reform provides money for projects that are not permitted.

The *Infrastructure Funding and Financing (IFF) Act 2020* was designed to address the financial elasticity problem. It emerged from the same group of people who developed the Competitive Urban Land Markets framework, and was conceived not merely as finance that was off council balance sheets but as the mechanism that would make the threat of entry into land markets credible: infrastructure finance that empowers developers and communities to bypass public institutions that withhold finance. The purpose was to unlock responsive infrastructure delivery.

The concept was sound.

Six years on, only three levies have been authorised. Neither of the first two was the developer-led project for new housing on the city fringe (called “greenfield”) that the Act was designed to enable. In its first six years, the model appeared to have failed to deliver on its intent. But in March 2026, the third, Te Awa Lakes, was approved. It was the first developer-led greenfield project under the Act. Limited uptake was not accidental. It reflects structural constraints embedded in the model's design that make slow progress inevitable.²

It was still necessary to experiment. The first two projects represent genuine achievements.

They moved substantial debt off council balance sheets, enabled infrastructure that might otherwise have been deferred, and established the first test cases for the IFF model. Te Awa Lakes now adds the first developer-led greenfield project, albeit enabled by substantial Crown equity. Together, these are building blocks of institutional learning. The 2020 Act was necessary even though it initially failed to deliver.

New Zealand has the capital and the ideas. What it lacks is the institutions that let infrastructure projects succeed or fail on their own, without dragging councils or the Crown down with them. Such institutions place infrastructure risk with investors, not governments. This means ratepayers and taxpayers that are not beneficiaries of projects are insulated from the risk.³

For most of the twentieth century, New Zealand had both finance channels: council balance sheets for a variety of purposes, and separate public entities established by communities who could vote to tax themselves for specific projects and borrow independently of councils to build what they needed. Hundreds of special-purpose entities (e.g., Harbour Boards and Electric Power Boards) financed and delivered more than half of the local infrastructure at scale. New Zealand abolished those entities in 1989, followed by reforms in 1996 that dismantled off-balance sheet finance for good, thereby foreclosing the further evolution of our finance system.

The *Infrastructure Funding and Financing Amendment Bill 2025* takes the next step. Its changes are directionally correct and should be passed. But the Bill optimises the current model rather than providing a transition strategy toward a full-fledged second finance system. Competitive urban land markets require elastic, responsive infrastructure supply. The Bill does not build toward that.

This report concludes that New Zealand cannot leap directly to a system where investors bear

the risk and communities can act on their own initiative. The institutional and cultural distance is too great. But it can build transitional institutions that accumulate track record and gradually shift expectations. The Amendment Bill is a reasonable first step. The government should now signal and begin implementing subsequent steps.

This report proposes a pathway of five phases, built over 10 to 15 years:

1. **Build track record.** Generate more projects under the amended framework so that investors, rating agencies, and practitioners develop familiarity with the model. Small additions to the Bill can accelerate this.
2. **Build institutions that can scale the model.** A standing platform that holds multiple projects under shared rules reduces the cost of each project and opens the model to smaller projects that the current bespoke approach excludes.
3. **Build democratic legitimacy.** When the people who pay the levy can vote on whether to accept it and form their own entities to govern their infrastructure, Cabinet no longer needs to approve every project.⁴ Initiative moves from the Crown to communities.
4. **Build the conditions that make Crown involvement unnecessary.** Protect levy revenue against political interference. Establish a credible process for managing financial difficulty that keeps essential services running and binds creditors to an orderly resolution designed to produce collectively beneficial outcomes. Relocate levy approval to an independent body that applies rules rather than exercising political discretion.
5. **The destination.** Communities authorise infrastructure on their own initiative, investors accept the risk, and the Crown steps back. The second channel becomes genuine.

Achieving this requires deliberate institutional development over a 10–15 year horizon.

After nearly a decade of incremental reforms, we have another shot. This report outlines how to build on the foundation of the Amendment Bill, going just far enough to lay the tracks for a genuine transition toward a second finance channel where developers and communities can act on their own initiative when the central channel cannot say yes. That ability to work around publicly gated finance (and planning permission) is what creates the competitive tension that disciplines land prices.

PART 1

Competitive Urban Land Markets (CLM): The conceptual framework

1.1 What is a Competitive Urban Land Market?

A Competitive Urban Land Market is one where land prices stay moderate because developers have alternatives.⁵ If one landowner demands too much, developers can build elsewhere, either on other sites in the city or beyond it. This possibility disciplines what any landowner can charge. Prices reflect value. Land still draws a premium based on its location (proximity to jobs and public services) or other desirable features (amenity), but prices would not be artificially inflated by regulatory imposed scarcity.

For this to work, developers must actually be able to build elsewhere. If regulations, infrastructure gaps or other obstacles block most potential sites, landowners face little real competition. Economists call these obstacles “barriers to entry”. When barriers are low, the market is competitive. When barriers are high, it is not.

This framework distinguishes between two sources of land value.⁶ Economists use “rent” to mean a premium someone can charge simply because they control access to something scarce. This is not rent in the everyday sense.

Some land rents are legitimate. A site near jobs, shops and train stations is more useful than one in the middle of nowhere. Cities also generate what economists call agglomeration benefits: people and firms become more productive when they cluster together, because they can share ideas, workers and suppliers more easily. Buyers will pay more for access to these advantages, and rightly so.⁷ We call these “natural” rents.⁸

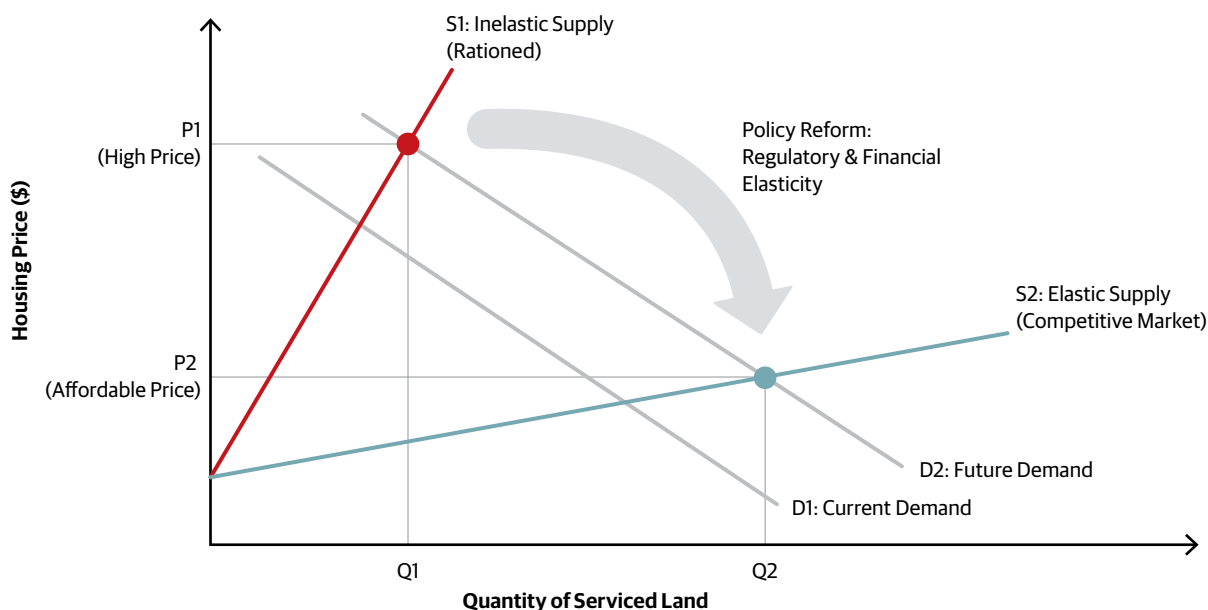
They reflect prices grounded in economic fundamentals and provide both the signal and the incentive to landowners to put land to its best and highest use. After all, it is the change in land use that realises the value.

But when planning rules or infrastructure constraints limit where developers can build, owners of the few permitted sites gain power over buyers who have no alternatives. They can charge more than their land’s location would otherwise justify, not because the site is better, but because it is one of the few where building is allowed. We call these extractive rents. They arise from artificial scarcity, not genuine value.

Urban land will always cost more than farmland. The question is how much more, and why. In a competitive market, the price settles near the cost of turning rural land into urban land: the price of the raw land, plus roads and pipes, plus a profit margin.⁹ When the market is not competitive, prices break free from this anchor. They rise until they hit what buyers can just barely afford, because those buyers have nowhere else to go.¹⁰

Economists call this “land supply elasticity” (see Figure 1). When supply is elastic, higher prices bring more land onto the market, stopping prices from rising too far. When supply is inelastic, demand flows into higher prices instead of more houses.¹¹ The research is clear: cities where land supply responds to demand stay affordable even as they grow. Cities where it does not, become progressively more expensive.¹²

Figure 1. The Competitive Urban Land Markets Effect: Shifting from rationing to response



1.2 The Rational Rationing Trap

New Zealand councils are often ideologically hostile to accommodating growth through urban expansion. But even councils that want to grow face a structural problem: the rules governing their finances push them to restrict development whether they like it or not.

Councils can only borrow so much. The Local Government Funding Agency (LGFA), which lends most councils their money, requires them to keep debt below roughly 250–280 percent of their annual revenue.¹³ Once a council approaches this ceiling, it cannot borrow more (without raising rates) to build roads, pipes and other infrastructure, no matter how strong the demand, how willing buyers are to pay, or how desperate people are for housing.

This creates what might be called the rational rationing trap. A council at its debt limit faces a choice. It can fund new infrastructure anyway, breaching the LGFA’s rules, risking penalties that make all its borrowing more expensive, and being viewed as profligate by voters.

Or it can hold back on infrastructure, which blocks new development but keeps the council’s finances intact. From the council’s perspective, holding back is the sensible choice. So that is what happens.

The consequences follow logically. Infrastructure is rationed, so land with roads and pipes connected becomes scarce. Scarcity gives landowners power over buyers who have few alternatives, letting them charge prices far above competitive market value. The difference (the extractive rent) flows from new homebuyers to those who happened to own the right land at the right time.¹⁴

Government knew this was happening. A 2019 Cabinet paper establishing a new infrastructure financing model said so directly: “Local authority financing constraints limit the timely delivery of infrastructure.”¹⁵ The proposed solution was to let infrastructure be funded in ways that would not count against council debt limits. The diagnosis was correct. The prescription, as we shall see, was limited in its design.

1.3 The Two Pillars of Abundance

The Competitive Urban Land Market framework rests on a simple idea: housing stays affordable when the system can flood the market with new places to build whenever dwelling prices rise above what construction actually costs.¹⁶ Call this “responsive abundance”.

The framework covers planning, regulation, infrastructure funding and governance. But for housing affordability, two constraints matter most. Hon Phil Twyford, Labour’s Housing and Urban Development Minister from 2017 to 2019, called them the “evil twins” of unaffordability: planning rules that restrict where you can build, and a system that restricts your ability to raise finance to build.¹⁷

Breaking both is necessary. Breaking only one is not enough.

Pillar 1: The Right to Build

The first pillar is legal. Are landowners allowed to develop their land?

Under New Zealand’s Resource Management Act (RMA) 1991, the answer is: only if they get permission. Landowners must prove they should be allowed to build. The default is “no”.¹⁸

In practice, this gives other people a say over what you do with your land, including people with no direct stake. Objectors do not need to show actual harm. They just need to turn up. People who do not own the land end up holding something like a veto (a “property right”) over its use.¹⁹

A CLM world inverts this.²⁰ Development should be allowed unless it demonstrably harms others. The burden should fall on regulators to justify stopping a project, not on owners to justify building one. This “permissive” approach might be called a “presumption of development”.²¹

Property rights enable people to act. When landowners have secure rights to develop, they can respond to price signals, assemble sites, propose projects and bring housing to market. Economists call this “regulatory elasticity”. We could also think of it as a “right from below” because it is foundational; the right sits with the individual landowner; it is not given to them by seeking out agreement or permission from others. When those rights are scattered among objectors and planning committees, nothing moves.

Restoring development rights to landowners reverses what planning regimes have done over decades. It puts decisions back with people who own the land and bear the consequences, rather than with community members who pay no price for blocking development and face no accountability for the housing shortage their objections help create. Rights can still be limited where genuine harms exist, but the starting point changes.

This principle now has support from both major parties. Reflecting on his time as Housing and Urban Development Minister, Twyford has affirmed that “the whole idea of competitive urban land markets, and I still believe this is the case, had the potential and has the potential to really unlock the problems that are causing so much dysfunction in the way our housing market works.”²² The Hon Chris Bishop, National’s Housing Minister, has committed to the same framework, calling it Labour’s best policy work and promising the National-led government has the “political courage [to] actually implement it.”²³ The Government’s *Going for Housing Growth* programme reflects this consensus.²⁴ CLM is now specified as an explicit goal of the newly proposed planning system, which Hon Chris Bishop is committed to enshrining into law.²⁵

Pillar 2: The Capacity to Service

The second pillar is financial. Can councils, developers or a community of interest pay to connect new developments to roads, water and sewerage?

A legal right to build means nothing without physical infrastructure. If councils cannot pay for pipes and roads, anybody else who would be willing to pay is blocked from doing so, and the legal right remains theoretical.²⁶ Developers can hold all the consents they want but without infrastructure, nothing gets built.

In economic terms, this is “financial elasticity”. It means infrastructure finance is readily available when needed, driven by demand rather than rationed by council balance sheets or political preferences. We could also think of it as a “rule from above”: when a viable project emerges, and the people who benefit are willing to pay the full cost of the infrastructure, the financing system should say “yes”. The only constraint should be whether the project makes economic sense, not whether the council has room on its books.²⁷

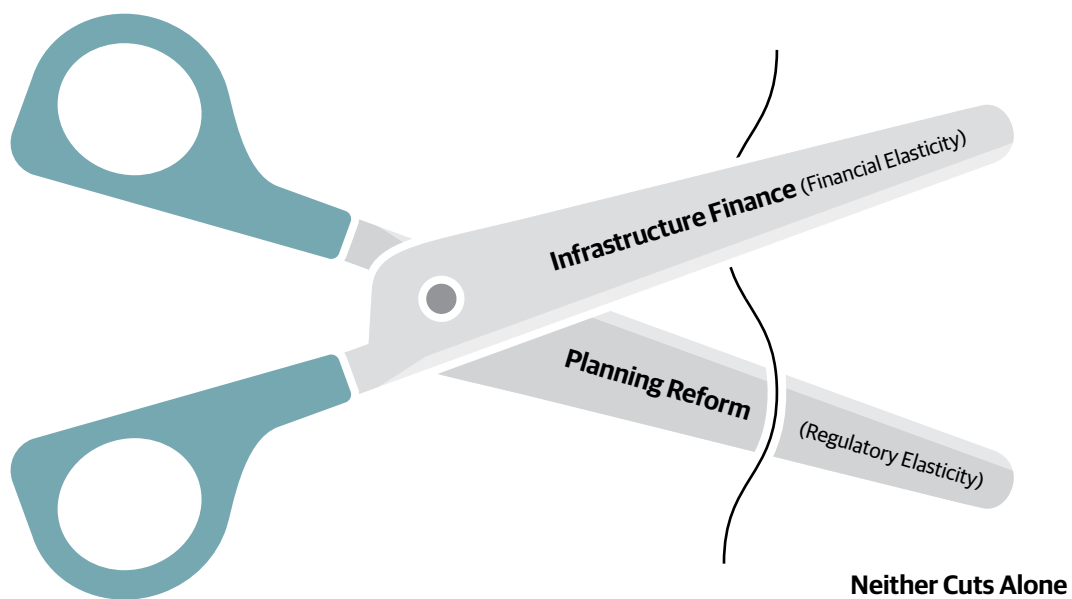
This is what the *Infrastructure Funding and Financing Act (IFF) 2020* was meant to provide: a way to finance infrastructure outside council debt limits, with costs recovered from the people who benefit.

Taken together, the two pillars are interdependent:

- Planning reform without infrastructure finance leaves developers with the legal right to build but are told, “Sorry, we cannot afford the pipes.” Infrastructure bottlenecks block what the law permits. Many growth areas face this problem today. The *National Policy Statement on Urban Development (NPS UD)* requires councils to zone for growth, but councils cannot finance the infrastructure that such zoning requires.²⁸
- Infrastructure finance without planning reform enables financing vehicles to be set up, ready to fund infrastructure, but council plans restrict density to “protect rural character”. Money is available but no projects are permitted. The financing vehicle sits idle.

Only with both pillars, the right from below (legal permission to develop) and the rule from above (financial capacity to service it), can land supply respond to demand. Think of it as a pair of scissors: two blades that only cut when they close together (Figure 2).²⁹

Figure 2. Scissors Logic of Competitive Urban Land Markets



Box 1. The IFF Trail of the New Zealand Initiative

The New Zealand Initiative has worked on infrastructure finance reform since its founding. In 2013, Michael Bassett and Luke Malpass published two reports that laid the foundation. *Different Places, Different Means* examined how countries with affordable housing financed roads and pipes, identifying an overseas model in which developers could set up separate entities to borrow money for infrastructure and spread the cost over time through a charge on the properties that benefited, rather than loading everything into the upfront price of a new home.³⁰ *Free to Build: Restoring New Zealand's Housing Affordability* proposed adapting this model, with the help of Jason Krupp, for New Zealand through what they called Community Development Districts.³¹

These ideas were taken up by the Urban Land Markets Group, a group of experts convened by former Housing and Urban Development Minister Phil Twyford, which included the Initiative's Chief Economist Eric Crampton. The group's second paper, *A New Approach to Funding and Financing our Cities*, lead-authored by Benno Blaschke (the author of this report), set out the necessity of alternative approaches to funding and financing infrastructure (finance reform) to enable competitive urban land markets (planning reform): the dual diagnosis motivating the IFF Act 2020.³²

Throughout this period, the Crown entity that would become the IFF Act's institutional vehicle was evolving in parallel. In *Free to Build*, The Initiative had proposed that infrastructure for new housing be financed through alternative vehicles, with costs recovered over time through targeted charges on properties that benefited, keeping debt off council balance sheets. In 2017, the Government acted on

this logic: Crown Fibre Holdings, established in 2009 to manage the Ultra-Fast Broadband programme, was renamed Crown Infrastructure Partners (CIP) and tasked with investigating and implementing commercial models for infrastructure delivery.³³ The Initiative's Executive Director Oliver Hartwich welcomed the announcement, noting that the model was "exactly what we proposed in our 2013 report *Free to Build*."³⁴ Shortly thereafter, CIP structured the Milldale project in 2018 (the precursor to the IFF Act) and then served as Facilitator for the first two IFF levies (Tauranga 2022, Wellington 2023) under the new IFF Act 2020. CIP was recently repurposed as National Infrastructure Funding and Financing Limited (NIFFCo) in December 2024 to support the evolution of the model.³⁵ In March 2026, the first developer-led project for a new housing development at the city fringe (Te Awa Lakes) was gazetted under a new variant model.

A decade later, two companion reports from The New Zealand Initiative captured case studies in greater detail. Matthew Birchall's *Paving the Way* (2023) documented how New Zealand once financed major infrastructure through separate, project-specific entities, including the Auckland Harbour Bridge Authority: precisely the type of arrangement the 1989 reforms abolished.³⁶ Eric Crampton's *Funding the Future* (2023) set out the economic case for bringing back project-specific borrowing, where costs are recovered from those who benefit and lenders, not ratepayers or taxpayers, bear the risk if things go wrong.³⁷

This report picks up where that work left off. It explains why New Zealand does not yet have a second, alternative finance system, and charts the institutional pathway to get there.

1.4 Infrastructure Finance as the Gatekeeper

Infrastructure finance is not just a technical question about budgets. It is the gatekeeper that decides whether legal development rights (your "property rights") can actually be used.

Think about what infrastructure funding and finance involves: Who pays (existing ratepayers, new homebuyers, developers, or central government); when do they pay (upfront or spread over decades); who decides what gets built first (councils, developers, or the Crown); who loses money if things go wrong (investors, councils, or taxpayers); and most fundamentally: does development happen at all? If no financing mechanism exists for a project, the project does not happen. It does not matter how strong demand is. It does not matter how much buyers are willing to pay.

For infrastructure finance to support competitive urban land markets, it needs specific features:³⁸

- Developers and landowners start projects themselves, rather than waiting for councils to invite them or ministers to approve them
- Groups of landowners organise collectively to fund shared infrastructure
- Recovers costs from the people who benefit, not from ratepayers or taxpayers in general
- Investors bear real risk and price that risk accordingly; meaning investors, not taxpayers, lose money when projects fail
- Is independent of council balance sheets, avoiding the debt ceiling problem, and
- Allows infrastructure projects to fail without triggering government bailouts: genuine risk that is priced honestly.

The American municipal finance system works this way. Landowners can petition to create special districts with taxing powers. Revenue bonds (project-specific debt repaid from dedicated charges, not general taxes) explicitly cannot be claimed against the sponsoring city if things go wrong. Infrastructure projects can and do default, with bondholders absorbing losses. This system finances over \$300 billion in municipal infrastructure every year.³⁹

New Zealand's system has almost none of these features. Councils initiate development, not

developers. Councils bear infrastructure risk and cannot credibly walk away from it. There is no municipal bond market, no framework for special districts, no history of infrastructure default within living memory that would teach investors to price risk properly.

This leaves us with an institutional gap that we ourselves created.

Before 1989, New Zealand had 453 special-purpose bodies for infrastructure: Harbour Boards, Electric Power Boards, Land Drainage Boards and others. These let communities tax themselves for specific projects, borrow independently of councils, and build what they needed. Officials at the time acknowledged these vehicles were critical to the historical supply of New Zealand's infrastructure.⁴⁰

These were not identical to the sophisticated revenue bond markets that developed in the United States. But nor were they embryonic. For the first four decades of the twentieth century, local government sustained debt-to-revenue ratios of 400–500%, up to multiples of current levels, while delivering over half of all public infrastructure investment. Risk was priced relationally rather than through market trading: specialised banking teams analysed council books directly and negotiated terms based on intimate knowledge. The system evolved its own regulatory frameworks: the *Local Bodies' Loans Act 1913*, the *Local Government Loans Board* from 1926.

This was a functioning system operating through different institutional mechanisms than American markets. It might have evolved toward greater market sophistication (deeper secondary trading, more standardised instruments) had the institutional foundations remained in place.

The 1989 local government reforms abolished them, folding everything into general-purpose councils. This was followed by 1996 reforms that

constrained councils from raising off-balance sheet debt. These reforms dismantled both what existed (the relational financing ecosystem that sustained high leverage) and foreclosed what might have emerged. New Zealand lost 35 years during which institutions could have learned, markets could have deepened, and the culture could have adapted.

The significance of this institutional shift is not primarily about total borrowing or raising cheap debt. Council borrowing structured as “general obligation” debt (borrowing backed by the councils overall revenues and taxing powers rather than a dedicated and ring-fenced revenue stream for a specific project) is efficient for maintaining and extending existing networks. It has its rightful place; however, it cannot, by design, generate necessary conditions for competitive urban land markets:

- the threat of entry (the realistic ability of competing developers to build elsewhere, which disciplines what any landowner can charge);
- substitutability (the availability of genuine alternative sites of equivalent economic value or desirability, so that no single landowner holds a bottleneck of highly desirable sites); and
- incentive alignment (costs falling on those who benefit, so that costs are not an inhibitor but a means to achieving a desired goal, reflected in willingness to pay).

This analysis therefore does not argue against the continued role of general obligation finance, including through institutions such as the Local Government Funding Agency (LGFA), which remains well suited to financing pure public goods.⁴¹ Rather, it shows why general obligation finance is insufficient on its own. By pooling risk on consolidated council balance sheets and relying on generalised revenue from rate payers, it necessarily favours caution and rationing of development.

Project-specific finance, by contrast, localises risk, aligns beneficiaries with costs, and creates credible threat of entry. Precisely because repayment is ring-fenced and incentives are aligned, project-specific finance can sustain materially higher leverage than general-obligation borrowing without increasing systemic risk.⁴² These are institutional properties, not merely questions of borrowing quantum. While the primary concern here is institutional design and its effect on land-market dynamics, the financial implications follow directly: project-specific arrangements can support debt-to-revenue ratios in the order of 10–12:1 when project-specific revenues fully service the debt, compared with approximately 2.8–3.5:1 council borrowing as general obligation finance.

In the absence of widely available project-specific finance, these institutional constraints are visible in overall borrowing patterns. Recent borrowing trends underscore this structural constraint. Between 2009 and 2022, inflation-adjusted local government debt increased by approximately 226%, while inflation-adjusted rate revenues rose by only around 42%, more than doubling average debt-to-revenue ratios.⁴³

This divergence reflects a system in which the costs and risks of growth are socialised and centralised (at local government level) through council borrowing as general obligation finance. The benefits of development often accrue well beyond the local rating base, at a systemic level: regional economic growth, national productivity, and housing affordability. Because councils cannot reliably align new investment with dedicated revenue streams or beneficiary consent, debt accumulates without commensurate revenue growth. The predictable response is political and fiscal risk aversion: development is rationed, sequencing is tightened, and discretionary barriers rise. Rather than enabling competition in land markets, the financing system reinforces scarcity by design.⁴⁴

Box 2. What We Had: The 1913 framework and relationship-based lending

Some argue that New Zealand has never had the institutions needed to finance infrastructure project by project. History says otherwise. Annex B explores that history in detail, summary below. The *Local Bodies' Loans Act 1913* set out a complete system for councils to borrow for specific projects. Councils borrowed by issuing bonds. A bond is essentially an IOU that promises to repay lenders with interest over time. The system had six key features:

- **Public notice (standardised disclosure):** Section 9 required councils to tell ratepayers what they planned to borrow, how much, and what security they were offering (typically a dedicated rate). This worked like a modern disclosure document.
- **Democratic consent:** Sections 10–11 required a vote of ratepayers, with clear thresholds for approval. Debt issued this way had real democratic backing.
- **Dedicated repayment stream (ring-fenced funding):** Sections 19–20 let councils pledge a “special rate”: a recurring annual charge attached to the land until the loan was repaid. This is functionally the same pledged funding that backs US revenue bonds today.
- **No central government guarantee (explicit non-recourse):** Section 41 stated that lenders had “no claim upon the Government of New Zealand.” If a project failed, the Crown would not bail out the lenders.
- **Restricted local government step-up (explicit non-recourse):** Section 21(2) limited a council's ability to pay for a special loan made over only a part of its district to £100 per annum (about \$15,000 today), and this also required Audit Office consent.
- **Orderly failure (default machinery):** Sections 42–52 and 78–86 set out what happened if a council could not repay. Courts could appoint a receiver who could obtain an order from the court to adjust rates and to sell property to repay debt, without the repayment failure spreading to other councils or the wider financial system.

Under this framework, councils routinely borrowed four to five times their annual revenue, roughly double what current rules allow.⁴⁵

But New Zealand never developed a “secondary bond market”: a market in which bonds are actively traded between investors. It did not need one.

Risk was managed through relationships, not markets. Lenders decided what interest rates to charge (how they “priced” the risk) based on direct knowledge of each borrower, rather than watching how bonds traded in a market, which is effectively anonymous market trading. Economists call this “relational financing”. Specialist banking teams analysed council finances directly, inspected the rate rolls that secured each loan, and negotiated terms based on close knowledge of each borrower. Insurance companies and dedicated repayment funds bought the debt and held it until repayment (what financiers call “holding to maturity”). The bankers knew their clients; the clients knew their bankers.

High borrowing levels reflected trust and capability. An active secondary bond market reflects how easily investors can buy and sell debt to each other. New Zealand had the first but not the second. The close relationships between lenders and councils substituted for the trading market.

What changed? We moved from a system under which councils could borrow heavily for specific projects (with lenders bearing the risk if those projects failed) to one that enabled councils to borrow cautiously against their general revenues (with ratepayers bearing the risk through rates increases). In financial terms, this was a shift from high leverage with specific project risk to low leverage with generalised balance sheet risk.

The gap in New Zealand's infrastructure finance system resulted from losing the relationships that made higher borrowing sustainable, and the loss of 35 years during which those relationships might have deepened into something more.

This history demonstrates that New Zealand once possessed, and deliberately dismantled, institutional conditions that made high-leverage, project-specific infrastructure finance legitimate and manageable. The reform task, then, need not invent this but rebuild what New Zealand once had.

This is the context in which the IFF Act was designed: no special-purpose entities, no project-specific borrowing, no democratic consent mechanisms (ratepayer polls authorising specific projects), no tested default process (orderly procedures when projects fail), and no relational financing ecosystem (lenders with direct knowledge of borrowers). The firewall between project failure and the felt obligation of public bodies to step in and absorb the loss had been dismantled. This institutional void shaped its flawed architecture. The IFF Act is trying to rebuild institutional conditions that once existed in New Zealand and recover time that was lost.

1.5 Why Councils Block Growth

The incentives motivating councils clarify why New Zealand's infrastructure finance system blocks development.

For councils, growth is mainly a cost. New residents need water connections, sewerage, roads, stormwater drains, parks and community facilities. This infrastructure must be paid for upfront, but the rates revenue from new properties trickles in slowly as houses are built and occupied. Years or decades can pass between making the investment and recouping it.⁴⁶

Worse, councils do not share in the windfall when land values rise. When a council builds infrastructure that makes land developable, the land becomes worth far more, but that gain goes to whoever owns the land, not to the council that made it possible.⁴⁷ The council pays; the landowner profits. This is the core problem the Productivity Commission identified: councils face most of the costs of growth but capture little of its benefits.⁴⁸

Then add politics. The people who vote in local elections are existing residents, and many oppose both the rates increases and the intensification that growth brings. Councillors who push for growth face resistance from the people who actually turn up to vote.⁴⁹

Borrowing limits make things worse. Even a council that wants to fund growth may not be able to. Approaching the LGFA's debt ceiling puts pressure on the council's credit rating, which can raise borrowing costs across everything it does. The institutional incentive is to play it safe.

Councils delay growth, push infrastructure costs onto developers, and limit development by not building the necessary infrastructure. The incentives make this the rational choice.

The IFF Act was meant to break this pattern by allocating infrastructure debt to a separate financing vehicle rather than to the council, so that it does not count against borrowing limits. Councils could approve growth they would otherwise have had to block. The theory was sound. The implementation created new obstacles just as powerful as the old ones.

