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NAPIER PEOPLE AND PLACES COMMITTEE

Open Agenda

Meeting Date:	Thursday 3 February 2022
Time:	9.00am
Venue:	Via Zoom (Audio Visual Link)
	Livestreamed via Council's Facebook site

Committee Members	Councillor Boag (In the Chair), Mayor Wise, Deputy Mayor Brosnan, Councillors Browne, Chrystal, Crown, Mawson, McGrath, Price, Simpson, Tapine, Taylor and Wright
Officer Responsible	Director Community Services
Administration	Governance Team
	Next Napier People and Places Committee Meeting Thursday 17 March 2022

2. STRATEGIC HOUSING REVIEW

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	1412891
Reporting Officer/s & Unit:	Natasha Mackie, Manager Community Strategies

2.1 Purpose of Report

This report summarises the Strategic Housing Review findings and seeks approval to undertake a Special Consultative Procedure on the three options outlined.

Officer's Recommendation

The Napier People and Places Committee:

a. Resolve to undertake a Special Consultative Procedure based on the attached Statement of Proposal (*Doc Id 1426519)* on all three options with no preferred option identified

b. Note that further consultation may be required dependant on the decision made following this consultation.

2.2 Background Summary

Council started providing community housing over 50 years ago when, like many councils around the country, it received government low cost loans to build housing units. Of the 377 units we now have, 80% are for retirees or people with a disability. Council housing is for people who need affordable homes and who are able to live independently. The 377 units are spread over 12 villages across the city, on a total of 10.7 hectares. While not considered high density, these homes are in very close proximity of each other. Council supports tenants by providing subsidised rents based on income (set at a maximum of 30% of household income). A team within Council manages tenancies including administering tenancy agreements and arranging repairs and maintenance to the units. Asset management and capital projects are also managed in-house.

In 2018, Morrison Low completed a Section 17a of the Local Government Act (LGA) review of the housing activity. Councils are required under the LGA to complete S17a reviews of their activities. Alongside a sample-based condition assessment, the review identified ongoing sustainability issues with the current delivery model and identified two options for Council to consider. These options were to:

a) Divest a number of villages in order to reinvest in the portfolio (offset costs and replace ageing stock), or

b) Partner with a Community Housing Provider (CHP) who could attract market rent through the Government's Income Related Rent Subsidy (IRRS) which is not available to councils, thereby generating more income to offset growing costs.

Following this report, a more detailed assessment of options to retain the housing was undertaken by PwC. This review identified a potential option to sell part of the portfolio to help fund development of two sites that could generate additional income to fund the remaining portfolio along with a rent increase. This option introduced a high level of complexity, and therefore risk, to managing the portfolio. Another option identified was to continue as is with the deficits being funded through a ratepayer contribution. Both of these options could include an increase to rents. It also identified a transfer of the portfolio (sale) as the alternative option.

In late 2019, the rent policy was reviewed and rents were increased, but capped at 30% of tenant income. This percentage is a generally accepted level for housing affordability.

With continued forecast deficits, a detailed phase two review was initiated on two options, transfer of the portfolio and a part retain / part sell option and compared with the new status quo (with new rent policy). This review is now complete and the options are detailed below. The PwC report is attached. Some information in the PwC report is redacted due to commercial sensitivity.

2.3 Issue

Council delivery of Housing

As identified above, councils were encouraged to provide housing when the Government provided low-cost loans first in the 1960s and again in the 1980s. These loans saw many councils across the country create housing portfolios. Councils have differing tenant cohorts but traditionally the earlier housing was created for ‘pensioners’ or retirees. Rental policies also differ between councils with many adopting a subsidised market rent policy. Over the last decade, many councils have opted out of providing subsidised housing due to issues of financial sustainability as housing stock has aged and costs to maintain housing has increased.

In 2014, the Government introduced an Income Related Rent Subsidy (IRRS) for registered Community Housing Providers (CHPs). This allows the provider to receive full market rent for a property with the tenant being charged 25% of their income and the remaining rent being topped up to market rent by the government. This enables financial sustainability for existing stock while also being able to increase and/or replace portfolios. Kāinga Ora are also able to access the IRRS.

CHPs and Kāinga Ora are also afforded exemptions or allowances to legislation related to residential rental provision. For example, the Residential Tenancies Act allows them to terminate tenancies should the tenant become ineligible for social housing, and compliance to Healthy Homes standards timeframes are longer.

