

Proactive Release

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Listed below are the most commonly used grounds from the OIA.

<u>Section</u>	<u>Description of ground</u>
6(a)	as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government
6(b)	as release would be likely to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by <ul style="list-style-type: none"> (i) the Government of any other country or any agency of such a Government; or (ii) any international organisation
6(c)	prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
9(2)(a)	to protect the privacy of natural persons
9(2)(b)(ii)	to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information
9(2)(ba)(i)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public
9(2)(ba)(ii)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
9(2)(f)(ii)	to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility
9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials
9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty
9(2)(h)	to maintain legal professional privilege
9(2)(i)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities
9(2)(j)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

Auckland Light Rail

Land Value Uplift Mechanism

Working Document



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Executive Summary

To be completed



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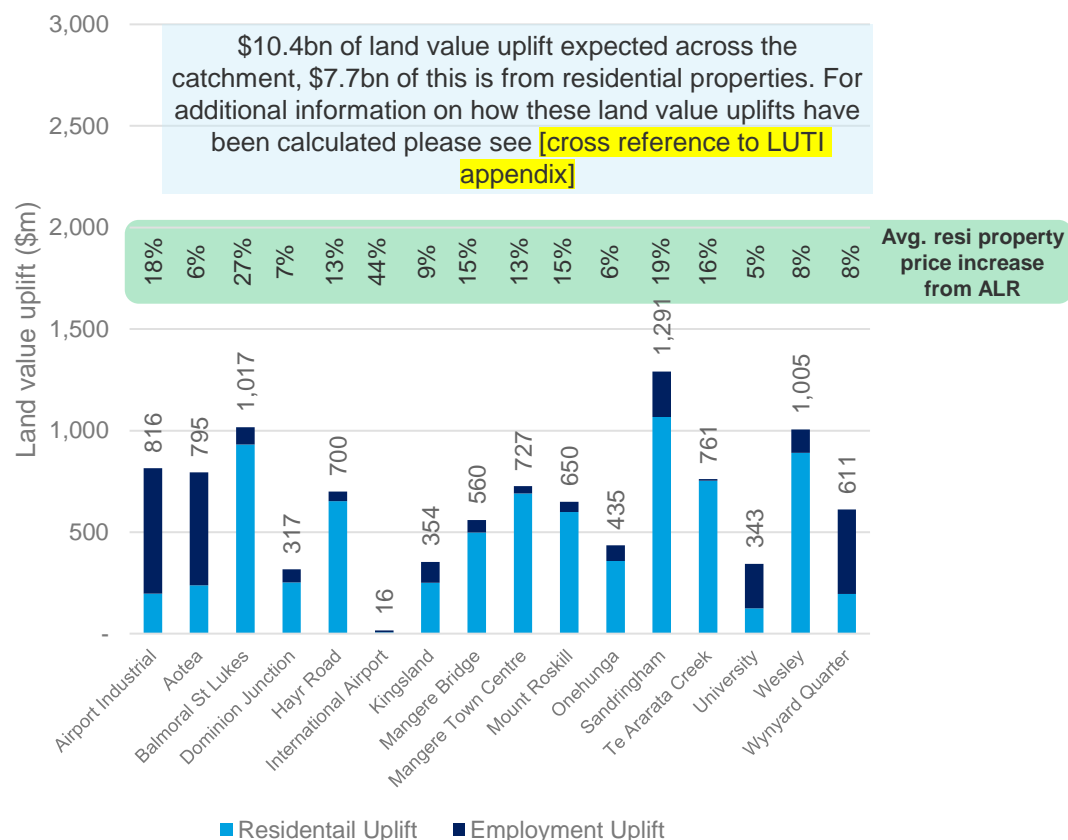
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LVUM structures

Land value uplift

ALR will generate significant land value uplifts, some of this uplift could be captured to fund the project

Expected land value uplifts



ALR route and stations



Land Value Uplift Mechanisms

Introduction

Two possible LVUM have been considered to complement the use of an IFF levy. These two mechanisms leverage recent international precedents

