Whanganui District Council

The Case for a New Housing Entity

Single-Stage Business Case (SSBC)

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Executive Summary

This Business Case seeks approval to undertake the necessary next steps to establishing a joint venture partnership to take over management and growth of the Whanganui District Council's older persons housing portfolio.

Introduction

The purpose of this Project Single-Stage Business Case (Business Case) is to:

1. Identify and recommend a preferred option to address a business problem
2. Inform future phases of this project, including public consultation engagement with potential partners under the preferred option.

The Business Case:

- outlines how the proposed investment fits within the Councils strategic context and strategic intentions
- confirms the need for change
- identifies and considers the feasibility, costs, benefits and risks of a wide range of potential options
- determines the preferred option which optimises public value
- prepares for consultation and market engagement
- plans the necessary management arrangements for successful delivery.

This business case follows the Treasury Better Business Cases guidance; it is organised around the five case model, designed to systematically ascertain that the investment proposal:

- is supported by a compelling case for change – the 'strategic case'
- optimises value-for-money – the 'economic case'
- is commercially viable – the 'commercial case'
- is financially affordable – the 'financial case'
- is achievable – the 'management case'.

Strategic Case

After an extended period of low population growth and relatively stable housing costs, Whanganui now faces growing challenges in housing supply and affordability. There is an ageing population with increasing demand for affordable housing. Demand for social housing is high with 279 applicants in Whanganui eligible and ready to be matched to a suitable social housing property.

Predecessors to the Whanganui Council (the Council) began housing older residents in the late 1940s to alleviate an acute housing problem. Since then, the Council has owned and operated affordable housing for older residents with low to moderate financial means, allowing them to live independently. Currently, the Council manages a portfolio of 275 units spread across 16 complexes.

Case for Change

Many of Council's units are dated, cold and damp, many have steps and strip / slip hazards unsuitable for older persons, and a majority of the complexes require full roof replacements as well as other overdue maintenance items, requiring extensive capital expenditure to bring the existing units up to modern standards.

Under the status quo where Council retains ownership and operates the older persons' housing portfolio as usual, the portfolio is expected to generate $2.1m in annual revenue and produce a small surplus. Currently any growth in the portfolio would need to be financed through Council borrowing.

New development may generate additional revenue, if the number of dwellings increase. However, any additional debt required would be many times larger than the net additional revenue, reducing Council headroom below the limit.

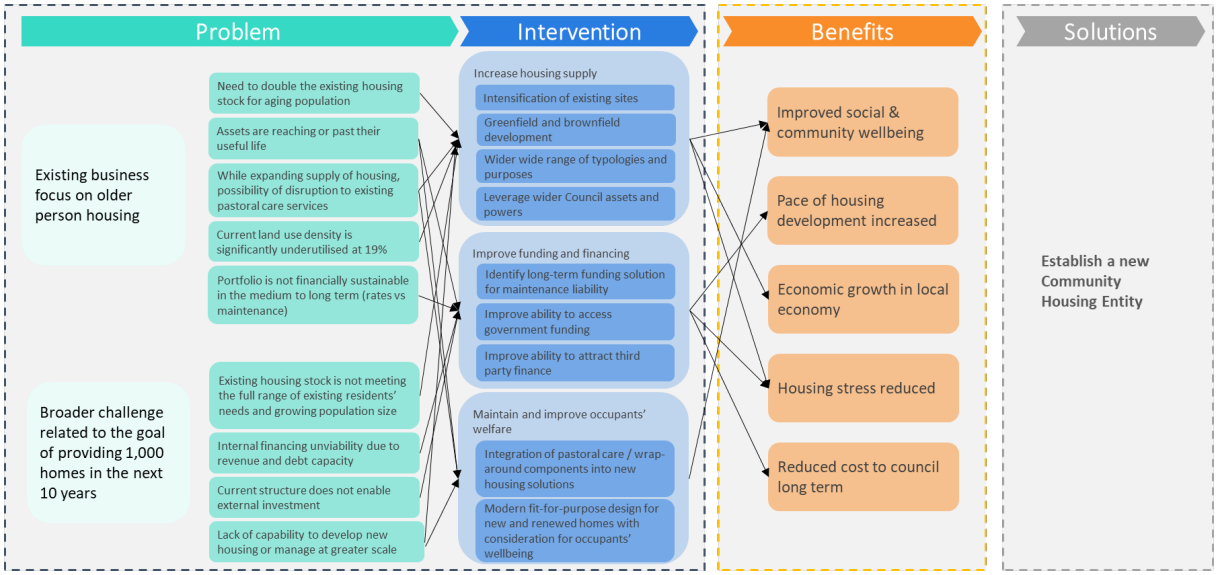
A bigger constraint is revenue to service any borrowing. Revenue generated from rents under the current model is roughly sufficient to cover operational costs and a low level of renewal, but generates little to no surplus that could be used to cover interest costs or pay down debt. The current model does not provide for the ability to access core Government-funded social housing system and the associated Income Related Rental Subsidy (IRRS) as this is available only to registered Community Housing Provides (CHPs). Councils cannot register as CHPs and CHPs cannot be majority owned or controlled by Councils. IRRS and the associated operating supplement provide by far the most attractive revenue stream for new supply of affordable housing available in New Zealand and can in some cases be a source of additional revenue for existing properties.