It would appear, the Government, through current legislation and policies, are not actively encouraging councils to continue to provide affordable housing. However, some councils, are investing heavily in their housing stock and also increasing their portfolios either alone or through partnership arrangements. Responses to our Long Term Plan 2021-31 consultation identify a mixed view from the Napier community on the matter. Consultation on the options identified in this report may provide clearer information to Council on the community view around whether or not the community supports Council continuing to provide a housing service.

Condition of Units

Housing units have been maintained to a reasonable standard. Some medium scale renewal work has been completed e.g. re-roof of units and replacement of unit components (e.g. degraded aluminium joinery) has also been completed. A detailed condition assessment of each of the 377 units was completed as part of this latest review process and it has shown many of the units are nearing or at 'end of life'. The results of the condition assessments identified the capital expenditure requirements for the next 25 years. This expenditure is to maintain current service levels but does not address other 'fit for purpose' issues that arise from the age of the homes not aligning with modern living requirements or accessibility needs. Our current service level is to 'replace at failure', resolve any health and safety hazards and to meet compliance requirements. While the condition assessments are very detailed, and forecasts are based on assessing each component of each unit, the actual point of failure timings may not directly align with forecasts. This means there is a risk that expenditure may be needed sooner (which would increase early deficits) than predicted.

Financial sustainability

While there was some investment from Council when the units were first established, the portfolio has largely funded its costs through rents received from tenants – paid for itself, until this year when funding in reserves was depleted and large forecasted deficits came into effect. In 2021, Council consulted with the community to fund these forecast deficits through loan funding until the Strategic Housing Review was completed and a decision could be made about the future provision of housing.

Loan funding on an ongoing basis cannot be sustained as loan repayments compound each year while deficits also increase.

Retaining retirement villages and selling the three 'social' villages to fund the deficits was considered but not investigated further. While it provides a short term fix, it does not provide a medium to long term solution. This option would reduce income from rents (reduction of 72). The remaining villages will still generate a shortfall once the sale proceeds are used and the position would end up the same as the current situation with fewer units.

The retention options analysed by PwC – Status Quo and Part retain / Part sell identify an approximate $2.2-2.3 million annualised shortfall that require ratepayer and/or tenant (rent) support.

The book value of the portfolio sits at $65 million. This is based on a Telfer Young market valuation as at 20 March 2020. Market valuation represents highest and best use (e.g. capitalised 'market' rent or redevelopment value). However, the transfer (sell) options that best align with Council's criteria (selling to a CHP or Kāinga Ora) would attract a 'discounted cashflow' (DCF) price (lower sale price) based on future forecasted cashflows of the portfolio by any given buyer. This would be materially lower than the market value. In addition, any sale price would be further impacted should any covenants be placed on the transfer e.g. retention of current tenants and the retirement criteria. However, a sale does remove the liability (ongoing deficits). Removing the liability coupled with attaining sale proceeds provides a positive financial outcome for the Council.

Rent Setting Policy

In 2019, the rent setting policy changed to increase the total rental income while also keeping rents 'affordable' (30% of income). This meant that tenants receiving Superannuation or Supported Living Benefits had an increase (5% of their income) and rent for a social village unit was set at 92% of market rent or 30% of the tenant's income, whichever was lowest. The effect of this saw a total increase in rent revenue for the retirement units, but this was largely offset by reduction in the overall rent payable in the social units. Unfortunately, maintaining this income-related rent setting policy will not achieve financial sustainability through tenant income (rent) alone. For either of the retention options to be viable, the rent setting policy will need to change to a subsidised market rent model with market rent valuations reviewed on a regular basis (e.g. every two years) and applied, with CPI adjustments made in the alternate year.

Adopting this policy would have impacts for tenants both in terms of affordability with rents higher than 30% of income in most cases and add uncertainty with changing market rent values. Retirement housing tenants receive an increase in income with annual Superannuation increases and are able to apply for an increase in accommodation supplement if rents increase. Other tenants on low incomes are able to also apply for increases to accommodation supplement as rents increase. Council rentals, even applying a market rental formula, is still significantly lower that the private rental market (e.g. Council 1 bedroom unit - $283 per week versus Private 1 bedroom unit - $345 to $390 per week – source Trademe 21/12/21). This difference could partly be a result of the 'level' of market rent applied. We generally use the lower to median range where private rentals may use the upper range to determine rent.

While there is no legislative maximum rent increase, it is advisable that the rent increases outlined in the Status Quo and Part sell / Part retain options be phased in over a two-year period. Rents can only be increased once every 12 months. For the majority of our tenants these increases can be applied in April of each year, giving 60 days notice.