Windfall gains tax

- Windfall gains taxes attempt to specifically identify and tax project / zoning change related land value gains
- Land valuations undertaken on a pre and post project basis with a portion of the uplift taxed
- Can be subject to a range of exemptions including:
 - Minimum land value uplift threshold before tax kicks in (\$100k in Australian example)
 - Tiers of taxation (62.5% from \$100k to 500k and 50% above 500k in Australian example)
 - Exclusions for residential land (subject to maximum parcel size / value, up to 2 hectares in Australian example)
- Ability to postpone payment of tax until sale of property or alternate long stop date (30 years in Australian example)

Recently implemented in Victoria, Australia.
See slide [x] for a case study

Betterment levy

- Bespoke charge applied to all properties that are determined to benefit from a project
- Bespoke nature of the levy means it doesn't need to be explicitly tied to expected land value uplift and can be flexibly structured:
 - Can be either an upfront or ongoing charge
 - Can have differing triggers for liability (e.g. on development properties only or on all properties)
 - Can have different calibration approach (e.g. charge per sqm or charge per dollar of land value)

Recently implemented in London. See slide [x] for a case study

IFF levy

- While IFF is a cost recovery tool that results in beneficiaries of a project paying an annual levy to help fund the cost of the infrastructure the amount of levy paid by each beneficiary can be calibrated based on their expected share of ALR related land value uplifts
- This results in the IFF levy effectively capturing a consistent portion of expected land value uplifts across the catchment
 - This approach is outlined in more detail in the IFF Appendix as referred to as the Economic Affordability approach
- To facilitate this approach requires a postponement policy that enables levypayers to defer payment of levies to point of sale
- Even if the alternate Cashflow Affordability approach is utilised the amount of IFF levy paid by property owners needs to be factored into any alternative LVUM

For additional detail on how the IFF levy can be calibrated to capture land value uplift see IFF Appendix [x]

Land Value Uplift Mechanisms

Evaluation

Our evaluation of the two potential complementary mechanisms are outlined below alongside an evaluation of the using an IFF levy to capture value

Windfall gains tax	Betterment levy	IFF levy
Pros		
<ul style="list-style-type: none"> ✓ Strong justification for the LVUM charge as it is based on a property by property assessment of land value uplift directly as a result of ALR / ALR related rezoning at a point in time ✓ Can be modified to capture land value increase over time (albeit introduces complexity) ✓ Flexibility with regards to inclusion / exclusion of different beneficiary groups and trigger for LVUM liability (upfront / at point of sale) ✓ Regime can be applied to future projects 	<ul style="list-style-type: none"> ✓ Flexibility to design a custom Betterment Levy for ALR without the restrictions which apply to IFF Levies, general / targeted rates or development contributions ✓ In particular, the ability to target a levy on new developments could complement an IFF on existing properties ✓ Ability to depart from economic benefit allocations, cost recovery or avoid IFF mandatory considerations 	<ul style="list-style-type: none"> ✓ IFF utilises existing legislation which will has been implemented on two projects in advance of ALR ✓ Financeable structure assuming that postponement is facilitated by the Crown
Cons		
<ul style="list-style-type: none"> ✗ Requires development of enabling legislation which is an extended process ✗ Lag between ALR final investment decision and implementation of Windfall gains / betterment levy will need to managed to ensure landowners that purchase land are aware of potential LVUM charges ✗ Windfall gains tax / betterment levy assessments need to offset amounts paid via IFF levies to avoid double dipping 	<ul style="list-style-type: none"> ✗ If the Betterment Levy is only applied on new developments, this results in increased uncertainty of timing of receipt of levy ✗ Development levies may provide a disincentive to development in the ALR catchment, albeit levies should be priced into land sale values 	<ul style="list-style-type: none"> ✗ IFF Act includes several restrictions on how the IFF levy can be charged ✗ Targeted legislative changes may be required to avoid the LVUM portion of IFF levies being passed on by landlords to tenants, particularly under triple net leases ✗ IFF levies will be calibrated based on expected median outcomes across local catchments, may not capture windfall gains on large properties with upsized impacts from rezoning – could be combined with a targeted windfall gains tax on these properties
<ul style="list-style-type: none"> ✗ Requires two land valuations to measure the valuation impact of ALR and zoning changes which is administratively complex and comes with associated cost ✗ Typically limited to larger parcels of land due to administrative complexity, which limits quantum ✗ NZ currently has no capital gains tax, political palatability of a windfall gains tax is uncertain 		