The land comprising the Older Persons Housing Portfolio is also underutilised. With 59,623 square metres of land under the portfolio, only 19% of land area currently developed, there presents significant opportunities for redevelopment at higher densities. It is estimated that increasing land density to 35% across the current portfolio could generate a potential addition of 143 units.

As no new housing has been developed by the Council in decades, there is no housing development capability within the Council. Even if the financial barriers under the current model were addressed, for example through debt funding and rates subsidies, the Council would be poorly positioned to maximise value from the sites through capitalising on opportunities for outside investment or other tenancies beyond older persons housing.

In response to population growth and rising housing costs, the Council has adopted a high growth model for its Long-Term Plan (2024-34). This ambition, in combination with the challenges of the older person's housing portfolio, have led the Council to targeting 1,000 new homes being built in the next ten years.

The investment logic map below summarises the key problems facing the Council and proposes an intervention of a new housing entity. Establishing a new entity is meant to be inclusive of a genuinely new entity as well as leveraging an existing non-Council entity to deliver these outcomes.



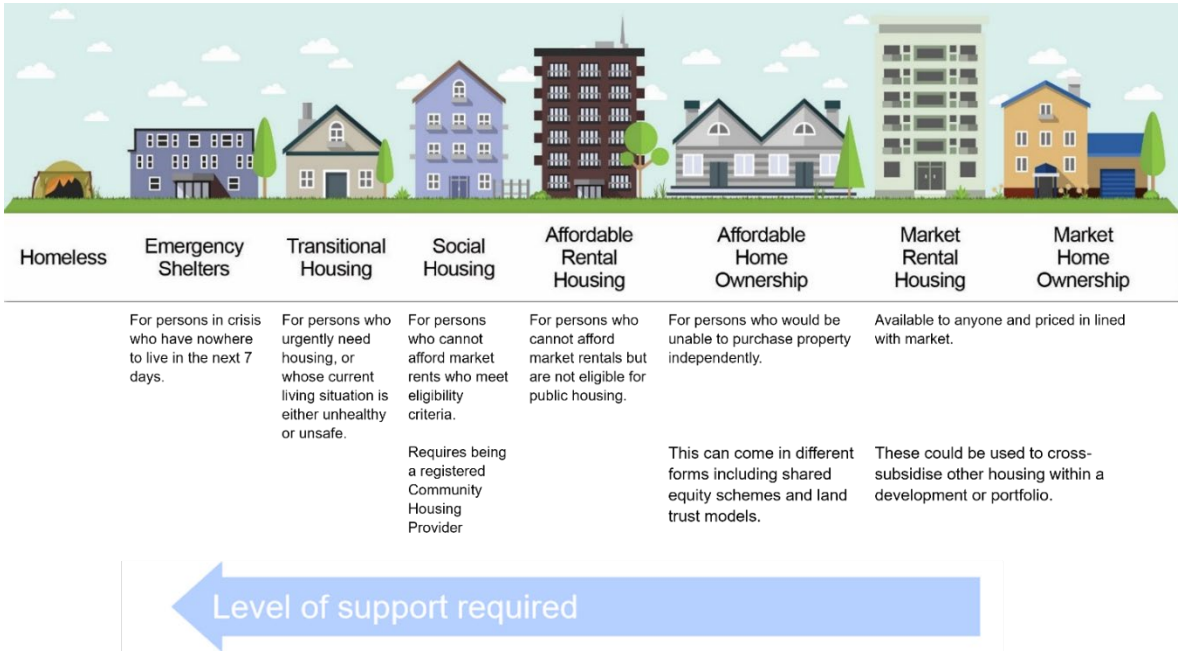
Objectives and focus

Informed by the investment logic map, the strategic case sets out an investment objective for this housing entity to improve the supply of affordable housing in the Whanganui region by:

- Growing the older persons' housing portfolio to maintain market share
- Facilitating growth in a wider range of tenancies and ownership models
- Maintaining appropriate affordability and social outcomes for existing and future housing occupant
- Retaining leadership of housing development and management locally
- Establishing the affordable housing service and portfolio to enable a stable, long-term financial footing.

