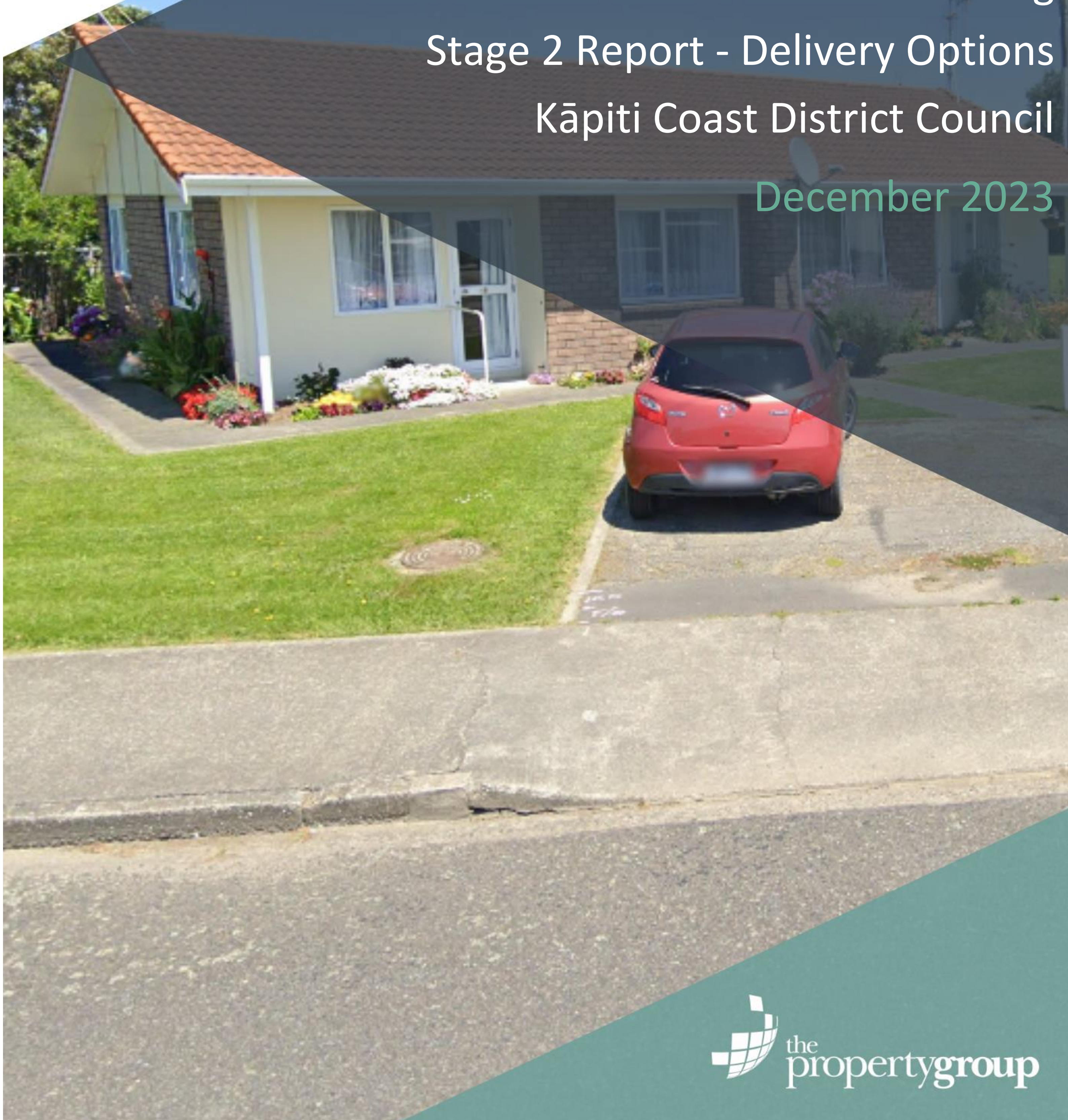
Review of Older Persons Housing

Stage 2 Report - Delivery Options

Kāpiti Coast District Council

December 2023



Contents

Quality control

Document	Kāpiti Coast District Council: Older Persons Housing Review Stage 2 Report – Delivery Options
Ref	719046
Date	6 December 2023
Prepared by	Sophie Randell, Senior Property Consultant
Reviewed by	Ruth Allen, Principal Urban Regeneration

Revision history

Revision	Revision date	Details	Authorised	
			Name/Position	**Signature**
1.0	15/09/2023	Draft for consultation	Sophie Randell, Senior Property Consultant	
2.0	11/11/2023	Revised draft for consultation	Sophie Randell, Senior Property Consultant	
3.0	22/11/2023	Revised draft for consultation	Sophie Randell, Senior Property Consultant	
4.0	6/12/2023	Final Report	Sophie Randell, Senior Property Consultant	

Executive summary

Purpose of review

The Property Group Limited (TPG) has been engaged by Kāpiti Coast District Council (Council) to provide a review of Council's existing Older Persons Housing Portfolio (OPH), identify the opportunities to grow the portfolio, and assess future delivery options. This report is the second of three reports which defines and analyses delivery options to understand which options will help Council to achieve its portfolio growth objectives whilst ensuring the portfolio is financially sustainable. Whilst this report provides an overview of the different delivery models available to Council under the current policy settings, further work will need to be undertaken before Council determines the best delivery model going forward, the next steps are outlined within this report.

Background

Council provides an older person's housing service to meet the needs of those 65 years and older who require access to affordable rental accommodation. Council currently own 118 one-bedroom units in 10 villages across the Kāpiti Coast. As Council's Housing Policy was last reviewed in 1993, there is a need to understand whether the current service is appropriate and whether the portfolio could be supporting a larger demographic going forward. Demand for affordable, accessible rentals in the district currently exceeds supply, and the need is projected to increase substantially into the future.

This report should be read in conjunction with the Stage 1 report which sets out the need to review and update the delivery model. Council's housing portfolio needed to be reviewed both operationally and financially to ensure the portfolio is well-placed to meet current and future demand, this review was completed as part of that initial report and key findings are provided on page 16 of this Stage 2 report.

Housing in Kāpiti

Like much of New Zealand, demand for affordable housing in Kāpiti is exceeding supply. Although housing register numbers are down slightly from their peak in early 2022, demand for social and affordable housing within the Kāpiti district remains high, especially for older persons who are overrepresented on the housing register. The Housing Needs Assessment commissioned by Council in May 2022 provides strong evidence of current and future demand for affordable housing solutions for older residents within the district.

Currently Kāpiti has low levels of public and affordable housing with Kāinga Ora providing 219 dwellings and Council providing 118 units. Whilst Kāinga Ora and a small number of Community Housing Providers (CHPs) operate in the district, Council's portfolio is the only housing within the district focused on meeting the needs of older persons requiring rental assistance and as such Council's portfolio plays a crucial role in providing housing for those in need of social and affordable housing. The Stage 1 report found that the district needs more affordable housing and housing choices.

The combination of an aging population, lack of supply of affordable housing options and shortage of smaller housing typologies, is putting increasing pressure on older persons in the district. Of the 219 tenancies Kāinga Ora had as at January 2022, 70 of these households had a main tenant who was 65 years or older. Council plays a vital role in providing affordable housing options for older people, decreasing pressure on Kāinga Ora and existing CHPs to support this cohort. With a growing unmet need for affordable and accessible housing for older people in the district, the Stage 1 report recommended future growth of Council's portfolio.

Current MSD Social Housing Register numbers are at 177 as of 30 September 2023, though it is also worth noting that this does not include hidden demand from those who require Affordable or Public Housing but are not represented on the register.

Approach

TPG's approach to undertaking this Stage 2 Report was carried out in four parts outlined in more detail as follows:

Part A: Understanding The Housing Sector

This section of the report provides an overview of the housing sector including a brief description of the challenges in providing affordable housing within the district, information on those involved in social and affordable housing and government funding support.

Part B: Portfolio Delivery Options

There are a range of future delivery options for Council to consider. When considering the options, Council must review each delivery model against their objectives for the portfolio. An overview of each of the delivery options is provided within the report, for each we have including the following sections:

- *Overview:* a description of the delivery model.
- *Process:* how Council would change their current model to operate under the delivery model.
- *Benefits, risks & implications:* the impacts that the change of delivery model would have on Council, stakeholders, and tenants.
- *Public Works Act (PWA) Implications:* high level input into any PWA implications to be considered under the delivery model.
- *Future growth:* how the delivery model would impact on Council's objective to continue to see an increase in supply of new units.
- *Case studies:* for each option case studies have been provided on other Council/s who have adopted the delivery model and the key learnings from these experiences. The Nelson City Council, Wellington City Council and Christchurch City Council are examples of where the funding models are outside of the standard Ministry of Housing and Urban Development (MHUD) product parameters. It should be noted that Ministerial approval was required in these cases.