PART 2

The Infrastructure Funding and Financing Act 2020: Design and architecture

2.1 Origins and Policy Intent

The *Infrastructure Funding and Financing Act 2020* grew out of the *Urban Growth Agenda*, a coordinated reform programme launched by the Labour-led government in 2017 under Housing and Urban Development Minister Hon Phil Twyford. The programme covered planning rules, infrastructure funding, transport, and law reform: all the pieces needed to change together if housing was to become more affordable.⁵⁰

Infrastructure funding was recognised as critical. As The Treasury put it, “most high growth councils are close to their maximum debt to revenue ratios [debt limits],” constraining their ability to build the infrastructure necessary to support new housing developments, and “freeing... local authority [council] financial constraints” through “alternative financing would speed up the delivery of new infrastructure.”⁵¹

The thinking behind the Act drew on competitive urban land markets (CLM). Chris Parker, then at The Treasury, had developed the CLM framework through earlier work at New Zealand Institute of Economic Research (NZIER). It was supported by work from an eclectic group of economically minded urbanists.⁵² The broad argument: when councils limit where you can build and what infrastructure they will pay for, owners of the few permitted sites can charge far more than their land is worth. Other landowners cannot compete by bringing land to market. The IFF Act aimed to fix the infrastructure side of this problem.

A test case was Milldale, a large housing development on Auckland’s northern fringe. Milldale showed that developers would accept long-term infrastructure charges if those charges unlocked development that would otherwise be blocked. But the financing relied on bespoke, privately negotiated, and lot-by-lot legal charges attached to each property title.⁵³ It was a clumsy fix that required custom arrangements for every property.⁵⁴ The IFF Act aimed to turn this approach into a proper legal framework that could be used anywhere.

The 2019 Cabinet paper set out what the model was meant to achieve, namely to ensure local authority funding constraints do not delay or prevent the timely provision of infrastructure to support urban development, and ensure “costs of growth are properly allocated so that they fall on the communities and homeowners who benefit from the new infrastructure.”⁵⁵

The logic was straightforward:

Council debt limits block infrastructure →
the IFF model moves debt off council books →
councils can approve more infrastructure → land
supply becomes responsive → housing becomes
more affordable.

But the vehicle the current Infrastructure Levy Model (based on the IFF Act) creates to collect the levy is not democratic. Levy payers do not elect its board. They have no direct say in how it operates. Cabinet approval provides some democratic backing (Ministers are elected) but that is indirect. Levy payers in Tauranga or Wellington have no direct voice in Cabinet decisions about their levies.

Requiring Cabinet approval for every levy acts as a substitute for the project-matched democratic authority for a tax-like charge. But this means politicians decide which projects go ahead. It reintroduces political gatekeeping into a model

designed to remove gatekeeping. This tension between proper legal and democratic authority (its “constitutional propriety”) and making the system work for many projects (its “scalability”) runs through the whole model.

Box 3. The Mismatched Substitution: Why Cabinet approval is both necessary and insufficient

While the IFF charge is legally classified as a “levy” rather than a general tax, it exercises the coercive power of a tax. It is mandatory, inescapable, and enforceable by the sale of property.

Any exercise of such power requires legitimacy. Historically, New Zealand achieved this through local democratic consent: between 1876 and 1996, special local taxes and borrowing required approval by a poll of affected ratepayers.⁵⁶ This was simple, cheap, and matched the people paying with the people deciding.

That mechanism no longer exists. The broader institutional fabric that supported it (including the capacity for local bond finance without recourse to general council revenue) was dismantled in the 1989 reforms and never rebuilt. The IFF model’s designers therefore reached for Cabinet approval backed by Treasury scrutiny as a substitute. Given the institutional void they inherited, this was a reasonable choice.

However, the substitution is mismatched on two dimensions:

1. **Democratic mismatch:** Cabinet operates at the wrong level. The “democratic principle of congruence” requires that those who benefit, those who pay, and those who vote should align.⁵⁷ A levy on properties in Tauranga or Drury is approved by Ministers in Wellington who answer to a national electorate. Levy payers

have no direct say, and no realistic prospect of changing a government that has already committed them to decades of payments. The substitute process satisfies the letter of section 22(a) of the *Constitution Act 1986*, but not its spirit.

2. **Economic mismatch:** Cabinet scrutiny is far more expensive than a ratepayer poll. Every proposal requires extensive legal, financial, and policy documentation. The Treasury must assess every Government Support Package. Ministers must weigh competing demands on their time and political capital. These “high establishment and administration costs” make the model uneconomic for projects under \$50 million.⁵⁸ A high-cost legitimising process has been substituted for a low-cost one, throttling the very investment the model was meant to enable.

The IFF designers had little choice. The institutional foundations that would have supported a better-matched mechanism did not exist. The solution is to rebuild them: local consent from those who will pay, supported by financing structures that do not depend on Cabinet case-by-case approval or on one-off marketable security issuance for each project.⁵⁹

2.2 The Statutory Architecture

The IFF Act created a complex but coherent financing mechanism built around four key elements: the levy, the Special Purpose Vehicle (SPV), the Order in Council (OIC), and the Government Support Package (GSP).

The Levy

The levy is a charge on properties within a specified area (the “project community”) that benefit from the new infrastructure. Unlike development contributions (one-off payments when developers subdivide land or get building consent), the levy is an ongoing annual charge for up to 50 years.⁶⁰

The levy is registered against the property title. If the property is sold, the new owner inherits the obligation. The levy ranks ahead of mortgages. If someone stops paying and the property is sold to recover debts, the levy gets paid first, before the bank. The levy is collected using the same powers councils use for rates, including, if it comes to it, the power to force a sale. This gives lenders confidence that the money will keep flowing, which is what makes them willing to lend against it.

Why spread the charge over decades?

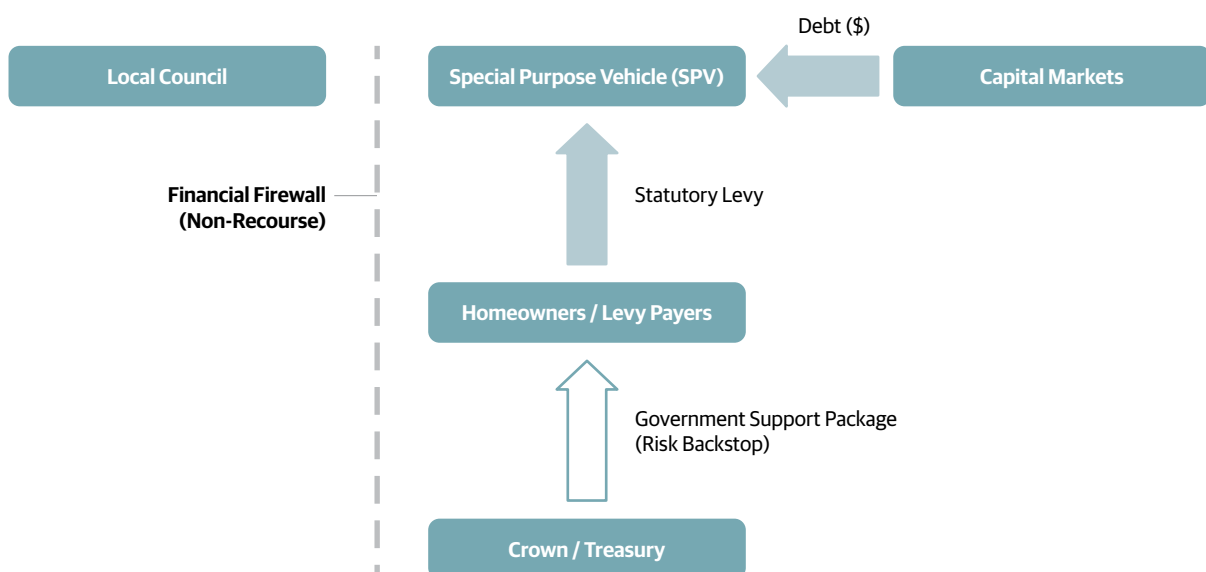
Infrastructure costs a lot and must be paid for upfront. You cannot build half a pipe. Spreading recovery over 30–50 years keeps annual charges affordable while matching the long life of the assets: landowners pay for the pipes over the same period they are using them.

The Special Purpose Vehicle (SPV)

The SPV is a separate company set up specifically for a single project. It borrows money to build the infrastructure, owns it during construction, then hands the finished assets over to the council or another public body.

The SPV must be genuinely separate from the council to avoid the debt counting against the council’s borrowing limits. Credit rating agencies must be satisfied that the council has no duty to rescue the SPV if things go wrong: not legally, and not in practice. If the agencies thought the council would step in regardless, they would treat an SPV debt as a council debt. The separation is what keeps the debt off the council’s books (see Figure 3).⁶¹

Figure 3. The Off-Balance Sheet SPV Model: Council, SPV, levy payers, lenders and the Crown (GSP)



The Order in Council (OIC)

Before a levy can be charged, Cabinet must approve it. The approval takes the form of an Order in Council, a formal legal instrument signed by the Governor-General on the Minister's recommendation. The OIC sets out where the levy applies, how it is calculated, what infrastructure it pays for, and how long it lasts.

Why such an elaborate process? Because the levy operates like a tax: compulsory and enforceable through property sale.

New Zealand's constitutional arrangements (the fundamental rules about how government power can be exercised) require that compulsory charges like this are properly authorised by elected representatives. This principle goes back centuries: no taxation without representation.

The OIC mechanism satisfies this requirement. Cabinet, made up of elected Ministers, approves the levy. The Order in Council is a formal legal instrument that courts recognise. The intent is for this approach to be constitutionally robust, meaning courts would be unlikely to strike the levy down if someone challenged it.⁶²

But this robustness comes at a cost. The law does not delegate this power to officials. There is no pre-approval that lets bureaucrats sign off levies by applying set rules. Every single levy must go to Cabinet with all the time that takes: the consultation, legal and advisory costs involved, and the political considerations that shape any Cabinet decision.

The Government Support Package (GSP)

The GSP was intended as the Crown's contractual commitment to cover certain "tail risks" that cannot be managed by the SPV, the council, or private insurance (see Figure 4). In the original policy thinking, these risks included uninsurable Geotech risks (e.g. natural disasters and force majeure events), material legislative

changes that undermine the levy, and residual refinancing risks.⁶³

The GSP was conceived to address the fundamental problem that for a debt to be off the council's balance sheet, the council cannot guarantee it.⁶⁴ But rating agencies recognise that in New Zealand's institutional environment, councils cannot realistically allow essential infrastructure to fail. If an SPV encountered severe difficulty, the council would face intense political pressure to step in, undermining the separation of the debt and the council's accounts. This "moral obligation" is something rating agencies treat as equivalent to a practical guarantee.⁶⁵

Accordingly, the GSP was developed as a general mechanism to enable non-recourse, project-specific infrastructure finance by addressing residual policy and legal risks associated with levy-backed funding. The discussion below focuses on this design logic. The way the GSP has been applied in the first two, council-led IFF projects (and the implications of that experience for the role the GSP has actually played in New Zealand) is examined separately in Annex C.

On this logic, the Crown's explicit assumption of specified tail risks would break this moral link. The GSP would tell rating agencies: if disaster strikes, the Crown (not the council) will respond. This would remove any implicit council guarantee, achieving the off-balance-sheet treatment to councils that the model requires.

The main feature of the NZ IFF model is that the SPV is a financing vehicle, which is structurally separated from operations. Unlike some US-style municipal utility models that combine the operating utility with the financing conduit (the borrower is also the operator), the NZ IFF model adopts an intentionally "unbundled" structure for financing and operations:

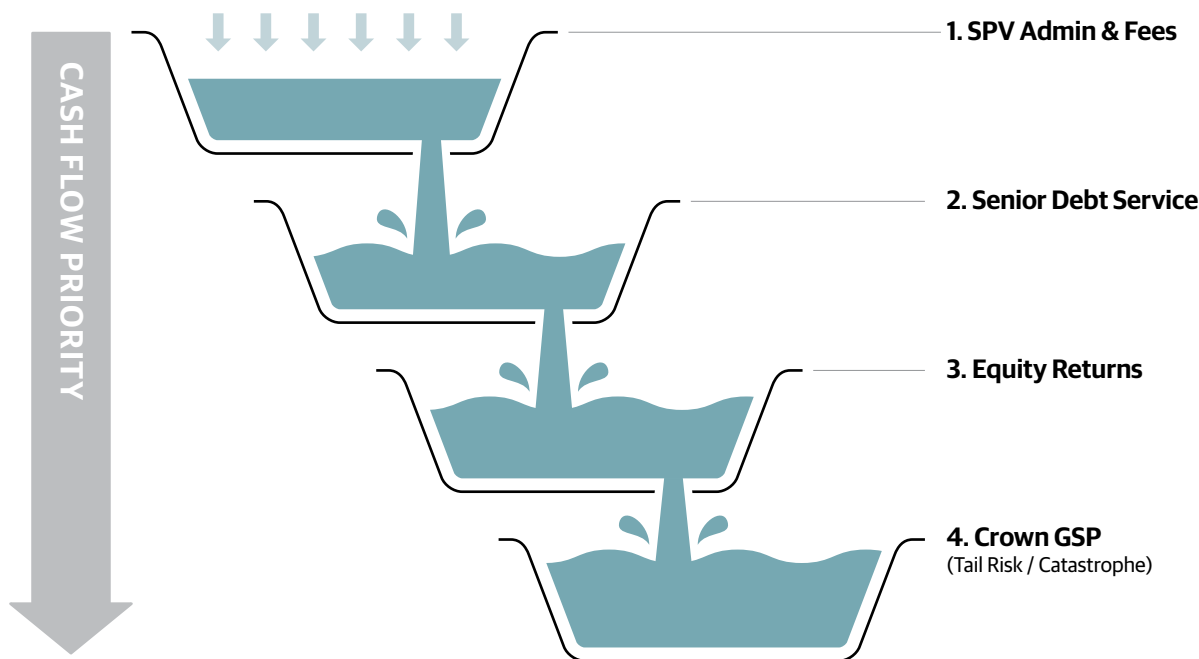
- The **SPV (Financing Conduit)** holds the debt and collects the levy revenue stream. Its only “operating costs” are administrative: audit fees, trustee fees, and registry costs. It has no obligation to operate the infrastructure asset.
- The **Council (Asset Operator)** takes ownership of the infrastructure upon completion. All physical operating costs, maintenance, and renewals are funded from the Council’s general revenues (rates and user charges), entirely outside the SPV’s cash flow.⁶⁶

This separation means the SPV’s payment waterfall (i.e. the order in which incoming money gets allocated: who gets paid first, second, third) prioritises debt service because the asset’s operational risk has been legally transferred to the Council. The levy revenue stream is a statutory charge on the land, unconnected to the physical operation of the infrastructure. Even if a pipe breaks, the landowner must still pay the levy, while the Council bears the obligation to repair it from its own budget.

But the GSP introduces its own complications. Because levy orders are bespoke, legally contestable, and distributionally sensitive, The Treasury has required rigorous, project-by-project scrutiny in the two council-led IFF projects to date, with particular focus on judicial review risk and benefit–cost allocation. GSP terms and levy design have therefore been negotiated case by case, reflecting the specific risk profile and incidence of each project.

While it remains possible that a genuine developer-led levy could allow different risk allocation (including the Crown taking on risks that would otherwise sit with councils), experience suggests that the current framework tends toward bespoke adjudication. This uncertainty, and the transaction costs it entails, undermines scalability and weakens credible threat of entry (the ability of developers to build elsewhere, as discussed in Section 1.4) needed for competitive urban land markets.

Figure 4. Risk Waterfall: The Crown GSP at the bottom of the risk allocation structure



*Essential operating and maintenance (O&M) costs sit with council, funded from general rates/user charges outside the SPV chain.

2.3 The Roles and Process

The IFF Act creates distinct roles in the process for getting a levy approved. The roles were separated to avoid conflicts of interest. This way, the people helping to put deals together are not the same people deciding whether to approve them.⁶⁷

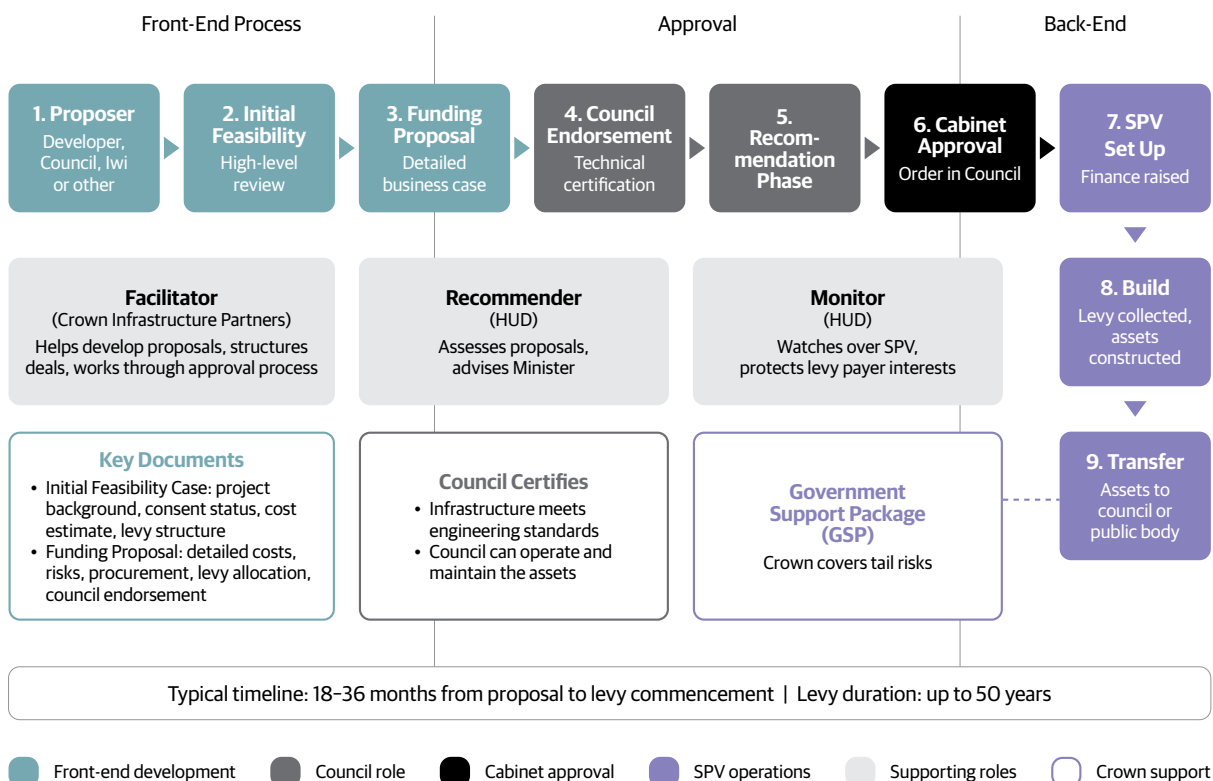
- **The Proposer** puts forward a project. Anybody can propose: developers, councils, iwi, or anyone else.⁶⁸ Developers were expected to propose projects on undeveloped land at the city fringe (called “greenfield”) while councils drive projects in urban areas (“brownfield”) or infrastructure that serves a whole network, like a citywide transport upgrade.
- **The Facilitator** helps proposers develop their proposals and navigate the approval process. National Infrastructure Funding and Financing Ltd (NIFFCo), a Crown-owned company,⁶⁹ and previously known as Crown Infrastructure Partners (CIP) when it helped structure the Milldale financing, was given

this role. It involves practical help with the commercial and technical work, not approval decisions.

- **The Recommender** assesses proposals and advises the Minister on whether a levy should be approved. The Ministry of Housing and Urban Development (HUD) was given this role.
- **The Monitor** (also HUD) watches over the SPV after levy approval, checking compliance, protecting levy payers’ interests, and has legal powers to step in if things go seriously wrong.

Figure 5 illustrates the process. The Proposer develops an initial case showing the project is worth exploring. The Facilitator reviews it at a high level. If it looks feasible, the Proposer (with Facilitator help) develops a detailed funding proposal setting out exactly how the project would work, what it would cost, who would pay, and how the risks would be managed.

Figure 5. IFF Levy Approval Process and Key Roles



The local council must endorse the proposal. The council is asked to confirm specific matters: that the infrastructure meets engineering standards, that the council can operate and maintain it once built, and that collecting the levy will not interfere with collecting ordinary rates. This requirement still gives councils a gatekeeping role; they can block a project by refusing to endorse.⁷⁰

The Recommender reviews the proposal and advises the Minister, who consults Ministers of Finance, Commerce and Consumer Affairs, and Local Government before taking the OIC to Cabinet.⁷¹

Cabinet considers the proposal and, if approved, the Governor-General makes the Order in Council. The SPV is then set up, finance raised, and construction begins.

2.4 Interaction with Other Legislation

The IFF Act works alongside several other laws:

- **Local Government Funding Agency (LGFA) borrowing limits:** The LGFA offers councils cheaper borrowing in exchange for agreeing to debt limits (called “covenants”). Most councils join because the savings are substantial.⁷² The purpose of the IFF Act is to get around these limits. By placing debt with the SPV rather than the council, and by having the Crown rather than the council cover risks of extreme events, the debt does not count against council borrowing limits.⁷³
- **Local Government Act 2002 / Local Government (Rating) Act 2002:** The SPV uses council powers to collect the levy. These are the same powers councils use to collect ordinary rates, including the power to force a sale if someone does not pay. But the SPV is not bound by the rules that apply to council rate-setting. Before setting rates, councils must publish proposals, invite submissions, and respond to objections. The SPV skips all of this. It simply follows the terms set out in the Order in Council.⁷⁴
- **Resource Management Act 1991:** The IFF Act itself does not confer planning or compulsory acquisition powers on SPVs. Where SPV-funded infrastructure requires route protection, land designation, or land acquisition, these functions must be exercised separately by councils or other authorised public authorities under existing RMA and Public Works Act processes. This means IFF projects remain dependent on council cooperation for key planning and land access decisions.
- **Development contributions:** One-off payments developers make at subdivision or building consent to cover the cost of connecting the development to roads, water, and other services. These can be charged alongside IFF levies, but levies should account for them to prevent double charging.⁷⁵

PART 3

Post-mortem: Why the 2020 model was necessary even though it initially failed to deliver

3.1 The evidence of unavoidable failure

The IFF Act produced two levies in the first five years, with a third progressing to near completion before being withdrawn when the political cycle intervened. This fell far short of original ambitions, but the shortfall was unavoidable, given constraints that informed its design. At the time, this appeared to confirm structural failure. The recent approval of a third levy changes that picture. The structural constraints this report identifies remain. The first two cases are:

- **The Tauranga Transport System Plan Levy (2022):** ~\$175 million in transport infrastructure with a city-wide levy for 30 years.⁷⁶
- **The Wellington Sludge Minimisation Facility Levy (2023):** ~\$400 million for sludge handling at Moa Point with a city-wide levy for 33 years.⁷⁷

In March 2026, a third levy was approved:

- **The Te Awa Lakes Project Levy (2026):** Up to \$50 million in water and roading infrastructure for a developer-led greenfield development of approximately 2,500 properties northwest of Hamilton, with a levy on around 1,500 properties for 30 years. The levy is administered by Hamilton City Council and supported by a new approach to the application of the Act, called the “Greenfield Model”.⁷⁸

The first two projects have common characteristics: they are council-led, brownfield, city-wide network upgrades that solved council balance sheet problems. These are legitimate uses of the IFF Act, although not uses the Act was primarily designed to support. It successfully kept substantial infrastructure debt off council balance sheets and moved that debt off the Crown’s balance sheet when the project was completed.

But the 2019 Cabinet paper expected the model to be used mainly for new developments on the city fringe. Developers would propose the infrastructure. New homebuyers would pay the levies. Growth would be unlocked because developers would no longer be held back by what councils could afford. For the first five years, none of this happened. No developer successfully used the IFF Act to get around council infrastructure limits. The Milldale success story that the Act was meant to copy and scale had not been repeated.

When introducing the 2025 Amendment Bill in November 2025, Minister Bishop acknowledged this directly: “Only two levies have been authorised to date — well short of the intent and ambition of this legislation.”⁷⁹ Shortly thereafter, in March 2026, the approval of Te Awa Lakes changed the picture. But the barriers the Amendment Bill addresses are, in substance, inherent in the model, as confirmed by the Government’s own efforts to adapt the mechanism through the Greenfield Model.⁸⁰

Even so, these projects are genuine achievements, especially the third. They set important precedents. The first two showed that the basic model works: a levy can be collected; the SPV can be set up; and debt can be raised separate from (“off”) council books. Te Awa Lakes shows that the model can adapt to also enable developer-led greenfield infrastructure. Together, these are the foundation needed to further develop the model and begin the process of broader institutional learning.

3.2 First-Order Barriers: Root Causes

The model’s limited uptake stems from design flaws. But the designers had little choice: wider constraints forced defects into the design. These constraints are what we call “first-order barriers” (see Figure 6). They exist outside the model, in New Zealand’s institutions, political culture, and legal framework. The model had to work within them and fixing it alone will not be enough. The barriers themselves must change.

3.2.1 Democratic Legitimacy Deficit

The levy has much of the economic substance of a tax:⁸¹ It is compulsory, paid to a third party (the SPV), and is enforceable through compulsory sale of property.⁸² Two things distinguish the levy from a general tax: the money is pledged to a specific purpose, and the property owners are assumed to benefit from the works it enables.

Yet the model has no mechanism of democratic consent. Levy payers cannot vote on whether to be levied, have no representation in SPV

governance, and cannot hold the levying entity accountable.

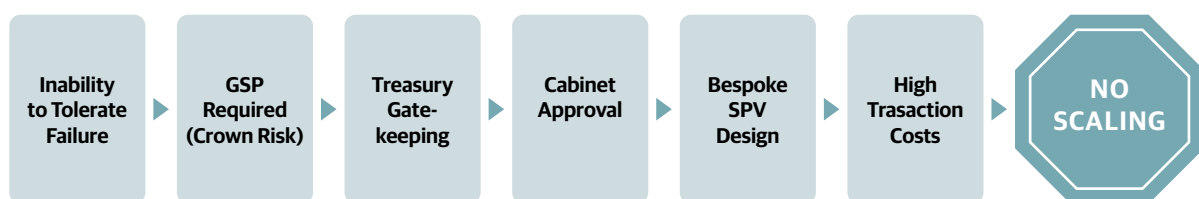
Government briefings pointed out that this arrangement “pushes constitutional bounds.”⁸³ Cabinet approval via Order in Council provides some legitimacy. Ministers are elected. But the link is weak. Levy payers in Tauranga or Wellington have no particular voice in Cabinet decisions about their levies.

This legitimacy gap has consequences. Ministers are cautious about approving levies, especially in brownfield areas where residents did not choose to buy in. The gap requires protective layers (Monitor oversight, consultation, affordability assessments) adding cost and time.

The original policy design recognised this tension. The 2019 Cabinet paper recommended starting with new developments on the city fringe (greenfield) before moving to brownfield, precisely because greenfield involves less political risk. New homebuyers “opt in” by purchasing property subject to a disclosed levy. But even greenfield development has not happened, which suggests the legitimacy gap is not the only barrier.

Under the *Local Bodies’ Loans Act 1913*, borrowing required a poll of affected ratepayers with clear thresholds. Debt issued under that framework had strong democratic backing because those who would repay it had consented to it. The IFF Act substitutes Cabinet approval for ratepayer consent. That is a legitimacy gap that no amount of process improvement can close. (See Annex B for detailed analysis of the 1913 consent mechanisms.)

Figure 6. Causal Chain of Structural Constraints: Inability to tolerate infrastructure failure



3.2.2 The Coordination Problem: Two Pillars, Mutually Constrained

The IFF Act was never intended to work on its own. Within the broader *Urban Growth Agenda*, it was always accepted that planning restrictions were the first barrier. But councils routinely used infrastructure limits to justify restricting where development could happen. The logic was that they could not zone for more housing if they could not afford the infrastructure. Unless that constraint is addressed, planning reform cannot be fully unlocked.

Planning reform has advanced, but like IFF, progress has been slow and limited. Both pillars have moved forward enough to enable the next step, but neither has yet delivered what competitive urban land markets need. Developers still face a sequence of hurdles:

1. **Planning uncertainty:** Will consent be granted?
2. **Timing uncertainty:** How long will the process take?
3. **Cost uncertainty:** What infrastructure standards will be imposed?
4. **Access uncertainty:** Can I physically connect to networks? Do I have the legal right to lay pipes?
5. **Financing:** How do I fund construction once all the above are resolved?

The fourth hurdle is less visible than the others, but just as real. New Zealand law gives some utilities automatic rights to access road corridors. Electricity, gas, telecommunications, and public water providers all have this “Utility Operator Status”.⁸⁴

Private water providers do not. They must ask councils for permission. Councils can refuse or attach conditions. Often those conditions make long-term financing challenging. Planning reform and infrastructure finance reform cannot fully deliver competitive urban land markets if new entrants lack the legal right to connect.

IFF solves constraint #5 (financing). But most developers fail at constraints #1–4: zoning, timing, cost, and the right to connect. A developer considering a multi-year IFF process will not commit without confidence that planning consent will come through. The levy-setting process can take 18–36 months.⁸⁵ Adding planning uncertainty on top makes the risk too high.

IFF provides part of the solution to this coordination problem, but not the whole solution. Until developers regain their property rights (the right to develop their land) through further planning reform, they will hesitate to commit to multi-year IFF processes when prior questions remain unresolved. The two pillars of CLM were always meant to move together.

3.2.3 Cabinet Approval Moves the Gatekeeping, Does not Remove It

The IFF Act was designed to free infrastructure investment from council debt limits and political decision-making. Yet the model routes every project through Cabinet approval via Order in Council.