These investment objectives guide the assessment of options in economic case.

At a high level, the entity will need to focus on activities that involve a lower level of support to tenants, from social housing through to market rental housing as shown in the diagram below:



A council-enabled housing entity is unlikely to on its own address affordable housing challenges in Whanganui, and complementary measures may be needed.

The projects key benefits are summarised below, noting the management case section of this report expands on these further.

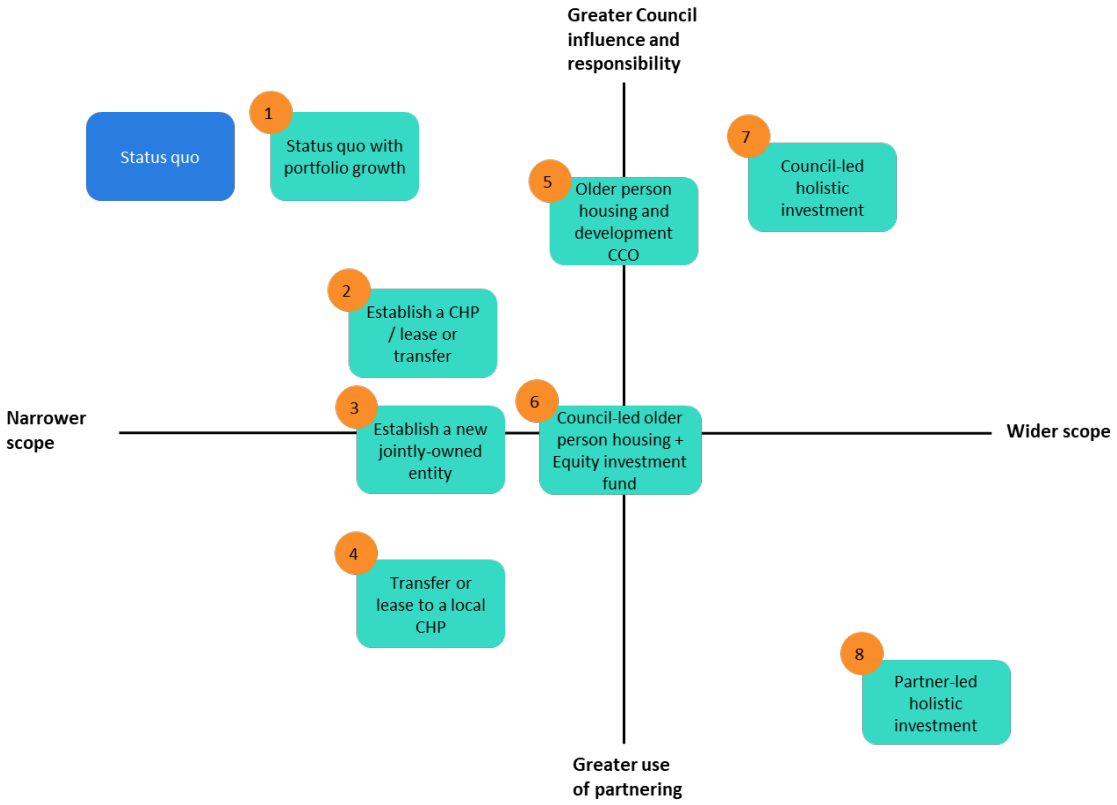
- Access to additional funding and finance streams
- Improved ability to achieve growth ambitions
- Reduced regional housing stress
- Improved occupant wellbeing
- Improved operational efficiency.

Economic Case

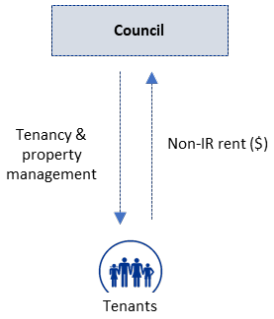
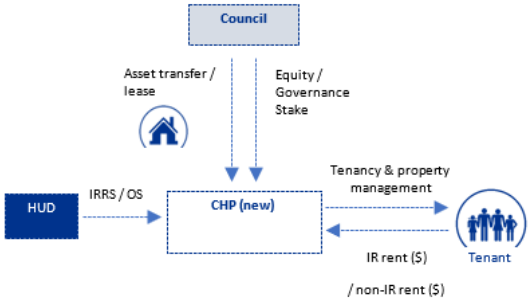
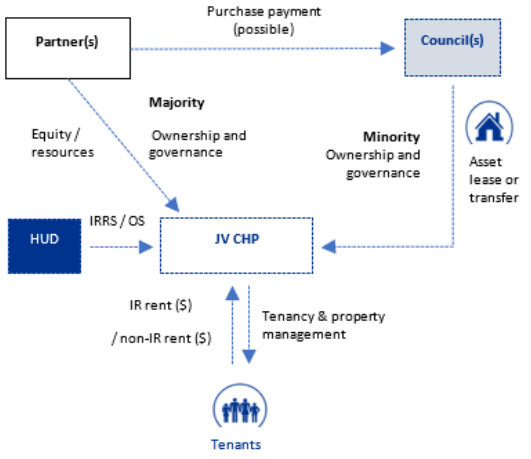
Options development