The objective of this section is to provide an overview of each of the delivery options and provide details on what impacts they would have on the future delivery of the portfolio.

Part C: Evaluation Of Portfolio Delivery Options

Part C of this report provides financial modelling summarises and evaluates the delivery options against evaluation criteria to help determine which option will best support Council's objectives. These include both qualitative and quantitative criteria including assessing whether the option:

- Supports improved financial sustainability.
- Supports portfolio growth.
- Provides security of tenure for older persons.

Key findings of Stage 2

Overall, the Stage 2 report considers future delivery options of the portfolio to help support growth to meet current and future demand for affordable rental housing for older persons within the district. To ensure that the delivery model is sustainable and allows for growth, Council will need to adopt an alternative delivery model.

The key findings of the Stage 2 assessment are summarised below.

1. **The recommended delivery model is Council establishing a CHP.**

   The recommended delivery model is for Council to establish an independent entity which operates at arm's length and can achieve CHP registration. Depending on the financial implications to Council the CHP could own or lease the portfolio from Council and would be eligible for the income related rent subsidy (IRRS) on new tenancies accommodated. Council may also be able to negotiate 'redirects' with MHUD and this should be explored as a next step.

2. **There is an opportunity to work with MHUD to bring on new supply within Kāpiti.**

   With Kāinga Ora having less of a presence in the district compared with Porirua, Hutt City and Wellington there is an opportunity for MHUD to work with a CHP to increase supply in the district. The public housing plan has identified the need for new supply, and with Kāpiti not being a focus area for Kāinga Ora, MHUD may be willing to work with the CHP sector to bring on supply to meet current and growing demand for public housing within the district which presents an opportunity for Council should they adopt the preferred delivery model of establishing a CHP.

3. **A mixed model approach will be required.**

   A combination of multiple delivery models may be required to support ongoing delivery and future growth of the portfolio. With the need to expand the portfolio to meet growing demand for affordable older persons housing within the district divestment of less suitable villages may be required to provide capital funding for new developments. Therefore, Council may need to use a mix of the different delivery models explored in this report to achieve the best outcomes for the portfolio. Further modelling would need to be completed to understand in more detail what financial impact divestment and development will have on the portfolio under different scenarios to understand how to best achieve future growth and financial sustainability of the portfolio.

4. **Redevelopment should be undertaken once the delivery model has been changed.**

   To support future growth of the portfolio a change in the delivery model is required. Under the current delivery model where Council is not receiving any form of government subsidy on the portfolio and receiving a below market rent from tenants, Council will experience an upfront loss with the cost of developing the units. Council will also experience an ongoing deficit operationally for any new units if market rent is not achieved through access to the two MHUD subsidies (IRRS and OS). We therefore recommend that no redevelopment is undertaken until a new delivery model has been adopted which can better support portfolio growth.

5. **Redevelopment of 49 Aotaki Street (and any other villages) should be undertaken using a staged approach.**

Redevelopment should be staged to ensure that existing tenants have security of tenure and can be decanted into other units whilst redevelopment of the site is undertaken. It is important that there is a net increase in dwellings at each stage of redevelopment. Council may decide to undertake redevelopment at multiple villages over the same period to meet demand across the district. With the current market conditions being unfavourable for construction projects, staging the development will minimise the impact of risk factors such as construction costs, financing and rehousing existing tenants during the redevelopment period.

6. **Investigate capital funding for portfolio expansion.**

Although under the modelling provided within this report a CHP may be able to access ongoing Operating Supplement (OS) and IRRS to ensure the portfolio becomes sustainable there is still a need to consider in more detail how the funding of any new developments or acquisitions are structured.

Conclusions

Council has a clear and important role to play in providing housing for older persons with a high and increasing need within the district. As the current delivery model is unsustainable now and in the long term the options within this report should be further explored by Council to ensure that a new model is adopted which meets the needs of the community whilst ensuring the portfolio is financially sustainable. This will require Council to work with MHUD to determine the level of funding support MHUD can provide to Council going forward. With Kāinga Ora having a smaller presence in Kāpiti compared to other areas within the Wellington region along with a small number of dwellings provided within the district by CHPs, there is a need for Councils portfolio to meet the need for affordable rentals within the district.

Based on initial discussions between TPG, Council and MHUD, given the existing and growing need for affordable and social housing within the district, there is an opportunity for Council and MHUD to work together to deliver new housing within the district. Further negotiation around the level of funding support MHUD can provide to Council to support the financial sustainability and growth of the portfolio still needs to be undertaken.

Recommendations

To continue to support the provision of affordable housing for older persons within the district and allow for future growth, Council needs to change the current delivery model. The best way for Council to achieve its housing objectives may require Council to implement a combination of the delivery options outlined within this report. The recommended model for Council is to establish an independent entity which can become a registered CHP and transfer ownership of the portfolio across either by sale or by gifting. Prior to commencing this process further discussions would need to take place with MHUD to understand what level of funding Council could access through MHUD's various funding streams, however based on our conversations with MHUD to date and the case studies within this report this is the preferred delivery model for Council.

Next Steps.

- **Engage further with MHUD-** The recommended option for future delivery is for Council to establish an independent entity which becomes a registered CHP or partners with an existing CHP to enable Council to access IRRS and OS funding through MHUD. TPG & Council have had initial conversations with MHUD to ensure that modelling aligns with the level of IRRS and OS that MHUD would typically fund in this scenario. Discussions were had around the need to increase housing supply within Kāpiti and Council's appetite for growth. The next step would be for Council to provide further information on the current position of the portfolio and development aspirations to determine what funding could be accessed from MHUD to support the ongoing provision of housing.
- **Exploring different partnership options –** There are opportunities for Council to work in partnership with others within the sector.

  Council and Kāinga Ora are the main providers of social and affordable housing within the district. Council is currently drafting an MOU with Kāinga Ora and both parties have objectives to increase housing supply within the district. There are opportunities to partner on both 45-49 Aotaki Street and other sites owned by both Kāinga Ora and Council within the district.

  Local iwi has expressed in interest in being involved with Council's older persons housing. Council should continue to engage with iwi to identify opportunities for iwi to have an active role in supporting Māori housing outcomes, including specifically for kaumatua. This could be in a range of areas including but not limited to, Council supporting iwi to build capability as a housing provider, Iwi taking a management role for some units within the existing or new portfolio and exploring partnership opportunities for new development.
- **Review Preliminary Section 40 Reports –** Council is currently completing a property due diligence exercise to investigate land specific issues and constraints to assist its future decision making regarding the portfolio. Part of this work will consider whether there are any section 40 PWA obligations to former owners that create the need for further consideration. The land will need to be declared surplus to its current public works use if to be transferred to a non-public works provider. The preliminary Section 40 reports should be reviewed prior to any decisions being made regarding the future of the portfolio. Initial legal advice is that section 40 PWA should not impede the transfer and leasing options currently under consideration on the assumption these will achieve an improved delivery. Section 40 due diligence will further assist to tailor Council's strategy.

1. Introduction

1.1 Purpose

TPG has been engaged by Council to complete a review of Council's older persons' housing portfolio. The review includes: an examination of the current suitability of the 118 older persons housing units (OPHUs) owned by Council; an analysis of the ability for the Council to meet future demand for older persons housing; and the portfolio's overall cost-effectiveness for Council. The review is undertaken with consideration of the current provision for older persons and community housing in Kāpiti, and within the context of a housing sector which is coming under increasing pressure to meet growing demand for affordable housing across New Zealand.

1.2 Context

This report is the second of three reports to be provided to Council as part of the review. The reports cover the following:

- **Stage 1 Report – Review of the current operation.** The Stage 1 report provided a review of the current operational and financial performance of the portfolio. Analysis was completed to understand current and future need for older person's housing, to help Council best position the portfolio to meet demand and support the future provision of older person's affordable rental housing in the district.

- **Stage 2 Report – Consideration of future operating models.** This report considers the future delivery options for the portfolio to meet current and projected need. The options were assessed in terms of benefits, risks, and financial viability to determine which option/s will ensure that Council meet its housing objective, remain financially viable and in a position to grow the portfolio.

- **Stage 3 Report – Final report**. The final report will compile the findings of the Stage 1 & 2 reports and be drafted to be used by Council for wider consultation as a Section 17A assessment under the Local Government Act 2002.

2. Understanding the housing sector

2.1 Housing Supply & Demand within Kāpiti

There is a high and growing level of demand for affordable housing options within the Kāpiti district. Due to the combination of an aging population many of whom are reaching retirement with limited financial means and lack of supply of accessible and smaller housing typologies, this is putting increased pressure on those aged 65 and older.

Combined with the district having low numbers of public and affordable dwellings there has been a limited increase in new supply through Kāinga Ora and CHPs in recent years. Demand from this demographic has continued to grow which has resulted in further housing stress for this cohort. An in-depth analysis on supply and demand within the district is provided in the Stage 1 report.