Meeting demand – additionality

Demand has remained high in the affordable rental market. Our waiting list of over 100 people/households has been closed to new applicants since June 2019. Our occupancy rates remain high with very low turnover. Without capital investment into the portfolio, there is no ability to increase its size. The retirement housing provided by Council is one of the few options available in Napier to those whose income is limited to Superannuation and who have no asset base. This cohort is set to grow as more and more working age people are unable to enter the housing market and either rent through the private market or are supported through public housing.

In Napier, over the next twenty years, based on the latest Census data, this could be as many as 2,430 people. These are the people currently aged 40-64 years of age who rent in the private market and who earn $30,000 or less. Of those who earn $30,000 or less in this age group, 72% are renting in the private market and 25% are in public housing with 1.9% in Council housing. At this level of income and the current rent prices, this cohort is likely to seek the type of rental housing currently provided by Council.

Demand for public housing is high in Napier with 753 on the Housing Register, with 732 of those being in the high priority Category A (as at September 2021). Napier's numbers on the register are the second highest for a provincial city.

Tenancy Management Changes

Tenancy rules changed with the changes to the Residential Tenancies Act (RTA). One of the main changes, the removal of the 90 day no reason termination clause, has introduced complexities for tenancy management and policy eligibility criteria. In order for tenants to access Council housing, they must be below the low income and low asset threshold. We initiated regular eligibility reviews in 2018 which found that on average around 5-8% of sitting tenants no longer met the eligibility criteria. Prior to the RTA changes we were able to manage these situations with the tenant whereby they either resolved their eligibility issue (e.g. reduced their income) or found alternative accommodation. The removal of the 90 day no reason termination no longer provides a lever for us to rectify eligibility issues. However, our policy does provide for the charging of full market rent should the tenant become and remain ineligible. This creates a situation where ineligible tenants are able to remain in housing potentially subsidised by ratepayers while those in need remain on our waiting list.

A priority placement process was introduced in 2019 so people with a high need for housing were placed first as opposed to being ‘first in’ on the waiting list. This has meant that tenants are often experiencing more complex situations which can be challenging in ‘close proximity’ living arrangements. Dealing with neighbourhood tension and tenant behaviour under the RTA changes has required a higher level of administration and management oversight.

These tenancy management issues, along with the growing compliance and asset management requires additional resource allocation should the portfolio be retained or until any transfer can be completed (a minimum of one extra staff member in the tenancy team).

Legal

Two village sites are listed in Schedule 3 of the Napier Borough Endowments Amendments Act 1999 (amendment of the 1876 Act).These villages are Carlyle Place and Hastings / Munroe. Both parcels of land were transferred to Council from the Crown and were originally in Māori ownership prior to their transfer to the Crown. The option to Part Retain / Part Sell identifies Carlyle Place for divestment and the option to Transfer (sell all housing) identifies both Carlyle Place and Hastings / Munroe for divestment. A high level review of the legislative and contractual obligations conducted by PwC (Legal), given these option pathways, identified that both sites are subject to the requirements of both the Napier Borough Endowments Act 1876 (NBEA) and Local Government Act 2002 (LGA). They are also subject to the terms of the registered endowment instruments and the historical endowment agreements themselves. Where Council originally acquired the sites from the Crown, there may also be Public Works Act 1981 obligations.

The legal review concluded that:

“there were legally compliant pathways available for each of the proposed options. Importantly, there are strategy options and implementation pathways that are potentially able to preserve, and make workable the spirit and intent of the original endowment purposes (some of which are currently ineffective) which focus on benefits to the community.”

In addition, PwC advised that although not strictly required under the legislation, where sites are identified as having been in iwi ownership (prior to transfer to the Crown and then Council), consultation with mana whenua is recommended to preserve iwi environmental, cultural and heritage values in the sites and this also provides an opportunity for meaningful consultation and partnership.

Any development will require regard for ‘Sites of Significance’ to Māori. The Hastings / Munroe site is situated in such and area and would therefore necessitate consultation with appropriate Māori entities.

The divestment options (Part Retain / Part Sell or full transfer) involve a Strategic Asset and could only be actioned if provided for in an LTP. Therefore, if either of these options were selected as the Council’s decision, further consultation would be required through the next LTP process or an LTP amendment to the current LTP.

Should the Status Quo option be selected as Council’s decision, involving a rates impact, this would need to be informed to the community through an Annual Plan consultation process, with the next available Annual Plan process being the 2023/24 year. The Annual Plan 2022/23 process will be underway prior to the decision. If this option were selected as the decision funded solely by rent increases, the Residential Tenancies Act applies with a 60 day notice period for rent increases being required, so could be implemented immediately.