This reintroduces at the national level the very gatekeeping the model was meant to bypass at the local level. Cabinet approval requires:

- Mandatory council endorsement (giving councils a say despite the model’s intent to work around them)
- Ministerial assessment of whether the levy is “affordable to the community” (officials deciding what people can pay, rather than letting people decide for themselves)
- Treasury negotiation of the GSP (bringing Crown risk assessment into every project)
- Cross-ministerial consultation (Finance, Commerce and Consumer Affairs, Local Government)
- Cabinet collective decision

Each requirement is a point at which a project can be delayed, changed, or rejected for

reasons unrelated to whether the project would work: a minister worried about how it looks; a Treasury official cautious about risks that might fall on the Crown; a council hostile to a particular development.

Permission to use the model and strike a levy is granted by Cabinet in consultation with councils. They need to consider whether a levy is affordable to the community, reintroducing political pressures that tend to ration access to finance. The Act created a new route around council rationing, but that route passes through Cabinet. Political gatekeeping was moved, not removed.

The constitutional logic for Cabinet approval is understandable. The levy has tax-like characteristics, and imposing new taxes should require democratic authorisation. But the consequence is that IFF cannot scale. If 50 developer-led proposals emerged in a year, Cabinet would become the bottleneck. The model can manage one-off, occasional, large projects. It cannot support infrastructure delivery that responds to demand as it arises.

3.2.4 Institutional Void

New Zealand lacks the institutional infrastructure that makes project-specific infrastructure financing routine elsewhere. There is no:

- **Municipal bond market:** The United States has an over \$4 trillion market with deep liquidity for local government and project-specific debt.⁸⁶ New Zealand has no equivalent for IFF levies. Each project has a novel structure that investors must figure out.
- **Established credit rating frameworks:** Rating agencies do not have a settled, routinised framework for assessing IFF-style levies in New Zealand. Each project is assessed from scratch.⁸⁷
- **Track record:** With only three levies approved, there is no performance history

against which to benchmark risk. Investors and rating agencies cannot point to a portfolio of successful (or unsuccessful) projects to inform assessments.

- **Standardised documentation:** Each SPV requires bespoke constitutional documents, levy order drafting, and GSP negotiation. No templates exist that can be deployed with minor modifications.
- **Investor familiarity:** For each project, capital market participants must be educated about what they are buying, how the revenue stream works, and what protections they have. Some argue New Zealand's capital markets are too small for this. They are not. The problem is a lack of suitable products, not a lack of capital. (See Annex A for detailed evidence.)

In the US, a Tax Increment Financing District or Special Assessment District can be set up using standard forms under existing law, tapping into a market that already knows how these instruments work.

3.2.5 Finance Freedom Depends on Accepting Finance (not Service) Failure

What non-recourse requires

New Zealand's political and cultural environment does not support credible non-recourse financing. "Non-recourse" means that if a project fails, lenders bear the loss. They have no legal right to pursue the council or the Crown for the shortfall. The debt stays with the project, not the taxpayer.

In the US revenue bond market, bonds are explicitly non-recourse: the city or county in which any bond was set up is not on the hook. If a toll road underperforms or a water utility's forecasts prove wrong, bondholders bear the loss. Cities do not rescue failed projects and bondholders have no legal claim on city resources. Everyone understands this when they go in. Lenders charge higher interest rates to cover the risk. Risk is priced. Default is a normal part of how the market works.⁸⁸

It does not mean that infrastructure is abandoned. US law (Chapter 9 of the *Bankruptcy Code*) allows municipalities to rework their debts while continuing to provide services. Bondholders may take losses, but residents keep receiving services. The legal system separates *financial* failure from *service* failure.

What New Zealand has and what is missing

The IFF Act does have a governance intervention ladder: the Crown can appoint a Monitor, direct the SPV to address problems, and appoint a Crown Manager. But this is executive stabilisation, not financial resolution. It addresses misbehaviour, not insolvency. If the SPV cannot service its debt, general corporate insolvency law applies. Separation between financial failure and service continuity is achieved progressively, as infrastructure components are completed, certified, and vested in the council.

Once vested, the council owns and operates the assets under statutory obligations to ensure continuation of services. But vesting is staged and conditional, not automatic or simultaneous. Projects pass through extended periods of partial completion and mixed ownership, where financial exposure is highest and institutional protections are weakest. No infrastructure-specific framework governs what happens if the project fails during this transition.

Recent reforms that allow developers to retain infrastructure rather than vest it in councils extend this exposure further. Where utilities remain on the developer's balance sheet, the developer's insolvency, not just the SPV's financial distress, can put service continuity at risk. Institutional protection through a resolution framework is needed alongside structural protection through vesting, because vesting alone cannot cover the period when it is most needed.

New Zealand's insolvency regime does provide tools for managing financial distress. In practice, however, those tools are oriented

toward individual creditor recovery. A secured creditor (a lender holding a blanket claim over a company's assets, called a general security agreement) can appoint a receiver, take control of the business, and sell assets to recover what they are owed.⁸⁹

In a development context, those assets could include land, partially built infrastructure, and the contractual rights that hold the project together. The receiver's duty is to that creditor. Other creditors, the community, the infrastructure, the project's future: these are not the receiver's concern. Voluntary administration, the process through which all creditors collectively agree to restructure the company's debts and keep it operating, is rarely used in New Zealand for legitimate restructuring.⁹⁰

For infrastructure serving a community, *enforcement* favours individual creditor recovery, but *restructuring* is often better aligned with delivering an outcome that creates the most value for everyone: completing the project, continuing services, and letting a new developer step in if needed. This does not mean that creditors will always choose enforcement over restructuring. In some cases they will coordinate voluntarily.

But the system must also account for the possibility that the secured creditor does not enforce at all. A bank holding security over a politically sensitive development may refuse to sell, refuse to participate in any coordinated resolution, and wait for the Crown to buy it out at close to par. This holdout produces the same outcome as enforcement. The Crown is drawn in and moral hazard is reinforced, but through the opposite mechanism: strategic inaction rather than unilateral action.

The problem is that nothing in the current framework requires them to, and when their individual interests diverge from the collective interest, the system has no mechanism to resolve the conflict. The result is uncertainty: neither

investors, nor communities, nor the Crown can predict how infrastructure distress will be resolved. New Zealand's insolvency regime lacks the integrated features of a purpose-built infrastructure resolution framework. Four things are missing:

1. **Cramdown:** When a project has multiple lenders with different priority of repayment (creditor classes), where senior lenders are paid first and junior lenders absorb losses first, the law cannot force all of them to accept reduced terms (cramdown). A senior lender, especially a secured creditor with independent enforcement rights, who objects can pursue its own claims regardless of what other lenders agree to.
2. **Asset protection from enforcement:** There is no rule that essential infrastructure assets, such as pipes, roads, and networks, must be kept out of the hands of individual creditors seeking to recover what they are owed.
3. **Continuation, not liquidation:** The law allows the entity to be wound up and its assets sold off piece by piece to repay creditors (liquidation). It does not require that the entity survive and the project continue under new terms (continuation). In a system designed for infrastructure, liquidation is removed as a possible outcome.
4. **Compelled participation:** There is no mechanism to bring a secured creditor into a collective resolution process. A creditor can be disruptive through inaction. The system needs the power to compel a creditor who refuses to engage in a court-supervised process where the value of their security is determined, and their claim is satisfied within the resolution rather than outside it. Both creditor action (enforcement) and inaction (holdout) need solutions.

A system with the above features ensures that a distressed entity keeps operating. The infrastructure stays intact. What changes is the financial arrangement behind it: who owns the debt, on what terms, and who bears the loss.

A new developer can still step in, but by buying into a going concern (a viable project with infrastructure, consents and levy stream intact), not by picking over the remains. New Zealand can restructure. What is missing are the legal constraints that make restructuring the only viable outcome.

This does not mean that distressed projects cannot change hands. They can and should. In a well-designed system, a new developer can buy into a distressed project at a reduced price, complete the development, and make it viable. That happens in the United States. When Tison's Landing, a Florida Community Development District, stalled after the developer failed, bondholders took losses, a new developer bought the remaining lots at a discount, and the development was completed.⁹¹ The district continued to exist throughout. Services to existing homeowners continued.⁹² What changed was the developer, the bond terms, and the price. The infrastructure district survived.

The difference is how the sale happens. Under New Zealand's enforcement model, a receiver sells assets to maximise recovery for the appointing creditor. The entity can be wound up. Infrastructure can be fragmented. Nobody is obliged to consider whether the project should be completed or whether services should continue. Under a constrained resolution framework, any sale or transfer happens within a court-supervised process where the entity survives, infrastructure is protected, services continue, and creditors are treated according to priority. A new developer buying into a distressed project buys a going concern with existing infrastructure, existing homeowners, and an existing levy stream. They do not buy stripped assets from a receiver.

Closing the gap with a distress pathway matched to public entities

The United States has addressed this gap. Infrastructure entities there sit in public law, not corporate law. Municipal Utility Districts,

Community Development Districts, and similar entities are political subdivisions, not Companies Act entities, formed by vote of the affected landowners rather than executive decision of central government. Democratic consent is what legitimises them as public bodies, and it is that legal character that determines which resolution regime applies.

The same logic applies to the transition pathway proposed in this report (see Part 5). If New Zealand’s IFF entities are to evolve from Crown-authorized SPVs (private entities) toward community-initiated infrastructure districts (public entities), it is democratic consent (Phase 3 of the proposed Transition Pathway) that legitimises them as public entities, opening the path toward a resolution framework designed for public infrastructure rather than private companies. Table 1 compares the two distress resolution pathways across the features that matter for credible non-recourse infrastructure finance.

This gap is central to what sustains moral recourse. Outcomes in New Zealand depend on negotiation, political pressure, and unconstrained legal processes rather than legal constraints that bind the resolution process to a narrow and more predictable path. Unfinished subdivisions, stranded infrastructure, and households caught in a half-built development are politically explosive. Long before general insolvency law runs its course, the Crown will be drawn in.

Despite Treasury’s position that the GSP covers only sovereign risk and the Crown is not on the hook for project failure, the absence of a credible resolution regime makes the Crown the backstop by institutional default. The 2025 Amendment Bill improves the SPV’s ability to recover funding when a development fails, but it does not ensure that the outcome is collectively beneficial: that the project is completed, services continue, and a new developer can step in.

Table 1. Infrastructure Distress Resolution Pathways

Feature	New Zealand	United States	Explanation
Debt restructuring	Available Administration and deeds of company arrangement can extend maturities, reduce debt, and change payment terms.	Available Court-approved plan of adjustment under Chapter 9.	Both systems can restructure debt. The difference lies in what constrains and shapes the process, covered in the rows below.
Cramdown (binding dissenting creditors)	Partial A deed of arrangement binds unsecured creditors by majority vote. Secured creditors can generally enforce outside the process unless they voted in favour or a court orders otherwise.	Strong Chapter 9 plan confirmation can bind dissenting creditor classes, including secured creditors, if statutory conditions are met.	Infrastructure projects have multiple creditor classes (senior debt, subordinated debt, equity, levy-payers). If secured creditors can hold out or enforce separately, restructuring depends on negotiation rather than a rule-bound process. Outcomes become unpredictable.
Service continuity as a legal objective	Incidental Administrators can continue operations, but their statutory duty is to maximise creditor returns or rescue the company. Once infrastructure is vested in a council, council obligations support continuity independently. Before vesting, there is no infrastructure-specific continuity duty.	Central Chapter 9 entities cannot be liquidated. Creditors cannot force sale of essential public assets. The regime is designed around continuation of services.	Investors need to know that distress will be resolved through financial restructuring, not through asset sales or service disruption that triggers political rescue. If the legal regime does not prioritise continuity, political intervention fills the gap, and moral recourse persists.

Feature	New Zealand	United States	Explanation
Asset seizure protection	Depends on timing After vesting, assets are council property and beyond creditors' reach. Before vesting, or where developers retain infrastructure under recent reforms, assets remain on private balance sheets and are subject to creditor enforcement.	Strong Essential public assets of a Chapter 9 entity cannot be seized by creditors.	The IFF Act was designed primarily for greenfield development, where failure risk is highest during the development phase, before vesting. Recent reforms allowing developer retention of utilities extend this exposure. Protection exists at the safe end of the process but not during the period when it is most needed.
Resolution pathway	Open-ended Liquidation, deed of arrangement, return to directors, or political intervention are all possible outcomes. No predefined sequence.	Constrained Liquidation is not available for Chapter 9 entities. Resolution must proceed through a court-approved restructuring plan. The set of possible outcomes is narrow and predictable.	When multiple outcomes are possible, investors cannot know ex ante how losses will be allocated. Uncertainty, not just risk, is what makes non-recourse incredible. A constrained pathway forces resolution through restructuring rather than ad hoc intervention.
Legal category of the entity	Private The SPV is a Companies Act entity, governed by general corporate insolvency law.	Public MUDs, CDDs, and similar entities are political subdivisions or instrumentalities of the state, eligible for (or shaped by) municipal bankruptcy frameworks.	The legal category determines which resolution regime applies. NZ infrastructure entities are treated like any other company. US entities sit within a public-law framework designed for essential services. Even when Chapter 9 is never invoked, its existence anchors creditor expectations toward restructuring rather than enforcement.

The principle is not new

Non-recourse to the Crown is not foreign to New Zealand law. Under our *Local Bodies' Loans Act 1913*, the official bond forms stated that holders had “no claim upon the Government or public revenues” (Section 41). Part I of the Act empowered courts to appoint receivers to manage default.

Many “local bodies” that borrowed under this framework were special-purpose infrastructure authorities (public entities) that owned and operated the infrastructure they financed, with their own revenue powers and ongoing statutory existence and public obligation to provide services. The distress regime was simple: court-appointed receivers redirecting revenue to creditors. A receiver could take control of their finances, but the entity itself continued to exist and provide services. Non-recourse was presumed credible. The regime was not tested to the extent that required it to evolve.

New Zealand’s 1989 reforms abolished hundreds of these special-purpose bodies and consolidated their functions into general-purpose councils. We lost the institutional environment in which non-recourse had been presumed credible and in which it could have continued to evolve. The United States followed that evolutionary path: Chapter 9 developed over decades in response to real cases of municipal distress that required coordinated resolution across multiple creditors. It is now one of the most extensively tested infrastructure distress systems in the world. As New Zealand rebuilds its infrastructure finance system, it would be imprudent to wait for domestic failure cases to force evolution when the international experience already shows what is needed.

Off-balance-sheet is not necessarily non-recourse

The original policy rationale underpinning the IFF Act 2020 was straightforward. Rating agencies would treat IFF debt as council debt (counting

it against council borrowing limits) unless the Crown explicitly stepped in to break the link. The GSP tells agencies: if things go wrong, the Crown, rather than the council, may respond. It achieves off-balance-sheet finance: debt does not sit on council books. But off-balance-sheet is not the same as non-recourse. Non-recourse requires that investors can bear loss, which in turn requires the institutional machinery to separate financial failure from service failure, so that the Crown is not drawn in by default. Until that machinery exists, moral recourse persists regardless of where the debt formally sits.

But the GSP cannot create what does not exist: a more mature system in which investors accept loss when infrastructure projects fail. That acceptance only develops when institutions are hardened against political and legal interference, when a tested process exists for managing financial distress without stopping essential services, and when enough projects have succeeded or failed on their own terms that markets trust the system.

Why you cannot legislate your way there

Legislating non-recourse does not, on its own, make it credible. Once essential infrastructure is built and serving a community, letting it fail becomes politically unacceptable. Everyone knows this. The Crown cannot credibly promise in advance to stand back in all circumstances. Economists call this *time inconsistency*: what looks like the right policy before construction (no bailout) stops looking right after construction (avoid service failure).

This has consequences beyond what investors think. Once councils, SPVs, and delivery bodies expect that losses will ultimately fall on the Crown, their behaviour changes. Those closest to delivery know more about what is going wrong, but they have less reason to control costs or manage risk carefully if they believe the Crown will cover the downside. Economists call this *moral hazard*: the people with the information

have weaker incentives because someone else bears the risk.

Knowing this, the Crown responds rationally. It imposes layers of oversight: one-off GSP negotiation for every project, intensive Treasury scrutiny, Cabinet approval. The red tape is not an accident. It is the necessary response to non-recourse that nobody believes. Without a framework that makes failure both believable and contained, this piling on of checks cannot be avoided.

This is a cultural issue, not merely a legal one. The US developed credible non-recourse financing through 150 years of experience, including actual defaults that set market expectations. New Zealand's path to equivalent experience was cut off in 1989. Recreating it requires more than passing a law. Statutes need to be supported by cumulative market experience.

3.3 Second-Order Barriers: Downstream Problems

The first-order barriers create downstream obstacles to using the model. But fixing these downstream problems directly, without addressing the root causes, will not achieve much.

Too Many Steps, Too Much Cost

The approval process has many stages, generating large costs and overall project timelines of 2–3 years. The levy-setting and associated financial close phase accounted for approximately one year in the two IFF projects completed to date. But this complexity exists because of first-order barriers: the legitimacy gap requires protective processes, the institutional void requires custom legal work, the GSP requires Crown involvement. Simplifying the process treats symptoms, not causes.

Only Big Projects Work

Projects below about \$50 million have generally not been viable under the IFF model to date, because fixed costs are too high. This threshold

is not inherent to infrastructure finance; it reflects an institutional void and a need for bespoke structuring on every project. Under different configurations, lower thresholds may be possible. The Greenfield Model, supported by NIFFCo, was developed in part to make projects at lower thresholds viable. Te Awa Lakes, the first project under this model, sits at \$50 million: the lower bound of what the current model can support, suggesting the threshold has not yet come down.

Developers Find It Difficult to Use in Existing Areas

The model has proven difficult for brownfield areas. This stems from the legitimacy deficit: imposing compulsory levies on existing residents creates political toxicity.

Developer-led Uptake Took Six Years

The Act allows “any person” to propose a levy. For the first five years, no developer succeeded. Developers face planning uncertainty, coordination challenges, first-mover risk (later developers free-ride), and high transaction costs. The approval of the Te Awa Lakes levy in March 2026, supported by the new Greenfield Model, demonstrates that in some fortuitous cases these barriers can be overcome, but only with Crown financing support during the development phase.

The Crown Is on the Hook, So Treasury Is Careful

Treasury is understandably cautious about GSP commitments. Property development has a moderately high failure rate. This caution shows up as thorough checks on every project. But the caution is rational given the Crown is on the hook.

3.4 The Path Dependency Problem

New Zealand cannot simply copy US-style revenue bonds because institutions and culture develop together over time. The US municipal bond market works because its many pieces developed together over 150 years: enabling laws, knowledgeable investors, rating methodologies, court precedents, trading systems, and a shared

acceptance that infrastructure projects can fail without government rescue.

None of these pieces can be created solely by passing a law. Investors need projects to learn from, but projects need investors. Rating agencies need performance data, but data needs projects, which need financing, which needs ratings. Each piece depends on the others.

New Zealand lost much between 1989 and 1996. Special-purpose bodies were abolished in 1989. Then the *Local Government Amendment (No 3) Act 1996* constrained local authorities from issuing revenue bonds. These developments dissipated specialised expertise and market relationships. The experiences that might have built shared understanding never happened.

This has implications for reform. You cannot legislate your way to a US-style system. If New Zealand passed revenue bond legislation tomorrow, rating agencies would look at the lack of track record, the history of government rescue, and the political pressure to keep services running. They would still require Crown support, or price the debt as high-risk. Writing “non-recourse” into law is not the same as making non-recourse credible.

But institutions can change, and expectations can shift, if the right transitional steps are taken. The task is to design institutions that work within current constraints while building the experience needed for the future. This is the transition challenge.

Not throwing away our shot again means facing this reality and taking active steps to get from where we are to where we want to be, one phase at a time. The Amendment Bill’s reforms are good, necessary, and point in the right direction. This report outlines how modest additional steps can build on what is already proposed, going just far enough to lay the tracks for genuine change.

PART 4

The Destination: What Competitive Urban Land Markets-aligned infrastructure finance looks like

4.1 The US Model as Reference Point

The United States has developed the world's most sophisticated system for project-specific infrastructure finance. Understanding how it works shows what we need from infrastructure finance to enable competitive urban land markets (CLM).

About 30% of US cities are both affordable (house prices close to what building actually costs) and growing at more than 1% per year.⁹³ No other large, developed economy achieves this. The US system produces the outcomes CLM seeks.

A note on comparative method: this report does not propose copying the US system wholesale. The US model emerged from 150 years of institutional development in a context that differs from New Zealand's. The analysis identifies what makes the system work and considers how these features might adapt to New Zealand. The US is a reference point, not a blueprint.⁹⁴

4.1.1 Revenue Bonds

The municipal bond market (the US market in which local governments borrow money) offers two ways to borrow. "General obligation bonds" are backed by a city's power to tax. If something goes wrong, the city must find the money (known as the "full faith and credit" pledge). "Revenue bonds" are backed only by specific income streams: tolls, water fees, or special charges on benefiting properties.⁹⁵

Revenue bonds are explicitly non-recourse. The bond contract (essentially an IOU that promises to repay lenders with interest over time) states that if a project fails, bondholders cannot pursue the city. They can only claim against the project's own revenues and assets. The city is not on the hook.

This separation lets cities sponsor infrastructure financing without risking their own credit ratings or balance sheets. The debt belongs to the project, not the city. Investors bear the risk and charge interest rates accordingly.⁹⁶

4.1.2 Special Districts and Project-Specific Borrowing

Revenue Bonds: Function Over Form

Revenue bonds need both an entity to issue them and a dedicated income stream to repay them, kept separate from the city's general budget. This separation can be achieved two ways. New Zealand used both historically.⁹⁷

Pathway 1: Special Districts

The first way uses legally separate entities set up for specific purposes.⁹⁸ US examples include Municipal Utility Districts (Texas), Community Development Districts (Florida), and Metropolitan Districts (Colorado).^{99,100,101} These bodies are legally separate from the city. Their debts do not sit on the city's balance sheet.

Landowners can petition to form them, typically needing majority consent. Once formed, districts can levy charges, issue bonds, contract construction, and govern themselves through elected or appointed boards.¹⁰²

Pathway 2: Ring-Fenced Debt by Councils

The second way lets ordinary councils issue project-specific debt, secured against a dedicated income stream rather than the general budget. This does not require a separate entity. It relies on legal mechanisms that keep project risk separate from the council’s other obligations.

New Zealand used this approach for most of the twentieth century. Under the *Local Bodies’ Loans Act 1913*, councils issued loans for specific purposes, repaid through “special rates” charged

on defined properties.¹⁰³ Repayment was legally confined to these pledged revenues. General funds were not ordinarily available to cover shortfalls.¹⁰⁴ (See Annex B for detailed analysis.)

What New Zealand No Longer Allows

Since 1996, councils have issued almost exclusively “general obligation” debt (debt backed by their overall revenues and taxing power).¹⁰⁵ The mechanisms that once supported project-specific borrowing have been dismantled.¹⁰⁶ Table 2 summarises the two pathways.

Table 2. Two Pathways to Revenue Finance

Feature	Pathway 1: Special District	Pathway 2: Special Project Loan
Issuer	New legal entity (e.g., MUD, CDD)	Existing council (general purpose)
Security	Dedicated levy / user charge	Ring-fenced “special rate” / toll
Recourse	None (legal separation)	None in principle (statutory ring-fencing)
Governance	Separate board (often landowner-elected)	Council (acting in special capacity)
NZ Precedent	Harbour Bridge Authority (under 1913 Act framework)	1913 & 1956 Acts “Special Loans”
Current Status	Limited (IFF Act 2020 SPVs are rare)	Functionally abolished*

* While legally possible in theory, ring-fenced project borrowing is no longer treated as credible by rating agencies or supported by the LGFA framework. In practice, all council debt is treated as general obligation.¹⁰⁷

4.1.3 Credible Default

The US system is credible because defaults are resolved through law rather than bailout:

- **Jefferson County, Alabama:** approximately \$3.2 billion of sewer system revenue bonds were restructured through Chapter 9 bankruptcy in 2011–2013, with creditors taking losses while essential services continued under court supervision.¹⁰⁸
- **Commonwealth of Puerto Rico:** Puerto Rico’s public utilities, including the Puerto Rico Electric Power Authority (PREPA) with approximately \$8.5 billion in revenue bond claims, entered court-supervised restructuring. However, Puerto Rico could not access Chapter 9 because Puerto Rico’s status as an “unincorporated territory”

excluded it from the definition of a “State” under the US Bankruptcy Code.¹⁰⁹ Congress filled the gap through the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA, 2016), a bespoke restructuring statute modelled substantially on the principles of Chapter 9 of the US Bankruptcy Code (municipal bankruptcy). PREPA’s bondholders had recourse only to the Electric Power Authority’s net revenues, not to general government revenues, and the restructuring framework preserved continuity of essential services while restructuring debt through creditor losses rather than taxpayer bailout.¹¹⁰

Governments may still step in for public health or safety reasons without rescuing bondholders.

A contaminated water supply may be cleaned up even as bondholders lose money on the utility's debt. The legal framework separates keeping services running from paying back lenders.

This experience created the market norm: infrastructure projects can fail financially without loss of service. Bondholders bear the losses. Because the risk is real, lenders charge higher interest rates on revenue bonds than on bonds backed by the city's general taxing power.

In both cases, the "non-recourse" wall held firm. Whether through the standing framework (Jefferson County under United States Bankruptcy Code, Chapter 9, municipal bankruptcy) or bespoke legislation where the standing framework did not reach (Puerto Rico under PROMESA), bondholders bore losses and governments did not intervene with a bailout. The principles remained consistent even though the mechanisms varied.

The Puerto Rico experience has clear parallels with New Zealand's own history. When the Thames Borough Council defaulted in the 1930s, Parliament passed case-specific legislation to break a creditor holdout and impose coordinated resolution, because the existing statutory remedies were, as the *New Zealand Law Journal* observed at the time, "in practice inadequate."¹¹¹ In both countries, the legislature stepped in without bailing out creditors; instead, they enforced an orderly resolution following the principles the distress system was designed to uphold. The lesson is the same: either the standing framework is developed to the point where it can resolve these cases on its own, or the legislature will be drawn in to do it case by case. This report argues for building the standing framework.

4.2 Why the US Model Supports CLM

Some US cities have urban planning and finance systems that deliver what CLM requires:

- **Rights from below, including the right of assembly:** Landowners and developers can initiate the formation of districts. They do not need city invitation or political approval. The right to propose and the right to form a collective entity is embedded in law.
- **Rules from above:** States set the parameters (what districts can do, how they form, what disclosures are required). Within these rules, districts operate on their own. Politicians do not approve individual projects.
- **Those who benefit pay:** Charges fall on properties that benefit from the infrastructure. General taxpayers do not subsidise specific developments.
- **Investors bear the risk:** Bondholders price and bear project-specific risk. Their capital is at stake, so they check carefully before lending. Market discipline replaces government oversight.
- **Projects stand alone:** District debt belongs to the district, not the city. Cities can support development without putting their own finances at risk.
- **Works at scale:** Districts are standing entities with established powers. Forming and financing them is routine. Transaction costs are low, so small and medium projects are viable.

The US municipal revenue bond market finances over \$300 billion in new infrastructure annually with over 50,000 distinct state and local governments (and other issuing authorities).¹¹² Infrastructure supply responds to demand rather than political rationing.

4.3 The CLM-Aligned Target State for New Zealand

The target state for New Zealand infrastructure finance would exhibit these characteristics:

- **Standing entities, not one-off vehicles:** Rather than a new SPV for each project, standing infrastructure utilities or improvement districts

would finance multiple projects, building expertise, developing investor relationships, and reducing costs. A “National Infrastructure Finance Platform” (perhaps evolving from NIFFCo) could finance dozens or hundreds of projects through a single structure.

- **Developers and landowners can initiate:** Developers and landowners would have legal rights to petition for infrastructure financing. Meeting set criteria would trigger the process. Approval would follow rules, not political judgement. The right to propose would be embedded in law, not granted as a favour.
- **Democratic consent for existing areas:** For brownfield areas where existing residents would pay, consent mechanisms would provide legitimacy. A double majority of affected landowners (by number and value) would need to agree. Willing participants could proceed without compelling unwilling neighbours. Levy-payers would govern the entity, not distant SPV owners.
- **Rules-based approvals:** An independent body (perhaps an Infrastructure Finance Commission) would replace Cabinet approval for routine projects. Projects meeting set criteria would be approved as a matter of course. Political discretion would be reserved for exceptional cases.
- **Projects can fail without bailout:** Infrastructure entities could default without government rescue. A credible process would preserve essential services while sorting out financial problems, like how insolvent companies keep operating under administration. Bondholders would bear losses. Councils and the Crown would not step in. Risk would be priced by markets, not absorbed by taxpayers.

4.4 Why New Zealand Cannot Leap Directly to This Model

The target state cannot be achieved by passing a law alone. The gap is too wide:

- **No investor familiarity:** New Zealand investors have no experience with project-specific infrastructure bonds. They would need to learn how they work before putting money in. But learning requires projects, and projects require investors. This chicken-and-egg problem cannot be solved by statute.
- **No track record:** Rating agencies assess risk partly by looking at past performance. With no similar projects to compare, agencies would either refuse to rate or charge high premiums. Track record takes time and successful projects.
- **No legal precedent for infrastructure failure:** What happens when an infrastructure entity defaults in New Zealand? The same insolvency law that applies to any company applies to the SPV. As discussed in Section 3.2.5, it lacks the features infrastructure finance requires. There is no modern precedent for how courts would handle it, and no purpose-built framework to guide the outcome. Without one, the Crown remains the backstop by institutional default.
- **Political culture expects rescue:** Even if the law says “non-recourse”, the political pressure to rescue failing infrastructure would be intense. If a water district faced default, would politicians really let bondholders lose money? Markets would bet against it and charge lower interest rates. As Section 3.2.5 explains, this expectation persists not because of cultural sentiment alone, but because the system offers no credible way for the story to end.
- **No special district framework:** New Zealand no longer has a legal framework for landowner-initiated infrastructure entities. The institutions that operated for most of the twentieth century were abolished in 1989 and 1996. Creating a modern framework requires not just legislation but rebuilding administrative capacity and market familiarity.

These constraints can be worn down through deliberate effort: building track record, developing investor familiarity, and shifting expectations over time. The question is how to build the pathway there.

PART 5

The Realistic Pathway

5.1 Why Transition, Not Transformation

The transition strategy aims to rebuild, in modern form, what once existed and resuming a path that was interrupted.