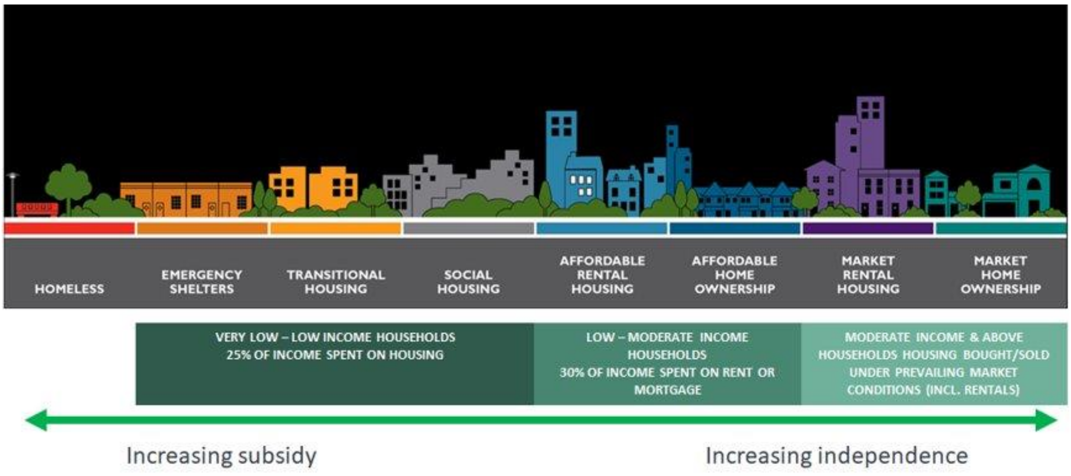
2.2 Housing Sector Overview

The housing sector uses the concept of a 'housing continuum' to identify the role public and community housing organisations have in providing homes to meet a range of housing needs in New Zealand. The housing continuum, shown in Figure 1 below, is a concept used by policy makers to consider the impact a policy has on different tenancies. It illustrates the various living situations from homelessness and emergency shelters on the far left, through to assist rental or assisted ownership, to provide renting and ownership options in the market.

Council's older persons housing service falls in the 'social or public housing and affordable rental' segment of the continuum, in that it provides subsidised rental accommodation combined with supportive services/referrals appropriate to the household needs. Public housing helps low to very low-income households access appropriate, secure, and affordable housing. Generally, public housing tenants spend about 25% of their net income on housing (the income-related rent as determined by the Ministry of Social Development), and the Community Housing Provider or Kāinga Ora receive an income-related rent subsidy and operating supplement from the Ministry of Housing and Urban Development to cover the balance between the tenant's rental payment and the market rent for the property. To be able to access IRRS for new tenancies a tenant needs to be taken off the MSD Social Housing Register where their eligibility for public housing has been assessed. However currently, Councils are not eligible for the IRRS, and tenants can only access accommodation supplement, meaning Councils absorb a much higher proportion of the subsidy. Council's older persons housing portfolios throughout New Zealand are rented to tenants at affordable rentals.

There may be changes to current policy under the new government, this should be considered by Council and decisions should be made once the new government announces their approach going forward. For the purposes of this report, we have assessed options under the current funding settings.

FIGURE 1: THE HOUSING CONTINUUM



Adapted from: Canada Mortgage & Housing Corporation and Community Housing Aotearoa

Figure 2 below provides an overview of the key stakeholders involved within the affordable and social housing space within New Zealand and the roles they each play to deliver the key outcomes for the sector. The following section goes on to provide more information on the stakeholders, MHUD funding streams, and partnership opportunities for Council.

FIGURE 2: NEW ZEALAND SOCIAL & AFFORDABLE HOUSING CONTEXT – DELIVERING HOUSING.

Stakeholders	Territorial Local Authorities	Kāinga Ora	Community Housing Providers	Ministry of Housing & Urban Development	Community Housing Regulatory Authority	Developers and Private Sector
Roles	Provide affordable and social housing options throughout New Zealand to those in need.			Shapes strategies and work programme for development. Supports supply through funding: • Income related rent subsidies • Operating supplement • Redirects • Affordable Housing Fund	Register CHPs and engage with registered providers to monitor their performance and intervene if they do not meet the required Performance Standards.	Working with Territorial Local Authorities, Kāinga Ora and Community Housing Providers to deliver new supply.
Outcomes	• Increase supply of housing • Increase housing choices • Capacity for future needs • Improve affordability. • Wellbeing outcomes					

2.3 Stakeholders

Territorial Local Authorities

Territorial Local Authorities (TLA) have historically been New Zealand's second biggest provider of social housing in that they have provided housing at subsidised rents. Having provided housing for almost a century many Councils across the country have found it difficult to maintain and grow their portfolio under the current model with an increasing reliance on ratepayer funding to enable them to deliver the service. As a result, many Councils (especially those with larger portfolios) have changed their delivery model to ensure that the service can continue to be delivered, some of these examples are provided as case studies within this report.

Community Housing Providers

Community Housing Providers, who are typically not-for-profit groups, provide an alternative to the public housing provided by Kāinga Ora. CHPs become registered through the Community Housing Regulatory Authority (CHRA) and can then contract with MHUD to provide public housing and access Income-related rent subsidies. CHPs currently provide around 18,520 homes throughout New Zealand which include emergency housing, affordable rental, or home ownership assistance. Some CHPs also provide additional wrap-around support services to tenants whilst others ensure tenants are linked up with services as required through navigation. Currently CHPs play a small role within the district with 42 units in Kāpiti. The largest CHP operating in the district is The Salvation Army who own units in Paraparaumu which are a mix of transitional and social housing.

Local authorities and council-controlled organisations cannot register to become CHPs. However, Council can establish an independent entity which becomes a registered CHP to own or lease the portfolio and access IRRS.

Ministry of Housing & Urban Development

MHUD is the government agency responsible for the strategies and work programmes for housing and urban development in Aotearoa New Zealand. The Public Housing Plan (PHP) is developed by MHUD and sets the Government's public housing supply intentions and provides information on the location and number of additional places to be delivered by 2025 to meet demand. The PHP provides MHUD with a mandate to contract with CHPs to bring on new supply throughout New Zealand ensuring it is being delivered in the areas of need identified in the PHP. The PHP targets to bring on an additional 170-230 new public housing places in the Wellington region between 2024-2025 with Kāinga Ora delivering most of the new supply. Although the PHP is developed to direct the amount of new supply within each region it will not solve the shortage of public housing across New Zealand as there is not enough funding available. Demand in Kāpiti exceeds what MHUD can fund within the district.

Whilst MHUD is focused on bringing on new supply (new build) of housing, in limited circumstances they will consider redirects (funding a CHPs existing dwellings) such as when it enables a CHP to progress redevelopment opportunities in the short term. This would be relevant to Council's portfolio as IRRS funding on the current portfolio would enable Council to improve their financial situation which in turn sets the portfolio up for future growth. MHUD is happy to work with Councils to discuss the option of redirects when they are considering the future provision of housing. Redirects do however require ministerial approval and are not a preferred funding arrangement for MHUD.

MHUD can fund new supply under two models: build-to-own or build-to-lease. The first, most common and straightforward model is build-to-own where the CHP retains ownership of the place once it is built. This option helps to strengthen the CHPs ability to develop more places in the future by owning the asset, these contracts between the CHP and MHUD are usually for a term of 25 years. Alternatively, and less common is the build-to-lease model where the CHP leases the place from the owner, these contracts are more expensive for MHUD to fund and are only used in limited circumstances, the contracting period is generally for a shorter period such as 10-15 years.

Whilst MHUD have product parameters for their different funding streams, providers have been able to negotiate additional funding in certain circumstances where there is a strong need for additional government support to ensure that the provision of housing remains sustainable.

Community Housing Regulatory Authority

The Community Housing Regulatory Authority (CHRA) works with CHPs that provide quality public housing, affordable rental housing and affordable home ownership products for those in need. CHRA's role is to register CHPs and engage with registered providers to monitor their performance and intervene if they do not meet the required performance standards. CHRA also provide an assurance to Government that registered CHPs are well governed, sustainable, and deliver appropriate long-term housing services to their tenants. CHPs must go through a rigorous registration process before they can contract with MHUD and access the IRRS or OS.

Housing Tenure Mix

Housing providers often provide housing across different sections of the housing continuum. Council may decide to set the entire portfolio up as public housing to access IRRS or alternatively provide a mix of public and affordable housing. The number of public housing places will be negotiated with MHUD once CHP registration has been achieved. With the public housing places, the provider has discretion over who they allocate units to by way of eligibility criteria i.e., if Council's role is to provide housing to those 65 years and older (and Council's eligibility criteria reflects this), they would only be required to accept people off the housing register who met this criterion.