There are no substantial contractual arrangements that would be affected by proceeding with any of the options.

2.4 Significance and Engagement

This matter requires a Special Consultative Procedure as part of the decision-making process because it involves the potential transfer of ownership (and control) of a Strategic Asset. In addition, the matter is deemed significant given that the potential decision could:

- have ongoing significant increases to rates which require changes to key financial policies and settings e.g. Revenue and Financing Policy and rates caps (retention of portfolio with loan funding the gap)
- be difficult to reverse or be irreversible (transfer of portfolio)
- change the levels of service (all options)
- impact on affected individuals - tenants (potentially all options)
- significantly impact on rating levels (retention of portfolio)
- financially impact Council’s resources – e.g. balance sheet, proceeds of sale and income reduction (transfer of portfolio)
- have significant decision costs (all options will incur costs to implement)

Council’s decision around the future provision of its housing will be of high interest to key stakeholders including mana whenua, iwi and post settlement governance entities (PSGEs), Māori service providers, the Crown and its relevant agencies, potential purchasers and developers, Community Housing Providers (CHPs), community support service providers and other councils. Direct engagement with key stakeholders will be undertaken alongside wider community engagement on the matter.

As affected individuals, tenants will be consulted utilising a range of approaches in order for each tenant to be able to engage in the process. Tailored information will be provided to each tenant on how the options would directly impact them (e.g. rent rates etc).

A High Level Consultation Plan is attached.

2.5 Implications

Financial

As outlined above the current model of funding and delivery of the housing activity is not sustainable. Deficits are being funded by loans with future ratepayers funding present costs and services. The Long Term Plan 2021-31 consultation identified loan funding as a short term measure to deal with the shortfalls until the Strategic Housing Review was completed and a decision could be made on the future provision of housing.

All options identified each have financial implications.

The options that have Council retain the housing would require changes to current financial policies and strategies, particularly the revenue and financing policy (how rates are set) and rates caps. The rent setting policy will require changes unless deficits are fully funded directly by rates.

Transfer options will take time to complete necessitating further loan funding and/or rates increases to cover the intervening period.

While there has been detailed financial modelling completed through the PwC analysis, there are still a range of variables that can affect each option including cost escalations, market value changes, changes to the timing of capital expenditure (asset failure), costs to implement and costs around legislative change. While these variables could affect the specific financial detail, the underlying premise of each option remains.

Social & Policy

Secure and affordable housing is considered a key driver of wellbeing. Poor housing is linked to reduced health, education and associated outcomes. In addition to the tangible effects related to the physical home, improved wellbeing is also related to sense of belonging, connection and autonomy. Secure housing allows whānau to establish a home, a base from which to establish social supports and networks and to improve social and economic mobility. Inadequate housing has ripple effects across our community from higher levels of homelessness, increased demands on health and education systems and higher prevalence of social issues.

In New Zealand, a large proportion of public/social housing is provided by the Government, either directly through Kāinga Ora and Ministry of Social Development or indirectly through CHPs. Councils often aim to provide for housing needs that aren't met by the other main social housing providers such as Kāinga Ora. In Napier, Council provides around 10% of the public or social housing available. It is estimated around 90% of current tenants would be able to access public housing from other providers.

Previously, although subsidised rents have been provided, the Napier ratepayer did not directly subsidise this activity. However, with rates funding now being provided, and set to increase substantially to maintain the provision of housing, consideration of continuing this activity is required given that the direct benefit of this activity is low across ratepayers and high for individuals (tenants).

1.6 Risk

Changes to Local Government Provision of Services

There are two key pieces of reform work that could significantly affect local government service provision – 3 Waters and the Future of Local Government.

Should 3 Waters provision be aggregated to new regional bodies, there will be an effect on Council's asset base and its income. While the option to retain housing (with rates contribution) won't cost any more, the proportion of rates spent to subsidise housing would be greater – the overall income pie would be smaller.

The Future of Local Government reform focus is on what the appropriate role and functions of local government should be given its contribution to community wellbeing and its close connection with local communities. The transfer option may diminish Council's status should more emphasis be placed on councils taking a greater role in the provision of housing in the future. A draft report on the reform for public consultation is due in September 2022. This should provide information on the direction the government may take with the reform and allows for adequate time to adjust the decision made by Council in May / June 2022 before implementation becomes irreversible.