Integration of LVUM and IFF

Given both IFF and LVUM will be applied to the Local catchment, it is important to ensure there is a clear distinction between what LVUM and IFF charges cover to avoid perceptions of ‘double dipping’

Economic Affordability IFF

- IFF levy calibrated to recover a fixed proportion of expected land value uplift from every property in the Local catchment
- An Economic Affordability levy which funds the full Local funding contribution of \$6.9bn implies a levy which recovers ~70% of the expected land value uplift across the Local catchment
- The funding contribution from a Local IFF levy may be set at lower level than this due to affordability constraints
 - [Funding Package 1] targets recovering 25% of expected land value uplifts and generates \$2.6bn of Local catchment funding
 - Part of the \$4.3bn shortfall created by constraining the funding contribution from the Local catchment could be recovered by either a windfall gains tax or betterment levy

Windfall gains tax

- A windfall gains tax can be applied consistently in the Local catchment alongside an Economic Affordability IFF by:
 - Targeting a subset of the Local catchment where affordability considerations which capped the Local IFF funding contribution are less pressing due to the size of the windfall gain (e.g. large parcels of land)
 - Identifying parcels of land which are expected to experience land value uplifts in excess of the median uplift against which the IFF levy is calibrated (e.g. large parcels of developable land or land which is rezoned)
- Windfall gains calculations would need to explicitly factor in the amount paid under the IFF levy

Betterment levy

- A betterment levy applied to all new developments in the Local catchment provides an alternative way to recover a funding contribution from a subset the Local catchment by:
 - Targeting new developments versus all properties under the IFF levy
 - Having a different crystallisation point (at development) versus every year under the IFF levy
- Roughly 50% of the expected residential land value uplift is driven by increased development in the ALR catchment (remaining driven by accessibility improvement in transport accessibility)
 - Potential to recover development-based uplifts via betterment levies and accessibility-based uplifts via IFF levy

Under both LVUM mechanisms we would recommend that the sum of LVUM funding and IFF Local levy funding is less than or equal to the economic allocation to the Local catchment (\$6.9bn) to avoid the perception that the two funding tools are double dipping



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LVUM quantification

Windfall gains tax

Quantification

The combination of excluding properties due to the minimum size thresholds and the IFF levy already capturing 25% of land value uplifts restricts the amount raised by a windfall gains tax

Weighted average residential uplift	12.0%
Weighted average commercial uplift	12.2%
Assumed IFF recovery	25% of LVU

Estimated land value uplifts (\$bn)

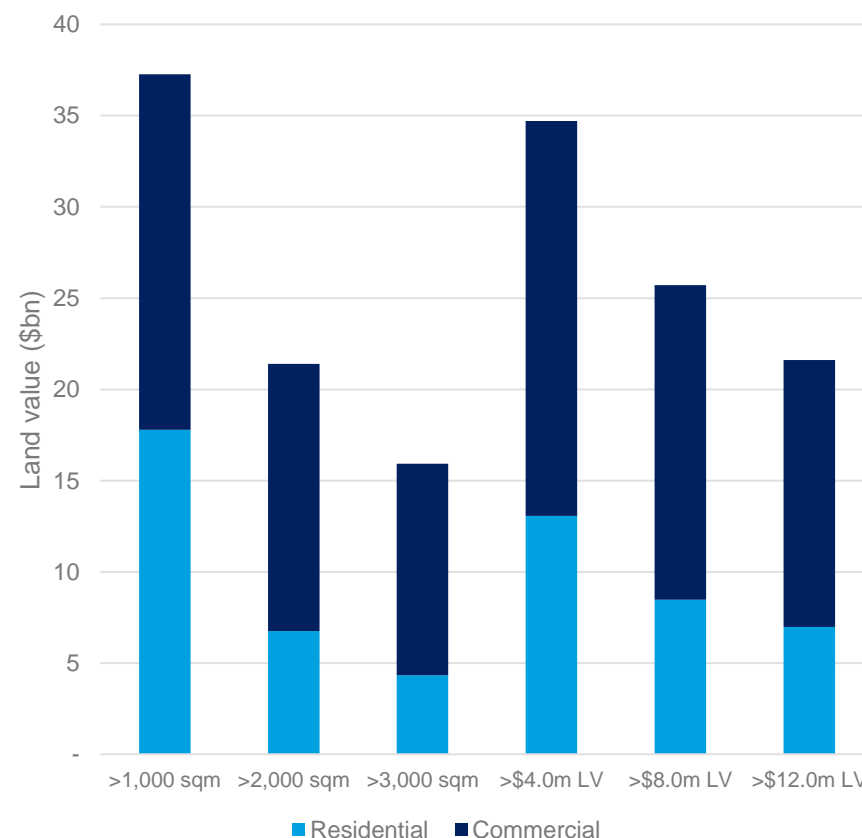
Threshold	>1,000 sqm	>2,000 sqm	>3,000 sqm	>\$4.0m LV	>\$8.0m LV	>\$12.0 m LV
Residential	2.1	0.8	0.5	1.6	1.0	0.8
Commercial	2.4	1.8	1.4	2.6	2.1	1.8
Total	4.5	2.6	1.9	4.2	3.1	2.6