The financing system that sustained 400–500% debt-to-revenue ratios was dismantled between 1989 and 1996. LGFA replaced part of it (centralised borrowing for general purposes) but nothing replaced the project-specific financing function. That is the gap the IFF Act was designed to fill. (See Annex B for the historical foundations.)

Institutions and expectations develop together over time. You cannot legislate the target state into existence. The goal is to create transitional arrangements that build the experience needed for future reform.

The GSP is necessary because markets do not believe the Crown would let a council-endorsed project fail (the *time consistency* problem). Everyone expects a bailout, so investors do not price risk properly, and Treasury must scrutinise every project heavily. The transition strategy works by slowly building a track record of managed risk. Once markets accept this, the Crown can step back.

Institutional development is cumulative. Each successful project builds track record, educates investors, and shows how the framework works in practice. Over time, this shifts expectations enough to enable more ambitious reform.

5.2 An Interim Adaptation: The Greenfield Model

Recent policy developments show this transitional logic playing out in practice. The Government has developed a new *Greenfield Model* within the IFF framework,¹¹³ and it works differently from the first two IFF transactions. The Te Awa Lakes levy, approved in March 2026 (see Section 3.1), is the first transaction (an instance of the IFF model being used to finance infrastructure for a specific project that actually gets off the ground) under this model.

How it differs from earlier cases

In the first two levies (Tauranga Transport and Wellington Sludge), councils were the project sponsors. Councils initiated the infrastructure, bore delivery risk, and used IFF to keep debt off their balance sheets by offloading it to the Crown. Risk started public and debt was structured outward.

The Greenfield Model changes one critical dimension: a private developer sponsors the project. An SPV is formed. The developer, not the council, bears the risk if costs blow out, timelines slip, or the project stalls. The council's role is limited to collecting the levy. Te Awa Lakes confirms this: the developer's own press release stipulates that "bulk infrastructure such as upgrade of roads, stormwater lake and outlets [is] to be delivered by the developer."¹¹⁴

But the capital structure tells a more complicated story

A developer may not be able to fund a project alone at affordable cost. NIFFCo, a Crown-owned company, may need to temporarily step in with its own money, both as an owner (equity)

and as a lender whose loans rank behind the banks (subordinated debt). In the first proposed Greenfield transaction, NIFFCo would likely have to provide a majority of the capital.¹¹⁵

This Crown finance would substitute for private risk capital that would otherwise be needed at this stage and priced far higher. By lowering early-stage financing costs, the model could reduce the minimum project size at which greenfield developments become viable under the IFF framework.

The intention should be for NIFFCo's involvement to be temporary. Once infrastructure is complete and houses are built, NIFFCo's capital could be progressively replaced by private lending through the IFF Act finance SPV, with long-term debt serviced by levy revenues paid by future homeowners. Debt only moves off the Crown's balance sheet after that replacement occurs.

What the GSP covers, and what it does not

The GSP does not cover construction failure, cost overruns, or developer insolvency. Those risks sit with the developer and SPV. If costs blow out, the developer should pay. If the project stalls, the SPV has security over the developer's land.

The GSP covers the risk that the rules change after investors have committed their money, causing them loss: a change in law could reduce levy revenue; judicial review could force the Crown to reconsider the Levy Order; or the Crown could amend or revoke the Levy Order itself. If any of these materialises, the SPV may face a shortfall in its ability to repay lenders. The Crown would have to top up that shortfall.

The GSP was originally conceived as a mechanism to break the rating link between SPV debt and council balance sheets, supporting lender confidence and enabling private capital to participate. In operational practice, its scope has narrowed to the specific risks that make the levy regime itself unstable. These risks persist not

because Cabinet authorises the levy, but because New Zealand's institutional architecture does not yet protect levy-backed revenue streams against political and legal interference.

Annex C examines the GSP's current structure in detail. Part 3 addresses the broader fragility and the pathway to resolving it.

Why the GSP is still needed, for now

The GSP continues to be required because the levy revenue that repays lenders is not yet protected by strong enough institutions against political and legal interference.

The US municipal bond market finances over \$300 billion annually with no federal backstop. States do not guarantee revenue bonds. Cities do not rescue failed projects. Three things underpin this arrangement:

1. Constitutional and legal traditions make it very difficult for governments to retroactively undermine the revenue streams pledged to lenders
2. A tested legal process lets infrastructure finance fail while essential services continue: the water keeps flowing even as bondholders take losses; and
3. Over 150 years of market experience lenders have sometimes lost money. Everyone understands the risk is real and prices accordingly.

New Zealand has none of these yet. The levy is authorised by Order in Council, a political instrument that Cabinet can amend. Courts can review levy orders and invite the Crown to reconsider. There is no established tradition against governments changing the terms after the fact. As Section 3.2.5 explains, there is no tested purpose-built framework for managing infrastructure finance distress while keeping services running. And there is no market precedent of levy-backed debt defaulting without triggering a government rescue.

The unresolved question

On paper, delivery risk sits with the developer. The GSP covers government-created revenue loss, not project failure. But NIFFCo provides Crown financing support during the early stage, likely by providing most of the early-stage capital. New Zealand has never tested what happens when a levy-backed project gets into serious trouble.

If an SPV failed mid-construction, the developer's money would be lost first. NIFFCo's capital could absorb further losses. Debt might be reworked. But the political pressure to ensure completion, to avoid half-built infrastructure sitting in an unfinished subdivision, would be intense. Whether the system would actually let the financing fail without someone stepping in remains an open question, because it has never happened. Credibility will only come from demonstrated experience.

Progress, not completion

The Greenfield Model makes real institutional progress. It places place delivery risk with the developer. It moves infrastructure development further from council balance sheets. Te Awa Lakes builds market familiarity with levy-backed finance. It is a genuine milestone and a significant first step: the first demonstration that the model can enable developer-led greenfield infrastructure.

But, as Minister Bishop acknowledged, it is only a first step, and one transaction does not make a system. Because the levy regime relies on capped Crown balance-sheet capacity and project-by-project selection, it can enable a small number of projects, not the volume, parallel activity, or decentralised initiative that competitive urban land markets require. And because levy revenue remains vulnerable to political and legal revision, the model cannot yet stand without a government backstop.

The Greenfield Model is a transitional catalyst: a genuine advance, but not yet the destination

and not a substitute for system reform. The destination (financing requiring investors to bear the risk and revenue streams protected against interference) requires the broader institutional evolution outlined in the phases that follow.

5.3 From Interim Fixes to Systemic Transition

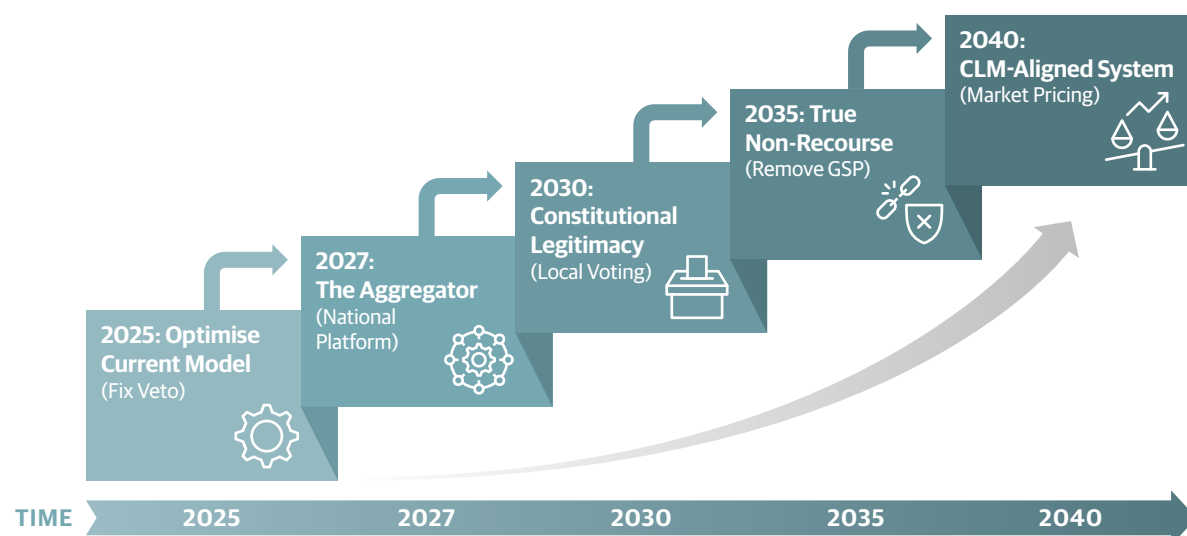
The Greenfield Model has shown what is possible through targeted, Crown-led intervention, but its limited scale underscores the need for a broader transition strategy. Achieving competitive urban land markets requires moving beyond bespoke solutions toward a system that can operate at volume and in parallel. The transition strategy therefore has six elements:

1. Generate more transactions under the current (amended) framework to build track record
2. Create platform institutions that reduce transaction costs and enable smaller projects
3. Introduce democratic consent mechanisms whereby beneficiaries pay
4. Shift development risk to developers through "skin in the game" rules (e.g., value-to-debt ratios) that ensure bonds finance proven assets, not speculation
5. Enable true non-recourse financing by separating financial distress from service delivery
6. Harden the levy instrument through statutory protections so investors know the Crown cannot change the rules after they have committed their money

Once these conditions are met and track record demonstrates market acceptance, Crown support can be withdrawn.

This is a 10–15 year programme (see Figure 7), not a legislative quick fix. But each phase creates value while building toward the target state. The specific recommendations for each phase, and an implementation roadmap, are set out in Part 7.

Figure 7. Institutional Pathway to Finance Freedom: A system aligned with competitive urban land markets (CLM)



5.4 The Phased Transition Model

Phase 1: Optimise Current Model (Now–3 years)

The immediate priority is generating more transactions to build track record. For Phase 1, the Government’s current trajectory is directionally correct. The 2025 Amendment Bill and the interim adaptations, including the Greenfield Model, are lowering the most acute barriers to transaction, deliberately accepting a greater degree of Crown involvement than would be appropriate in later phases, so that institutional learning can take place.

But Phase 1 is not complete at this point. Its purpose is to build track record, surface binding frictions, and begin the preparatory work that makes Phase 2 possible.

We propose targeted additions to the Bill and to administrative practice. Some reinforce the Amendment Bill’s friction-reduction work: preventing councils from using engineering standards as an indirect veto (Recommendation 1), imposing a deemed endorsement deadline (Recommendation 2), and standardising documentation and reporting (Recommendations 5–7). Others introduce

something new: a non-binding mechanism for polling affected landowners on whether they support a proposed levy (Recommendation 4). This is not yet democratic consent in the full sense. It is the beginning of a learning process for the alternative authorisation tool that Phase 3 develops to replace Crown approval. The recommendations also begin design work for a permanent financing entity (Recommendation 3), a “platform institution” explained further in Phase 2, that can hold multiple projects and reduce setup costs for smaller projects.

Phase 2: Build Platform Institutions (2–5 years)

Once early transactions have occurred and development-phase risk has been managed through NIFFCo under the Greenfield Model, the priority shifts to building institutions that can help scale the model and reduce dependence on project-by-project Crown involvement. These are “standing platform institutions” (Recommendation 8), which are permanent entities that can hold multiple projects under shared rules and governance rather than each project setting up its own from scratch. The form and scope of these entities may vary, with governance arrangements suited to what they bundle. This reduces set-up and running costs,

and enables multiple projects to be financed together rather than one at a time.

Platforms have three advantages. They issue bonds across a portfolio, reaching capital markets at a scale that individual projects cannot. They template processes and documentation across projects, which reduces the cost of each new transaction. And because they operate on settled rules rather than case-by-case Crown judgement, the Crown's role can narrow to managing sovereign risk (the risk that the Crown itself interferes with the revenue stream) rather than being concerned with project-specific risks. The same logic applies to the Crown's risk backstop: projects entering the platform would access standardised sovereign impairment coverage for qualifying project classes, with the Crown's total exposure capped at the portfolio level, and The Treasury approving the framework rather than scrutinising each transaction individually.

This changes what is financeable. A platform reduces the establishment and administrative costs that each project must otherwise carry on its own, spreading them across a portfolio and making projects in the \$30–80 million range more realistic. NIFFCo's development-phase lending further reduces the cost of capital during the riskier early phase, and combined with platform financing could reach down to projects around \$20 million. A substantial middle segment of projects that today's bespoke model excludes could then become financeable.

Phase 3: Democratic Legitimacy Mechanisms (3–7 years)

With platform institutions established in Phase 2, Phase 3 gives the beneficiaries of a proposed project the right to form an Infrastructure Improvement District (IID) (Recommendation 9): a separate legal entity that a qualified majority of the affected landowners can vote to set up and tax themselves to fund shared infrastructure. This provides an alternative basis for legitimising a levy.

Crown authorisation is progressively replaced by the direct consent of those who pay. But the Crown still signs off: once democratic mechanisms are in place, its role in levy authorisation becomes procedural rather than discretionary, grounded in explicit landowner and levy-payer consent. The authority itself does not relocate until Phase 5.

Brownfield intensification particularly benefits from this mechanism. Unlike greenfield development, where a single developer may own the relevant land, brownfield sites involve many existing owners whose unanimous agreement is rarely achievable. A democratic consent mechanism allows willing majorities to proceed on terms that protect minority interests (the "Double Majority" test), and does so without requiring Crown discretion to resolve the holdout problem each time.

Phase 4: Hardening Institutions to Make Crown Backing Unnecessary (5–10 years)

With democratic consent mechanisms established in Phase 3, Phase 4 builds the institutional conditions that make the Crown's backstop role unnecessary. Only once legitimacy is decentralised can the system safely be hardened for autonomy.

Two protections are needed. The first is a credible distress regime, most likely statutory (Recommendation 10): a process for managing a project that cannot meet its obligations, so that bondholders bear the losses while essential services continue. The regime must also address the coordination problem that arises when the developer fails but the project remains viable. As Section 3.2.5 explains, the resolution framework needs to place constraints on enforcement, ensuring dissenting creditors come to the table for a collectively beneficial outcome, otherwise the system defaults to outcomes that compel government to step in.

For such a regime to work, it must be credible: market participants must understand it as the

process that would govern financial distress, and rating agencies accept it. Credibility can be established through clear legislation, specified procedures, and international precedent. If tested through an actual distress situation, the measure of success is that losses are absorbed by bondholders while essential services continue, and neither council nor Crown steps in despite public pressure. Once the regime is credible, investors will begin to price projects independent of political expectations that either council or the Crown will step in if things go wrong.

The second is levy hardening: statutory protection of a levy's terms (Recommendation 11). While the Crown remains the authoriser, this protects against executive interference: the Crown changing the rules of its own instrument after investors have committed their money. Once levy terms are protected by statute, the sovereign impairment risk the GSP was designed to cover is addressed by law rather than by guarantee. When Phase 5 removes the Crown from the authorisation process, the source of that executive risk disappears. But the need for protection does not. Parliament retains the power to change the enabling statute or modify the terms under which existing levies were issued. New Zealand has no equivalent of the US Contracts Clause that protects against retrospective legislative impairment. Statutory protection of existing levy commitments therefore remains necessary even after the Crown steps back, evolving from protection against executive interference to protection against legislative interference.

Together, these two protections close the gap identified in Section 3.2.5. The distress regime makes non-recourse credible: investors bear loss when projects fail. Levy hardening addresses the Crown's own risk: sovereign impairment is covered by law rather than guarantee. What was off-balance-sheet finance with the Crown as backstop by institutional default becomes a system in which each risk has a defined resolution that does not require Crown intervention.

Phase 5: True Non-Recourse for a System Aligned with Competitive Urban Land Markets (10–15 years)

Phase 4 achieves non-recourse and hardens the levy instrument. But the Crown remains the decision-maker. Every levy still requires Cabinet approval by Order in Council. That is the residual source of sovereign impairment risk, and the reason the GSP persists. Phase 5 removes that source.

Two formal steps mark this transition: relocating levy-setting authority from Cabinet to an independent, rules-based body (Recommendation 12), and withdrawing the GSP for routine transactions once system conditions for credible non-recourse finance have been met (Recommendation 13).

With levy authority operating under rules rather than political discretion, competing developers can initiate projects without requiring Crown permission. The credible threat of entry that competitive urban land markets require, where a developer who is blocked in one location can credibly build elsewhere, becomes possible for the first time. Infrastructure supply responds to demand at the volume and speed the market needs, not at the pace political discretion permits. The binding constraint that Section 1.4 (“Infrastructure Finance as the Gatekeeper”) identified is removed (the Crown may still champion some projects on occasion, but it is no longer required for the system to work). That is finance freedom.

The 10–15 year horizon is indicative. Institutions mature over time. How quickly New Zealand reaches each phase will depend on transaction volume, market development, and political commitment. The staircase presented here focuses on how to best support the development of our institutions through a considered sequence where each phase builds on conditions the previous one puts in place, and sometimes requires.

5.5 Early Evidence: What operational experience confirms

The transition logic outlined in the preceding sections is not purely theoretical. Operational experience with the Infrastructure Levy Model has already generated evidence confirming both that the market side of infrastructure finance is maturing and that the machinery of government remains a binding constraint.

The market is learning

Practitioner experience indicates that the institutional learning this report identifies as essential for Phase 1 is already underway. By the third attempted city-wide transaction, Te Manawataki o Te Papa in Tauranga, standardisation had streamlined the process. Documentation that had required extensive negotiation for the first project could be reused, with modification. Transactions benefitted from standard terms, rather than negotiating bespoke arrangements. This approach drives sharper pricing and lowers transaction costs. The familiarity effects this report identifies as critical to the transition (Section 5.1) have been materialising within the space of just a few years.

This suggests that the “novelty premium” identified as a barrier to uptake in Part 3 can be worn down faster than a 10–15 year timeline might imply, provided a big enough pipeline of development projects can be sustained. If capital markets are adapting at this pace, the binding constraint on scaling infrastructure finance is not the commercial aspect of negotiating deals.

The machinery of government is the primary holdup

In 2023, the Tauranga City Council Commission (government-appointed commissioners then governing the city) approved a levy under the IFF Act to fund the \$151.5 million ratepayer contribution to Te Manawataki o Te Papa, a \$306 million civic precinct redevelopment. The commission consulted the public, and 72 percent

of respondents supported building the full precinct. Of the 301 submissions received on the funding question, 189 supported the levy option.¹¹⁶ The Infrastructure Levy Model was chosen, specifically, because it would keep the debt off the council’s balance sheet, preserving headroom for other infrastructure investment.¹¹⁷

The levy proposal progressed through the government process, presumably in parallel with commercial processes to secure debt. Given our understanding of capital markets in New Zealand, and that the levy proposal would have benefitted from process improvements by then, the market side would have been ready.

Then the political cycle intervened. In June 2024, Housing Minister Chris Bishop declined to approve the levy, stating it was important the incoming elected council (replacing the appointed commissioners) had their say.¹¹⁸ When the newly elected council took office, it voted on 19 August 2024 to abandon the levy entirely and fund the project instead through the Local Government Funding Agency (LGFA), transferring \$54 million of previously off-balance-sheet borrowing back onto the council’s balance sheet.¹¹⁹ This was made possible only because the Government and LGFA were simultaneously considering increasing Tauranga’s debt-to-revenue covenant from 285 to 350 percent.¹²⁰

The Minister’s decision was defensible on democratic grounds. Every transaction using the Infrastructure Levy Model requires Cabinet approval via Order in Council. A change of government, a change of minister, or a change of council can halt a transaction that is otherwise commercially ready. The Te Manawataki o Te Papa experience demonstrates that even when the market side of a transaction is settled, political discretion that has nothing to do with a project’s commercial viability can intervene.

The greenfield process confirms the diagnosis
Commercial practitioner experience with the

greenfield model reinforces the same point. The principal obstacle to getting smaller greenfield transactions off the ground is the number of stakeholders that must be brought to agreement through the government process. These include the developer and their lawyers, the council and their lawyers, HUD and Treasury as well as both their lawyers, NIFFCo and their lawyers, the banks and their lawyers.

Most of the delay is generated by the background machinery of government: going to Cabinet twice, being unable to draft the Order in Council until Cabinet has approved and instructed Parliamentary Counsel, and raising finance off the back of an instrument that cannot exist until that drafting is complete.

The path is already emerging

In conversations with the author, practitioners involved in commercial implementation have noted that aggregation (bundling several completed greenfield transactions and refinancing them together at greater scale) is something they could see as a future possibility. No formal work or policy consideration has been undertaken toward this, but informal observations have already been made to this effect, which is encouraging: those closest to the transactions can already see the logic that this report's Phase 2 recommendations seek to formalise. With the Te Awa Lakes levy now gazetted, the first building block exists. This report recommends future transaction documents, especially for greenfield projects, be designed with bundling in mind from the outset, as a step toward the platform architecture (described in Section 5.4, Phase 2).

Political discretion and our urban planning system, not finance, are the binding constraints

The experience of those involved in the commercial implementation of the model confirms that the market learning curve is steeper than the institutional void might suggest.

Standardisation, pricing improvement, and investor familiarity are accumulating with each transaction. The constraint on building track record is not market appetite but transaction volume, and transaction volume is constrained by the government process.

Political discretion remains the central vulnerability. The Te Manawataki o Te Papa experience demonstrates that even where the market side is ready, the political cycle can unwind a lot of work and push debt back onto the very balance sheets the model was designed to protect. This is not a defect that can be fixed by streamlining the approval process. It is inherent in the model's design, specifically where levy-setting authority sits.

Practitioners closest to the model also informally reflect on ways the model could evolve, something this report attempts to formalise in its own and specific way: aggregation, standardisation, platform logic. What they lack is not ambition or capability but the institutional architecture that allows them to move at the pace the market is ready for. The transition strategy outlined is a natural extension of what is already happening on the ground: practice that improves and builds on itself.

But institutional architecture alone is not sufficient. Practitioners from multiple angles also identify the urban planning system as a binding constraint on transaction volume: land that is not zoned cannot be financed, and land access and consenting uncertainties compound the delays the government process already imposes. A more supportive enabling environment from the planning system, including the deeming provision recommended in Section 5.6, would materially increase the number of projects that can enter the IFF pipeline. The role of the Crown must evolve from case-by-case gatekeeper to framework-setter, enabling it to step back as the system matures through the phases outlined in Section 5.4.

The Amendment Bill addresses some of the friction in the current process. But if government remains a binding constraint, and operational experience confirms that it is, then streamlining the current model is not enough.

5.6 The Role of Planning Reform

Infrastructure finance reform cannot succeed on its own. Part 3 identified a sequencing problem: developers face planning uncertainty before they face financing uncertainty. Our engagement with commercial practitioners facilitating the Infrastructure Levy confirmed how constraining our urban planning is for IFF levy transactions, making it hard to bring rural land into urban use. Planning and finance constraints must be addressed together.

The *Going for Housing Growth* programme recognises this. Pillar 1 (freeing up land, removing planning barriers) and Pillar 2 (infrastructure funding and financing) are designed to work together.¹²¹ The RMA replacement, presumption of development, and planning streamlining address planning constraints and IFF reform addresses financing constraints.

But how do the two connect? This report recommends a statutory deeming provision: if an IFF levy is authorised (providing infrastructure will be funded), the land is deemed to have infrastructure capacity. Councils could not refuse consent on infrastructure grounds because the law would treat funding as equivalent to the physical asset. Consent could only be refused on environmental or other non-financial grounds.

5.7 Integration with Development Levies Reform

The Government's *Going for Housing Growth* package includes reform of development contributions (DCs) alongside IFF amendments.¹²² The new "Development Levy" system should work alongside IFF levies, rather than compete:

- **Development levies** (the reformed successor to development contributions) are suited for routine infrastructure in established areas: standard connections, network upgrades, and smaller projects that do not stretch council finances.
- **IFF levies** are suited for larger projects: major pipes and roads for new developments, significant upgrades for areas being intensified, and projects where council debt limits would otherwise block delivery. IFF's longer timeframes and off-balance-sheet treatment suit substantial investments.

Double charging (paying twice for the same thing) must be prevented. But using different tools on the same project to cover different costs (renewal, service improvements, and growth) is legitimate and often necessary. The detailed relationship between the two systems requires further work once the Development Levy reform proposals are finalised.

PART 6

The 2025 Amendment Bill: Assessment as transitional step

The *Infrastructure Funding and Financing Amendment Bill 2025* (The Bill) is a reasonable first step. It removes obvious friction, establishes important precedents, and should enable greater uptake.

But the Bill is not a transition strategy. It optimises the current model rather than developing it in phases, where each phase puts in place the preconditions for what follows, building toward a full-fledged second finance system.

This section assesses what the Bill achieves, what it leaves unchanged, and what kinds of projects it unlocks.

6.1 What the Bill Does

The Bill introduces a suite of changes aimed at improving uptake of the IFF model.

Narrowing Council Endorsement Grounds

The Bill specifies that councils and water organisations “must endorse” a levy proposal unless it would compromise their ability to collect their own rates or charges.¹²³ Thus, councils lose the power to oppose a project by refusing to endorse its funding. They can only refuse consent if it can prove that collecting the levy would break its rating system or cause material financial failure.

The Bill distinguishes between approving the levy and accepting that the infrastructure will be sufficient:

1. **The Right to Reject Assets (Quality Control):** Mandatory endorsement applies

only to the levy. It does not force councils to accept ownership of physical assets. Councils retain the right to reject infrastructure that fails to meet engineering standards (“lemons”). In practice, developers will still need to secure a “vesting agreement” (a signal of acceptance) from the council to make projects bankable.

2. **The Developer Ownership Option (The Escape Hatch):** To prevent councils from using asset rejection or gold-plated standards as a proxy veto, the Bill provides a bypass. Under new Section 20(5), if the infrastructure is to be owned by the developer or a third-party utility rather than the council, council endorsement of the infrastructure is not required. If a council demands unreasonable standards, the developer can retain ownership and operate it privately. This credible threat of “private bypass” is intended to discipline council behaviour.

Removing Affordability Assessment for Consenting Developers

The Bill allows the Minister to waive the “affordability to levy payers” and “long-term interests of levy payers” tests for developer-led proposals where all landowners have consented.¹²⁴ The justification is that consenting landowners have made their own judgement about what they can afford.

Extending Eligibility

The Bill extends IFF eligibility to infrastructure delivered by NZTA, KiwiRail, and new water services organisations.¹²⁵ This recognises that growth infrastructure often involves state highways, rail links, and regional water assets that councils do not control.

Water Entity Integration

Water organisations can now collect levies directly rather than routing through councils (becoming “Responsible Levy Authorities”). Water infrastructure financing can bypass councils entirely, creating a pathway independent of council balance sheets and preferences.

Accelerated Recovery for Failed Developments

If a developer defaults or abandons a project, the SPV can demand repayment for undeveloped land and, if unpaid, apply to the High Court for forced sale.¹²⁶ Proceeds go toward infrastructure costs and the land is removed from the levy area.

Levy Deferrals and One-Off Charges

The Bill enables levy deferrals and one-off charges triggered at specific events (subdivision consent, building consent).¹²⁷ Payment can be deferred until development occurs.

Removal of Mandatory Consultation

The Bill repeals mandatory consultation requirements, replacing them with transparency rules.¹²⁸ Levy proposals and Recommender reports must be publicly available, but formal submission processes are no longer required.

6.2 What the Bill Achieves

Narrows Council Gatekeeping

Councils lose the political veto but retain a technical role. For developers, this provides much greater certainty.

Establishes Consent-Based Legitimacy Principle

Waiving affordability tests for consenting developers establishes a precedent: where landowners consent, government does not need to second-guess their judgement. It points toward a future in which consent mechanisms could replace Cabinet approval.

Improves Bankability

Accelerated recovery provisions reduce lender risk. The forced sale mechanism provides a clear remedy for developer default, which was previously ambiguous. Levy deferrals improve project finances, making IFF more attractive than other financing approaches.

Broadens Infrastructure Scope

Water entity integration allows major water infrastructure investments to proceed without council balance sheet constraints or political gatekeeping. Given that water infrastructure is often the constraint on development, this creates a meaningful new pathway.

Political Sophistication

The Bill removes the council veto (delivering on CLM commitments). But it preserves Cabinet approval (managing the legitimacy gap without resolving it). It also leaves contentious structural reforms (the GSP, SPV architecture, and approval pathway) for later.

6.3 What the Bill Does Not Change

The Bill streamlines the model but does not change the architecture. Four structural features of the current model remain in place, each constraining the system’s ability to scale beyond occasional large projects. The Bill is not embedded in a broader strategy for the evolution of the model. It optimises the current architecture but does not signal where the system is heading or what institutional conditions future reforms would need to build on.

Cabinet Approval Still Required

Every levy still requires Cabinet approval via Order in Council.¹²⁹ The Bill streamlines the process but does not delegate authority. The system cannot scale until it can authorise itself through rules-based approval.

GSP Mechanism Unchanged

The Bill does not touch the GSP structure. Crown support remains necessary for debt to stay off council books. Treasury involvement remains mandatory for every transaction.¹³⁰ The Bill creates no pathway toward reducing GSP dependence.

SPV-per-Project Architecture Retained

The Bill does not enable a permanent entity that could finance and govern multiple projects together, reducing per-project costs and reaching capital markets at a scale individual SPVs cannot (the “platform institutions” described in Section 5.4). Each project continues to require its own SPV, with its own governance, establishment, and administrative costs. The high fixed costs that exclude medium-scale projects remain.

No Democratic Consent Mechanisms

The Bill introduces no mechanism for democratic consent beyond landowner agreement in developer-led proposals. For brownfield areas where some property owners would be compelled to pay levies they did not agree to, the legitimacy gap remains unaddressed. The Bill does not propose any mechanism through which the people who would pay a levy could vote on whether to accept it and form a district (project area) to govern their own infrastructure.

No Institutional Development Strategy

The Bill contains no strategy for building toward the target state. It assumes the current architecture will continue indefinitely.

6.4 What Kinds of Projects Does the Bill Unlock?

The Bill’s changes make certain project types newly viable:

- Developer-led greenfield projects where: the developer controls all land in the levy area; council was previously blocking through endorsement refusal; project scale exceeds \$50 million (to absorb transaction costs); and planning consent is reasonably certain.
- Water infrastructure projects where the water entity is willing to collect the levy directly, council reluctance was the blocking factor, and the project serves a defined area.
- NZTA-related transport infrastructure where state highway connections are necessary to development and the project has clear boundaries for who benefits.