Changes to Government Support

Successive governments led by both the National Party and the Labour Party have not made any changes to allow councils to access the Income Related Rent Subsidies (IRRS) that are available to Community Housing Providers and Kāinga Ora. Local Government NZ, prompted by councils across the country, has submitted several remits to change this policy. These have been unsuccessful. Current communication on the matter indicates no changes will be made to the policy. Access to the IRRS has been identified as the key factor that would allow the Council to continue providing housing.

Ministry of Housing and Urban Development (MHUD) is examining the pressures on councils to continue to delivery housing. We have contributed some of the PwC review information to this work. In discussions with MHUD, they have been very clear that this work in no way changes the IRRS policy setting and that currently the public housing funding has a strong emphasis on new builds.

Information Currency

Financial information is based on current pricing and other assumptions are identified under each option within the PwC report. The changing nature of the construction industry will have an impact on costs, access to materials (supply chain) and capacity to deliver (labour constraints) – this is an issue for every option that has the Council retain some form of ownership.

Other variables that could impact on the currency of information include any delays in consultation or decision-making and subsequent delays in implementation. If these delays are significant, updates to the financial modelling may be required.

It has been difficult to source details around the funding of the initial development of the housing apart from amounts and funding sources. There appears to be no conditions on the donation provided by Henry Charles who contributed funds for a Hall and some housing units. The information we have relied on is what is held in Council's archives. There may be information held in the community that may come to light as part of the consultation process, which may have an influence on decision-making and can be dealt with as part of that process.

Tenant Welfare

This process was initiated in 2017 and has required two subsequent reviews to achieve the level of detail required by decision makers. The length of time and uncertainty has had an effect on some tenants who have communicated a level of anxiety for their future. In addition, some misinformation has also been unsettling. Communication with tenants has been maintained and information and progress updates have been provided throughout the review process. In Council's last two Long Term Plan consultation processes, the housing situation has been outlined.

In August 2021, a meeting was held for tenants where assurance was provided by the Mayor that tenants would not lose their housing. Tenants have been consistently advised that any options that significantly change the provision of housing would require direct consultation with them.

The Housing Team continue to be available to discuss any concerns about the review and targeted consultation is planned as part of the next steps in this review process.

2.6 Options

The options available to Council are as follows:

a. Identify a proposed option and undertake Special Consultative Procedure to inform the decision-making process
b. Present the feasible options identified below and undertake a Special Consultative Procedure based on the attached Statement of Proposal to inform the decision-making process (preferred)

2.7 Development of Preferred Option

Proceed with consultation on the options outlined below:

1.Status Quo Deficit funded by: (a) Rates only (b) Subsidised rents (c) Combinations - Rates and subsidised rents 1.	2.Part Retain / Part Sell Deficit funded by: (a) Rates only (b) Subsidised rents (c) Combinations - Rates and subsidised rents	3.Transfer (Sell) Potential buyer: • CHP • Kāinga Ora • Regional Housing Trust • Open market

1. Status Quo

Description:
The Status Quo option sees Council continuing to provide housing at current levels of service.

This option generates an annualised deficit of $2.2 million and without any rates or increased rent adjustments the accumulated cash shortfall would reach circa $70 million after 25 years (2046).

Ongoing loan funding to fund long term deficits is not considered a feasible option.

In order to cover this deficit, income from rates or rents (or a combination) is required.

Key benefits of this option include the relative ease of implementation, retention of housing (and land) in Council ownership and a higher level of certainty for tenants. Moving to a subsidised market rent policy will provide predictable income and reduce the administrative requirements that income-related rent settings cause.

This option does not provide for additional housing to meet growing demand, or upgrades to existing housing to meet modern living standards or accessibility. This option does not address the issue of the units being very close to 'end of life' and while replacing componentry will extend the life and buys some time, ultimately decisions on full replacement may still be needed in the future. In addition, the actual capital expenditure may vary from the forecasts, and should they arise earlier, would be challenging given the lack of cash reserves and the time needed to build these up.

Combined contribution

When considering how an activity is funded, i.e. through rates or user pays or a combination of these, Council must consider the proportion of benefit received from the activity and therefore how the cost should be fairly split. This is determined by a series of assessments required by Section 101A of the LGA.

The table below shows examples of rates / rents splits, actual splits may differ following the completion of the assessment and the Revenue and Financing Policy may be affected.

A change in the rent setting policy is advocated under this option. This requires a change from rent being based on a tenant income affordability and moving to a subsided market rental approach. Any initial significant rent increase could be phased in over two twelve month periods. Full rent increases would then be effective from April 2024. Deficits up to April 2024 could continue to be funded through loans as outlined in the Long Term Plan 2021-31. The rent setting policy would form part of the implementation process with the intention to undertake market rental valuations every two years and applying a CPI increase in the alternate year.