A long-list of holistic options for addressing the challenges indenitfied in the strategic case was developed, primarily focusing on options for an entity to manage and grow the affordable housing portfolio but including potential complementary actions.

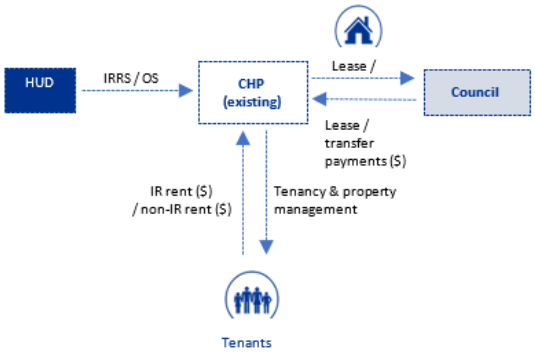
The long list are shown below, organised by the scope of activity and the extent to which it relied more on the Council itself versus partner organisations.



The long list was assessed with regard to the investment objectives and refined to a short list. This short-list was limited to the options for entity models as this was the primary focus of the business case, with retained complementary actions considered separately. The four entity options considered are summarised in the table below.

Option 1: Status quo	**Key elements:** — Council continues to own and manage all houses — Retains all of the revenue and costs — Any growth would likely need be financed through Council borrowing and subsidised with rates revenue	
Option 2: Council establishes its own CHP	**Key elements:** — Council establishes a standalone entity — It has a governance stake in the new entity at a level that Council decides (<50%) — Existing staff and resources would likely be transferred in — The new entity would need to register as a CHP to access the potential revenue benefits — Partnership occurs at the development level on a project-by-project basis	
Option 3: Establish a new jointly owned entity (JV)	**Key Elements:** — Council undertakes a Request for Proposal (RFP) process to identify a suitable partner(s) — These partner(s) must at a minimum bring access to deployable capital and development experience. Preferably also social housing management capability — Council establishes some form of partner entity — Both Council and the partner have a governance stake in the new entity — The JV will hold the assets and could either register as a CHP to access revenue benefits or leverage the partner's CHP registration — Potential to include other Councils in model at the outset or in the future to provide economies of scale and development opportunity	

Option 4: **Transfer or lease to local provider**	**Key Elements:** — Council initiates an RFP to transfer / lease of the portfolio — Council leases portfolio to a partner entity — May be able to direct activities to some extent through the terms of the lease or through provisions in the sale agreement — Analysis of a sale price or lease payment mechanism required Development would occur at the discretion of the CHP but could be influenced by terms of the lease / transfer



To inform the assessment of options, KPMG, on behalf of Council, approached several registered CHPs, developers, and housing investors to get their views to assess appetite for various forms of partnership or transaction to test their viability and understand which features would influence the interest of other parties to participate.

Based on this non-exhaustive market sounding there appeared to be a viable range of potential partners that could bring capital, development and management experience, and sector credibility that it would be difficult for the Council to achieve on its own. This was subject to openness by the Council on potential partners and a willingness to transfer assets at below market value given the expected use as affordable housing.

Assessment and recommendation

Multi-Criteria Analysis (MCA) was selected as the preferred approach for this business case due to its ability to evaluate and balance a wide range of non-monetary factors, and the absence of significant known cost differentiation among the options. The assessment table is below.