Windfall gain funding net of IFF contribution (\$bn)

Threshold	>1,000 sqm	>2,000 sqm	>3,000 sqm	>\$4.0m LV	>\$8.0m LV	>\$12.0 m LV
70%	2.0	1.2	0.9	1.9	1.4	1.2
60%	1.6	0.9	0.7	1.5	1.1	0.9
50%	1.1	0.7	0.5	1.1	0.8	0.7
40%	0.7	0.4	0.3	0.6	0.5	0.4
30%	0.2	0.1	0.1	0.2	0.2	0.1
25% (IFF only)	-	-	-	-	-	-

Analysis implicitly assumed that full gains can be taxed and collected upfront whereas these are more likely to accrue over time and be postponed to sale by users

Breakdown of Local catchment land values above thresholds



Betterment Levy

Quantification

LUTI estimates an additional 72 thousand residential dwellings will be built in the Local catchment and an additional 3.2m sqm of GFA. These new developments could support betterment levies

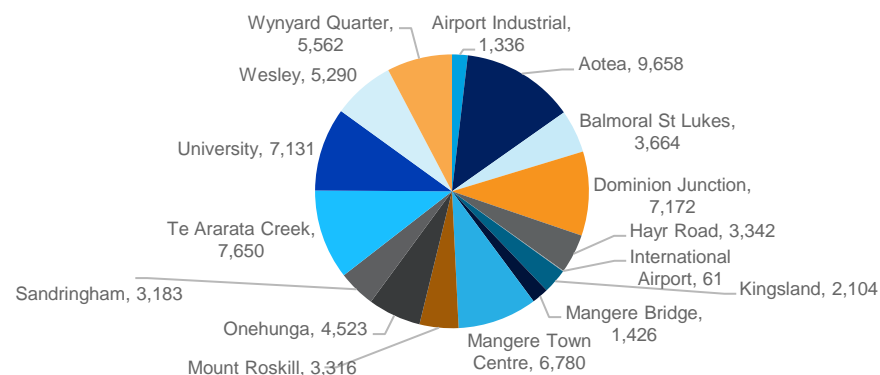


Residential dwellings developed to 2065	72,198
Average sqm per dwelling	120sqm
Residential sqm developed to 2065	8.6m sqm
Commercial GFA developed to 2065	3.2m sqm
Total development sqm	11.9m sqm

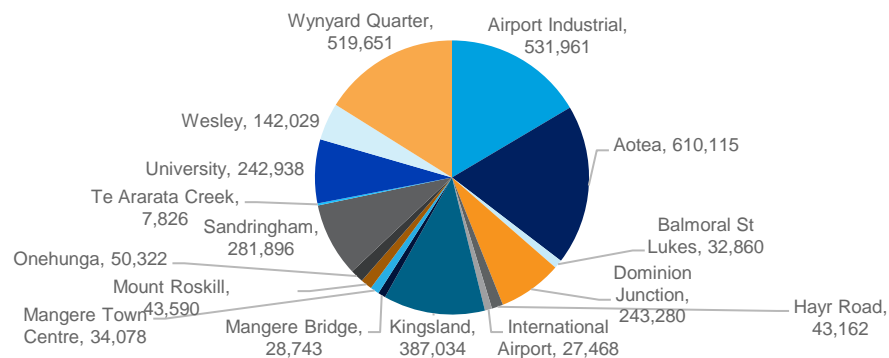
Target funding	\$1.0bn	\$2.0bn	\$3.0bn	\$4.0bn	\$5.0bn
Charge per sqm	84	168	252	336	420
Charge per avg. house	\$10k	\$20k	\$30k	\$40k	\$50k
NPV of levy funding (@ 4.8%)	\$0.4bn	\$0.9bn	\$1.3bn	\$1.7bn	\$2.1bn