The Bill does not unlock projects below \$30–50 million (transaction costs still too high), brownfield intensification without unanimous landowner consent, projects where planning uncertainty remains unresolved, or projects requiring rapid, routine approval at scale. Te Awa Lakes, at \$50 million, sits at the lower bound of what the current model can support, confirming that the threshold remains a constraint for smaller projects, even with significant Crown financing support.

The Bill still provides a solid foundation. Part 7 takes the opportunity to add targeted scaffolding that converts these improvements into a transition strategy.

PART 7

Recommendations

This report’s recommendations are organised by phase along a time horizon for change (Sections 7.1 to 7.5) and classified by the type of change each requires (Table 3). The goal is a reform programme that progressively builds a second finance system, which supports competitive urban land markets, while recognising what is achievable at each stage.

Table 3. Assessment of Type of Change

Type of Change	Characteristics	Recommendations
Administrative	Can be done without legislation: policy, ministerial direction, operational change; minimal new machinery	<ul style="list-style-type: none"> • Anti-gold-plating provision (Rec 1) • Deemed endorsement deadline (Rec 2) • Platform feasibility study mandate (Rec 3) • Standardised GSP template (Rec 5) • Documentation standardisation (Rec 6) • Track record publication (Rec 7) • Development levies integration (Rec 15)
Legislative	Requires legislation, but builds on clear precedents and existing structures	<ul style="list-style-type: none"> • Statutory consent mechanism (double majority) (Rec 4) • Statutory deeming of infrastructure capacity (Rec 14)
Institutional	Requires legislation that creates significant new architecture: new entities, frameworks, powers; multi-year implementation; substantial policy development	<ul style="list-style-type: none"> • National Infrastructure Finance Platform (NIFP) (Rec 8) • Infrastructure Improvement Districts (IIDs) & Special Rating Areas (Rec 9) • Distress administration regime (Rec 10) • Levy hardening legislation (Rec 11)
Systemic	Requires legislation plus cultural/market shift (expectations); success depends on accumulated track record; long-term horizon	<ul style="list-style-type: none"> • Autonomous levy authorisation (Rec 12) • Review of the continued necessity of the GSP (Rec 13) • Target state: true non-recourse financing; Cabinet approval no longer required

7.1 Immediate Additions to the Amendment Bill (Phase 1)

These recommendations could be introduced through the select committee process.

Recommendation 1: Anti-Gold-Plating Provision (*Administrative*)

The Bill narrows council endorsement grounds but does not stop councils using engineering standards as an indirect veto. A council could refuse endorsement by demanding gold-plated specifications that make projects uneconomic.

The Bill should link transport infrastructure requirements to NZTA national standards,

and water infrastructure requirements to national standards under the water services legislation, subject to oversight by the Commerce Commission. This would stop councils inventing local requirements as a blocking mechanism.

Recommendation 2: Deemed Endorsement Deadline (*Administrative*)

The Bill requires councils to endorse but sets no deadline. A hostile council could delay indefinitely by “considering” a proposal without deciding.

The Bill should set a 40-working-day deadline. If the council does not refuse (with valid grounds) within this period, endorsement is deemed given.

Recommendation 3: Platform Feasibility Study Mandate (Administrative)

The Bill cannot establish a platform institution (the standing financing entity described in Section 5.4, Transition Phase 2), but it can require work to begin.

The Bill should require NIFFCo, with The Treasury and HUD, to report to Ministers within 12 months on options for a National Infrastructure Finance Platform: governance, capital needs, GSP implications, and any legislation required.

Recommendation 4: Statutory Consent Mechanism (Beneficiary Poll) (Legislative)

The Bill should introduce a statutory process for polling beneficiaries to determine consent, modelled on Sections 8–12 of the *Local Bodies' Loans Act 1913*.

Currently, the Bill's waivers apply where all landowners consent in writing. This creates a holdout problem: a single landowner can block an otherwise beneficial scheme. But simple alternatives have their own problems:

- A “one person, one vote” rule lets many small landowners vote to impose costs on one large landowner who owns most of the land.
- A “vote by land value” rule lets one large developer impose costs on many small neighbours who do not want the project.

The solution is a Double Majority test, requiring both:

1. **Majority by number:** More than 50% of eligible voters must vote in favour (democratic legitimacy).
2. **Majority by value:** Those voting in favour represent more than 50% of the total land value (economic legitimacy).

This approach is already used in New Zealand for Business Improvement Districts in

Wellington and Auckland.¹³¹ It ensures a levy cannot be imposed unless it has support from both the community (by count) and the economic stake (by value). It balances the “tyranny of the majority” (small neighbours taxing one large landowner) against the “tyranny of the minority” (one large landowner blocking a community scheme). It provides the Minister with data-driven “social license” to waive the unanimity requirement.

The poll need not be binding at this stage. Cabinet retains a prerogative to approve. But the poll provides evidence that the Minister could use to argue for progressive devolution as the mechanism proves itself. This is foundational for the democratic consent mechanisms in Recommendation 9.

7.2 Near-Term Administrative Actions (Phase 1)

These actions do not require legislation but support Phase 1 and prepare for Phase 2.

Recommendation 5: Standardised GSP Template (Administrative)

The Treasury should develop a standardised GSP template for greenfield projects, covering the Crown's indemnity mechanics, trigger events, caps, reporting obligations, and the interactions between the GSP and levy amendment or termination. More complex or unusual projects will still require case-by-case assessment. Standardising what can be standardised reduces negotiation time, improves predictability for financiers, and lowers transaction costs.

Recommendation 6: Documentation Standardisation (Administrative)

NIFFCo should publish model documentation including SPV constitution templates, standard levy order provisions, and model funding proposals. This would cut legal costs and ensure consistent quality across projects.

Recommendation 7: Track Record Publication *(Administrative)*

HUD should publish an annual report on IFF schemes: financial performance, levy collection rates, construction progress, and any problems. Transparent reporting builds the track record investors and rating agencies need.

7.3 Medium-Term Institutional Development (Phase 2)

These measures require legislation or significant policy development beyond the current Bill.

Recommendation 8: National Infrastructure Finance Platform *(Institutional)*

Within 3–5 years, legislation should establish a National Infrastructure Finance Platform (NIFP): the standing entity described in Section 5.4, Phase 2. Projects would contract into the platform rather than establishing standalone SPVs, spreading transaction costs across a portfolio while keeping each levy’s revenues and associated risks ring-fenced. Qualifying project classes would access standardised GSP coverage for sovereign impairment risk, with the Crown’s exposure capped at the portfolio level rather than negotiated transaction by transaction.

The platform could evolve from NIFFCo or be established as a new entity.

7.4 Longer-Term Structural Reform (Phase 3–4)

These measures are appropriate for Phase 3–4, as track record and market familiarity mature.

Recommendation 9: Democratic Consent Mechanisms (Rating Areas) *(Institutional)*

Building on the polling mechanism in Recommendation 4, legislation should make the poll binding and enable standing entities:

1. **Infrastructure Improvement Districts (IIDs):** Legally separate entities formed by landowner petition (double majority consent, a prescribed threshold by number and value) with powers to levy charges and issue debt. IIDs would be governed by levy-payer representatives rather than council appointees and could access NIFP for financing. The framework should be piloted in willing areas before national rollout.
2. **Special Rating Areas:** Councils regain the ability to issue ring-fenced project debt secured against a specific catchment, subject to the same consent threshold.

This completes the progression begun in Phase 1. The poll moves from informing Cabinet to providing a safe harbour, then to authorising action. Communities gain the power to form IIDs and govern their own infrastructure. This restores both “rights from below” and the “right of assembly” in New Zealand infrastructure finance: willing landowners can form collective entities to finance shared infrastructure on their own initiative. It deals with holdout issues and unlocks brownfield intensification through a democratic consent mechanism that the current model lacks.

Recommendation 10: Distress Administration Regime *(Institutional)*

As Section 3.2.5 explains, New Zealand’s general insolvency regime does not provide a credible basis for non-recourse infrastructure finance. The absence of a purpose-built resolution framework sustains moral recourse and makes the Crown the backstop by institutional default. Section 5.4, Phase 4 show how a credible distress regime and levy hardening (explained in Recommendation 11) jointly close the gap that otherwise leaves the Crown the backstop by institutional default.

As the system evolves from Crown-authorized private entities toward community-initiated public ones, a bespoke distress regime becomes

essential. General corporate insolvency law is designed to maximise individual creditor recovery in the context of private firms. Infrastructure serving a community requires a framework designed to achieve collectively beneficial outcomes. A purpose-built distress framework is needed, most likely established by legislation, with the following features:

- **Service continuation comes first:** Levy revenue funds operating expenses (the cost of maintaining public services) before bondholder claims (a net revenue pledge). If the entity cannot service its debt, services keep running.¹³² Nobody is held hostage. There is no political constituency demanding a rescue.
- **Creditors come to the table, not to the courthouse:** During resolution, secured creditors cannot seize infrastructure assets, appoint receivers, or act outside the coordinated process. Infrastructure and development land are ring-fenced from disposal. The resolution process determines the outcome, not the strongest creditor.
- **Restructuring, not liquidation:** A statutory administrator can restructure the entity's finances, impose reduced terms on dissenting creditors, and bring in a replacement developer or operator. The IFF Act's Crown Manager is a governance intervention tool with no financial restructuring powers. What is needed is the ability to bind creditors to a plan that preserves services and treats them according to priority.

Together, these features separate financial failure from service failure, and bind creditors to an orderly resolution process that delivers collectively net-beneficial outcomes. Infrastructure stays intact and services continue.

In principle, some of these functions could be achieved through contractual arrangements between parties (such as intercreditor agreements and standstill clauses) or through market

conventions that evolve over time. But the core challenge is binding parties who have not agreed: preventing a secured creditor from enforcing against infrastructure assets, or imposing restructured terms on dissenters. In most legal systems, that requires statutory authority.

Regardless of form, it is the effect that counts. When no one is held hostage (creditors do not hold out to create political pressure to rescue) and the outcome is orderly (creditors do not race to enforce individually and blow up the project), infrastructure failure becomes politically survivable. Markets learn that non-recourse is real and investors stop assuming government rescue is inevitable.

Recommendation 11: Levy Hardening (Institutional)

The GSP exists primarily because levy-backed revenue streams are not yet protected against interference by the Crown. Standardised documentation (Recommendations 5–6) and platform institutions (Recommendation 8) establish norms and institutional weight, but neither creates legal protection. Levy hardening, the statutory protection of levy revenue against future Crown interference, requires discrete legislation. It cannot accumulate organically through market experience or institutional development.

Section 5.4, Phase 4 explores how this protection must first guard against the Crown changing levy terms after investors have committed, and later, when the Crown is replaced by an independent body to approve levies, against Parliament changing the law that governs them.

Legislation should establish statutory protections with three components:

- I. **Protection from executive interference:** Once Cabinet (the government of the day) approves a Levy Order, the revenue stream pledged to investors is protected by statutory

covenant against amendment, revocation, or impairment by the Crown or council without full compensation to affected financiers. The covenant operates as a binding obligation of the Crown, enforceable by the SPV trustee or bondholder representative.

- 2. Protection from legislative interference:** The protection extends to changes to primary legislation made by Parliament that alter the overall regime governing IFF levies, which can have the effect of reducing existing levy revenues below the level required to continue servicing debt that has already been raised. New Zealand has no equivalent of the US Contracts Clause. Statutory protection of existing levy commitments is therefore necessary to prevent retrospective legislative impairment.
- 3. No recourse to government:** Levy-backed bonds carry no claim on council or Crown revenues. The obligation attaches to the levy revenue stream and nowhere else. This makes explicit what the Local Bodies' Loans Act 1913 once stated: that bondholders have "no claim upon the Government or public revenues."

Until the levy instrument is hardened, investors will require Crown backing regardless of how much track record accumulates or how mature other institutions become. Levy hardening is therefore a necessary precondition for both autonomous levy authorisation (Recommendation 13) and the eventual withdrawal of the GSP (Recommendation 14).

7.5 Destination (Phase 5)

These measures represent the destination of the transition pathway, which are appropriate once the institutional conditions built through Phases 1–4 have demonstrated sufficient maturity.

Recommendation 12: Autonomous Levy Authorisation (*Systemic*)

Eventually, Cabinet approval should be replaced

by rules-based approval through an independent body, perhaps an "Infrastructure Finance Commission". Historically, a comparable function sat with The Treasury, which approved local body borrowing under the Local Bodies' Loans Acts on the basis of statutory criteria and professional judgement, not ministerial policy preferences.

Despite the transitional steps outlined above, a structural constraint remains. Under the current IFF Act, levy authorisation by Order in Council necessarily embeds Crown policy risk, because the Crown retains the power to amend or revoke levy settings and remains exposed to judicial review of its decisions. As a result, even if democratic consent mechanisms were in place and default could be managed procedurally, agile non-recourse financing cannot be fully credible if the Crown remained the legal authoriser.

In the mature phase of transition, levy-setting authority under the IFF Act should be relocated from Cabinet to a statutorily independent, rules-based body. This body would apply legislated criteria to approve levy proposals on an administrative basis, rather than exercising political discretion. Its role would be to confirm that statutory conditions are met, not to make policy judgements.

The body would operate on the same basis as the Commerce Commission: expert, independent, applying law and professional judgement rather than exercising ministerial discretion, with Cabinet involvement reserved for bespoke cases. Today, the Commerce Commission could be the more natural home, because it is statutorily independent. The Government's decision to make it regulator for development levies already establishes the institutional connection. Extending the Commission's remit to IFF levy approvals would leverage that capability and strengthen the interface between the instruments.

Implementing this final step should be contingent on prior establishment of alternative democratic legitimacy mechanisms (Phase 3) and a credible default and administration regime for levy-backed infrastructure entities (Phase 4). Government should signal this end-state early, while deferring legislative change until sufficient track record and institutional maturity have been achieved.

Relocating levy authority is necessary to reduce reliance on Crown backstop protection but would not on its own eliminate it. The levy itself remains vulnerable to legislative amendment and judicial review regardless of who authorises it. What would make Crown support unnecessary is the full institutional bundle, including hardened revenue protection, a credible distress regime, and market experience signalling that investors accept loss as a realistic outcome.

Recommendation 13: Review of the Continued Necessity of the GSP (Systemic)

Following implementation of Phase 4 reforms, undertake a formal review of the continued necessity of the GSP for new levy-backed transactions, with a view to eventual withdrawal once market credibility is demonstrably established. The review should assess whether the conditions (across key dimensions listed in Table 2 above) for credible non-recourse finance have been met. Withdrawal of the GSP should follow demonstrated institutional maturity, not a predetermined schedule.

7.6 Integration with Planning Reform (All Phases)

Recommendation 14: Statutory “Deeming” of Infrastructure Capacity (Legislative)

As planning reform proceeds (*Going for Housing Growth* Pillar 1), legislation should link infrastructure finance approval to planning certainty.

If an IFF levy is authorised (proving infrastructure will be funded), infrastructure capacity should be deemed to exist. Councils could not refuse consent on infrastructure grounds when funding has been secured through IFF. They would need to argue solely on environmental or other planning grounds.

This links Pillar 1 and Pillar 2, addressing the sequencing problem while respecting legitimate environmental regulation.

Recommendation 15: Development Levies Integration (Administrative)

The new development levies system should be designed with explicit IFF interface provisions: clear criteria for which mechanism applies; no double-charging; coordinated administration where both mechanisms operate in the same area.

7.7 Implementation Roadmap

Table 4 summarises the implementation sequence. The timeframes are indicative. Actual progress depends on transaction volume, market development, and political commitment. Track record before platforms, democratic consent before autonomy, institutional maturity before Crown withdrawal. Each phase creates value in its own right while building toward the next.

Table 4. Implementation Roadmap

Timeframe	Actions	Responsible Agency
Year 1	<ul style="list-style-type: none"> • Pass Amendment Bill with additions (Recs 1-3) • Begin GSP template development • Publish model documentation 	Parliament; HUD; Treasury; NIFFCo
Year 2	<ul style="list-style-type: none"> • Complete Platform feasibility study • Begin NIFP institutional design • First new levies under amended Act 	HUD; NIFFCo; Treasury
Year 3	<ul style="list-style-type: none"> • Introduce NIFP legislation • Pilot IID framework design 	Parliament; NIFFCo; Treasury; HUD
Years 4-5	<ul style="list-style-type: none"> • Establish NIFP • First aggregated bond issuance under platform rules • Begin GSP reduction pathway 	NIFFCo; NIFP; Treasury
Years 5-7	<ul style="list-style-type: none"> • Enable IID formation legislation • First IIDs established • Distress administration regime 	Parliament; Various (HUD, Treasury, DIA, NIFFCo, etc)
Years 7-10	<ul style="list-style-type: none"> • Market-priced risk emerging • Administration/default regime tested • Transition to independent approvals IFF Act Amendment • Levy hardening legislation 	Parliament; Market; Courts
Years 10-15+	<ul style="list-style-type: none"> • True non-recourse established; • CLM-aligned system operational 	Market; Courts; Various

The Transition Window Narrows

Every year without institutional development is a year of track record not built, investor familiarity not developed, market infrastructure not established. The longer New Zealand waits to begin the transition, the longer the transition will take.

The Amendment Bill improves the status quo. But if “improved status quo” is the endpoint rather than the beginning, the structural problems this report identifies will persist. Aiming true means keeping the endpoint in view while undertaking relevant steps. We do not have to build everything at once, but each step should lay the tracks for the others.

Conclusion

This Bill should be the beginning of a journey, not the destination. Longer term, the aim should be to create a second finance channel that empowers individuals, developers and communities to act on their own initiative. The central channel (council balance sheets backed by general rates) will always be needed for the things it does well, including renewals, maintenance, and pure public goods. It is more effective when there is an existing taxpayer base and service delivery does not depend on large-scale, bulk, and upfront investments. But it is innately constrained.

Without a second channel, competitive urban land markets cannot function. As the Productivity Commission concluded, the central channel works in a static world with no change but breaks the moment we need to grow. Competitive urban land markets demand a dynamic world: responsive, competitive, and growing. The central channel cannot support that world by virtue of its nature, not only because it is reaching the outer bounds of its current limits. Without a second channel, there is no credible threat of entry: no way for willing participants to act when the central channel cannot.

What we might call the “right of assembly” (the ability of landowners and communities to organise collectively, levy themselves for infrastructure, and act on their own initiative through special purpose arrangements) depends on this second channel. Without it, collective action has no financing mechanism and is practically impotent. With it, communities gain the power to build what they need. Markets can operate with financial freedom to shape cities. It is another way to say “yes”: communities that see a need organise to meet it, developers who are willing to bear the risk act without waiting for political permission, and infrastructure follows

demand rather than being withheld to ration land supply.

New Zealand has successfully done this before. For most of the twentieth century, communities voted to tax themselves, borrowed independently, and built what they needed. Hundreds of special purpose entities financed over half of all public infrastructure investment at borrowing levels roughly four times what we allow today. This type of finance is also common overseas. In the United States, project-specific revenue bonds account for around two-thirds of all local government debt. They finance over \$300 billion in infrastructure every year through more than 50,000 issuing authorities. The central channel does less of the heavy lifting, not more. We are confined to a single channel but need not be.

Achieving this requires government to rethink its role. Our current infrastructure finance system mirrors the command economy logic of the planning system it was designed to serve: centralised, discretionary, and slow. The new planning system will operate on a different logic. It is being designed to be competitive, responsive, and market-facing. Infrastructure finance must evolve to match. Rather than deciding everything for everyone, government must become a framework-setter, establishing the rules, boundaries and protections within which people and communities (which comprise what is otherwise more abstractly known as “market forces”) can shape cities, discover and create value, and meet what society needs.

This will require time, persistence and patience. Above all, it will require consistency across parties and successive governments. The bipartisan consensus that brought us this far, from the Urban Growth Agenda through to

Going for Housing Growth, must continue with an even clearer vision of where we need to get to and what the journey entails.

A focal point of the transition is the Crown's current involvement in every transaction. The Government Support Package (GSP), Cabinet approval, Treasury scrutiny, and the involvement of other government departments and all their lawyers, effectively tie the second channel to the central channel. This contaminates it with the limitations of that channel: politicisation, fickle discretion, and slow, uncertain and costly machinery of government processes that are at odds with commercial imperatives.

That is not to say the Crown should never be involved. The issue is necessity. If we are unable to bypass gatekeepers, we have no freedom to act. The GSP cannot be removed by legislation alone. It must be made unnecessary. The goal is finance freedom that empowers developers and communities to act. Collective action is grounded in the right of assembly and must be facilitated by government frameworks and matured institutions that provide the needed "rules from above": rules that facilitate value creation rather than choke it.

The key is building the institutions and resilience the system needs to stand on its own. Within those bounds, freedom can be bought, and the Crown question resolves itself.

Practitioners and market participants are already learning faster than the institutional framework allows. The next step is to build a framework that keeps pace.

The goal is infrastructure supply responding to demand, developers building when there is willingness to pay, and housing affordability determined by construction costs rather than artificial scarcity of land for urban use. Achieving this requires deliberate institutional development over 10 to 15 years, though the pace at which the market is already learning suggests the timeline could compress if government keeps up and planning reform removes the obstacles that currently slow transactions.

After nearly a decade of incremental reforms, we have another shot. New Zealand has the historical foundations to build the second channel, and recent experimentation with the IFF Act demonstrates that it is a feasible goal. Since the market is ready, what remains is a bipartisan and politically consistent commitment to see it through, step by step.

ANNEX A

Capital Market Capacity for Infrastructure Finance

The Common Objection

A common objection is that New Zealand's capital markets lack the depth to support infrastructure SPVs and revenue bond-style instruments at scale. The argument: New Zealand is small and remote, with shallow capital markets compared to the US or Europe.

This objection conflates fiscal capacity (what government can borrow) with capital market capacity (what the private sector can lend). New Zealand does not have a liquidity crisis; it has a product crisis. The capital exists; the investable product does not.

This annex presents evidence from senior finance professionals across the banking, investment management, and regulatory sectors. It demonstrates that New Zealand's capital markets can support infrastructure SPVs at the scale required for competitive urban land markets. The barrier is not money. It is three surmountable structural deficits: market sophistication (the institutional capability to structure, rate, and evaluate infrastructure debt), aggregation infrastructure (mechanisms to pool projects to achieve viable scale), and policy settings (tax treatment that currently disadvantages infrastructure bonds). None requires decades of institutional development.

A.1 The Evidence: A wall of capital with nowhere to go

Discussions with senior professionals from major trading banks, financial market regulators, and infrastructure finance advisers consistently

reached the same conclusion: New Zealand has sufficient capital market depth to support infrastructure bonds at scale.

The KiwiSaver Growth Trajectory

Capital availability is not the binding constraint. KiwiSaver holds around \$135 billion, reaching into the several-hundred-billion range by mid-century.¹³³ This represents a large and growing pool of patient, long-term capital seeking inflation-linked assets aligned with retirement liabilities.

The Domestic Hollow-Out

Over 60 percent of KiwiSaver funds are invested offshore, not because investors prefer foreign assets, but because rated, tradable infrastructure debt barely exists. KiwiSaver funds prefer NZ dollar assets because offshore investments carry exchange rate risk.¹³⁴

International Appetite

The Local Government Funding Agency (LGFA) successfully accesses international markets, with demonstrated sustained demand for New Zealand infrastructure-related debt. New Zealand's AA+ sovereign credit profile provides credibility.¹³⁵ International investors could reasonably be expected to invest in New Zealand infrastructure debt at lower rating tiers, where that debt is clearly priced using standards that can be transparently compared to well-understood international debt.¹³⁶

A.2 The Real Barriers: Sophistication, aggregation, policy

The capital exists. The blockage lies in three structural deficits, all solvable.

Barrier 1: Market Sophistication

New Zealand lacks the institutional capability to structure, rate, and evaluate infrastructure debt at speed. Each project is assessed from scratch, with bespoke documentation and no established credit rating methodology, imposing a “novelty premium” on every transaction.

The solution: Sophistication is built through transaction volume. Financial technology and standardised documentation can rapidly reduce costs of bond preparation. The market is supply-constrained, not demand-constrained.

Barrier 2: Aggregation Infrastructure

Individual projects (\$50–70 million) cannot access capital markets efficiently on a standalone basis. Transaction costs and rating requirements create minimum scale thresholds.

The solution: A National Aggregator (e.g., expanded LGFA mandate) can pool multiple small projects into regular issuances of \$150–200 million. The LGFA already has the critical mass and investor relationships to serve as this foundation, provided infrastructure bonds are structurally separated from its balance sheet.

Market practitioners identified two implementation pathways:

- a. **Aggregated (optimal):** routes projects through an aggregator, achieving better pricing, lower transaction costs, and higher credit ratings.
- b. **Independent (feasible):** allows large developers with multiple projects to issue their own bonds; this is less optimal but remains viable for developers with sufficient scale.

Both pathways should be enabled to ensure the aggregator does not become a bottleneck.

Barrier 3: Policy Settings

Current tax settings inadvertently penalise foreign investment in non-government bonds.

The Approved Issuer Levy (AIL) creates friction for foreign investors.

The solution: Zero-rate the AIL for registered infrastructure revenue bonds. This would make New Zealand infrastructure debt globally competitive without requiring broader tax reform.

A.3 Proof of Concept: The Community Housing Funding Agency

The argument that “New Zealand cannot do this” is empirically false:

- **Historical evidence:** New Zealand operated large-scale, project-specific infrastructure finance for most of the twentieth century, sustaining 400–500% debt-to-revenue ratios. Annex B documents this history.
- **Contemporary evidence:** The Community Housing Funding Agency (CHFA), launched in 2024, demonstrates that all three barriers can be overcome.

The Community Housing Funding Agency (CHFA)

CHFA aggregates small Community Housing Providers to issue social bonds at scale. In September 2025, it achieved an A+ credit rating and issued a \$200 million bond.¹³⁷

CHFA’s combining aggregation (pooling small borrowers) with a targeted \$150 million Crown Standby Facility (similar to the GSP mechanism).¹³⁸ Targeted Crown support builds track record that enables eventual transition to unsupported market financing.

The lesson: CHFA built issuer capability, engaged rating agencies, and educated investors within eighteen months. It proves that with the right institutional design, the “sophistication gap” can be closed rapidly.

A.4 The “Take-Out” Strategy: How bond markets enable development finance

Market practitioners distinguish between financing for development (construction) and investment (long-term hold).

- **Development phase:** Risky equity territory (construction risk, consenting uncertainty, and developer capability). Bond investors avoid this.
- **Investment phase:** Once built, infrastructure is a stable with predictable cash flows ideal for the bond market.

Revenue bonds fund refinancing, not construction. But a deep revenue bond market solves the development finance problem indirectly by providing a clear “take-out” strategy (see Figure 8). Banks and equity investors fund construction if they know a liquid bond market exists to refinance once operational. The long-term market de-risks the short-term market.

Conclusion

New Zealand’s capital markets can support infrastructure SPVs and revenue bond-style instruments at scale. The constraint is not capital; it is institutional architecture.

The evidence supports the transition strategy:

- **Phase 1** builds sophistication through transactions.
- **Phase 2** achieves scale through aggregation, supported by targeted Crown backstops as CHFA demonstrates.
- **Phase 3+** completes the transition as market maturity permits.

The CHFA precedent demonstrates that this pathway works. The capital is ready. The question is whether we will build the institutional infrastructure to deploy it.

Figure 8. “Take-Out” Strategy: Bond markets de-risk development finance



ANNEX B

The Great Deleveraging

How New Zealand Dismantled Its Infrastructure Finance System

Introduction

A persistent assumption in New Zealand policy debates is that the country lacks the institutional foundations for sophisticated local infrastructure finance. The Infrastructure Funding and Financing Act 2020 is often framed as an attempt to import foreign models into an environment that has never supported such arrangements.

This assumption is historically false. New Zealand operated a functioning, high-volume, project-specific infrastructure finance system for most of the twentieth century. This system supported debt-to-revenue ratios of 400–500% (roughly four times current limits), delivered over half of all public infrastructure investment, and operated through codified statutory frameworks with democratic consent mechanisms, ring-fenced security, and credible default machinery.¹³⁹

This annex documents what New Zealand had, how it was dismantled, and how that history shaped the IFF Act's structural constraints.

B.1 What We Had: The 1913 Regime

The *Local Bodies' Loans Act 1913* (“The Act”) codified a complete project-finance operating system for local infrastructure.

Democratic Consent

Borrowing required ratepayer consent through formal polls with defined thresholds.¹⁴⁰ Debt issued under this framework carried substantial

legitimacy, far more than council borrowing today, which requires no direct ratepayer consent.

Ring-Fenced Borrowing

The Act enabled loans to be ring-fenced to defined parts of a district, with a “special roll” of affected voters and property owners.¹⁴¹ Borrowing for a specific project could be secured against a specific catchment of beneficiaries, matching costs to benefits.

Dedicated Security

The Act also empowered councils to pledge a “special rate” as security: an annually recurring charge legally attached to the land until the loan was repaid.¹⁴² This is the functional equivalent of US revenue bond security.

Explicit Non-Recourse

The statutory debenture forms stated that holders had “no claim upon the Government or public revenues.”¹⁴³ Non-recourse to the Crown was the default, not the exception.

Default Machinery

Part I of the Act provided for appointment of receivers, vesting of pledged property, power to amend rates, and judicially supervised enforcement remedies.¹⁴⁴ Default was contemplated, procedurally managed, and resolved without Crown bailout. But resolution required case-specific intervention. Governments refused to financially step in and instead developed bespoke legislation to force orderly resolution processes that protected net-beneficial collective outcomes. The machinery worked but never evolved into a standing framework codified in law.

State Guarantee as Option

Part IV provided a state-guarantee pathway via Order in Council, which is a recognisable ancestor of the modern GSP, but an option for qualifying loans, not a universal requirement.¹⁴⁵

B.2 How It Worked: Relational financing

New Zealand did not develop a deep secondary bond market (a market where investors buy and sell debt instruments among themselves) like the United States. But it did not need one. The system achieved infrastructure finance at scale through different mechanisms.