Long list option		Weighting	Status quo	Establish a CHP / lease or transfer	Establish a new jointly owned entity (JV)	Transfer or lease to a local CHP
Investment Objectives	**Growth of affordable housing supply**	40%	0.4	0.8	1.2	0.4
	High quality and equitable occupant experience and outcomes	20%	0.6	0.6	0.6	0.6
	Local leadership	10%	0.4	0.3	0.3	0.2
	Financial viability and sustainability	30%	0.3	0.6	0.9	0.6
Initial Rank			**3**	**2**	**1**	**4**
Critical success factors	**Strategic fit and business needs**	20%	0.2	0.6	0.8	0.4
	Potential value for money	20%	0.2	0.6	0.6	0.4
	Supplier capacity and capability	20%	0.2	0.6	0.8	0.4
	Potential affordability	20%	0.2	0.6	0.8	0.4
	Potential achievability	20%	0.8	0.8	0.6	0.4
Final Rank			**4**	**2**	**1**	**3**

Consultation Option			Back-up	Preferred Option	

Based on the options assessment, the preferred option is to establish a Joint Venture Community Housing Provider, on the basis of:

- The strategic case emphasises the need to develop more housing across a range of typologies in Whanganui. This option appears to align most closely with Council's high degree of ambition for this entity, and regional housing outcomes. Further, a joint venture, while more uncertain, offers the most realistic chance of growth consistent with these ambitions.
- The existing portfolio roughly breaks even at a modest level of renewals, but the current delivery structure (e.g. in-house council ownership/delivery) would rely on council funding to upgrade/expand. Given the level of investment required, the status quo is not expected to facilitate growth.
- While certainty of access to IRRS funding for existing places is low, a CHP does offer an opportunity for an improved overall funding pathway. Establishing a new entity is not a magic bullet on its own, but it has potential to access Operating Supplement funding, which council cannot access under the status quo.
- There appears genuine interest in the market to enter into a partnership making this a realistically viable option and initial conversations have indicated potential for a partner to bring access to growth capital.
- A JV offers the opportunity to leverage external, existing experience, relationships and market credibility that would take time and be expensive for a Council-established CHP to develop.
- The JV offers the likely fastest pathway for realising the intended project benefits and investment objectives as identified in this business case. Although it is likely to have a longer set-up time than a Council established CHP (due to the RFP process), the overall pace of growth could potentially be higher with a JV.
- A JV provides the possibility for use of an existing community housing provider to give the benefits of scale efficiencies and incorporation of best-practice tenancy and property management. While a pure transfer to an existing CHP also provides this option, it does not provide a likely path to growth.

Therefore, the time and effort invested in exploring a JV through an RFP process appear justified, given the potential advantages. Nevertheless, maintaining Option 2 as a 'alternative, viable option' ensures that the project can proceed effectively even if the JV route proves unfeasible. This approach ensures flexibility and preparedness. Therefore, Option 2, where the Council establishes a CHP independently, is preserved as an alternative approach.

The remaining cases focus on the Joint Venture option.

Commercial Case

The commercial case focuses on:

- Entity capitalisation options
- Entity structure options
- Key elements of the procurement process.

Entity capitalisation options

The Council's primary contribution to the entity is through its capitalisation. Gifted capital is what will support this entity to undertake affordable housing activities, particularly those outside IRRS-funded social housing. This equity can be provided in two ways:

- The transfer of assets below their value (accounting for required use of the assets)
- Cash injection.

Four options were assessed for capitalisation:

- Lease assets only, with no cash injection
- Lease and financially capitalise through a cash injection
- Transfer assets upfront when JV is formed
- Lease initially with a deferred transfer/s.

The indicative preferred approach is to lease initially with a deferred transfer/s. Under this approach Council and partners enter into a best endeavours agreement to transfer the land at a value consistent with affordable housing purposes when development is occurring. Land may be transferred in several stages as development occurs. At some stage if there is sufficient confidence in the partners and/or pre-identified Key Performance Indicators are met, all remaining assets may be transferred.

The benefit of this approach is:

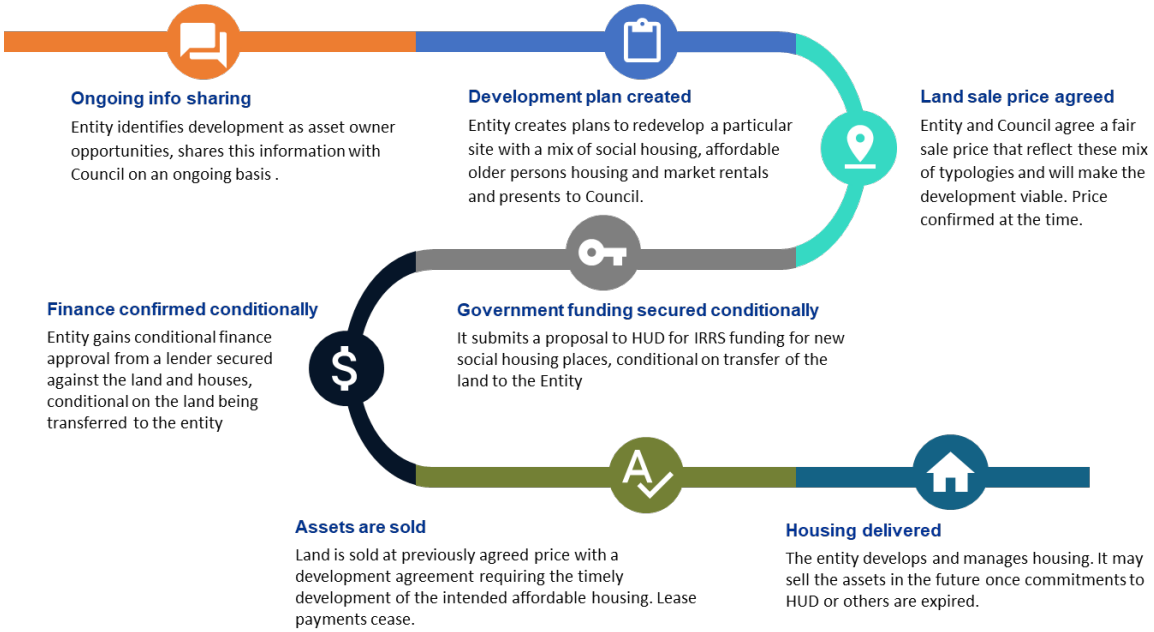
– Provides asset transfer when required to enable financing, and so is consistent with enabling growth

– Allows transfer price to consider CHP's circumstances / development economics associated with the specific use

– Provides the Council with influence on development and an opportunity to exit arrangements in the event growth is not occurring

– Allows transfer price to consider CHP's circumstances / development economics.

The diagram below shows an illustration of how the deferred land transfer might occur.



Entity Structure options

Within a general concept of a joint venture model (involving the Council bringing assets and existing tenants and the partners bringing capability and financial capital) there are a number of ways in which entities can be arranged in terms of entity ownership, asset ownership and cash flows.

Joint venture partners will have their own views on preferred entity structure, which will be informed by how each individual organisation prefers to structure investments. However we expect any partnership to include:

- An 'investor-developer partner' that brings deployable capital and property devleopment experience and capacity
- An operations partner that bring experience operating affordable housing and which may be a registered community provider.

Any model will require a registered Community Housing Provider which will manage tenancies, undertake day to day property management and contract with HUD for any IRRS-funded social housing. However this may be:

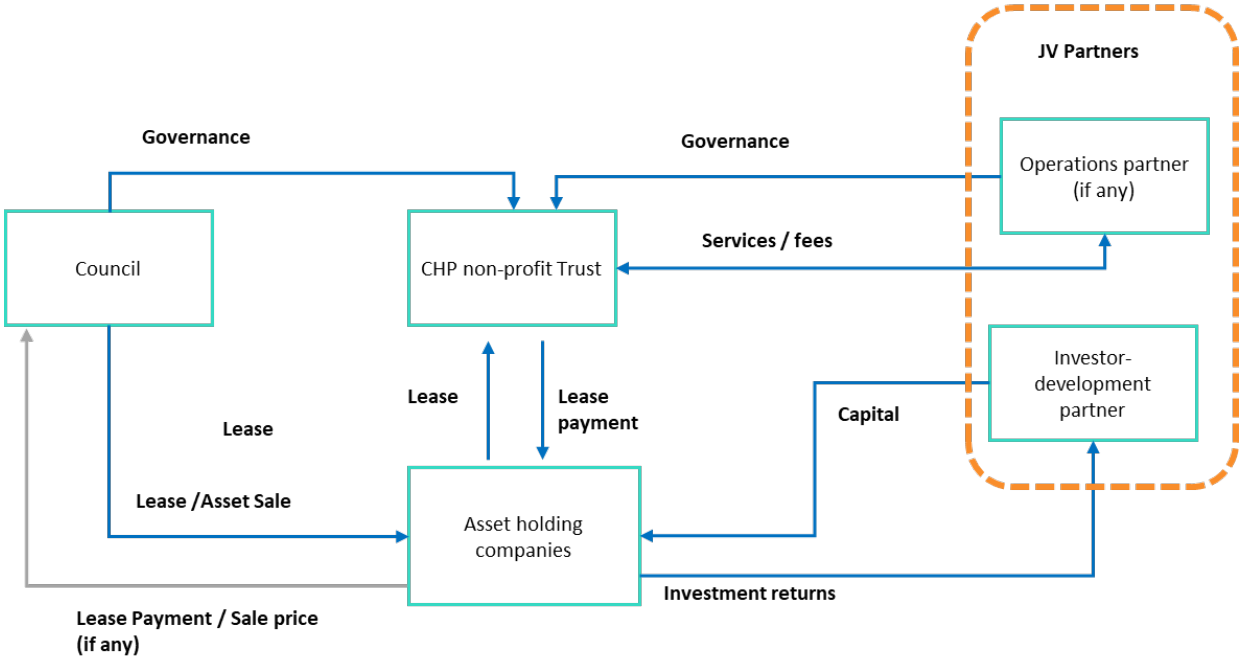
- A newly established entity developed between the partners and the council
- An existing registered community housing provider (one of the partners)
- An existing housing or social services entity intended to register as a community housing provider.