If Council decided that a mix of public and affordable housing was the best option to meet the needs of the community, they would contract for a certain number of public housing places with the remainder of the portfolio kept as affordable rentals to support those who are not eligible for public housing but unable to afford market rents. When Nelson City Council's portfolio was divested to Kāinga Ora (explored in more detail in the portfolio delivery options) a certain number of units remained as affordable rentals to support this group, with Council subsiding the rent by covering the shortfall between the affordable rent and market rent.

2.4 Ministry of Housing & Urban Development Funding

Income-Related Rent Subsidy

Since 2014, registered CHPs have been able to provide homes to those on MSD's Public Housing Register and access IRRS. The IRRS is paid by MHUD to public housing landlords, to cover the balance between what a public housing tenant pays in rent and the market rent for the property. The tenant's rent is determined by MSD but is generally set at 25 percent of their net income. MHUD will partner with the CHP to deliver new supply public housing and the CHP will have access to IRRS through this contract.

Operating Supplement

The operating supplement is a funding subsidy paid in addition to the IRRS for eligible net new public houses to help enable new build supply. The OS is calculated as a percentage of market rent up to a percentage cap, this is 90% of market in the Wellington region. This funding was introduced to support the delivery of new public housing which without the supplement may not have been financially viable for providers to deliver and is paid over the term of the contract between MHUD and the provider.

Redirects

Council units which are transferred to a CHP, are classed as redirects. Whilst MHUD is focused on bringing on new supply there are very limited circumstances where they will consider allowing an existing house to be used for public housing and access IRRS where it was previously used for a different purpose.

This model, which was introduced by MHUD in October 2021, allows the CHP to receive a market rent on existing dwellings. Redirects are considered by MHUD in very limited where they are required by a provider to help make portfolio growth financially viable and require ministerial approval meaning that there must be a strong need for this funding model. Redirects are a model Council should explore further with MHUD.

Affordable Housing Fund

The Affordable Housing Fund is administered by MHUD and was set up to support not-for-profits including organisations such as CHPs, Iwi and Māori housing providers, Councils, and Charitable Trusts to increase the supply of new affordable housing throughout New Zealand. The fund offers grant funding to not-for-profit organisations to build new affordable rental homes and will cover up to 50% of the total project cost to delivery new housing. These homes will provide long-term accommodation for people who can't afford a market rent but can't access, or don't need, public housing. The provider then contracts with MHUD to ensure the rent remains affordable (80% of market or less) for a term of at least 15 years. The first two rounds provided a combined $150 million in funding for affordable rental accommodation throughout New Zealand, high interest from providers resulted in the fund being oversubscribed. The fund is contestable and at this point future funding rounds are yet to be announced. The incoming government has a stated policy to end the fund, however it may be replaced with something similar and therefore it has been included in the review.

2.5 Partnership Opportunities

There are opportunities under the different operating models to work in partnership with others in the sector. Local iwi groups have expressed an interest in playing a role in supporting Council with the delivery of housing within the district which Council should further explore. Kāinga Ora are working on projects to increase supply and there are opportunities for Council to work in partnership to bring on new supply. The private sector could also partner with Council to bring on new supply.

2.6 The need to revisit Council's operating model.

As identified in the Stage 1 report the current operating model is not financially sustainable and Council is not well-placed to grow to support an increased need without significant additional investment. To meet Council's objectives of growing the current portfolio and to ensure sustainability of the housing portfolio into the future, it is recommended that Council considers a change in operating model to both improve the financial performance of the portfolio and enable its growth.

Key findings from the Stage 1 report include:

1. There is a growing unmet need for affordable and accessible housing for older people in the district.
2. Council's older persons housing portfolio is targeting a group that are currently overrepresented in social housing demand.
3. The portfolio is not meeting the accessibility needs of older persons.
4. The portfolio does not provide diversity and housing choice to meet the differing and changing needs of older persons.
5. The current operating model of the portfolio is not financially sustainable without significant and ongoing rates-based funding.
6. Redevelopment of the portfolio and increasing its size is cost prohibitive without a change in operating model.
7. Strategic asset management needs to align with the long-term strategy for the portfolio.

3. Portfolio delivery options

3.1 Introduction

Kāpiti Coast District Council are in a similar position to many Councils throughout the country with the older persons housing portfolio currently operating with a year-on-year financial deficit. With the current and projected need for affordable housing for those over 65 years within the district exceeding supply, Council is exploring options to expand the portfolio in a financially sustainable way. The different delivery options available to Council are explored in this section of the report including an overview, risks, benefits & implications, PWA impacts, future growth under the delivery model and relevant case studies for each option.

3.2 Delivery options definition

There are a range of options available to Council to balance financial sustainability of the portfolio and continue to support older persons housing outcomes, particularly with Council looking to expand its portfolio. We note that if Council considers that an alternative option for the delivery of the portfolio achieves a better outcome for the community, Council needs to comply with the Local Government Act 2002 (LGA) that requires public consultation, and to confirm Council's decisions through the Annual and Long-Term Plan processes.

The list of alternative approaches for the delivery of the Council's OPH portfolio are summarised as follows and explored in more detail throughout this section of the report:

Table 1: Delivery Options Description

Delivery option	Description summary
Option 1 – Status quo.	Council continues to own and operate the existing (and/or additional) OPH portfolio under their current delivery model.
Option 2A – Council establishes a CHP and transfers ownership**.**	Council creates an independent entity which can become a registered CHP and transfers ownership either by sale or by gifting.
Option 2B – Council transfers ownership to existing CHP.	Council transfers ownership to an existing CHP either by sale or by gifting for the continuation and expansion of the housing portfolio.
Option 3 – Council leases the portfolio to a CHP.	Council creates an independent entity which can become a registered Community Housing Provider and the CHP leases the portfolio from Council. <u>or</u>

	Council leases the portfolio to a registered CHP with conditions to ensure the existing level of housing and service provision is at least maintained. We have not considered leasing to a non-registered agency as there are numerous benefits of a registered agency that outweigh a non-registered agency, due to Government regulations and funding etc.
Option 4 – Divest the portfolio.	Council divests either the full or part of the portfolio by selling it on the open market.

3.3 Delivery Option 1 - Status quo

Overview

The first option available to Council is continuing to operate the current (and any additional) OPHUs under the current delivery model. The current model relies heavily on ratepayer funding which means it is not well positioned for future growth as it is running at a loss. If Council is to continue to operate under this model, to ensure that the reliance on rates is minimised, Council should ensure that rents are maximised whilst remaining affordable for tenants. This can be done through ensuring rent reviews are completed annually and ensuring tenants are accessing all available entitlements. Further information on the current position of the portfolio and recommended improvements to support portfolio performance is included within the Stage 1 report. For any future growth Council would need to fund this through ratepayer funding and/or debt under the status quo model.

The Affordable Housing Fund is a way Council may consider portfolio expansion under the current delivery model. Councils can apply for this grant funding for the delivery of new affordable housing units and could access up to 50% of the development project cost. Council can apply to this contestable fund to access capital funding for the construction of new units; however, this does not include any rental subsidy for the units and Council would be required to ensure they remain at an affordable rent for at least a 15-year period under the grant funding agreement with MHUD.

Benefits, Risks, and Implications

Benefits	Risks	Implications
• Council can ensure the continuation of the current service. • Council retains ownership of properties into the future.	• Costs to maintain and renovate existing buildings exceeds income resulting in a greater reliance on rates to remain operational. • Higher annual maintenance costs.	• Council needs to continue to subsidise the current portfolio through ratepayer funding. • No access to IRRS or OS. • If affordable housing fund not available, then no

• Tenants not required to be on the public housing register. • Restricting to people over the age of 65 years old ensures Council provide housing to those who may not be adequately catered for by CHPs. • Council could access funding through the affordable housing fund to support the provision of additional housing without changing the delivery model.	• Likely to need a capital injection in the future and/or annual rent reviews as per the Residential Tenancies Act to address the gap.	provision of additional housing. • Continuation of non-market rent restricts ability for funding for additional housing and would require an increased level of subsidy through ratepayer funding. • Tenants potentially miss out on other wraparound services provided by CHPs. • Tenants pay 30% of their income under this model which would be capped at 25% if they were eligible for IRRS.

PWA Implications of Options

Under this option Council would retain the land meaning no section 40 PWA decision making, or other land disposal consequence arises.

Future growth

As per the key findings in the Stage 1 report, under the current model, Council will face issues with its ability to both continue to deliver the current units as well as any portfolio growth without a high reliance on ratepayer funding. Under this option Council will face funding issues with both development costs and the ongoing subsidy required to operate the portfolio under the current rent setting approach.

Council can apply to MHUD's Affordable Housing Fund which would not require Council to change the current delivery model of the older persons housing portfolio. There is however no certainty around this option with the fund being contestable, nor is there any guarantee of future rounds of this funding.