Risk was priced relationally rather than through market trading. Specialised banking teams analysed council books, inspected special rate rolls, and negotiated terms based on direct knowledge of the borrower. Insurance companies and sinking funds bought debentures and held them to maturity.¹⁴⁶

Why no secondary market? Three factors:¹⁴⁷

- **Fragmentation:** Hundreds of small councils issued bespoke securities tied to specific rating areas, making comparison and trading difficult.
- **Buy-and-hold dominance:** Life insurance companies sought stable long-term income to match their liabilities. Sinking funds reinvested in local body debentures. These institutional holders bought to maturity, removing supply from circulation. With no one selling, no trading market developed.
- **Relationship substitute:** The banking teams performed the market's function directly. Instead of yield spreads revealing risk through trading, specialists analysed each borrower and negotiated price through relationships. Trust between treasurers and bankers replaced trade between anonymous speculators.

Both systems can support infrastructure finance at scale; they use different mechanisms to price risk.

The relational model had the structural foundations from which greater market sophistication typically evolves: consent mechanisms, ring-fenced security, non-recourse provisions, and credible default machinery. These are the same foundations present in US revenue bond markets today. What the US added over time was standardisation, deeper secondary trading, and liquidity.

Given sufficient transaction volume and institutional continuity, similar evolution in New Zealand was a plausible trajectory. The 1989 reforms foreclosed that pathway before it could unfold.

B.3 The Scale of What We Had

The Infrastructure Commission's 2024 report documents the evidence:

Debt-to-Revenue Ratios

From 1900 to 1935, local government sustained debt-to-revenue ratios of 400–500%, roughly four to five times current LGFA covenant limits (see Figure 9).

Institutional Depth

Larger authorities employed specialist staff for loan raising, becoming “highly efficient” at market timing and structuring. The ecosystem included sinking fund commissioners, underwriters, and professional intermediaries whose function was structuring and placing local government debt.¹⁴⁸

Infrastructure Share

Local government was responsible for over 50% of all public works expenditure before the 1930s. This investment was financed primarily through direct local borrowing and issuance on a project-by-project basis, rather than through central government transfers.¹⁴⁹

Figure 10 shows that infrastructure investment continued across three distinct cycles. But the institutional capacity to finance it through debt (visible in Figure 9) collapsed after the first cycle.

This demonstrates that the Great Deleveraging was an institutional outcome, not a reflection of reduced infrastructure need.

Figure 9. Local Government Debt as a Share of Revenue, 1900–2022

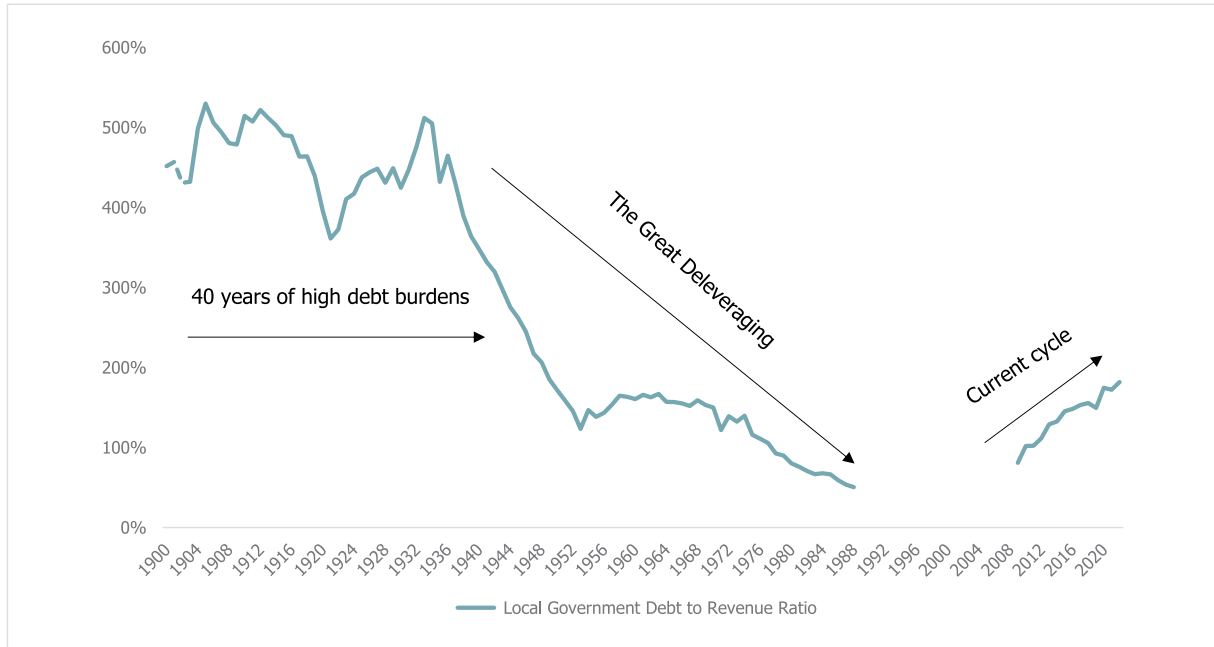
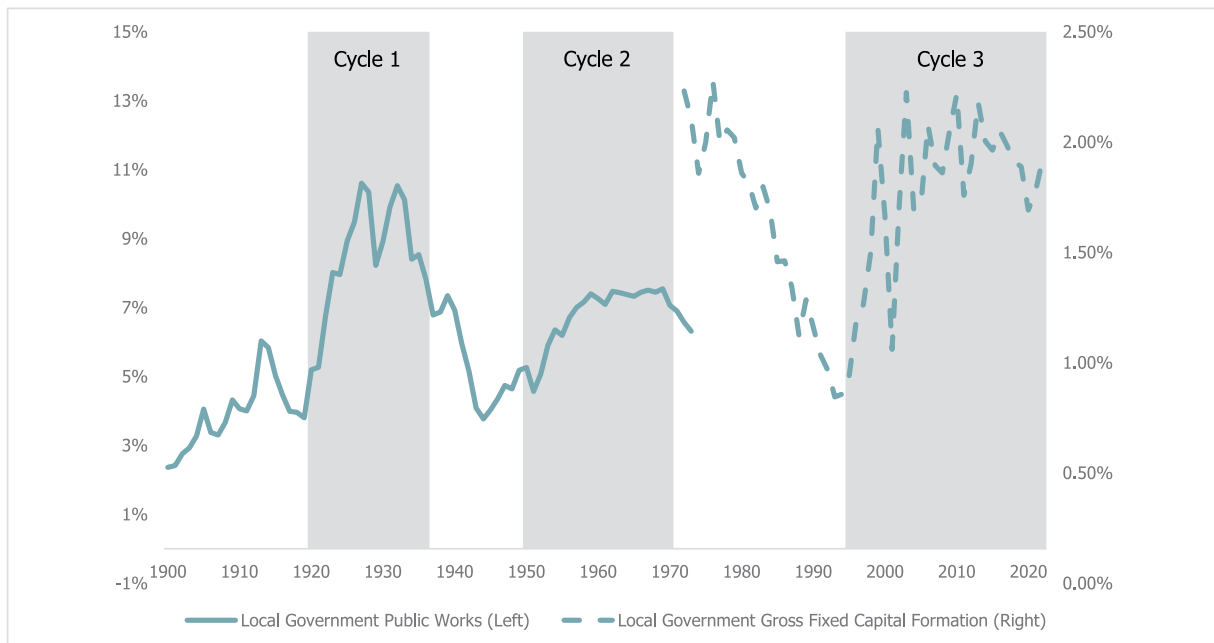


Figure showing “40 years of high debt burdens” from 1900 to 1940, the “Great Deleveraging” from the 1940s onward, and modest re-leveraging under LGFA. Source: Infrastructure Commission (2024), Figure 12, p. 38.

Figure 10. Historical Local Government Infrastructure Investment as a Share of GDP, 1900–2022



Three distinct investment cycles are visible: Cycle 1 (1920–1936), Cycle 2 (1950–1970), and Cycle 3 (1995–present). Source: Infrastructure Commission (2024), Figure A2, p. 47.

B.4 How It Was Dismantled: Centralisation

From the 1930s onward (culminating in the 1989 reforms) New Zealand progressively centralised authority over local infrastructure finance:

- 453 special-purpose authorities (Harbour Boards, Electric Power Boards, Land Drainage Boards) were abolished
- Diverse governance entities were collapsed into approximately 70 general-purpose councils
- Mandatory referenda for local borrowing were removed
- Crown oversight of local borrowing decisions expanded
- The Local Government Loans Board centralised risk assessment under Treasury
- Relationship-based risk pricing was replaced with bureaucratic prudential controls
- LGFA (from 2011) pooled and homogenised local government credit

The 1989 local government reforms focused on entities were followed by the *Local Government Amendment (No 3) Act 1996* focused on finance, which then constrained councils from issuing project-specific financing (“Special Loans”). It removed the legislative framework that enabled them to function.¹⁵⁰ Remaining councils could only borrow against their general rating base. This ended the era of the New Zealand revenue bond and marked the shift to a “general obligation” only model where risks could no longer be ringfenced.

What Was Lost

The Officials Co-ordinating Committee in 1989 acknowledged, at that time, that these special-purpose vehicles were critical to the historical supply of New Zealand’s infrastructure.¹⁵¹

The specialised banking teams dispersed: their institutional home abolished, their expertise no longer demanded. The consent mechanisms

disappeared: borrowing no longer required ratepayer polls. The ring-fencing capacity atrophied: special rating areas gave way to general rates. The default tolerance evaporated: when everything is general-purpose and essential, failure becomes politically intolerable.

The reforms replaced a system where *local bodies took risks, voters authorised them, banks priced them, and consequences were local* with one where *risk is suppressed, borrowing is centralised, and consequences are system wide*.

B.5 The Great Deleveraging

The outcome was a dramatic collapse in local government’s debt-bearing capacity.

Debt-to-revenue ratios fell from around 400–500% in the early twentieth century to below 175% by the 2000s.¹⁵² This prolonged “Great Deleveraging” reflects the financial signature of New Zealand’s political choice to gradually move toward centralisation and reduced tolerance for local government financial risk.

Six causal mechanisms linked centralisation to reduced debt capacity:

- **Loss of local consent mechanisms.** When mandatory referenda were removed, debt lost its democratic legitimacy.
- **Homogenisation of risk-taking.** Differentiated risk assessment gave way to standardised prudential controls.¹⁵³
- **Dispersal of specialised expertise.** The banking teams that priced local government risk lost their institutional home. With no demand for project-specific assessment, the knowledge base atrophied.
- **Elimination of ring-fencing capacity.** When special rating areas gave way to general rates, councils internalised all infrastructure risk onto their general balance sheets, making them structurally more risk averse.

- **Entrenchment of rescue expectations.** When everything became general-purpose and essential, political tolerance for failure evaporated.¹⁵⁴
- **Rating agency recalibration.** Councils were increasingly treated as if they were backed by central government rather than assessed solely based on their own risk profiles.¹⁵⁵ The upside is cheaper borrowing through higher credit ratings; the downside is a loss of financing freedom, as access to capital is increasingly conditioned by system-wide borrowing rules and constraints.¹⁵⁶

The Great Deleveraging was not an economic outcome. Councils deleveraged because centralisation collapsed the institutional infrastructure that had allowed them to borrow safely: the consent mechanisms that legitimised debt, the ring-fencing that contained risk, the expertise that priced it, and the default tolerance that made it manageable.

The current debt limits are not economic necessities. They are institutional artefacts of centralisation.

B.6 Implications for the IFF Act 2020

The *IFF Act 2020* attempts to reintroduce differentiated, project-specific risk, localised cost recovery, external finance independent of council balance sheets, and ring-fenced levy catchments.

These are precisely the features of the pre-centralisation system. IFF is a decentralisation tool operating inside a system designed to suppress exactly those behaviours.

This explains why the model requires Cabinet approval for every levy, Treasury oversight of every GSP, bespoke SPV structures, and council endorsement. IFF is swimming upstream against 70 years of institutional pressure toward centralisation.

Conclusion

New Zealand had the capacity for project-specific infrastructure finance. It had a functioning system but dismantled it.

The reform task is to take advantage of historical foundations to reconstruct that system. New Zealand's challenge is to rebuild functional equivalents in modern form (democratically, financially, and administratively) and resume the developmental trajectory that was interrupted.

ANNEX C

The Government Support Package in Practice

This Annex clarifies the operational scope of the Government Support Package (GSP) as it has functioned across two generations of IFF transactions to date and in the emerging Greenfield model.

The GSP's role in practice has evolved since the policy work to establish the Levy Model, and the purpose of this Annex is to clarify where operational experience has departed from original thinking.

This discussion is based on the author's best understanding of the GSP's current structure and operation, gleaned from original design documents and from information provided to the New Zealand Initiative by The Treasury during the preparation of this report.¹⁵⁷ It is intended as a technical companion to the discussion of the GSP in Section 2.2 and Section 5.2.

C.1 What the GSP was Originally Designed to Do

The GSP was conceived during the 2018–2019 policy process as a mechanism to address a specific structural problem. For levy-backed debt to sit off council balance sheets, councils could not guarantee it. But rating agencies recognised that councils could not realistically allow essential infrastructure to fail. If an SPV encountered severe difficulty, the council would face intense political pressure to step in. Rating agencies would treat that political reality as equivalent to a legal guarantee, and classify the debt as council debt.¹⁵⁸

Theoretically, the GSP could serve three functions:

- breaking the perceived rating linkage between SPV debt and council balance sheets;
- stabilising market confidence in an unfamiliar levy instrument; and
- compensating for the institutional void left by the absence of local authorisation mechanisms for coercive charges.

At the time of design, the GSP was understood to cover a range of residual risks. Some were project-related: construction cost overruns, force majeure, and major construction delays where the impact was too significant to be shared across a small number of levy payers. Others were sovereign in nature (risks created by the Crown's own power to change the rules with negative impact on investors): the Crown terminating or amending the Levy Order, or changes in law affecting the levy regime.

Even at that early stage, there was a latent awareness that sovereign risk was a distinct concern. The policy process identified that the Crown would retain the right to modify or terminate the Order in Council at any point, and that compensation for such action would be required for the SPV to be financeable. The design process consequently noted that the GSP would need to cover losses arising from the Crown's own decisions to terminate or review and resubmit the Levy Order, or from specific changes in law. This was not an afterthought; these risks were identified from the outset, though their distinct character as a separate category of risk (generated by the Crown's own actions rather than by project

performance), which the GSP would uniquely cover, became operative only through application.

In practice, as the following sections describe, the project-related risks have been absorbed elsewhere. In the first generation of transactions, councils bore construction and delivery risk directly. In the Greenfield model, developers bear it. The basket of risks the GSP actually covers has therefore narrowed to this distinct and unique category of risk that we call “sovereign impairment” (the Crown impairing, that is damaging or reducing, the revenue stream it created).

C.2 The First Generation: Council-led transactions

The first two IFF transactions, Tauranga Eastern Link Transport and Wellington Regional Sludge Minimisation, were council-sponsored infrastructure projects. In both cases, the council identified the infrastructure need, oversaw delivery, and bore substantive responsibility for project execution.

The financing structure, however, separated two things from inception. The Special Purpose Vehicle (SPV), owned by National Infrastructure Funding and Financing Ltd (NIFFCo, then Crown Infrastructure Partners or CIP) on behalf of the Crown, raised the project finance. This was a capped amount of debt based on the initial estimated cost of delivery. This debt consolidated onto the Crown’s balance sheet, not the council’s.¹⁵⁹ The council’s balance sheet was never exposed to the SPV debt. Meanwhile, the council bore delivery risk: it was contractually obligated to build the asset, and if costs exceeded the capped SPV funding, the council had to find the additional money from its own resources. The asset sat on the council’s balance sheet; the initial debt raised upfront did not.

These two dimensions of risk were, as a commercial practitioner described them,

“completely separate, totally de-linked.” The SPV finance was off the council’s balance sheet from day one. If levy payers refused to pay, that was a matter for the SPV, not the council. If construction costs blew out, that was the council’s problem, not the SPV’s. The capped SPV debt and the council’s delivery obligation were structurally isolated from each other. The council bore no responsibility for the SPV finance; the SPV bore no responsibility for construction cost overruns.

Once construction was complete and the asset was delivered, the Crown’s capital was progressively replaced by private debt serviced by levy revenue. Beneficiaries of the infrastructure (in these cases, broadly the city’s ratepayers) paid a levy over time, and that revenue serviced the debt. The debt moved from the Crown’s balance sheet to private investors, but it had never sat with the council.

The GSP in these transactions served a dual function. First, it addressed a category of risk that exists precisely because the Crown has inserted itself into the financing chain. By establishing the levy through Order in Council, the Crown created a revenue instrument that it also retains the power to alter. Financiers needed assurance that the Crown would not undermine their investment by amending the IFF Act or related legislation, by adjusting the quantum of levy revenue (whether reducing, restructuring, or cancelling the levy altogether), or by failing to defend a Levy Order against judicial review. We might call this “sovereign impairment risk”: the risk that the sovereign itself undermines the revenue instrument it created. The GSP provides assurance against precisely that: if Crown action or inaction reduces the revenue available to service SPV debt, the Crown tops up the shortfall.

Second, the GSP reinforced the credibility of financial separation from council balance sheets during a period when the model was untested

and market participants had no track record against which to assess it.

In short, risk started public across two dimensions: Crown debt through the SPV, and council delivery obligation as developer. The GSP helped make the financial separation credible, and it compensated financiers for the fact that the Crown, having created the levy regime, also had the power to change it.

This is worth pausing on, because it differs from the original conception. The GSP's design logic was to cover the "contingent residual risks that would normally sit with the local authority," including tail risks associated with construction and delivery.¹⁶⁰ But because councils bore delivery risk directly as the developer (funded from their own resources when costs exceeded the capped SPV finance), and the SPV debt was separated from the council from inception, most of those tail risks never reached the GSP. The council absorbed delivery risk itself; the SPV finance was structurally isolated. In practice, the GSP's function in these transactions was confined to sovereign impairment risk: protecting financiers against Crown interference with the levy revenue stream that serviced the SPV debt. This means the GSP appears to exist solely to protect financiers from the Crown's own involvement in (and power over) the Levy Model.

The model worked, and it achieved genuine separation of SPV debt from council balance sheets from the outset. But during the delivery phase, risk remained entirely within the public sector: the Crown held the debt through the SPV, and the council bore delivery risk as developer. What the model achieved was separation *between* public entities, not separation *from* the public sector. That only began when Crown capital was replaced by private debt as levy revenue came on stream, and even then, only on the finance side. The structural logic of the model (developer bears risk, builds, then finances out to private investors) was demonstrated, but with public

actors on both sides during delivery. That is not a failure, but it is a narrower achievement than a model in which private developers and private investors bear the risk from inception, which is what the Greenfield model begins to move toward.

C.3 The Second Generation: the Greenfield Model

The Treasury and NIFFCo have developed a new "Greenfield Model". The first transaction under this model, the Te Awa Lakes levy, was approved in March 2026. The Greenfield model advances the application of the Levy Model by changing one of the two dimensions. Where the debt sits remains the same: off the council's balance sheet, but likely consolidated onto the Crown's where NIFFCo holds equity in the SPV. Who bears delivery risk changes: it shifts from the council to the private developer.

In both generations, the Crown will likely provide capital through the SPV during the construction phase. That appears to be a necessary feature of the model across both generations at this stage in the model's development. To advance further, the Greenfield model has changed who bears delivery risk. In the first generation, the council bore that risk as developer. In the Greenfield model, a private developer sponsors the project, and then development and construction risk sits contractually with the developer and the SPV from inception. The council's role is limited to levy collection, an administrative function rather than a development one.¹⁶¹

This is meaningful change. It moves delivery risk outside the public sector entirely, placing it with the party best positioned to manage it. But the Crown's financial exposure during the construction phase does not disappear; rather, it is re-characterised.

The capital structure during construction

The capital structure during the development phase will be more complex than a simple “private risk” description would suggest. Under the Greenfield Model, NIFFCo is likely to provide a substantial share of total financing, split between a small equity contribution (a few percent) and a much larger tranche of subordinated debt (could be well over half of the project’s capital requirements). Bank senior debt is likely to account for the remaining debt.¹⁶²

These three layers of capital would carry different levels of risk. Equity is cash put in up front by investors. Unlike debt, it does not come with a fixed repayment schedule. It is the first money lost if things go wrong, but it also captures the upside if things go well; it sits at the bottom of the repayment queue. Subordinated debt ranks above equity but below senior debt: it gets repaid only after senior lenders have been paid in full, making it riskier (and more expensive) than ordinary bank lending. Senior bank debt sits at the top of the repayment queue and is the safest position, which is why banks are willing to provide it at lower cost. Were NIFFCo to provide both the equity and the subordinated debt, it would require the Crown to absorb the riskiest layers of the capital structure during the construction phase.

If the above is realisable, then NIFFCo’s subordinated debt would perform an equity-like function during the development phase, absorbing early-stage risk that private investors would otherwise charge much more to take on. This involvement should be explicitly transitional. We would expect such Greenfield transactions to serve as exemplars, encouraging banks to take a larger share of the financing burden earlier in the development cycle, progressively displacing the need for NIFFCo participation.¹⁶³

If the developer’s costs escalate, timelines slip, or the project stalls, the developer bears that risk.

The SPV should seek security from the developer, such as a second mortgage over developable land.¹⁶⁴ If the project fails, NIFFCo should lose any money it puts in, just as any investor would. But that is because the Crown would have chosen to invest, not because the GSP required the Crown to cover project losses. The GSP and NIFFCo’s capital role are separate sources of Crown exposure, and it is important not to conflate them.

Risk migration after construction

We would expect NIFFCo’s subordinated debt to be progressively refinanced by senior private debt as the development reaches completion milestones, with tranches of NIFFCo capital being replaced as the project demonstrates viability and housing is delivered.¹⁶⁵ Once refinancing is complete, the potential steady state would be straightforward: homeowners who buy into the development pay the levy over time, and that revenue services the debt.

Regardless of who provides the debt, councils should not count it on their balance sheets. That is the core purpose of the model. However, the Crown’s position may be different. Because NIFFCo will likely hold equity in the SPV, the SPV should consolidate into the Crown’s accounts. Treasury has indicated that, in such cases, private debt raised by the SPV would sit on the Crown’s consolidated balance sheet. Should NIFFCo itself lend to the SPV, the position is less clear: it would effectively be one part of the Crown lending to another, which may cancel out in consolidated accounts, though this would not have yet been tested.¹⁶⁶

What the GSP covers in the Greenfield configuration

Where private debt is involved during the development stage, the GSP covers the same sovereign impairment risks as in the council-led transactions: change in law, judicial review affecting the Levy Order, and Crown amendment or revocation that reduces levy

revenue. Where no private debt is involved during construction (because NIFFCo provides the full financing requirement), the GSP should be put in place on the basis that private debt will enter upon completion, but there would be no risks to be covered until that occurs.¹⁶⁷

The GSP does not cover construction cost overruns, demand risk, developer insolvency, or general project underperformance. In the Greenfield configuration, the council's role is limited to levy collection, and in practical terms the council should be indifferent to whether the GSP exists or not.¹⁶⁸

C.4 The GSP's Operational Scope Today

Implementation experience since the enactment of the IFF Act, and clarification from The Treasury, have narrowed the understanding of what the GSP does in practice. Its function is approximately 60–70 percent financial (absorbing specific risks) and 30–40 percent legitimising (providing market and political comfort).¹⁶⁹

The specific risks the GSP covers are confined to sovereign impairment of levy revenue:

- A change in law or regulation, including repeal of or change to the Levy Order;
- A successful judicial review or similar challenge to the Levy Order;
- Any such event that has the effect of reducing the amount of levy revenue that can be charged by the SPV.¹⁷⁰

The most likely payout scenario would involve a court commenting on the equity of the levy for certain beneficiary groups and inviting the Crown to reconsider the Levy Order; for instance, because decision-makers had not appropriately balanced the mandatory considerations in Section 27 of the IFF Act. If the Crown then reduced the levy for the affected

group by amending the Levy Order, levy revenue would likely become insufficient to cover debt servicing and repayment, requiring the Crown to top up the shortfall under the GSP.¹⁷¹

This is a narrower operational scope than some early reform narratives may have suggested. The GSP is not a project underwriting instrument. It does not socialise delivery risk. It protects financiers against the perceived instability of the levy regime itself: the risk that courts or the Crown's own actions change the rules on lenders after they have committed capital, causing them loss.

C.5 What Has Changed, And What Has Not

The progression from council-led to developer-led transactions represents genuine structural evolution in risk allocation.

In the first generation, council was both developer and political sponsor. Development risk began inside the public sector. Financing separation followed project initiation. The GSP supported both the rating separation and broader market confidence.

In the Greenfield model, development risk originates with the private developer. Council exposure is administrative. Crown economic exposure, where it exists, is likely to arise through NIFFCo capital participation rather than through delivery responsibility. The GSP is confined to sovereign impairment protection.

This is meaningful progress toward a non-recourse architecture. But two features distinguish the current system from a mature non-recourse regime. First, NIFFCo's likely substantial early-stage capital participation means the Crown remains economically exposed during construction, even though that exposure is structurally distinct from the GSP. Second, New Zealand has not yet established a precedent

in which levy-backed infrastructure finance proceeds through distress without sovereign intervention. The practical boundary of recourse remains untested.

The GSP's continued presence therefore reflects the absence of mature institutional conditions for credible non-recourse finance, rather than deficiencies in how project risk is allocated. Three conditions remain unmet:

1. **The instability of the levy regime itself:** Where levy-backed revenue streams remain vulnerable to impairment by Crown action.
2. **The concentration of levy authority with the Crown:** Embeds sovereign risk into the model by design (requiring autonomous levy authorisation) and inhibits landowners' and developers' credible threat of entry into land markets through the absence of political discretion (but protected by bottom-up democratic consent mechanisms) in urban development.
3. **The absence of demonstrated system confidence:** That financial failure will be accepted without political rescue (requiring a tested distress regime and demonstrated market acceptance of loss). As the institutional architecture matures, through the reforms outlined in this report, the necessity of sovereign impairment protection through the GSP may diminish. That transition depends on institutional credibility and market precedent rather than structural redesign alone.

Endnotes

- 1 Former Housing and Urban Development Minister Hon Phil Twyford called planning restrictions (withholding of permissions to use land for urban development) and finance constraints (withholding of finance to provide infrastructure to service land) the “evil twins” of unaffordability.
- 2 Soft-budget constraints also play a role but are not a focus of this report: Even if our planning and infrastructure funding and finance (IFF) systems provided perfect regulatory and financial elasticity, developers would still avoid using them if they expect local government (LG) and central government (CG) to pay for works anyway, which they do when they see them under-supplied. It is therefore rational of the private sector to undersupply. Hard budget constraints would require the private sector to do more heavy lifting.
- 3 This report recognises that current transitional arrangements, including the use of the Crown-owned company National Infrastructure Funding and Financing Ltd (NIFFCo) to absorb development-phase risk, temporarily place some infrastructure risk on the Crown as a deliberate bridge, but is not the destination. NIFFCo is addressed later in this paper as part of the proposed transition strategy (see Part 5) toward a system in which mature infrastructure is financed on a genuinely non-recourse basis.
- 4 A complete transition requires more than two dimensions. The Government’s *Going for Housing Growth* programme recognises this through its three-pillar structure: planning reform (Pillar 1), infrastructure finance (Pillar 2), and incentives for growth (Pillar 3). Planning reform and infrastructure finance reform are advancing incrementally, both necessary but neither sufficient. The third dimension, governance remains the least developed: enabling collective action through special purpose arrangements with sufficient property rights and finance freedom to proceed on their own initiative. This report pulls in that third dimension, harnessing the incentives innate to price signals and community self-interest so that those who benefit from development can assemble, finance, and deliver infrastructure when councils will not or cannot. This confers autonomy: protection from the tyranny of institutional inaction. It is also the way that, historically and internationally, much of the major infrastructure we now benefit from was made possible. In New Zealand this was enabled through Harbour Boards, Electric Power Boards, and hundreds of other special purpose entities that operated at scale before their abolition in 1989, and across the Western world through franchises, concessionaires, and municipally-owned utilities that financed and delivered infrastructure independently of general government budgets. But there is another side to this third dimension. The Government’s *Going for Housing Growth* programme captures that in its third pillar: providing incentives for councils themselves to support growth, for example by allowing councils to share in the revenue that development generates, such as a portion of GST. Rather than empowering communities to bypass reluctant councils, this approach seeks to align the higher-order governing power with the innate incentives of landowners (the market), so that councils welcome growth rather than resist it. If executed well, this could be a powerful lever, potentially reducing the need for regulatory override under Pillar 1 (planning) and under Pillar 2 (finance). But getting incentive design right is fickle: the settings can be diluted, reversed, or captured over time. This report’s focus on autonomy and the right to assemble reflects a judgement that the ability to act independently of councils is the more durable safeguard. It is a release valve that cannot be stopped or gamed, and that functions regardless of whether incentive alignment at the council level holds. This report does not examine council incentive mechanisms in detail, but their importance to the broader reform programme should not be understated.
- 5 Benno A. Blaschke et al., *A New Approach to Urban Planning*, Policy Paper no. 004 (University of Auckland, Economic Policy Centre, Urban and Spatial Economics Hub, 2021), 2–8, <https://www.auckland.ac.nz/assets/business/our-research/docs/economic-policy-centre/urban-and-spatial-economics/use-pp-004.pdf>.
- 6 Benno A. Blaschke et al., *A New Approach to Funding and Financing Our Cities: How We Supply Infrastructure Makes Housing Unaffordable*, Policy Paper no. 003 (University of Auckland, Economic Policy Centre, Urban and Spatial Economics Hub, 2021), 11–15, <https://www.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/Economic-Policy-Centre--EPC-/USEPP003.pdf>.