Provided a fit-for-purpose partner can be found, it is most attractive to use an existing registered CHP. Nevetheless models developed catered for the potential need for a wholly new CHP to be established.

Two options were considered for for general entity structures under a joint venture:

- CHP as owner of Asset Holding Companies (preferred)
- Jointly-owned profit-making entity as asset owner (also viable).

The preferred model involves Council partnering to establish a new Community Housing Provider as a non-profit trust (or utilising an existing CHP) which is a full or part owner of Special Purpose Vehicle (SPV) Asset holding companies. These SPVs provide the vehicle for private investment. Assets are leased by the Council to the SPVs which are on-leased to the CHP. As above, when development occurs, assets will be sold to the SPVs where they will continue to be leased to the CHP. Residual profits enabled by Council investment would flow back to the CHP. The general arrangments are shown the diagram below.



Procurement

The primary procurement-like process for establishing the entity under the preferred model is the process to identify partners and agree the key features of the partnership.

Key factors that influence the appropriate approach include:

- As the sale of specific properties is not a feature of the proposed deal, there will not be a defined price proposed in the RFP. Instead evalutation of preferred bidder(s) will need to be on the basis of a qualitative assessment of a partner's capability, credibiltiy and financial capacity to support portfolio growth.
- The opportunity Council is proposing to the market is inherently uncertain and needs to be open to a wide range of partnership models, including those that the Council itself may not have identified. This may make comparison of proposals challenging.
- Potential partners will gauge their willingness to participate in part on their confidence in the Council's mandate and commitment to advancing a partnership.

The high-level stages of this procurement process are expected to be:

- Pre-procurement: These are additional decisions and investigations necessary to properly engage the market. This includes public consultation, condition assets and approach to renewals in existing portfolio confirmed, confirmation of non-housing Council-owned cites for potential future transfer and engagement with HUD and the Minister on the scope for redirects into social housing with the current portfolio.
- RFP-Preparation: As this is not a tender specific deliverables or a sale of assets, the RFP will need to provide for reasonable flexibilty in describing the precise requirements and outcomes. If should include information on what the Council can bring to the partnership, what it expects from partners, what is off the table and the high level commercial arrangements. It should seek reponses focusing on capabiltiy and experience of the respondents, sources of deployable capital, preferred commercial arrangement and related matters.
- RFP evaluation and negotiation: Following evaluation, given the flexibiltiy required in responses, it is anticipated that one or two respondents will be invited for further negotiation, with a

Memorandum of Understanding (MoU) agreed with the preferred respondent setting out key terms. The MoU would be approved by elected members or delegated to officers.

Financial Case

At a high-level, the existing portfolio operates a small operating surplus before depreciation and finance cost driven by:

- ~$2.1m annual revenue generated from the portfolio and
- ~$2.0m annual opex projected from FY25 base year, all of which are estimated in real terms.

It is difficult to forecast the specific financial implications of the preferred option particularly given uncertainty of the specific terms of any arrangement and whether a new CHP will need to be established.

Under the preferred option, Council is expected to be in a roughly equivalent position in terms of cash flow on an ongoing basis, as lost rental revenue will be offset by reduced management and maintenance costs.

Lost revenue (~$1-2 million per annum during the lease period, over $2 million per annum beyond that) would have a modest impact on the Council's debt to revenue ratios. It would reduce revenue applicable to debt covenants approximately 0.75-1.5%, reducing debt head limits by the same proportion against what they would otherwise be. This is arguably not material to the Council's overall borrowing capacity.

Council will bear a portion of establishment cost of the new entity and the transfer cost (or loss on asset sales) should there be one. A full costing of the transition and potential establishment of a new entity has not been completed at this stage. A high-level indicative range of $500k - $1m has been used, however the exact quantified amount will require a more extensive level of modelling and be subject to the preferred entity structure. In an existing CHP is used, as is preferred, these costs will be much lower.

Ongoing renewals are expected to be funded by council until such point that the portfolio is transferred. For a partnership to be viable, Council's renewal investment is expected to increase to match with the market / benchmark requirement. However, this increase is expected to be offset by an increase in lease revenue which could be paid back to Council as a lease payment. The net effect between council's revenue and investment in renewal would therefore be unchanged.