Under the status quo delivery model, it is harder to increase portfolio size and address the issue of not having accessible housing options within the portfolio.

Case studies

Napier City Council

Napier City Council which recently completed a review of their 377-unit older persons housing portfolio. Their units are 60 years old and maintenance costs were increasing due to the age of the portfolio. With projected repairs, maintenance, and replacement over the next 25 years the projected average annual shortfall based on their current delivery model is $2.2m. Napier City Council consulted with the public on the three options below:

1. Keep all 377 units in 100% Council ownership.
2. Keep the 'retirement villages', sell the 'social villages' to another CHP and use the sale proceeds to build some new units.
3. Sell all the units to a CHP.

There were several considerations in the decision-making process including the community feedback received, Napier's housing situation, the Government reforms underway, and the impact this decision would have on current tenants.

The decision was made to retain the whole portfolio and to fund the forecasted annual shortfalls through a combination of increased rents and increased rates, the breakdown being 80% of the costs would be funded through rents (tenants) and 20% of the costs would be funded through rates (ratepayers).

When the decision was made in 2022 to retain the portfolio, Council agreed to continue to lobby Government for access to the income-related rent subsidy, without which the Council needs to reconsider its position on provision of the housing.

Western Bay of Plenty District Council

Unfortunately, as funding available through the first two rounds of the Affordable Housing Fund has only recently been allocated to successful applicants, there is no example of where new units have been completed. However, the Western Bay of Plenty District Council was successful in their funding application to MHUD's first round of the Affordable Housing Fund and was able to access $2.4 million towards their development in Katikati. Through this funding and an additional $4.6 million Council had available through its Better Off Funding it can redevelop its Katikati site by delivering a mix of 26 new one- and two-bedroom units. There are currently 11 older units on the site which will be demolished, resulting in an additional 15 units on the site (the AHF funding can only be used for net new dwellings). Much like Kāpiti, Katikati has a shortage of smaller typologies, and this funding will increase the supply meaning older people can stay in their local community. The project is currently open for tenders.

3.4 Delivery Option 2A – Council establishes a CHP and transfers ownership of the portfolio.

Overview

The second option for Council to consider is creating a CHP to transfer ownership of the portfolio. Councils have been unable to apply to become CHPs and therefore cannot access income-related rent subsidy on their portfolios. To access the IRRS, some Councils have set up housing entities which operate independently of Council, so that they are able to achieve CHP registration. An entity's independence can be evidenced by its constitution, membership of its governing body, and its governance and financial management structures. The establishment of a CHP and contracting with MHUD can be a long process and will take time before the CHP will be eligible to start receiving IRRS, OS and redirects.

Under current policy, an independent housing entity can access the IRRS and OS on net new units within their portfolio, but it is important to note that existing tenants are not eligible for IRRS, and providers can only access the subsidy for new tenants in new supply dwellings. In limited circumstances MHUD will consider redirects (IRRS on existing dwellings) where through the additional funding the provider is able to bring on new supply. The OS which is paid in addition to the IRRS for eligible net new public housing was introduced by MHUD to incentivise new builds, and it is calculated as a percentage of market rent up to a percentage cap. The IRRS and OS funding through MHUD is an invitation to partner, however OS is capped at 90% in the Wellington Region.

Council may consider the transfer of the portfolio to the CHP through a staged approach, prioritising villages which can be further developed first. This would support the access to external funding which would help to ensure that the CHP is set up for financial success.

Under this option the independent entity can achieve CHP registration to access IRRS but also provide affordable rentals should Council wish to provide housing options to those not eligible for public housing. All tenants accessing IRRS will come through via the MSD social housing register. When taking tenants from the register, Council has some level of discretion on who they allocate units as they have eligibility criteria based on age of applicant (i.e., must be over 65).

Process

If Council looks to set up their own CHP, they will need to establish an independent entity and achieve CHP registration through CHRA before MHUD will contract for IRRS. The establishment and registration of the CHP will take time, as currently CHRA are experiencing record numbers of applications and the projected wait time once an application is received is approximately six months for an evaluation to begin. Once the evaluation process begins, CHRA aim to provide the applicant with a decision within 60 working days.

MHUD is looking to work with CHPs on new public housing which complements the delivery by Kāinga Ora, in line with the approach set out in the Public Housing Plan 2021-2025. MHUD have additional criteria they like CHPs to meet, however they are not compulsory. These include:

- A CHP owning or having access to land for development.
- Develop in locations where Kāinga Ora have a limited presence or development pipeline.
- Provide bespoke housing solutions to meet the needs of individuals, families, and whanau.
- Use innovative delivery models.
- Meet accessibility and universal design standards.

Benefits and risks

Benefits	Risks	Implications
• Potential access to government funding. • CHP specifically set up to deliver service. • Some degree of control could be retained. This could be through a Trust Deed, Board involvement or reporting. • Reduced financial commitment and risk to Council. • Potential for increased wraparound services for tenants. • Potential to grow portfolio in district with access to the IRRS and OS for new units. • Ability to have a mix tenure portfolio of affordable and public housing places.	• Size of portfolio may not justify the creation of a CHP (only councils with larger portfolios have established CHPs to date). • Portfolio may lack scale to recruit sufficient resources. • Large set up costs with creation of CHP and transfer of portfolio. • MHUD may not provide funding for existing OPHUs.	• Council loses direct control. • Portfolio may no longer sit on Council's balance sheet depending on how the entity is structured. • Long timeframes expected for Council to set up an independent entity, achieve CHP registration and contract with MHUD.

PWA Implications of Options

The land will need to be declared surplus to its current public works use if to be transferred to a non-public works provider. This is a viable option for Council to best meet its ongoing housing delivery but will necessitate section 40 PWA decision making if entitlements to an offer are enjoyed by former owners or successors.

We suggest the overall s40 PWA equation be considered in light of the due diligence exercise noted, as that is likely to highlight the overall significance of and options to address any s40 PWA obligations once identified.

Notwithstanding this, there is good opportunity for Council to pursue a portfolio transfer to a CHP on the basis that the making of any section 40 PWA offer would be unreasonable. An offer may be unreasonable as protecting the rights of a former under s40 PWA must be balanced against other relevant criteria, including public benefit in allowing another form of transfer. The public benefit could be substantiated assuming Council can, with objective evidence, demonstrate that the transfer of the portfolio will provide a better result.

We believe an exemption can be supported if the outcome of the transfer would be to give a better public housing delivery than what could be achieved if to continue as a public work (essentially being option 1).

In addition to this we recommend Council consider creating controls on the new provider to ensure the ongoing housing use. This could take several forms, including an encumbrance registered on the titles in favour of Council requiring commitment by the purchaser to public housing and protection of tenants. Other options could include an ability to repurchase if the use is to be discontinued at a required public housing delivery level.

The nature and strength of recommended controls will depend on currently unknown factors, such as the actual s40 PWA interests that might be compromised, strength of the public housing outcome compared to alternatives, and the standing and nature of the new provider.

We don't believe s40 PWA rights should exist to compromise Council achieving what is otherwise the best future housing decision. What exactly is required can be addressed as the project evolves.

Future growth

This delivery model (build-to-own) is the preferred method of contracting from MHUD over the partnership models (build-to-lease) as a partnership model is more expensive for MHUD due to the requirement of both the lessee and lessor accessing OS. By establishing a CHP that operates independently of Council, the CHP could access IRRS for new (eligible) tenants as well as access to an OS. With additional funding by way of IRRS and OS this delivery option would be the most financially viable growth mechanism for the portfolio. It is important to note that as Council is not automatically eligible for this funding, it will take time to create the entity, achieve CHP registration, and negotiate with MHUD to access the funding.

Case studies

Wellington City Council / Te Toi Mahana

Wellington City Council (WCC) had to consider a change of delivery model for their portfolio of almost 1,800 properties as it was in an unsustainable financial position (losing circa $29,000 a day) with operating and capital shortfalls, cash reserves being depleted by 2022/23, and unable to meet Deed of Grant requirements beyond FY22/23.

The decision was made to establish a CHP (Te Toi Mahana) that would be set up as an independent community-owned trust. Assets were then leased to the trust (not transferred) via a leasehold agreement and the CHP would be capitalised with a least a medium level of up-front capital ($20-$50m) to enable it to get underway with housing upgrades work and invest in new supply. Under this model the CHP delivers a full service offering and is responsible for tenancy management, minor/reactive maintenance and major maintenance and upgrades. As the asset owner, the Council retains some control on major asset maintenance and upgrades through the establishment of a maintenance fund. WCC will continue to undertake the major housing upgrade programme agreed with central government and implement upgrades for healthy homes.

Whilst this is an example of a lease model between Council and Te Toi Mahana, Council also provided the CHP with approximately $10m of property and $23m of development funds and therefore it is an example of both delivery options 2 & 4.