- 7 Alain Bertaud, *Order without Design: How Markets Shape Cities* (MIT Press, 2019), <https://mitpress.mit.edu/9780262550970/order-without-design/>.
- 8 Natural or ‘differential’ land rents naturally arise from genuine locational advantages: proximity to employment centres, amenities, transport networks, and agglomeration benefits and decline proportionally with increasing distance.
- 9 To be more precise, in a competitive urban land market, prices converge toward the opportunity cost of converting rural land to urban use: the price of raw land (reflecting its opportunity cost in rural use) plus infrastructure costs (including a normal profit margin and a real option mark-up derived under competitive conditions with no prospect of speculative bubbles because of freedom to create more urban land). When the market does not have the freedom to convert cheap rural land, land speculation can erupt, urban land prices decouple from this competitive price floor and instead reflect what buyers can be forced to pay given the absence of alternatives. Real option models rule out speculative bubbles by assuming freedom of entry. See Avinash K. Dixit and Robert S., *Investment under Uncertainty* (Princeton University Press, 1994), 181–82, <https://press.princeton.edu/books/hardcover/9780691034102/investment-under-uncertainty>. Deny that freedom, and one must rule bubbles back in. Prices are set at the relevant margin, so as fringe urban land prices increase, so too do inner urban land prices. As this dynamic occurs to all cities, because of common policy settings, people cannot migrate to seek reprieve from high prices, and so they must suffer them. As land prices rise, the rate of development slows (raising house rents and prices); the rate of infrastructure supply slows (slowing the rate of development); what development does happen is more intensive (raising land prices). These dynamics reinforce, creating a long-sustained escalation of land prices, house prices, and house rents, transferring income and wealth from the class of people not landed to the class of people that are landed. City productivity reduces as people are priced out of productive locations and congest from overcrowding and restricted infrastructure capacity. Land and housing market boom-busts destabilise financial and economic markets.
- 10 Angel argues that urban expansion is inevitable if we are to maintain an affordability objective for humanity’s urbanisation project. It follows from his work that in cities that are contained, house prices break free from the anchor of their production costs. Instead, prices rise until they hit the limit of what buyers can barely afford. Schlomo Angel, *Planet of*
- Cities* (Lincoln Institute of Land Policy, 2012), <https://www.lincolninstitute.edu/publications/books/planet-cities/>.
- 11 Edward Glaeser and Joseph Gyourko, “The Economic Implications of Housing Supply,” *Journal of Economic Perspectives* 32, no. 1 (2018): 3–30, <https://doi.org/10.1257/jep.32.1.3>.
- 12 Joseph Gyourko and Raven Molloy, “Regulation and Housing Supply,” in *Handbook of Regional and Urban Economics* (Elsevier, 2015), 5:1316–22, <https://doi.org/10.1016/B978-0-444-59531-7.00019-3>; Urban Reform Institute, *Demographia International Housing Affordability 2023 Edition* (2023), <https://urbanreforminstitute.org/wp-content/uploads/2023/03/Demographia-International-Housing-Affordability-2023-Edition.pdf>.
- 13 New Zealand Local Government Funding Agency, “Guarantee Arrangements,” accessed January 7, 2026, <https://www.lgfa.co.nz/investors/guarantee-arrangements>.
- 14 Cheshire argues that the planning system’s rationing of developable area independently of price signals creates an artificial scarcity that grants landowners extractive power over buyers. Because the high income elasticity of demand for space is met by a policy-induced inelastic supply, the value of planning restrictions is capitalised into house prices. This mechanism results in a regressive wealth transfer from new homebuyers to those who happened to own land at the right time. See Paul Cheshire, “Reflections on the Nature and Policy Implications of Planning Restrictions on Housing Supply,” *Oxford Review of Economic Policy* 24, no. 1 (2008): 50–58, <https://doi.org/10.1093/oxrep/grn002>.
- 15 Cabinet Office, *Cabinet Minute: Infrastructure Funding and Financing: Infrastructure Levy Model*, CAB-19-MIN-0263, Urban Growth Agenda (The New Zealand Treasury, 2019), <https://www.treasury.govt.nz/publications/cabinet-minute/cab-19-min-0263-urban-growth-agenda-infrastructure-funding-and-financing>.
- 16 This includes a competitive real option cost.
- 17 Benno A. Blaschke et al., hosts, *From Heresy to Reform*, Part 2, Housing Affordability: New Zealand at the Global Policy Frontier, 2025, 1:28:27, <https://www.nzinitiative.org.nz/reports-and-media/podcasts/podcast-housing-affordability-nz-at-the-global-policy-frontier-part-2-from-heresy-to-reform/>.
- 18 The New Zealand Productivity Commission, *Better Urban Planning* (Wellington, NZ, 2017), <https://www.treasury.govt.nz/publications/better-urban-planning-productivity-commission-inquiry-material-2015-2017>.

- 19 This dynamic is well described by the economic concept of the “tragedy of the anti-commons,” in which multiple parties hold fragmented rights to exclude, leading to underuse of resources because any one of them can block productive activity. See Michael A. Heller, “The Tragedy of the Anticommons: Property in the Transition from Marx to Markets,” *Harvard Law Review Association* 111, no. 3 (1998): 660–79, <https://doi.org/10.7916/D8XD115K>.
- 20 To clarify, it is not CLM as defined that implies this. Rather, the conditions necessary for CLM imply this.
- 21 Chris Bishop and Simon Court, “Replacement for the Resource Management Act Takes Shape,” Beehive: The Official Website of the New Zealand Government, 2025, <https://www.beehive.govt.nz/release/replacement-resource-management-act-takes-shape>; Ministry of Housing and Urban Development and Ministry for the Environment, “Going for Housing Growth Discussion Paper: Providing for Urban Development in the New Resource Management System,” Ministry of Housing and Urban Development, 2025, <https://www.hud.govt.nz/assets/Uploads/Documents/Going-for-Housing-Growth/Discussion-document/GfHG-Phase-3-discussion-document.pdf>.
- 22 Blaschke et al., *From Heresy to Reform*, 01:24:13; the link between housing affordability and the cost of land, supplied by the Competitive Urban Land Markets (CLM) framework, was embedded in the Urban Growth Agenda when Twyford was Minister of Housing and Urban Development, see Cabinet Office, *Cabinet Minute: Proposed Approach*, CAB-18-MIN-0244, Urban Growth Agenda (The New Zealand Treasury, 2018); after Twyford lost the Housing portfolio, the UGA programme was revised. The revised programme retained housing affordability as a goal but abandoned the intervention logic that linked it to the cost of land, see Office of the Minister of Housing, *Cabinet Paper: Revised Programme*, Urban Growth Agenda (The Ministry of Housing and Urban Development, 2021), <https://www.hud.govt.nz/assets/Uploads/Documents/Urban-Growth-Agenda-Revised-Programme.pdf>. The Treasury, consulted on the 2021 paper, warned against this change, arguing that the 2018 UGA objectives should remain in place and that diluting housing affordability’s primacy with competing objectives would weaken accountability and focus.
- 23 *Chris Bishop: Why National Is Dropping Bipartisan Housing Deal*, directed by Q&A with Jack Tame, 2023, 25:30, <https://www.youtube.com/watch?v=HVbNN5i-CgA>; *Housing Minister Chris Bishop on Fixing a Broken Housing Market*, directed by Sharesies, 2024, 21:13, <https://www.youtube.com/watch?v=7YIV8O4Jg1w>.
- 24 Ministry of Housing and Urban Development and Ministry for the Environment, “Going for Housing Growth,” see Pillars 1–3.
- 25 Planning Bill, 235–1, Parliamentary Counsel Office: New Zealand Legislation (2025), Clause 11(d), <https://www.legislation.govt.nz/bill/government/2025/0235/latest/LMS1035807.html>; See also Benno Blaschke et al., hosts, *Finishing the Revolution*, Part 3, Housing Affordability: New Zealand at the Global Policy Frontier, 2026, 54:47, <https://www.nzinitiative.org.nz/reports-and-media/podcasts/podcast-housing-affordability-nz-at-the-global-policy-frontier-part-3-finishing-the-revolution>.
- 26 This was not always so. Throughout the nineteenth and early twentieth centuries, infrastructure in cities across the West was routinely financed and delivered by franchises, concessionaires, and municipally-owned but financially independent utilities, all funded through user fees rather than general taxation or council borrowing. These entities could borrow against dedicated revenue streams, plan networks at scale, and bear the consequences of their own financial failure. Samuel Hughes argues that the key virtue of nineteenth century urbanism was the alignment of private interests and public good through institutional design: monopolism that made profit maximisation coincide with network expansion, user-pays funding that aligned beneficiaries with costs, and financial autonomy that created discipline. His summary principles – “users pay, suppliers profit, and spendthrift public bodies go bankrupt” – are consistent with the CLM principles for infrastructure finance outlined in this report. The modern constraint, where nobody but the council can pay and the council cannot afford to, is an institutional artefact, not an inherent feature of infrastructure provision. See “Update on Government Infrastructure Entities,” New Zealand Infrastructure Commission Te Waihanga, December 2, 2024, <https://tewaihanga.govt.nz/news-events/update-on-government-infrastructure-entities>. See also Annex B of this report.

- 27 Blaschke et al., *A New Approach to Funding and Financing Our Cities*, 15–18.
- 28 Ministry for the Environment and Ministry of Housing and Urban Development, “National Policy Statement on Urban Development 2020,” Ministry for the Environment, 2022, See Policy 2 (Development Capacity Requirements), <https://environment.govt.nz/acts-and-regulations/national-policy-statements/national-policy-statement-urban-development/>.
- 29 Table 2 discusses the core dimensions of competitive urban land markets and what happens to the system when any one dimension is restricted. See Benno Blaschke, *Submission on Going for Housing Growth (Pillar 1) Discussion Document: Freeing up Land for Urban Development*, Submission (The New Zealand Initiative, 2025), 16–17, <https://www.nzinitiative.org.nz/reports-and-media/submissions/submission-going-for-housing-growth-pillar-1-freeing-up-land-for-urban-development/>.
- 30 Michael Bassett and Luke Malpass, *Different Places, Different Means: Why Some Countries Build More than Others* (The New Zealand Initiative, 2013), <https://www.nzinitiative.org.nz/reports-and-media/reports/different-places-different-means/>.
- 31 Michael Bassett et al., *Free to Build: Restoring New Zealand’s Housing Affordability* (The New Zealand Initiative, 2013), <https://www.nzinitiative.org.nz/reports-and-media/reports/free-to-build-restoring-new-zealands-housing-affordability/>.
- 32 Blaschke et al., *A New Approach to Funding and Financing Our Cities*.
- 33 The New Zealand Treasury, “National Infrastructure Funding and Financing Limited,” The Treasury: Portfolio of Companies and Entities, Wellington, NZ, June 1, 2018, <https://www.treasury.govt.nz/information-and-services/commercial-portfolio-and-advice/commercial-portfolio/national-infrastructure-funding-and-financing-limited>.
- 34 The New Zealand Initiative, “Media Release: A Breakthrough for Housing Affordability,” Reports and Media, Wellington, NZ, July 23, 2017, <https://www.nzinitiative.org.nz/reports-and-media/media/a-breakthrough-for-housing-affordability/>.
- 35 Chris Bishop, “New Infrastructure Agency up and Running,” Beehive: The Official Website of the New Zealand Government, Wellington, NZ, December 1, 2024, <https://www.beehive.govt.nz/release/new-infrastructure-agency-and-running>.
- 36 Matthew Birchall, *Paving the Way: Learning from New Zealand’s Past to Build a Better Future*, Infrastructure (The New Zealand Initiative, 2023), <https://www.nzinitiative.org.nz/reports-and-media/reports/paving-the-way-learning-from-new-zealands-past-to-build-a-better-future/>.
- 37 Eric Crampton, *Funding the Future: The Case for Special Purpose Bonds*, Research Note (The New Zealand Initiative, 2023), <https://www.nzinitiative.org.nz/reports-and-media/reports/funding-the-future-the-case-for-special-purpose-bonds/>.
- 38 Figure 18 of the Urban Land Markets Group’s analysis points to institutions that need to be matched with infrastructure supply. See Blaschke et al., *A New Approach to Funding and Financing Our Cities*, 56–57.
- 39 US cities and states issued \$514 billion in new municipal bonds in 2024. The total value of bonds still being repaid is \$4.3 trillion. “US Municipal Bonds Statistics,” Securities Industry and Financial Markets Association (SIFMA), January 6, 2026, <https://www.sifma.org/research/statistics/us-municipal-bonds-statistics/>; In 2018, roughly 58 percent of state and local issuances were revenue bonds, 36 percent were general obligation bonds, and 6 percent were private placements. See “What Are Municipal Bonds and How Are They Used?,” Tax Policy Center: Urban Institute & Brookings Institution, 2024, <https://taxpolicycenter.org/briefing-book/what-are-municipal-bonds-and-how-are-they-used>; In 2024, revenue bonds made up around two-thirds (68%) of all investment-grade local government debt outstanding. See Cooper Howard, “Choosing Municipal Bonds: GO or Revenue?,” Schwab Brokerage, 2024, <https://www.schwab.com/learn/story/choosing-municipal-bonds-go-or-revenue>.
- 40 The Officials Co-ordinating Committee on Local Government, *Reform of Local and Regional Government Discussion Document*, Discussion Document (Wellington, NZ, 1988), 7–8.
- 41 Revenue bonds are well suited to capital works that can sustain revenues (i.e. are quasi-commercial). General obligation debt is well suited to pure public goods and miscellaneous matters (large numbers of small things) that cannot sustain user revenue streams that are bankable.

- 42 High debt leverage models are well suited for growth investments that create or increase a taxbase/asset base to be able to repay the high debt. The payments would be similar in structure to a mortgage, e.g. 25–30 years. But high leverage models are not well suited to funding *renewals*, because that can and should be funded (or at least substantially part-funded) from setting aside depreciation allowances (that are invoiced regardless). “Save as you go” (SAYGO) schemes for renewals are suitable to part-substitute PAYGO, especially for renewing major assets. Matters are more ambiguous in relation to improvement works that enhance *levels of service*. Level of service improvements lift property values and are more discretionary, so debt financing is preferable. However, it may be more difficult to achieve consent from existing and diverse communities to raise targeted pledged taxes for revenue-bond financing levels of service improvements, so these will likely remain GO-debt serviced until revenue bond arrangements mature.
- 43 Feedback from central agencies on earlier drafts of this report raised this point.
- 44 In public finance and political economy, *congruence* refers to the alignment between those who decide on investment, those who benefit from it, those who pay for it, and those who bear downside risk. Where these roles are misaligned (such as when the costs and risks of growth are socialised through general-obligation balance sheets while benefits accrue diffusely) institutions predictably respond by rationing supply rather than enabling expansion. See, *inter alia*, Henry George’s theorem on local public goods finance; Fischel’s *Homevoter Hypothesis* on local political incentives; and Ostrom’s work on institutional design and alignment in collective action. For a further discussion of the principle of congruence, see Blaschke, *Submission on Going for Housing Growth (Pillar 1) Discussion Document: Freeing up Land for Urban Development*, 3–4, 11–12.
- 45 Under current LGFA arrangements, standard net debt-to-revenue covenants are typically set at or below 280%, with some councils permitted to operate at higher limits (up to approximately 350%) where supported by strong and stable revenue bases. Water service entities borrowing directly via the LGFA may operate under distinct covenant frameworks. These arrangements are general-obligation in nature, relying on consolidated revenues and cross-council risk pooling. This does not alter the institutional distinction described here: unlike project-specific finance with ring-fenced repayment streams and localised failure containment, LGFA borrowing cannot replicate the incentive alignment, risk localisation, or system adaptability required for competitive urban land markets.
- 46 The New Zealand Productivity Commission, *Local Government Funding and Financing* (Wellington, NZ, 2019), see Chapter 4 and Section 7.2, <https://www.treasury.govt.nz/publications/local-government-funding-and-financing-productivity-commission-inquiry-material-2018-2019>.
- 47 If the council does not pay for growth, then the council benefitting from a larger general rating tax base might be adequate incentive to go for growth.
- 48 The New Zealand Productivity Commission, *Better Urban Planning*, see Chapter 11.
- 49 Gyourko and Molloy, “Regulation and Housing Supply,” 1305–10; William Alan Fischel, *Zoning Rules! The Economics of Land Use Regulation* (Lincoln Institute of Land Policy, 2015), 10, <https://www.lincolnst.edu/publications/books/zoning-rules>; William Alan Fischel, *The Homevoter Hypothesis: How Home Values Influence Local Government Taxation, School Finance, and Land-Use Policies* (Harvard University Press, 2001), 4.
- 50 Cabinet Office, *CAB-18-MIN-0244*, paragraph 4.
- 51 The New Zealand Treasury, *Alternative Funding Mechanisms for Local Government Infrastructure*, Document 5, Official Information Act Request 20190815 (The New Zealand Treasury, 2020), 57, <https://www.treasury.govt.nz/sites/default/files/2020-02/oia-20190815.pdf>.
- 52 Benno A. Blaschke et al., hosts, *Clarity Emerging from the Mists*, Part 1, Housing Affordability: NZ at the Global Policy Frontier, 2025, 1:03:35, <https://www.nzinitiative.org.nz/reports-and-media/podcasts/podcast-housing-affordability-nz-at-the-global-policy-frontier-part-1-clarity-emerging-from-the-mists/>; Blaschke et al., *From Heresy to Reform*.
- 53 Although Milldale was effectively a single-developer project, the financing depended on bespoke contractual arrangements registered individually against each title, with no statutory mechanism for imposing or enforcing a collective, area-wide charge. This made the approach transaction-intensive, non-scalable, and difficult to generalise beyond a cooperative greenfield development. The IFF Act was designed to replace this ad hoc contracting with a standardised statutory levy and collection framework.

- 54 The Treasury documents the Milldale pilot's use of long-term infrastructure payments secured by title-specific encumbrances, and notes that the model relied on bespoke contractual arrangements with individual landowners. See Amelia East and Stacey Wymer, *Crown Infrastructure Partners – Update on Milldale Development Project*, Treasury Report T2018/2340, Official Information Act Request 20190815 (The New Zealand Treasury, 2018), 3 (para 7e), <https://www.treasury.govt.nz/sites/default/files/2020-02/oia-20190815.pdf>; The Treasury identified structural limitations in the Milldale encumbrance model (particularly its reliance on bespoke, negotiated charges and its inability to scale across multiple landowners) and explicitly notes that legislation would be required to overcome these constraints. Treasury further states that lessons from the Milldale pilot would be considered as part of the Infrastructure Funding and Financing (IFF) pillar of the Urban Growth Agenda (UGA), signalling the need for a general, scalable statutory framework rather than project-by-project arrangements. See Amelia East and Stacey Wymer, *Crown Infrastructure Partners – Ministerial Approvals*, Treasury Report T2018/2498, Official Information Act Request 20190815 (The New Zealand Treasury, 2018), 35, <https://www.treasury.govt.nz/sites/default/files/2020-02/oia-20190815.pdf>; and East and Wymer, *CIP Milldale Project*, 1.
- 55 Cabinet Office, *CAB-19-MIN-0263*, paragraph 3.
- 56 See Part 4 of this report and Blaschke et al., *A New Approach to Funding and Financing Our Cities*, Annex 3.
- 57 W. Schön, *Taxation and Democracy* (New York University School of Law, 2018); Chris Parker, *Developing the 'Henry George Theorem' for Spatial Equilibrium and Urban Policy*, Working Paper (The New Zealand Treasury, Unpublished).
- 58 Blaschke et al., *A New Approach to Funding and Financing Our Cities*.
- 59 Stakeholder discussions with capital-markets participants, including former Financial Markets Authority (FMA) officials, highlighted that structuring each infrastructure project as a standalone, marketable debt security in New Zealand currently triggers significant fixed costs beyond those associated with simple loan-based finance. These include Financial Markets Conduct Act (FMCA) compliance and disclosure expectations, trustee and registry arrangements, credit-rating and benchmarking requirements, and investor-facing governance and reporting standards. While appropriate for repeat issuers and aggregated programmes, these costs are incurred anew for one-off issuers and materially raise minimum viable project scale. Participants also noted that these costs are not structurally fixed: advances in automation and AI-assisted due diligence, documentation, and credit analysis are likely to materially reduce bond preparation and evaluation costs over time. However, this technological shift does not eliminate the near-term need for aggregation and platform institutions to achieve scale under current market conditions.
- 60 Infrastructure Funding and Financing Act 2020, Part 2, <https://www.legislation.govt.nz/act/public/2020/0047/latest/LMS235094.html>; Cabinet Office, CAB-19-MIN-0263, paragraphs 9-13.
- 61 Emma White and Stacey Wymer, *Infrastructure Funding and Finance – Infrastructure Levy Model*, Treasury Report T2019/72, Urban Growth Agenda (The New Zealand Treasury, 2019), 2 (para 4) and 25 (para 63), <https://www.treasury.govt.nz/sites/default/files/2019-12/infra-fund-finance-4061524-tr72.pdf>; Amelia East and Stacey Wymer, *Infrastructure Funding and Financing*, Treasury Report T2018/1087, Urban Growth Agenda: (The New Zealand Treasury, 2018), 27 (paragraphs 127-129), <https://www.treasury.govt.nz/sites/default/files/2019-12/infra-fund-finance-3947733-tr1087.pdf>.
- 62 Benno A. Blaschke, *The Infrastructure Levy Model: Assurance System and Appointment of Roles (First Edition, 18 October, Unpublished)*, Briefing no. BRF1920070373 (The Ministry of Housing and Urban Development, 2019), Democratic Accountability: Constitutional and Economic Context of the Model, 25-27.
- 63 White and Wymer, *IFF - Levy Model*, 2 (paragraphs 3-7); East and Wymer, *Infrastructure Funding and Financing*, 27 (paragraphs 127-130) see also footnote 11.
- 64 Early policy work stated clearly, “The purpose of the GSP is to ring-fence debt from councils’ balance sheets.” See Blaschke, *The Infrastructure Levy Model* (The Ministry of Housing and Urban Development, 2019), 9; The Treasury also acknowledged early in the design process of the Levy Model that “a fundamental element of the Model is the provision of a Government Support Package (GSP) to cover certain contingent residual risks... that would normally sit with the local authority.” The point is that the GPS is needed to meet rating agencies’ requirements. See White and Wymer, *IFF - Levy Model*, 2 (para 7).
- 65 East and Wymer, *Infrastructure Funding and Financing*, 27 (paragraphs 127-130).

- 66 While levy revenues could, in principle, be structured to fund operating costs, renewals and routine service provision are generally more efficiently funded through PAYGO (pay-as-you-go) or SAYGO (save-as-you-go) mechanisms. Under PAYGO, costs are met from current revenues (primarily rates and user charges). Under SAYGO, revenues are set aside in advance to fund future renewals, avoiding the need for borrowing. Where borrowing is used to smooth timing mismatches, it is typically undertaken as limited general obligation (GO) debt backed by the council's overall revenue base rather than through project-specific levies. Debt-backed SPVs are therefore best reserved for lumpy, growth-enabling, long-lived capital investments. The underlying efficiency principle is cost-benefit matching: where costs are predictable and benefits are contemporaneous, funding from current revenues minimises financing costs and risk; where costs are lumpy and benefits accrue over long periods, debt financing improves intergenerational equity and enables timely delivery.
- 67 Blaschke, *The Infrastructure Levy Model* (The Ministry of Housing and Urban Development, 2019), 7; 17–20.
- 68 Infrastructure Funding and Financing Act 2020, Part 2, Section 17.
- 69 National Infrastructure Funding and Financing Limited (NIFFCo) is a Crown-owned company and a Schedule 4A company under the Public Finance Act 1989, with its shares held in equal portions by the Minister of Finance and the Minister of Infrastructure. NIFFCo was established in late 2024 through the repurposing of Crown Infrastructure Partners Limited, and functions as the Crown's principal vehicle for deploying infrastructure funding and financing interventions, including lending under the *Infrastructure Funding and Financing Act 2020*. National Infrastructure Funding and Financing Ltd, "Board Charter," 2024, https://nationalinfrastructure.govt.nz/wp-content/uploads/FINAL_Board_Charter_Dec_2024_NIFF.pdf.
- 70 Infrastructure Funding and Financing Act 2020, Part 2, Sections 20-21.
- 71 Infrastructure Funding and Financing Act 2020, Part 2, Section 28.
- 72 Graham Campbell, Peter Nunns, Hagan, Andy, et al., *Is Local Government Debt Constrained?*, Report (New Zealand Infrastructure Commission, 2024), 10 (Box 1), <https://media.umbraco.io/te-waihanganga-30-year-strategy/ac2jrick/is-local-government-debt-constrained.pdf>.
- 73 White and Wymer, *IFF - Levy Model*, 2 (para 4); East and Wymer, *Infrastructure Funding and Financing*, 27 (para 128) and 28 (para 134).
- 74 Infrastructure Funding and Financing Act 2020, Part 1, Section 15, 36 and 74.
- 75 Michael Chatterley, *Policy Briefing: Infrastructure Levy Model - Development Contributions (Unpublished)*, Briefing no. LG201900663 (Department of Internal Affairs, 2019), 1–12, https://www.treasury.govt.nz/sites/default/files/2019-12/infra-fund-finance-4203512-briefing_0.pdf.
- 76 Ministry of Housing and Urban Development, "The Infrastructure Funding and Financing (Western Bay of Plenty Transport System Plan Levy) Order 2022," Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development, 2025, <https://www.hud.govt.nz/our-work/the-infrastructure-funding-and-financing-western-bay-of-plenty-transport-system-plan-levy-order-2>.
- 77 Ministry of Housing and Urban Development, "The Infrastructure Funding and Financing (Wellington Sludge Minimisation Facility Levy) Order 2023," Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development, 2023, <https://www.hud.govt.nz/our-work/infrastructure-funding-and-financing-wellington-sludge-minimisation-facility-levy-order-2023>.
- 78 Ministry of Housing and Urban Development, "Infrastructure Funding and Financing (Te Awa Lakes Project Levy) Order 2026," Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development, March 24, 2026, <https://www.hud.govt.nz/our-work/infrastructure-funding-and-financing-te-awa-lakes-project-levy-order-2026>.
- 79 Chris Bishop and Court Simon, "Infrastructure Funding and Financing Act Amendments Introduced to Accelerate Responsive Development," Beehive: The Official Website of the New Zealand Government, November 26, 2025, <https://www.beehive.govt.nz/release/infrastructure-funding-and-financing-act-amendments-introduced-accelerate-responsive>.
- 80 Chris Bishop, "Green Light for Te Awa Lakes," Beehive: The Official Website of the New Zealand Government, March 24, 2026, <https://www.beehive.govt.nz/release/green-light-te-awa-lakes>.
- 81 The aspects that make the levy unlike a typical general tax are: a) the revenues are pledged to a special purpose; and b) the future property owners are assumed to directly benefit from the works enabled.

- 82 Blaschke, *The Infrastructure Levy Model* (The Ministry of Housing and Urban Development, 2019), 6, 10, 13, and 24-28 (Annex One).
- 83 Blaschke, *The Infrastructure Levy Model* (The Ministry of Housing and Urban Development, 2019), 6, 10, and 24-28 (Annex One).
- 84 New Zealand law gives certain network utilities ‘Utility Operator Status’; and with it, automatic legal rights to access road corridors: electricity distributors, gas distributors, telecommunications operators, and public water service providers have dedicated legislations that share a common feature that they grant access to the road corridor as a *right*, not a *favour*. Road-controlling authorities have no general discretion to refuse access Authorities may impose reasonable conditions relating to safety, traffic management, coordination, and reinstatement, but they may not withhold access arbitrarily. The processes to exercise the existing rights to access transport corridors is administered under the *Utilities Access Act 2010*. Where access becomes a favour, access to finance become fragile, and competitors avoid markets where existing providers enjoy superior legal rights to connect and maintain assets.
- 85 The Regulatory Impact Statement for the IFF Amendment Bill (2025) confirms that transaction costs are too high (in terms of time and cost) and a key barrier to uptake. Empirical evidence from the first two transactions (Tauranga TSP and Wellington Sludge) confirms this process spans approximately 18–36 months. Ministry of Housing and Urban Development, *Regulatory Impact Statement: Improvements to the IFF Act, Going for Housing Growth* (Wellington, NZ, 2025), 1, <https://www.hud.govt.nz/assets/Uploads/Documents/Going-for-Housing-Growth/Proactive/DOC-6-Regulatory-Impact-Statement-Improvements-to-the-IFF-Act.pdf>.
- 86 Secur. Ind. Financ. Mark. Assoc. SIFMA, “US Municipal Bonds Statistics.”
- 87 East and Wymer, *Infrastructure Funding and Financing*, 6 (paragraphs 26-27).
- 88 In the US municipal market, revenue bonds are legally distinct from General Obligation (GO) debt. The National Association of Bond Lawyers defines them as obligations where “the issuer’s full faith and credit is not pledged,” meaning repayment relies solely on the project’s cash flow. See NABL, *Bond Basics: Project-Based Revenue Bonds*, National Association of Bond Lawyers, n.d., accessed January 12, 2026, <https://www.nabl.org/bond-basics/revenue-bond/>; Consequently, under Bankruptcy Code, revenue bondholders have no recourse claim against the municipality’s general assets if the project fails. See “United States Bankruptcy Code: Limitation on Recourse (Chapter 9),” 11 U.S.C. § 927, 1988, <https://www.law.cornell.edu/uscode/text/11/927>; While the US Bankruptcy Code was originally enacted in 1978, the specific protections for revenue bonds (Section 927) did not exist in the original text. They were urgently added by Congress in the Municipal Bankruptcy Amendments of 1988 (Public Law 100-597) to fix a legal loophole. Congress enacted this specifically to ensure that revenue bondholders could not reach a municipality’s general assets. See Public Law Amendment: Bankruptcy Law to Provide for Revenue Bonds, 100th Congress, 100-597 102 STAT. 3029 (1988), <https://www.congress.gov/100/statute/STATUTE-102/STATUTE-102-Pg3028.pdf>.
- 89 For practical overviews of receivership and GSA enforcement under New Zealand insolvency law, see Kim Coll et al., *Insolvency in New Zealand*, Second Edition (Waterstone, 2026), Chapter 13, 58-61, https://waterstone.co.nz/wp-content/uploads/2024/10/Waterstone_Insolvency-Manual.pdf. The manual describes receivership as “a little understood but very powerful process” that “allows for a secured creditor to step in and take control over a company and its assets almost immediately, without having to go through a court process.” The receiver’s “primary duty of care” is “to the GSA holder that appointed him” (p. 60).
- 90 Coll et al., *Insolvency in New Zealand*, Chapter 12, 48-57. Voluntary administration requires creditor consent and cannot bind secured creditors without their agreement. A secured creditor holding a GSA has ten working days from receiving notice of the appointment of an Administrator to appoint a receiver and effectively take control. As the manual states: “A secured creditor cannot lose their security unless they consent to losing their security.” The ICP Biotechnology case study (p. 56) illustrates this: the board appointed voluntary administrators, but the GSA holder appointed receivers on the same day, leading to liquidation. See also Waterstone, *The Phoenix Restructure: A Guide for the Business Owner* (Waterstone, 2026), 5–6, [Waterstone.co.nz](https://www.waterstone.co.nz).
- 91 “Florida CDDs’ Have Dirt-Bond Problems,” Bond Buyer, September 3, 2009, <https://www.bondbuyer.com/news/florida-cdds-have-dirt-bond-problems>; “Down and Dirty: \$3 Billion in ‘Dirt Bonds’ Are in Default,” Florida’s Trend: Florida’s Business Authority, February 7, 2010, <https://www.floridatrend.com/article/3721/down-and-dirty-3-billion-in-dirt-bonds-are-in-default/>.