The betterment levy has an extended collection profile out to 2065 as properties are progressively developed which results in the NPV of funding streams halving

Breakdown of new residential dwellings (72,198 total in 2065)

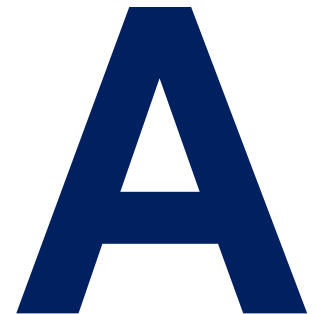


Breakdown of new commercial GFA (3.2m total in 2065)





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APPENDIX

Additional information

International LVUM examples

The Victorian WGT and UK Crossrail MCIL are the two distinct international examples of LVUM that were presented to Ministers in March

Victorian windfall gains tax (WGT)

Landowners can accrue significant windfall gains when the value of their land increases due to a Government zone change. The WGT taxes an increase in land value attributable to a zone change, where this increase exceeds AU\$100,000.

Application: The tax applies from 1 July 2023 to non-exempted land in Victoria that is rezoned by State Government and enjoys an uplift greater than AU\$100,000.

Treatment of residential land: Exempted from the tax, residential land is defined broadly as land lots, <20,000m², with a building affixed, where the building is designed and constructed primarily for residential purposes. This means owner-occupier, rental and holiday homes are all exempt.

Assessment: The Valuer-General assesses the capital improved value of land before and after the zone change has occurred. The pre-rezoning value is calculated based on the most recent annual general valuation, as at 1 Jan in the relevant year. The post-rezoning value is based on a second valuation of land, as at the exact same time and date, as if the land had been rezoned at that point in time. Tax applies at a marginal rate of 62.5% to increases in land value more than \$100,000 but less than \$500,000. Land value uplift above \$500,000 is subject to a 50% tax rate. For comparison, the highest marginal income tax rate in Australia is 45%, while the company tax rate is 30%.

Payment: Landowners receive notice of their tax liability after valuation and liability assessment have occurred and must pay or request to defer their tax liability within 60 days of this notice. The tax liability can be deferred for up to 30 years with deferrals attracting interest at the 10 year Victorian bond rate. However, if the property is sold or transferred before then, payment is due within 30 days of settlement.

Appeal rights: Owners have a right to object to land value assessments.

Administration: The Commissioner of State Revenue administers the tax.

Mayoral Community Infrastructure Levy (MCIL)

MCIL was introduced in 2012 to help fund the Crossrail project in London. It is a one-off upfront charge that applies to most new developments in London granted planning permission

Application: The MCIL applies to most new developments in London granted planning permission on or after 1 April 2012.

Treatment of residential land: The MCIL applies to most forms of development, including residential development. There are exemptions for health, education, charitable and social housing developments.

Assessment: The MCIL rate is a one-off, fixed levy per m² of net new development floor space. There is no publicly available information on how the levy rate was decided, however it ranges between £25 and £80 per m², depending on the development's proximity to the city centre. In 2019, higher fixed levy rates were introduced for commercial, retail and hotel developments in central London. These range from £140 - £185 per m², indexed to inflation.

Payment: MCIL is calculated at the time the planning permission for the new development is granted. It is payable within 60 days of work on the new development commencing. Developments with a total MCIL liability above £100,000 are eligible to pay via instalments, but must pay the full levy within 240 days of the new development commencing.

Appeal rights: The calculation of the MCIL, and application of any exemptions, can be appealed to the Valuation Office Agency.

Administration: Local planning authorities must calculate MCIL charges and collect them on behalf of the Mayor of London (charging authority)

Interaction with Local Government system: From 2019, developments that pay MCIL are not liable to pay the UK equivalent of development contributions.