3.5 Delivery Option 2B – Council transfers portfolio ownership to an existing CHP

Overview

The third option for Council to consider is transferring the ownership of the portfolio to an existing CHP by way of sale or gifting the portfolio. Council would need to ensure that the CHP was well-placed to continue to support the existing tenants and in a good operational position to be able to grow the portfolio in the future. Horowhenua District Council transferred their portfolio to Compassion Housing under this model and the transfer set the CHP up well for future growth through the sale at a discounted rate and the inclusion of additional land for future expansion as detailed in the below case study. An existing CHP may also be in a position where they have a strong balance sheet and a large portfolio they can leverage off.

Process

If transferring to an existing CHP, Council will need to ensure that the CHP is well placed to provide housing to older persons going forward. Council would need to carry out investigation into suitable CHPs to transfer the portfolio to who well placed to acquire the portfolio, support existing tenants, and continue to grow the portfolio.

Benefits and risks

Benefits	Risks	Implications
• Potential for increased wraparound services for tenants. • Potential to grow portfolio in district with access to the IRRS and OS for new units.	• Council may be unable to find a suitable existing CHP to transfer ownership of the portfolio to. • Portfolio may lack scale to recruit sufficient resources. • MHUD may not provide funding for existing OPHUs.	• Council loses control.

	• If the CHP has a larger portfolio Kāpiti may not be a key focus area for the CHP.

PWA Implications of Options

The same implications apply for Option 2B as applied for Option 2A; these has been repeated for completeness.

The land will need to be declared surplus to its current public works use if to be transferred to a non-public works provider. This is a viable option for Council to best meet its ongoing housing delivery but will necessitate section 40 PWA decision making if entitlements to an offer are enjoyed by former owners or successors.

We suggest the overall s40 PWA equation be considered in light of the due diligence exercise noted, as that is likely to highlight the overall significance of and options to address any s40 PWA obligations once identified.

Notwithstanding this, there is good opportunity for Council to pursue a portfolio transfer to a CHP on the basis that the making of any section 40 PWA offer would be unreasonable. An offer may be unreasonable as protecting the rights of a former under s40 PWA must be balanced against other relevant criteria, including public benefit in allowing another form of transfer. The public benefit could be substantiated assuming Council can, with objective evidence, demonstrate that the transfer of the portfolio will provide a better result.

We believe an exemption can be supported if the outcome of the transfer would be to give a better public housing delivery than what could be achieved if to continue as a public work (essentially being option 1).

In addition to this we recommend Council consider creating controls on the new provider to ensure the ongoing housing use. This could take several forms, including an encumbrance registered on the titles in favour of Council requiring commitment by the purchaser to public housing and protection of tenants. Other options could include an ability to repurchase if the use is to be discontinued at a required public housing delivery level.

The nature and strength of recommended controls will depend on currently unknown factors, such as the actual s40 PWA interests that might be compromised, strength of the public housing outcome compared to alternatives, and the standing and nature of the new provider.

We don't believe s40 PWA rights should exist to compromise Council achieving what is otherwise the best future housing decision. What exactly is required can be addressed as the project evolves.

Future growth

Should Council look to transfer the portfolio through sale or gifting to a CHP, Council should ensure the CHP is positioned to manage the current portfolio well and further expand including taking on existing tenancies as a condition of the transfer. Council will also require further financial advice on whether it is an option to divest at a below market value before the decision is made to do so.

Case studies

Horowhenua District Council – transfer to CHP Compassion Housing

Horowhenua District Council sold the portfolio in November 2017 to Compassion Housing who are a registered CHP. The 115 units were sold along with 1.1 hectares of land which is yet to be developed but was included in the sale to enable Compassion to build more public housing to meet future demand. The portfolio was sold for $5.25m with the express intent of retaining the portfolio for older persons housing. Should the portfolio have been sold on the open market it may have sold for a higher price, however Council wished to ensure that it provided security of tenure for its current tenants and continued to support this demographic into the future. Compassion Housing are a CHP who are focused on providing older persons housing which meant they were well placed to support Council's tenants.

Nelson City Council – transfer to Kāinga Ora

Nelson City Council (NCC) transferred their portfolio to Kāinga Ora in February 2021. NCC's Pensioner Housing portfolio was a contingent liability. Although well managed and maintained, upgrading to meet current regulatory standards was difficult and would become an increasing burden to ratepayers. Key motivations for divestment were:

- Future financial sustainability.
- Meeting the needs of the community and tenants.
- The portfolio size (142 units).
- NCC unable to extend wraparound services to tenants.

NCC retained its key objective to 'meet the needs of the local community'. Discussions commenced with tenants, stakeholders, local housing providers, Kāinga Ora, Local Government, and a strategic asset consultancy company to establish a delivery method encompassing the key objectives.

The portfolio was divested to Kāinga Ora because it offered the most secure tenure to retain and manage existing tenants. Kāinga Ora offered market value and were considered the most suited provider in terms of access to community wrap around services.

The agreement also supported the shared housing priorities of both parties by creating a Housing Reserve to help support both affordable and social housing projects in Nelson. The portfolio sold for $19.8m with $12m being available to the reserve immediately on settlement, $5m held back for up to 15 years, the remaining $2.7m was to be used for healthy homes upgrades to housing and to pay back a loan from Kāinga Ora. Many of NCC's tenants qualified for IRRS, but for the small number of tenants who didn't meet the criteria, money was set aside to provide rent top ups. Generally, only new tenants are eligible for IRRS, however existing eligible tenants could access it in this case.

The divestment was a slow and complex process. There were no examples of this being carried out in any other territories, so it was a custom-made approach to NCC's situation. Informing stakeholders and interested parties was a positive decision as it allowed transparency with the community and resulted in a positive outcome. It is important to note that this deal was a 'one-off' which required ministerial approval and potentially not an option for Kāpiti Coast District Council.

3.6 Delivery Option 3 – Council leases the portfolio to a CHP

Overview

Under this option Council retains ownership and leases the OPH portfolio to a registered CHP with conditions to ensure the existing level of housing and service provision is at least maintained. We have not considered leasing to a non-registered agency as there are numerous benefits of a registered agency that outweigh a non-registered agency, due to Government regulations and funding etc. Under this option Council could create a CHP which leases the portfolio or lease to an existing CHP.

Council leasing the portfolio to a CHP would require a significant contribution from MHUD by way of an operating supplement and is therefore a less preferred funding model for MHUD. Small build-to-lease opportunities will be considered by MHUD in limited circumstances in the Wellington region. This would be considered as an option by MHUD where they are supporting an existing CHP to get established in a location where they currently do not operate or they, or they own most of their stock and they have reached their maximum borrowing capacity. MHUD generally funds build-to-lease contract for 10-15 years as opposed to build-to-own which are usually 25-year contracts.

Process

If Council decide to partner with a CHP, they will need to ensure the CHP is well placed to support existing tenants and is committed to supporting future growth of the portfolio. Once a suitable lessee partner is decided upon, discussions should be undertaken with MHUD around the level of support they are able to provide with existing and new supply. Once the model has been agreed, lease and partnership agreements will need to be signed up between Council (lessor) and CHP (lessee).

If Council decide to establish their own CHP to lease the portfolio to, Council will have the ability to ensure that the CHPs mandate aligns with Council objectives for the portfolio which is a level of control they would not achieve when partnering with an existing provider.

Benefits, Risks, and Implications

Benefits	Risks	Implications
• Council retains ownership. • Greater level of Council control over development. • Balanced level of return to Council.	• Set up costs to agree partnership and document agreement. • Council loses a level of control. • Potential for deadlock if parties disagree. • Mixed tenure model likely required which is a change to current OPH model. • MHUD funding will need to be negotiated.	• Leasing would impact the ability for a CHP to raise mortgage debt and another instrument may be required.

PWA Implications of Options

A lease to a CHP could be granted without the land being declared surplus such that no section 40 PWA inquiry is needed. This would be on the basis Council continues to own the land which remains needed for a public work, however the actual delivery is best achieved through the outsourcing lease arrangement. We are aware of examples of leases in similar circumstances.

We note some of our section 40 PWA comment under option 2 is relevant, in that it is assumed the lease would improve the current public works housing functioning and so provide an improved public benefit. It is difficult to see a former owner having a complaint on this basis, as the land would not be surplus in the alternative if retained by Council. Controls to ensure the housing delivery could be built into the lease. This seems a straighter forward setting than the development of controls needed under option 2. The section 40 PWA rights would arise for consideration at such point as the lease ends and there is no other public works need for the land which remains owned by Council.

Future Growth

Ensuring that the lease arrangement and financial model is viable for both Council and the lease partner will be crucial to the long-term success of the partnership. When exploring this model Council needs to ensure that the partner is well placed to support existing tenancies and have a desire and the means to grow. Depending on the level of funding Council can access under the new model, this model may still require capital injections from Council. Should Council find that a partnership model with an existing CHP would not be suitable they may wish to explore establishing a CHP to lease the portfolio to as Christchurch City Council and Wellington City Council have.