While rent increases may potentially be unpopular with current tenants, and in some cases unaffordable, the opportunity for the housing to remain with Council may outweigh these concerns.

The tenancy management issues outlined above require additional staff resources in order to comply with legislative requirements and tenancy matters, this is not currently factored in to the costs.

The following table shows the impact on rates and/or rents depending on the contribution settings. The splits are provided as examples only.

<table>
<tr><td colspan="4">Status Quo – 377 units - $2.2 million deficit pa</td></tr>
<tr><td>Contribution Level to meet deficit</td><td>Ratepayer pays*
(rates increase)</td><td>Tenant Retirement Pays
(rent increase pw) **
Current rent is $127
45% market rent</td><td>Tenant Social Pays
Current rent $151
39% market rent***</td></tr>
<tr><td rowspan="7">100%</td><td rowspan="7">3.1% or $85per annum</td><td colspan="2">Deficit split by tenant type – ‘break even’</td></tr>
<tr><td>78% market rent</td><td>63% market rent</td></tr>
<tr><td>70% or $88pw increase
($215 rent pw)
(51% of tenant income)</td><td>61% or $92pw increase
($243 rent pw)
(32% of tenant income)</td></tr>
<tr><td colspan="2">Increase to 92% market rent</td></tr>
<tr><td>100% or $126pw increase
($253 rent pw)
(58% of tenant income)</td><td>136% or $205pw increase
($356 rent pw)
(47% of tenant income)</td></tr>
<tr><td colspan="2">Deficit split equally across tenants</td></tr>
<tr><td>88% or $112 increase
($239 rent pw)
85% of market rent
(56% of tenant income)</td><td>74% or $112 increase
($263 rent pw)
93% of market rent
(35% of tenant income)</td></tr>
<tr><td>50/50</td><td>1.6% or $43pa</td><td>44% or $56pw increase
($183 rent pw)
66% of market rent
(43% of tenant income)</td><td>37% or $56pw increase
($207 rent pw)
73% of market rent
(27% of tenant income)</td></tr>
<tr><td>60/40</td><td>1.9% or $51pa</td><td>35% or $45pw increase
($172 rent pw)
62% of market rent
(41% of tenant income)</td><td>30% or $45pw increase
($196 rent pw)
69% of market rent
(26% of tenant income)</td></tr>
<tr><td>40/60</td><td>1.3% or $34pa</td><td>53% or $67 increase
($194 rent pw)
70% of market rent
(46% of tenant income)</td><td>45% or $67 increase
($218 rent pw)
77% of market rent
(29% of tenant income)</td></tr>
<tr><td colspan="4">*Average annual rates increase per rateable property
**Based on a single person in a one bedroom unit
***Based on an average of the market rent for 1,2,3 bedroom units</td></tr>
</table>

2. Part Retain / Part Sell

Description:
This option retains 301 retirement units in 8 villages. It loses 76 houses and builds 49 new units. It proposes to transfer the three social villages to another entity with sale proceeds to contribute to the development of 49 new units. The new development would take place on existing sites.

The Hastings/Munroe village would demolish the four units and replace 11 new units that would be rented at full market rent, thereby generating an ongoing income to contribute to the costs associated with the remaining housing. The second site, Greenmeadows East, with land already set aside for additional Council housing, would see the development of 38 new units.

The 72 houses in the three social villages would ideally transfer to a CHP and therefore retain them as affordable rentals for the city. However, with the lack of ability to add new units on these sites, CHPs may not find these villages attractive given the delays in receiving IRRS and the inability to attract the government support available for additionality.

The sale of the Carlyle Village has added complexity due to its inclusion in the Napier Borough Endowment Act. The Carlyle Village is identified as a 'Site of Significance' to Māori having been part of the Pukemokimoki site, a site of particular significance to Ngāti Pārau. Particular regard for 'Sites of Significance' is needed should any development be proposed. The Carlyle Village has not been identified for development in any of the options being considered. The Hastings/Munroe village also sits in a wider 'Site of Significance' area, Te Ahi o Te Waru (the fires of Te Waru). Given its potential for development, engagement with mana whenua is vital to understand any implications for development, opportunities for cultural expression and a potential partnership approach. The site has been significantly modified already but will likely require archaeology oversight during any development process.

While the new units will attract a higher asset value, with the sale of 72 units, the overall asset value for the total portfolio is either likely to decrease or maintain current value. It is unlikely to increase the asset value significantly (e.g. sell at value of $16.2m, new builds with a conservative value of $21.96m (costs to construct) - positive balance of $5.76m).