- 92 Tison’s Landing Community Development District, “Financial Report,” Florida Auditor General, 2025, https://flauditor.gov/pages/specialdistricts_efile%20pages/tisons%20landing%20community%20development%20district.htm. The district reports \$3.55 million in bonds outstanding and is governed by an elected Board of Supervisors.
- 93 Chris Parker, *Survey of Type 2 Cities Internationally: A Study of Growth Institutions*, Working Paper (Unpublished) 4060321_1 (The New Zealand Treasury, 2024); Chris Parker, *Types of Cities Internationally*, Working Paper (Unpublished) 3933095_1 (The New Zealand Treasury, 2017).
- 94 Internationally, project-specific infrastructure finance is a core feature of mature systems. While most prominent and transparent in the United States through municipal revenue bonds, the same principle (ring-fencing project revenues and separating project risk from general government balance sheets) has historically been used in New Zealand and remains common internationally through a range of institutional forms. See Crampton, *Funding the Future* which explores New Zealand examples, such as the Auckland Harbour Bridge (pp. 7-9) and the Ngaio Town Hall (p. 18); See also Birchall, *Paving the Way*, Chapter 5.
- 95 U.S. Securities and Exchange Commission, “What Are Municipal Bonds,” accessed January 13, 2026, <https://www.sec.gov/munied>; U.S. Securities and Exchange Commission, “Municipal Bonds,” Investor. Gov, accessed January 13, 2026, <https://www.investor.gov/introduction-investing/investing-basics/investment-products/bonds-or-fixed-income-products-0>.
- 96 Because these bonds are non-recourse, the market demands a higher interest rate to cover the specific project risk. This is reflected in different credit ratings for development projects at different stages of their development cycle from early stage (“developing” rated “BB” or lower and characterised by high debt-to-value ratios [approx. 18%] and reliance on a few developers), to growth stage (rated “BBB” to “A” and characterised by an expanding tax base and diversified ownership), to the final mature stage (“fully developed”, rated “AA” and characterised by a stable tax base, strong coverage, and low debt burdens [approx. 7.6%]). As the district matures, the risk premium decreases, allowing it to refinance early high-yield debt with lower-cost investment-grade bonds. See Lauren Spalten and Horacio Aldrete-Sanchez, *Lessons Learned from the 1980s Allow Texas Municipal Utility Districts to Maintain Stable Credit*, Report [Standard & Poor’s Global Credit Portal: RatingsDirect, 2012], 4, <https://www.legis.state.tx.us/tlodocs/83R/handouts/C2102013022110301/b00b10e0-0a01-446f-ac1a-efd0d5cc3378.PDF>.
- 97 See Birchall, *Paving the Way*, Chapter 5 “Across the Waitematā”, which documents the Auckland Harbour Bridge as an example of project-specific borrowing through a special-purpose authority operating alongside general local government finance, illustrating one of two distinct institutional approaches New Zealand historically used to separate project risk and funding from council balance sheets while delivering major infrastructure. See also Crampton, *Funding the Future*, which sets out the economic case for ring-fenced, project-specific borrowing, notes that such arrangements are not novel to New Zealand, and contrasts historical and contemporary bailout expectations. Crampton also documents that approximately 68% of US municipal debt is issued as revenue bonds, illustrating the prevalence of project-specific finance in mature systems.
- 98 The U.S Department of Transportation states, “Special assessments are authorized in all 50 states either under explicit enabling legislation or by state constitutional provisions,” and “the establishment of special assessment districts requires some type of landowner or voter approval.” Federal Highway Administration (FHWA), “Value Capture: Special Assessments,” Center for Innovative Finance Support, U.S. Department of Transportation, accessed December 19, 2025, https://www.fhwa.dot.gov/ipd/value_capture/defined/special_assessments.aspx; Local Bodies’ Loans Act 1913, 4 GEO V 1913 No 3, New Zealand Legal Information Institute, accessed December 16, 2025, https://www.nzlii.org/nz/legis/hist_act/lbla19134gv1913n30235/index.html.
- 99 Texas Commission on Environmental Quality, “Texas Water Districts: A General Guide,” TCEQ, Water Supply Division, 2019, <https://www.tceq.texas.gov/downloads/water-districts/guidance/gi-043.pdf>.
- 100 Chapter 190, Florida Statutes, The Uniform Community Development District Act (1980), <https://www.flsenate.gov/Laws/Statutes/2024/Chapter190>; Florida Department of Commerce, “Florida Special District Accountability Program,” accessed December 19, 2025, <https://floridajobs.org/community-planning-and-development/special-districts/special-district-accountability-program>.

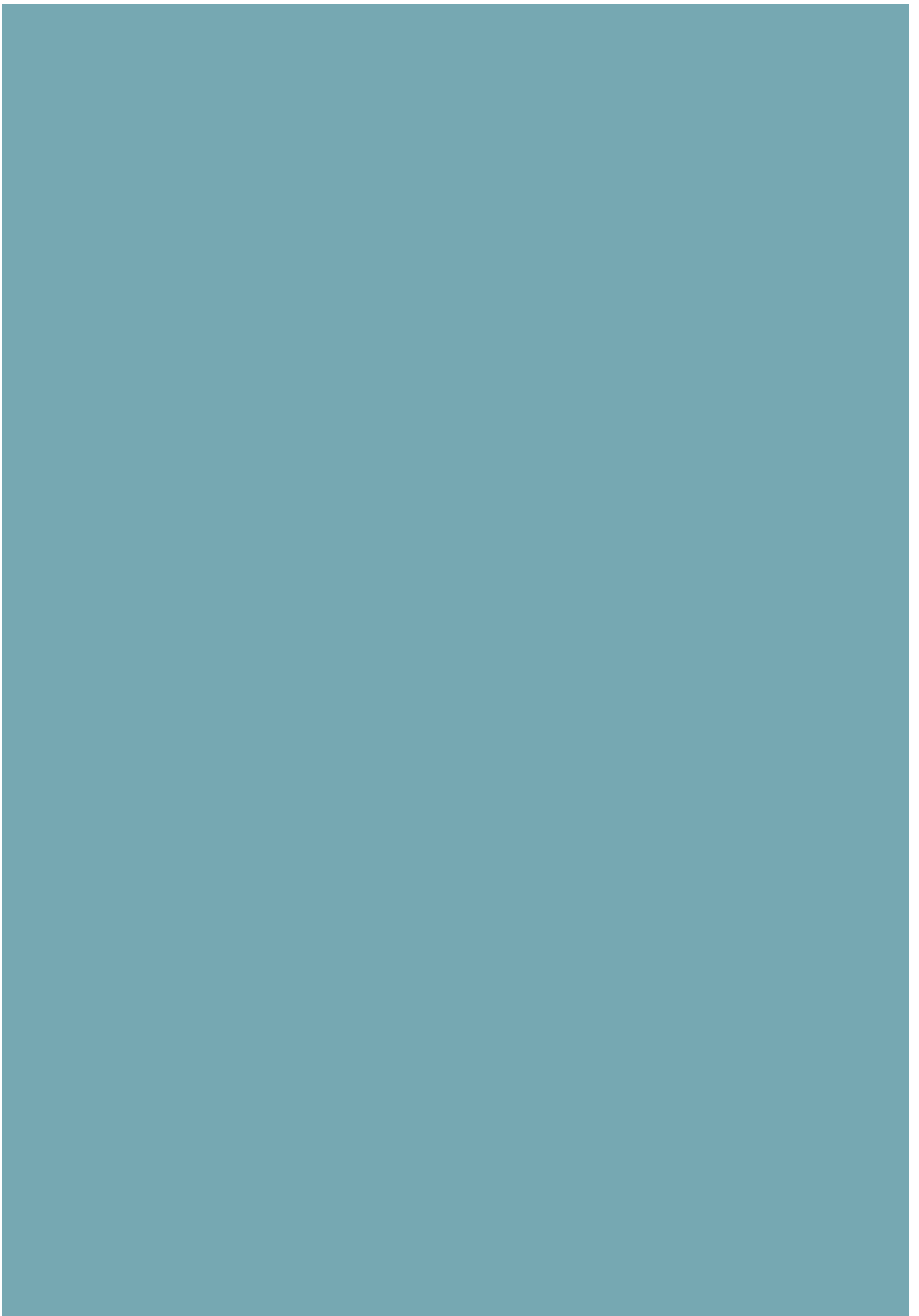
- 101 Colorado Department of Local Affairs, “Special Districts: Division of Local Government,” accessed December 19, 2025, <https://dlg.colorado.gov/special-districts>; Colorado Revised Statutes: Title 32 (Special Districts) and Article 1 (Special District Provisions), accessed December 19, 2025, <https://law.justia.com/codes/colorado/title-32/special-district-act/article-1/>.
- 102 Federal Highway Administration (FHWA), “Value Capture: Special Assessments”; Benno A. Blaschke, *The Infrastructure Levy Model: Assurance System and Appointment of Roles*, Briefing BRF19/20070373 (Ministry of Housing and Urban Development (HUD), 2019).
- 103 Local Bodies’ Loans Act 1913 ss 19–20 (special rate as security for loans for special purposes levied on defined properties).
- 104 Local Bodies’ Loans Act 1913 s 41 and Schedule (stating “no claim of any holder of debentures... shall attach to or be paid out of the public revenues of New Zealand, or attach to or be paid by the Government thereof.” See also Annex B of this report for detailed analysis).
- 105 Graham Campbell, Peter Nunns, Andy Hagan, et al., *Is Local Government Debt Constrained? Review of Local Government Financing Tools*, Research Insights (New Zealand Infrastructure Commission, 2024), <https://tewaihanga.govt.nz/our-work/research-insights/is-local-government-debt-constrained>, Appendix A; Blaschke et al., *A New Approach to Funding and Financing Our Cities*.
- 106 See Annex B of this report; Blaschke et al., *A New Approach to Funding and Financing Our Cities*.
- 107 LGFA covenant requirements treat all council debt as general obligation for prudential purposes; S&P Global Ratings methodology does not recognise ring-fenced council debt as structurally separate. See East and Wymer, *Infrastructure Funding and Financing*, 27–29, explaining that without the removal of expected council support (“moral recourse”), ring-fenced borrowing would be treated as local authority debt for balance-sheet and rating purposes.
- 108 Douglas Mintz et al., *Jefferson County: The Bankruptcy Court Always Wins: In Re Jefferson County, Alabama, Case No. 11-05736 (TBB) (Bankr. N.D. Ala. Jan. 6, 2012)*, Restructuring Review: Bankruptcy Law Updates and Analysis (Cadwalader, 2012), 1–2, <https://www.jdsupra.com/post/fileServer.aspx?fName=c2f34b8f-59a5-4d15-80d7-49dc0c6ab9a9.pdf>.
- 109 The Puerto Rico Electric Power Authority (PREPA), for example, clarifies that “bondholders do not have recourse to any source of payment other than PREPA’s net revenues. If net revenues do not exist or are insufficient to pay bondholders in full, there is no other source of payment available.” See Financial Oversight and Management Board (FOMB) for Puerto Rico, “If PREPA Is Insolvent, Why Does It Have to Pay Back the Debt?,” Puerto Rico Electric Power Authority (PREPA): Frequently Asked Questions, 2016, <https://oversightboard.pr.gov/prepa-faq/>.
- 110 Congressional Research Service, *Puerto Rico’s Current Fiscal Challenges*, no. R44095, CRS Report (Congress, 2016), 1–27, <https://www.congress.gov/crs-product/R44095>.
- 111 Local Bodies Securities, “Some Pertinent Reflections on a Recent Action,” *New Zealand Law Journal* (Wellington, NZ) 8, no. 15 (1935): 203–31, <https://library.victoria.ac.nz/databases/nzlawjournal/pubs/1932/1932-15-221.pdf>. The Thames case was not the first instance of infrastructure financial distress in New Zealand. When the Oamaru Harbour Board defaulted in the 1890s, the only available remedy was receivership over the Board’s revenue under the Local Bodies’ Loans Act. The receiver remained in possession for 19 years. This result confirmed non-recourse but demonstrated that enforcement without restructuring was inadequate. “Booming and Bursting,” *Otago Witness, The Week*, April 12, 1894, <https://paperspast.natlib.govt.nz/newspapers/OW18940412.2.94>; R. Milligan, “North Otago Activities of the District,” *Otago Daily Times*, May 2, 1935, <https://paperspast.natlib.govt.nz/newspapers/ODT19350502.2.126>. No reform followed in New Zealand. When Thames defaulted decades later, Parliament had learned that the existing regime would be inadequate and intervened with case-specific legislation to enforce an orderly resolution process with collectively net-beneficial outcomes. The United States, by contrast, progressively refined its Municipal Bankruptcy Code through successive crises, building a standing framework that now handles infrastructure distress routinely. New Zealand never undertook that development. *In Re Thames Borough Streets Improvement Loan*, (Wellington, NZ) 8, no. 15 (1932): 226–27, <https://library.victoria.ac.nz/databases/nzlawjournal/pubs/1932/1932-15-221.pdf>; Department of Internal Affairs, “Annual Report (Year Ended 31st of March),” *Appendix to the Journals of the House of Representatives* (New Zealand) Session I, no. H-22 (1933): 1–13, <https://paperspast.natlib.govt.nz/parliamentary/AJHR1933-I.2.3.2.24>; Thames Borough Commissioner Amendment Act 1934 (Local), 25 GEO V 1934 No 10, New Zealand Legal Information Institute, accessed April 28, 2026, https://www.nzlii.org/nz/legis/hist_act/tbcaa193425gv1934n10490/.

- 112 Municipal Securities Rulemaking Board (MSRB), “Municipal Market Facts,” 2025, <https://www.msrb.org/sites/default/files/2022-09/MSRB-Muni-Facts.pdf>.
- 113 Chris Bishop, “Speech to the Property Council Residential Development Summit,” Beehive: The Official Website of the New Zealand Government, March 27, 2025, <https://www.beehive.govt.nz/speech/speech-property-council-residential-development-summit>.
- 114 Te Awa Lakes, “Te Awa Lakes Welcomes IFF Funding To Unlock 1500-House Development In Hamilton,” Scoop Independent News (Politics), March 24, 2026, <https://www.scoop.co.nz/stories/PO2603/S00151/te-awa-lakes-welcomes-iff-funding-to-unlock-1500-house-development-in-hamilton.htm>.
- 115 We understand from The Treasury’s comments that NIFFCo may provide around 60% of the capital.
- 116 Alisha Evans, “Tauranga CBD: Ratepayers Likely to Fund \$151.5m for Civic Precinct through Government Levy,” NZ Herald, November 2, 2023, <https://www.nzherald.co.nz/bay-of-plenty-times/news/tauranga-cbd-ratepayers-likely-to-fund-1515m-for-civic-precinct-through-government-levy/3FXJGESTABCSXCGSTU5UCFETG4/>.
- 117 Commission Chair Anne Tolley stated: “The IFF levy helps us do that because it would sit outside our balance sheet and would not be classified as Council debt. That means we would keep enough ‘debt headroom’ to continue investing in other vital infrastructure, while staying well within our debt limits.” Tauranga City Council, “Council Seeks Feedback On Payment Options For Future Civic Precinct,” Scoop Independent News (Regional), September 14, 2023, <https://www.scoop.co.nz/stories/AK2309/S00273/council-seeks-feedback-on-payment-options-for-future-civic-precinct.htm>.
- 118 Alisha Evans and Local Democracy Reporter, “Tauranga CBD Revamp Pushes Ahead – with Potential Savings,” RNZ, August 20, 2024, <https://www.rnz.co.nz/news/national/525678/tauranga-cbd-revamp-pushes-ahead-with-potential-savings>.
- 119 Quoting the council records of its meeting: “On 19 August 2024, Council... (a) Agreed to not continue with an IFF levy as a financing and funding tool for TMoTP at this time, and to proceed to secure approval through the Local Government Funding Agency (LGFA) for increased debt covenants for Tauranga City Council... (b) Approved the transfer of previously off-balance sheet borrowing of \$54 million to on-balance sheet borrowing.” Tauranga City Council, *Agenda of Ordinary Council Meeting - Monday, 9 December 2024*, Council Rerpot no. A17007179, Business Agenda Item 11.1 (Tauranga, NZ, 2024), Para 51, https://infocouncil.tauranga.govt.nz/Open/2024/12/CO_20241209_AGN_2671_AT.htm.
- 120 Mayor Mahé Drysdale stated: “Under the Government’s new initiative, Tauranga’s debt-to-revenue limit is set to rise from 285 per cent to 350 per cent. That will provide the debt headroom we need to prudently proceed on a number of projects, knowing that we will not be risking a breach of our debt covenant, with the negative consequences that would have on our borrowing capacity and interest rates.” SunLive, “Council Confirms Te Manawataki o Te Papa Financing,” SunLive: The Bay’s News First, August 20, 2024, <https://www.sunlive.co.nz/news/349450-council-confirms-te-manawataki-o-te-papa-financing.html>.
- 121 Ministry of Housing and Urban Development and Ministry for the Environment, “Going for Housing Growth,” 9 (paragraph 22) and 11 (paragraphs 29–32).
- 122 Ministry of Housing and Urban Development and Department of Internal Affairs, “Going for Housing Growth Consultation Document: Supporting Growth Through a Development Levies System,” Department of Internal Affairs (DIA), June 2025, <https://www.dia.govt.nz/development-levies-consultation>.
- 123 Infrastructure Funding and Financing Amendment Bill, Parliamentary Counsel Office: New Zealand Legislation (2025), Clause 12: Section 20 amended (Infrastructure endorsement), <https://www.legislation.govt.nz/bill/government/2025/0231/latest/whole.html>.
- 124 IFF Bill, Clause 17: New section 27A (When analysis is not required of long-term interests, affordability, and sustainability of payment).
- 125 IFF Bill, Explanatory note, General policy statement, Broadening scope of IFF Act.
- 126 IFF Bill, Clause 58: Subpart 2A—Accelerated recovery of IFF funding when development has failed.
- 127 IFF Bill, Clause 30: New Sections 38A (One-off charge on development) and 38B (One-charge on portion of levy liability) inserted.
- 128 IFF Bill, Clause 18: Section 28 repealed (Consultation).
- 129 Infrastructure Funding and Financing Act 2020, Clause 29 (Order in Council).

- 130 Documents indicate no change to the GSP mechanism.
- 131 The Wellington policy is the “pure” precedent, because it explicitly codifies the double majority (Vote by Number AND Vote by Value) as the definition of a successful poll. It is cleaner and more statutory than Auckland’s more complex policy. See Wellington City Council Strategy and Policy Committee, *Business Improvement District Policy*, Clause 8.4, Plans, Policies and Bylaws (2025), <https://wellington.govt.nz/-/media/your-council/plans-policies-and-bylaws/plans-and-policies/a-to-z/bidpolicy/bidpolicy.pdf?la=en&hash=76F82B12D61AD40659D072BD8247749AA52BBB02>.
- 132 All operating costs and repairs/extensions necessary to provide efficient service is a first lien against revenue. Public Securities for Municipal Utilities, Parks, or Pools, Section 1502.056 Operating Expenses as First Lien, Texas Constitution and Statutes: Government Code, accessed December 24, 2025, <https://statutes.capitol.texas.gov/?tab=1&code=GV&chapter=GV.1502&artSec=1502.056>. Note that New Zealand law provides no statutory guarantee that essential local services will continue during receivership; the legal framework prioritises creditor recovery over service continuity.
- 133 Financial Markets Authority (FMA), *Kiwisaver Annual Report* (2025), 8, <https://www.fma.govt.nz/assets/Reports/KiwiSaver-Annual-Report-2025.pdf>; Morningstar, *KiwiSaver Survey Q3 2025* (NSW, Australia, 2025), 1–28, https://assets.contentstack.io/v3/assets/blt0b299fb5208b8900/bltcc2313ddbfb8b6c7/68f70fe7546d42880dd74001/251017_KiwiSaverSurvey_Q3_2025_v2.pdf; Under current contribution rates, demographic trends, and long-run income growth assumptions used in Treasury’s Long-term Fiscal Statement, total KiwiSaver assets are expected to continue growing rapidly over coming decades. The Treasury’s Long-term Fiscal Statement sets out the demographic, income, and savings assumptions underpinning long-run growth in funded retirement assets. See The New Zealand Treasury, *Long-Term Fiscal Statement 2025* (Wellington, NZ, 2025), 1–82, <https://www.treasury.govt.nz/publications/lftp/he-tirohanga-mokopuna-2025>.
- 134 According to Morningstar’s system-wide KiwiSaver asset-allocation data, only around one-third of funds are invested in New Zealand-domiciled assets, with the remainder (approximately 64–65%) invested offshore, allocated to international equities, bonds, and property. This offshore exposure reflects the limited availability of large-scale, rated, tradable domestic assets rather than an inherent preference for foreign currency risk. Where possible, KiwiSaver funds exhibit a strong preference for NZ-dollar exposure, with domestic cash and bond holdings concentrated in NZD and foreign assets frequently hedged. See Estimated KiwiSaver Market Asset Allocation Table in Morningstar, *KiwiSaver Survey Q3 2025*, 7.
- 135 LGFA reports foreign-currency bonds outstanding in USD, CHF, and EUR, and total bond issuance of NZ\$1.94 billion (NZD-equivalent) over the six months to 31 December 2025 across domestic and offshore markets, reflecting investor appetite for New Zealand debt at government-level credit quality; LGFA credit ratings are AA+ (foreign currency). See Mark Butcher, *Quarterly Funding Update: December Quarter 2025*, LGFA Quarterly Funding Update to Investors and Revised Borrowing Programme (Local Government Funding Agency (LGFA), 2026), 1–4, <https://www.lgfa.co.nz/sites/default/files/2026-01/LGFA%20Quarterly%20Funding%20Update-Dec%202025.pdf>.
- 136 LGFA’s experience suggests that access to international capital depends less on government-level risk per se than on structures that allow infrastructure debt to be clearly priced and traded. While LGFA operates at the top of the credit spectrum, global experience indicates that standardised, transparent infrastructure debt can attract investor participation across multiple rating tiers, with pricing adjusting to reflect differing risk profiles.
- 137 Chris Bhisop, “A+ Credit Rating Will Boost Social Housing Delivery,” Beehive: The Official Website of the New Zealand Government, September 5, 2025, <https://www.beehive.govt.nz/release/credit-rating-will-boost-social-housing-delivery>; ANZ New Zealand, “\$200M Social Bond Marks Milestone for NZ Community Housing,” NZ Business, September 2025, <https://www.anz.com.au/newsroom/new-zealand/2025/09/200m-social-bond-marks-milestone-for-nz-community-housing/>.
- 138 Bhisop, “A+ Credit Rating Will Boost Social Housing Delivery.”
- 139 Campbell, Nunns, Hagan, et al., *Is Local Government Debt Constrained?*, Appendix A.
- 140 Local Bodies’ Loans Act 1913, Part I, Sections 10–11 (poll procedures and consent thresholds).
- 141 Local Bodies’ Loans Act 1913, Part I, Section 3 (power to raise a special loan).
- 142 Local Bodies’ Loans Act 1913, Part I, Sections 19 (what may be pledged) and 20 (special rate).

- 143 Local Bodies' Loans Act 1913, Part I, Section 41 (lender no claim on government).
- 144 Under Part I of the *Local Bodies' Loans Act 1913*, default remedies were expressly judicially controlled. On default, a bondholder was required to apply to a *Judge of the Supreme Court*, who alone could grant relief and appoint a Receiver (s 42). Upon appointment, pledged property and relevant funds vested in the Receiver by order of the Judge (s 43). Key enforcement powers, including sale of pledged property (s 45), amendment of special rates (s 46), application of receipts (s 48), and termination of the receivership (s 50), could be exercised *only pursuant to a Judge's order*. The Act therefore contemplated default as a manageable event, with enforcement channelled through court-supervised procedures rather than ad hoc or political intervention.
- 145 Local Bodies' Loans Act 1913, Part IV, Sections 74 (government guarantee of special loans) and 75 (order in council guaranteeing loan to be gazetted).
- 146 Throughout, Mulholland's work documents a local authority capital market that operated through institutional relationships rather than impersonal trading. Interest rates were administratively constrained and borrowing was typically arranged through direct placements, meaning that credit risk was assessed through judgement and negotiation rather than continuous market pricing. Lending institutions relied on detailed, hands-on examination of local authorities' financial positions, statutory rating powers, and pledged securities, with credit decisions informed by direct familiarity with borrowers rather than abstract metrics. The dominant investors (insurance companies and statutory sinking funds) purchased local authority debentures as long-term assets and typically held them to maturity, resulting in a market characterised by stability and oversight rather than liquidity and secondary trading. R. D. Mulholland, "The Local Authorities' Capital Market in New Zealand" (University of Canterbury. Economics, 1967), <http://dx.doi.org/10.26021/5518>.
- 147 To summarise Mulholland's work, it explains the absence of a secondary market for local authority securities as the product of institutional structure rather than market failure. Borrowing was highly fragmented, with numerous small local authorities issuing bespoke debentures secured on specific rating areas, limiting comparability and tradability. At the same time, demand was dominated by long-term institutional investors (particularly life insurance companies and statutory sinking funds) whose liability-matching objectives favoured buy-and-hold investment, removing most securities from circulation.
- In the absence of active trading, credit assessment and pricing were instead performed through relational intermediation: specialised banking and underwriting staff evaluated each borrower directly and negotiated terms through established relationships, substituting professional judgement and trust for market-based price discovery. Mulholland, "The Local Authorities' Capital Market in New Zealand."
- 148 Mulholland, "The Local Authorities' Capital Market in New Zealand."
- 149 Campbell, Nunns, Hagan, et al., *Is Local Government Debt Constrained?*, Appendix A.
- 150 The 1913 Act was consolidated into the Local Authorities Loans Act 1956, which largely preserved the "Special Loan" capability. The 1956 Act was then repealed in 1996. See Local Government Amendment Act (No 3) 1996, Section 17, Repeal of Local Authorities Loan Act 1956 (Schedule 3), Parliamentary Counsel Office: New Zealand Legislation, <https://legislation.govt.nz/act/public/1996/0083/latest/DLM394154.html>.
- 151 The Officials Co-ordinating Committee on Local Government, *Reform of Local and Regional Government*, 7–8.
- 152 Campbell, Nunns, Hagan, et al., *Is Local Government Debt Constrained?*, Appendix A.
- 153 LGFA covenant requirements impose debt-to-revenue limits of 175%–280% depending on credit rating, and councils that approach borrowing limits face higher borrowing costs and reputational pressure.
- 154 This is evidenced by the need for the Government Support Package in the *IFF Act 2020* and carrying on with the 2025 amendments.
- 155 S&P Global Ratings' methodology for subnational and local governments combines a council's standalone credit profile with an assessment of the likelihood of extraordinary support from higher levels of government. Under S&P's Institutional Framework approach, all New Zealand councils receive the same high baseline ("anchor") rating based on the strength and stability of the central government system, before individual financial risks are assessed. This framework also underpins the high credit rating of the Local Government Funding Agency (LGFA), allowing councils to borrow at interest rates close to those paid by central government. S&P Global, "International Public Finance: Methodology for Rating Local and Regional Governments Outside of the U.S.," S&P Global Ratings, July 26, 2024, <https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/101644612>.

- 156 This discipline is codified through LGFA lending covenants (such as debt-to-revenue limits, interest-cover ratios, liquidity requirements, and restrictions on additional borrowing when thresholds are approached or breached) and through statutory financial obligations on local authorities under the Local Government Act 2002. Together, these mechanisms constrain borrowing, require conservative funding practices, and limit risk-taking as binding conditions of access to lower-cost capital. Blaschke et al., *A New Approach to Funding and Financing Our Cities*, 28-37 (Chapter 3: Barriers are preventing investment in infrastructure).
- 157 A draft of this report was shared with the National Infrastructure Funding and Financing Ltd (NIFFCo), which received it positively, though NIFFCo was unable to provide further input within the available timeframe.
- 158 White and Wymer, *IFF - Levy Model*, 2, 9, 31, para 4, 95-96, and recommended action ff).
- 159 While SPV debt consolidates onto the Crown's balance sheet, it does not contribute to the net debt fiscal indicator. Confirmed in consultation with NIFFCo during the preparation of this report
- 160 White and Wymer, *IFF - Levy Model*, para 7.
- 161 The Treasury, "On the Government Support Package (GSP)," comments provided to The New Zealand Initiative (unpublished).
- 162 The Treasury, "On the GSP."
- 163 The Treasury, "On the GSP."
- 164 The Treasury, "On the GSP."
- 165 The Treasury, "On the GSP."
- 166 The Treasury, "On the GSP."
- 167 The Treasury, "On the GSP."
- 168 The Treasury, "On the GSP."
- 169 The Treasury, "On the GSP."
- 170 The Treasury, "On the GSP."
- 171 The Treasury, "On the GSP."



New Zealand's housing crisis begins with pipes and roads. When a council hits its debt limit, it says no to growth, using planning rules to block development it cannot afford to service. Land becomes scarce, prices rise, and a generation is priced out of home ownership. The Productivity Commission reached the same conclusion: the funding system works until cities grow, and then it fails.

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