Case Study

Christchurch City Council / Ōtautahi Community Housing Trust

Ōtautahi Community Housing Trust (OCHT) was established in 2016 and has been leasing the Christchurch City Council's housing portfolio since. OCHT has provided a better service and quality of housing, increased its housing stock by a further 587 units (which are owned by the Trust), and Council has been able to ensure a sustainable and viable social housing entity for Christchurch. A change from specific pensioner housing to social housing did however cause a management obstacle as the portfolio now catered to a mix of different cohorts, but the Trust now provides wraparound support services to tenants that it was not able to offer under its previous model.

The process of establishing OCHT included consultation with the wider community, key stakeholders, and tenants. The feedback was used to develop OCHT, retain staff knowledge and expediate the transfer of properties to OCHT in three stages:

1. Shift tenancy management and small maintenance requirements across to the OCHT.
2. Maintenance transfer once the team had a pool of suppliers established to manage this work.
3. All major and minor management including some 40 Council staff transfers to OCHT, completing transition in 2021.

Council was able to provide OCHT access to lending at reduced rates which was beneficial to both parties. Whilst the Christchurch City Councils portfolio is still leased to OCHT the Trust now have a portfolio of owned and leased properties. MHUD's current preference is for the CHP to have ownership of the portfolio rather than leasing and therefore under current settings this structure will be harder to negotiate than a CHP ownership model.

3.7 Delivery Option 4 - Divest the portfolio on the open market.

Overview

Divestment of the portfolio is the fourth delivery model available to Council. Divestment could be considered for either individual village or the entire portfolio. By divesting of individual villages which were identified in the Stage 1 report as not being as suitable for older persons housing, capital could be reinvested into growing the portfolio at more suitable locations within the district.

Whilst divestment to the private market does not meet Council's housing objective to retain and grow housing stock within the sector this is an option Council could use to raise capital through divestment of less suitably located villages. Capital could then be used to fund intensification of other villages which would support portfolio growth in locations within the district with a higher level of need.

Process

If Council decides the preferred option is to divest all or some of the OPH portfolio, adequate community consultation will be required. Council may decide to divest of the portfolio on a village-by-village basis selling off sites which were identified in the Stage 1 report as not being as suitably located for older persons housing. Should the units be sold on the open market, Council will look to achieve market value for the units.

Benefits & Risks

Benefits	Risks	Implications
• No further reliance on ratepayer funding to support the service. • Sale proceeds could be reinvested into new housing supply.	• If partial divestment of the portfolio and no change in operating model, there would be no improvement in sustainability of the remaining portfolio. • Market sounding and procurement approach required to select organisation. • Public concern at loss of portfolio.	• Loss of control. • Some or all of the portfolio will be no longer be available for affordable housing.

PWA Implications of Options

Option 4 is divestment to the market, with no controls to ensure ongoing public housing use. We understand this would require the land to be declared surplus to the current public works function on the basis Council would be deciding this is no longer necessarily to be the use of the land. Potentially making s40 PWA offers could be unreasonable if say the return from the sale would be substantially reduced if sold to former owners in a piece meal fashion. There may be other land use and encroachment issues that mean Council cannot make a simple offer of the land and therefore what is reasonably and practicably required needs consideration. This may lead to grounds for s40 PWA exemptions but would require close consideration on the facts.

This question would need to be considered once preliminary Section 40 reports have been completed to establish specific issues. Finding an exemption on these grounds appears much riskier and we are unaware of any comparable experience.

Future growth

Council may consider divesting individual villages which are not meeting needs identified in the site evaluation criteria (Stage 1 report). The sale of villages which are not as suitable for future growth or not well positioned to meet the needs of the cohort as others, could be divested with the funds reinvested into growth of other existing villages, or development of other suitable land owned by Council.

Case studies

Tauranga City Council – divested to Kāinga Ora & Private Market

In 2022 Tauranga City Council (TCC) sold seven of its nine older persons villages to Kāinga Ora with an arrangement in place that Kāinga Ora would continue to deliver affordable housing to existing tenants. Kāinga Ora was better placed than TCC to redevelop the villages and upgrade the existing units. TCC considered the other two villages were in unsuitable locations for public housing and therefore these villages are being sold for private development. Funds received from the sale of the portfolio are being reinvested into supporting local community housing providers and papakāinga housing. Further consultation is being carried out on where funds will be allocated but the first part of the proposal involves investing $10m into a Housing Equity Fund.

4. Evaluation of Portfolio Delivery Options

4.1 Overview

To support Council's decision-making process and to inform further engagement with MHUD this section provides an evaluation of the different delivery models available to Council. The evaluation of each delivery model has been undertaken against a set of evaluation criteria to determine which option best meets Council's objectives for the portfolio. The evaluation framework used, and inputs is outlined below.

4.2 Delivery options evaluation framework

The below evaluation framework has been used to evaluate each of the delivery options against Council's objectives for the portfolio. The three criteria below are used to rank the different delivery options using both qualitative and quantitative measures to ensure that the evaluation of the delivery options considers all objectives for Council. The options are ranked from 0-4 (lowest to highest score).

TABLE 2: DELIVERY OPTIONS EVALUATION CRITERIA

Evaluation criteria	Definition
1. Supports improved financial sustainability for Council	The delivery option is financially sustainable, minimising the impacts on ratepayer and Council debt levels.
2. Supports portfolio growth	The ability for the delivery option to support further growth of the portfolio through an increase in the number of units.

3.	**Security of tenure for older persons**	The delivery options provide security of tenure for the older persons' cohort (i.e., Council retains some level of control of eligibility to ensure this cohort remains the focus).

4.3 Financial Evaluation of the delivery options

To evaluate and compare the potential financial performance of each of delivery option (Evaluation Criteria 1), high level financial analysis and modelling has been undertaken based on a range of scenarios. The purpose of this analysis is to identify the potential operating deficit or surplus across the options for both the Council and the CHP. A summary of the outcomes of this analysis is provided in the following sections.

It is important to note that this financial analysis has been undertaken to inform the high-level evaluation process only and is based on some assumptions (refer to Appendix A) and potential scenarios outlined below. It is recommended that, as the decision process progresses, more in-depth financial analysis is undertaken to determine the settings required for transfer or lease of the portfolio.

The modelling undertaken for the financial evaluation has been based on MHUD's Template Financial Model which is used internally to assess CHP applications for funding. That model has been updated to analyse how the different scenarios, including how servicing differing debt levels affect the CHP's financial performance. Council has provided the analysis of impacts to the book value and CAPEX/OPEX expenditure.

Status quo (Option 1)

As outlined in the Stage 1 report, the portfolio is currently operating at a year-on-year loss. This is presented again in the summary Table 3 below which has been taken from the draft 2024 Long term plan for the next 5 years. This ongoing deficit is anticipated to result in a 1-2% impact on rates annually (Kāpiti Coast District Council, 2023).

TABLE 3: FINANCIAL PERFORMANCE OF STATUS QUO

Budget year	2024/25	2025/26	2026/27	2027/28	2028/29
Operating deficit	($807,970)	($941,286)	($1,082,686)	($1,235,967)	($1,438,778)
Capital Expenditure	$1,447,675	$932,783	$1,327,794	$1,152,056	$2,283,004

A further forecast budget across the next 10 years demonstrates that without a change to operating model the portfolio will potentially make a combined loss of up to $37 million over the next 10 years.

Transfer to CHP (Option 2A & 2B)

Due to the long-term operational deficit anticipated, transfer of the portfolio to a CHP will require a level of financial assistance as part of the transfer to ensure the success of the CHP at the outset.

To understand both the financial impact on Council to provide varying levels of support and the financial sustainability of the CHP a range of scenarios have been modelled. This includes the following scenarios:

- Scenario A: Council transfers the portfolio to CHP as 50% equity and 50% debt.
- Scenario B: Council transfers the portfolio to CHP as 70% equity and 30% debt.
- Scenario C: Council transfers the portfolio to CHP as 99% equity and 1 % debt (equivalent to gifting of the portfolio)

Note: all scenarios assume that through negotiation with MHUD 50% of the existing portfolio will receive access to the IRRS. This has been included based on the initial results of the analysis that demonstrate some level of central government support will be required to achieve a sustainable outcome for the portfolio for both a CHP and Council.

As noted in earlier sections of this report, MHUD have advised that the IRRS subsidy is available to net new tenancies created. It is therefore a key recommendation of this report that further engagement is required with MHUD to discuss the level of subsidy required to address the high level of need in the district.

The results of the analysis of Option 2A and 2B are demonstrated in the following Table 4. The analysis demonstrates that, as the support from Council increases (by way of equity) the yearly deficit to the CHP reduces. Whilst full transfer of the portfolio at market value will incur a "one off" financial impact to the Council ($20M - current book value of the portfolio), Council will no longer be experiencing the yearly operational deficit of the portfolio.