Key benefits of this option include the refocus of the portfolio to be providing for retirees or those with a disability only, its retains the majority of the housing and land in Council ownership with a higher level of certainty for retirement tenants and it adds new fit for purpose housing to the portfolio.

The sale of the three villages would impact the current tenants in these villages, and depending on the buyer could either have a positive or a negative impact. The preference to retain the housing for community housing would likely result in a positive impact.

The development at Hastings/Munroe creates a higher level income source in the longer term. Moving to a subsidised market rent policy will provide predictable income and reduce the administrative requirements that income-related rent settings cause. The development of the two sites offer potential partnership (and possibly co-funding opportunities) with PSGEs, Iwi and/or Kāinga Ora.

Council currently does not have the resources in-house to implement the development aspect of the option, with the cost of sourcing this function being relatively unknown. The ability to secure consultants and construction contractors is challenging in the current market conditions. Availability of building materials is affecting the supply chain creating project delays and increasing costs.

This option does not fully address the issue of the remaining units being very close to ‘end of life’, and while replacing componentry will extend the life and buys some time, ultimately decisions on fully replacement may still be needed in the future. In addition, the actual capital expenditure may vary from the forecasts, and should they arise earlier, will be challenging given the lack of cash reserves and the time needed to build these up.

A key challenge with this option is the added complexity and uncertainty regarding both the sale of the three villages and the development aspect. Complexity and uncertainty increase the risk.

This option generates an annualised deficit of $2.3 million and without any rates or increased rent adjustments the accumulated cash shortfall would reach circa $65.9 million after 25 years (2046).

In order to cover this deficit, income from rates or rents (or a combination) is still required. Initially the number of tenants would be lower than the Status Quo option meaning the individual tenant share of the deficit would be higher. The same factors apply to this option as the Status Quo option in terms of tenancy management issues, rent setting policy changes, phased in rent increases (and temporary loan funding) and financial policy reviews.

The following table shows the impact on rates and/or rents depending on the contribution settings. Note that the social village tenants are not included in this table. The splits are provided as examples only.

Part Retain / Part Sell – retains 8 'retirement' villages, develops 45 new units, sells 3 'social' villages - $2.3 million deficit pa		
Contribution level to meet deficit	Ratepayer Pays* (rates increase)	Tenant Pays **
100%	3.3% or $89pa	115% or $145pw increase ($272 rent pw) 96% of market rent (65% of tenant income)
50/50	1.6% or $44pa	57% or $73 increase ($200 rent pw) 71% of market rent (47% of tenant income)
60/40	2% or $53pa	46% or $58 increase ($185 rent pw) 65% of market rent (44% of tenant income)
40/60	1.3% or $36 pa	69% or $87 increase ($214 rent pw) 76% of market rent (51% of tenant income)
*Average annual rates increase per rateable property **Based on a single person in a one bedroom unit Based on 304 units (will vary according to development stage)		

3. Transfer option

Description:
This option would see all 377 units transferred (sold) to another entity.
Council direction during the review process has been to focus on ensuring the housing remains as affordable rental housing. As part of the review at a workshop in October 2020, Council selected a sale or lease option to a CHP to be evaluated in detail as the favoured option for transfer. The protection of tenants and the special character of the retirement villages was identified as important and therefore any transfer contract would need to contain the following covenants:

- Ensure existing tenancies, under the current (or better) terms and conditions, remain in place,
- The portfolio can only ever (in perpetuity) be used to provide housing to retirement or community tenants, and
- The Council retains the right of first refusal (on the same sale conditions) if the buyer was to sell the portfolio.

A market sounding process identified that the option to lease the portfolio would not be attractive. Leasing the portfolio would also not achieve any financial benefit to Council, and would likely exacerbate the current financially unsustainable position.

The opportunities for redevelopment of the two villages identified and the potential to demolish and intensify other currently under-optimised sites allow for additionality which is a key driver to access government funding for CHPs and is a key focus for Kāinga Ora.

Transfer to a CHP
The portfolio would most likely be valued on a discounted cashflow (DCF) basis. In addition, any covenants would negatively affect the overall value. A CHPs DCF might be half the Book Value. There are examples of councils successfully selling their housing to CHPs with covenants including Hamilton City Council.

Transfer to Kāinga Ora
Kāinga Ora is potentially in a better position regarding cashflow as we understand they are able to access the IRRS (full market rent) for existing eligible tenants. A sale to Kāinga Ora might be expected to deliver a sale price similar to, or slightly more than, the value that might be achieved through a sale to a CHP. This may result in a higher purchase price, although there is no guarantee of this given the limited market for this stock and the need for Kāinga Ora only to outbid the next highest bidder.