TABLE 4: FINANCIAL PERFORMANCE OF OPTION 2A AND 2B (TRANSFER OF THE PORTFOLIO TO A CHP)

Scenario: **(All scenarios assume IRRS applies to 50% of portfolio)**		**A** **50% equity - 50% debt**	**B** **70% equity - 30% debt**	**C** **99% equity – 1% debt**
Equity		$6,070,000	$8,498,000	$12,018,600
Debt (Council loan at LGNZ rate)		$6,070,000	$3,642,000	$121,400
CHP				
Year 1 surplus/(deficit)		($505,852)	($325,729)	($64,549)
Council OPEX forecast	(2024/25 LTP)	($807,969.50)	($807,969)	($807,969)
Council				
Balance sheet	$20M (book value)	($13,930,00)	($16,358,000)	($19,878,600)
Reduction in OPEX/CAPEX	2024/25-2033/34	$37,011,612		

Lease to CHP (Option 3)

To understand how leasing the portfolio to a CHP would change the financial outcome to and the success of the CHP, modelling has been undertaken to both determine the potential cash flow impacts (refer to Table 5). This includes the following scenarios:

- Scenario D: Portfolio retained by Council and leased by CHP. OPEX costs transferred to CHP and CAPEX costs retained by Council.
- Scenario E: Portfolio retained by Council and leased by CHP. OPEX and CAPEX costs transferred to CHP.

TABLE 5: FINANCIAL PERFORMANCE OF OPTION 3 (LEASE TO CHP)

Scenario: (All scenarios assume IRRS applies to 50% of portfolio)		**D** CAPEX costs to Council	**E** CAPEX costs to CHP
Equity (retained by Council)		$12,140,000	$12,140,000
CHP			
Year 1 surplus/(deficit)		$390,590	$390,590
Council OPEX forecast	(2024/25 LTP)	-$179,852	-$179,852
Operating supplement		>52%	>140%
Council			
Balance sheet	$20M (book value)	$20M	$20M
Reduction in CAPEX/OPEX	2024/25-2033/34	-$1,882,080	$37,011,612

The analysis demonstrates that the lease option will continue to have an ongoing financial cost to Council unless the lease agreement transfers the CAPEX costs to the CHP. If this was the case a similar saving to Council as under the transfer model (Scenario C) can be achieved. However, MHUD is unlikely to agree this as an option as the operating supplement required to ensure this works is very high.

Divestment

Divestment of the portfolio would mean that Council would reduce its overall equity position by the estimated $20M book value hover no longer have the ongoing operating loss. However, as demonstrated in the following section does not allow for continuation of the service.

5. Portfolio Delivery options evaluation summary

The below table summarises the performance of the delivery options against the evaluation framework. The evaluation table provides a ranking for each of the options based on the ability for the delivery model to meet the objectives of Council for the portfolio. Scores range from 0 – 4 being lowest to highest, options are then ranked on which options have scored the highest by meeting the evaluation criteria.

Table 4: Delivery Options Evaluation Summary Older persons housing Portfolio

Evaluation Scale:

1 - Does not meet criteria	2 - Provides some improvement but does not meet criteria	3 –Partially meets criteria	4 – Meets criteria

Evaluation Criteria	**Option 1** Status Quo (No change)	**Option 2A** Council creates CHP and transfers ownership	**Option 2B** Council transfers portfolio ownership to an existing CHP	**Option 3** Council leases portfolio to CHP or KO	**Option 4** Council divests to the open market
Supports improved financial sustainability for Council. The delivery option is financially sustainable, minimising the impacts on ratepayer and Council debt levels.	1	4	4	3	4
Supports portfolio growth. The ability for the delivery option to support further growth of the portfolio through an increase in the number of units.	1	4	4	3	1
Security of tenure for older persons. The delivery options provide security of tenure for the older persons' cohort	3	3	2	2	1
Total Score	**5**	**11**	**10**	**8**	**6**
Council retains majority ownership	Yes	No	No	Yes	No
Council retains operating control	Will be limited by financial burden.	Potential to influence through governance structure and partnership agreement.	Some potential to influence through conditions of sale.	Some potential to influence through conditions of lease.	If sold on the open market Council has no ability to retain operating control.
Ranking	**5**	**1**	**2**	**3**	**4**

6. Conclusion

The Stage 1 report identified that the current delivery model does not ensure sustainability of the housing portfolio into the future and a change of operating model is required. To ensure that the portfolio can decrease reliance on rates funding whilst ensuring rents remain affordable for tenants, financial support is required from central government. We recommend Council adopts a delivery model which enables the ability to apply for funding to help support future growth of the portfolio.

The recommended delivery model is for Council to establish a CHP which can take over the portfolio from Council either through a transfer of ownership or lease model. Under the current delivery model where Council is not receiving any form of government subsidy on the portfolio and receiving a below market rent from tenants, Council will experience an upfront loss with the cost of developing the units. Council will also experience an ongoing deficit operationally for any new units if market rent is not achieved through access to IRRS and OS. We therefore recommend that no redevelopment is undertaken until a new delivery model has been adopted which can better support portfolio growth.

A combination of multiple delivery models may be required. With the need to expand the portfolio to meet growing demand for affordable older persons housing within the district, divestment of less suitable villages may be required to provide capital funding for new developments. Therefore, Council may need to use a mix of the different delivery models explored in this report to achieve the best outcomes for the portfolio. Further modelling would need to be completed to understand in more detail what financial impact divestment and development will have on the portfolio under different scenarios to understand how to best achieve future growth and financial sustainability of the portfolio.

It is recommended that redevelopment be staged to ensure that existing tenants have security of tenure and can be decanted into other units whilst redevelopment of the site is undertaken and that there is a net increase in dwellings at each stage of redevelopment. Council may decide to undertake redevelopment at multiple villages over the same period to meet demand across the district. With the current market conditions being unfavourable for construction projects, staging the development will minimise the impact of risk factors such as construction costs, financing and rehousing existing tenants during the redevelopment period.

With Kāinga Ora having a smaller presence in the district compared to the rest of Wellington and only a small number of places provided by CHPs there is an opportunity for Council to work with MHUD to bring on new supply in Kāpiti which aligns with the public housing plan.

Although under the modelling provided within this report Council may be able to access ongoing OS and IRRS to ensure the portfolio remains sustainable there is still a need to consider in more detail how the funding of any new developments or acquisitions are structured and it is therefore recommended that Council investigate capital funding for portfolio expansion.

Appendix A – Modelling Assumptions

The modelling undertaken for the financial evaluation included in this report has been based on MHUD's Template Financial Model which is used internally to assess CHP applications for funding. That model has been updated to analyse how the different scenarios, including how servicing differing debt levels affect the CHP's financial performance. Council has provided the analysis of impacts to the book value and CAPEX/OPEX expenditure.

The following key assumptions are included in the modelling:

- Council's projected rental as per the annual planned income 2023/2024 has been used to determine future revenue of the of the portfolio.
- A 98% occupancy rate has been assumed.
- Tenancy Management costs are based on 8.5% of gross rental income per annum based on a review of industry benchmarks.
- Finance cost assumptions incorporate Local Government Funding Agency (LGFA) discounted interest rates.
- $2,500 per annum per unit capex cost is assumed across all scenarios.
- Utilities are paid by tenants.
- GST has been excluded from the analysis. Seeking further advice to determine tax implications is recommended.
- No operating supplement from MHUD has been included in the modelling. Allowance for the IRRS has been used as a proxy for a level of financial support required from central government moving forward.
- OPEX includes:
    - Rates base year 2024/25 135KR Rates, Housing for Older Persons 06 Oct 2023 (002).xlsx, 1/12/2023
    - Insurance base year 2024/25 135KI Insurance, Housing for Older Persons 06 Oct 2023 (002).xlsx, 1/12/2023
    - R&M base year 2024/25 13591 District Maintenance (total), Housing for Older Persons 06 Oct 2023 (002).xlsx, 1/12/2023
    - Other Expenses base year 2024/25 13577 Depreciation, Housing for Older Persons 06 Oct 2023 (002).xlsx, 1/12/2023
    - Tenancy Management base year 2024/25 13580, 13581, 13583 Overheads & 13558 Tenant Liason Officer & 135KI Interest, Housing for Older Persons 06 Oct 2023 (002).xlsx, 1/12/2023
    - Intererst base year 2024/25 135KI Interest, Housing for Older Persons 06 Oct 2023 (002).xlsx, 1/12/2023
- CAPEX includes:
    - Capital replacements base year 2024/25 1355D Districtwide Housing Renewals from 2024/25 - 2033/34 (10yrs), Housing for Older Persons 06 Oct 2023 (002).xlsx, 1/12/2023.