Transfer to a Regional Housing Trust
There is a potential for the region's councils to 'pool' their portfolios and form a Regional Housing Trust and there is an intention to discuss this further with the other councils to understand the shape of a possible Trust.

There are examples of councils establishing CHPS. Under current legislation, councils and Council Controlled Organisations (CCOs) are excluded from registering as a CHP and securing access to the IRRS. In order to be successful, any Trust would need to be completely independent of Council once established, however Council would be able to influence the purpose and objects of any such Trust. The transfer of housing into this type of Trust would requires councils to 'vest' the assets into the Trust, whereby there would be no sale proceeds back to Council. Council could impose the covenants above on such a transfer.

The transfer options identified above allow the portfolio to continue to support an affordable rental housing approach. These potential options also enable the portfolio to be retained in 'community ownership'.

Advantages of a transfer option to the social housing sector are ultimately financial for both tenants and Council (ratepayers). CHPs provide wraparound support services in addition to tenancy management and are able to apply the IRRS discount rent rate (rent set at 25% of income) to new eligible tenants (tenants coming from the MSD Social Housing Register). Under a transfer to Kāinga Ora, we understand all eligible tenants (existing and new) would be able to access the subsidised rent. Should the covenants be put in place, there would be no negative impact on current tenants. A full transfer would remove all liabilities (forecast costs and deficits).

Sell through the open market
This option is not favoured by Council as it does not align with the review objectives and may result in a loss of affordable rental housing for the city. However, this option would most likely provide a higher sale price more aligned with the current book value of $65 million. A sale through the open market may not afford any protections to current tenants.

Any sale proceeds received (noting a transfer to a Regional Trust would not yield any) would be available for any of the following, in consultation with the community:

- Repay debt
- Invest to generate income
- Pay for current / future loan funded projects
- Implement new or deferred projects

All of the above options have a positive impact for the ratepayer.

The asset would be removed from balance sheet. Council has assets valued at $2 billion (includes $0.5b water assets). While $65 million book value would be removed with the sale of the portfolio, this is not material in of itself to affect Council's ability to raise loans and would still not be an issue should the 3 waters assets also removed.

While direct operational costs would be eliminated, e.g. labour costs, there will be residual internal costs (stranded overheads) that will need to be spread across the remaining business units (departments) requiring a rates contribution. However, if the sale proceeds are invested, there will be no impact as the table below shows.

	Ratepayer*
Residual costs	0.6%
Return on investment of sale proceeds (based on $40m and 2% interest rates)	-1%
Reduced interest rates (paying off loans)	-1%
Net rates saving	-0.4%
*Average annual rates increase per rateable property	

The time it may take for a transaction to be completed could be at least 12 months and should, ideally, be timed to coincide with the beginning of a financial year. Interim funding is required to fund the deficit during the transaction period. The Long Term Plan 2021-31 confirmed funding through loans to account for this deficit in the short term.

The option to transfer the entire portfolio to another entity was recommended by PwC as the most sustainable option available.

Summary of Options – Financial Implications

1. Status Quo – 377 units - $2.2m deficit pa			
Contribution level Rates/Rents	Annual rates impact	Tenant - Retirement rent increase per week	Tenant – Social rent increase per week
100%	3.1%	$88 - $112	$92 - $205
50/50	1.6%	$56	$56
60/40	1.9%	$45	$45
40/60	1.3%	$67	$67

2. Part Retain/Part Sell – retains 8 ‘retirement’ villages, develops 45 new units, sells 3 ‘social’ villages - $2.3m deficit pa		
Contribution level Rates/Rents	Annual rates impact	Tenant – increase per week
100%	3.3%	$145
50/50	1.6%	$73
60/40	2.0%	$58
40/60	1.3%	$87

3. Transfer option		
Impact on rates	Invest sale proceeds	Repay debt
Estimated residual costs	0.6%	0.6%
Return on investment (based on $40m and 2% interest rates)	-1%	
Reduced interest costs		-1%
Net rates saving	-0.4%	-0.4%

2.8 Attachments

1 Draft Statement of Proposal - Council Housing (Doc Id 1426519) *(Under Separate Cover)* ⇨
2 High Level Consultation Plan - Council Housing (Doc Id 1426518) *(Under Separate Cover)* ⇨
3 PwC - Strategic Housing Review (Doc Id 1426520) *(Under Separate Cover)* ⇨