Indicative modelled outcomes

Indicative anticipated costs for the establishment and initial operation of a Joint Venture are as set out below.

Table 1 Financial costing table for the recommended option in the next five years

Financial year >		2025/26	2026/27	2027/28	2028/29	2029/30	Total
Capital Expenditure							
1	Establishment cost	1,000,000					**1,000,000**
2	Renewal	115,260	143,857	159,806	146,846	147,708	**713,477**
3	**Total Capital costs (CAPEX)**	**1,115,260**	**143,857**	**159,806**	**146,846**	**147,708**	**1,713,477**
Operating Expenditure							
4	Repairs and maintenance incl. planned	293,603	300,067	306,672	313,116	319,696	**1,533,154**
5	Insurance premiums	211,395	216,048	220,804	225,444	230,181	**1,103,873**
6	Rate expenses	444,930	454,724	464,735	474,500	484,471	**2,323,359**
7	General operation costs	1,477,907	1,510,442	1,543,692	1,576,130	1,609,248	**7,717,419**
8	**Total Operating costs (OPEX)**	**2,427,834**	**2,481,281**	**2,535,903**	**2,589,190**	**2,643,596**	**12,677,805**

Financial year >		2025/26	2026/27	2027/28	2028/29	2029/30	Total
Total Expenditure							
9	**Total Project Costs (CAPEX + OPEX)**	**3,312,574**	**2,337,424**	**2,376,097**	**2,442,344**	**2,495,887**	**14,391,282**

Following establishment, the Council's initial relationship with the entity will be through a lease payment. As above, any lease payment would be for the purpose of revenue to fund renewals. An asset condition assessment and updated renewals programme is not yet available. Therefore, potential lease payment is therefore modelled under two scenarios, which include the council's current forecast renewal expenditure scenario and the benchmark renewal scenario. The council's overall revenue impact during the lease payments is shown in the tables below.

Table 2 Council revenue projections for the preferred option - Current council's renewal scenario

Financial year >		2025/26	2026/27	2027/28	2028/29	2029/30	Total
1	Current rental revenue that is lost	(2,053,921)	(2,099,107)	(2,145,288)	(2,190,339)	(2,236,336)	**(10,724,990)**
2	Lease payment	155,856	159,285	162,789	166,208	169,698	**813,836**
3	**Net impact**	**(1,898,065)**	**(1,939,822)**	**(1,982,498)**	**(2,024,131)**	**(2,066,638)**	**(9,911,154)**

Table 3 Council revenue projections for the preferred option - Benchmark renewal scenario

Financial year >		2025/26	2026/27	2027/28	2028/29	2029/30	Total
1	Current rental revenue that is lost	(2,053,921)	(2,099,107)	(2,145,288)	(2,190,339)	(2,236,336)	**(10,724,990)**
2	Lease payment	561,000	573,342	585,956	598,261	610,824	**2,929,382**
3	**Net impact**	**(1,492,921)**	**(1,525,765)**	**(1,559,332)**	**(1,592,078)**	**(1,625,512)**	**(7,795,608)**

Management Case

The project for establishment of a joint venture is planned to run over four workstreams and is estimated to take approximately 18 months. This will be longer in the event a wholly new CHP must established, or negotiation or decision making require longer than anticipated. The workstreams are:

- Commercial and Financial Refinement
- Partner Procurement
- Tenant and Property
- Change Management and Transition

Appendix 3 provides an 18-month project Gantt chart and outlines a high-level plan for delivering the preferred option. If consultation concludes that the JV option is not preferred, then Council will proceed in a similar manner but without the requirement to consult the market for a partner.

The project plan includes key decision points, which include:

- Confirming preferred option and authorisation to develop and release of an RFP
- Council agreement to the preferred partner and MOU critical terms (note, prior to a Council decision being taken, Council will receive an update via workshop on the process, the entities which have responded and the implications of different partnership options)
- Agreement of the lease key term sheet.

Table 4 High level project schedule

Key Project Milestone	Approximate Date
Community consultation	April – May 2025
Confirm preferred option (post-consultation)	June 2025
Go to market for a JV partner	August 2025
Post RFP evaluation update to councillors	November 2025
Preferred partner and key terms agreed	February 2026
Approval of Lease	June 2026
Management of properties transfers	July 2026
Consultation on property sales in LTP (if required)	April-May 2027

The establishment of the JV Community Housing Entity will be managed and governed through a standard Council approach including the use of project steering and delivery groups. Risk will be managed in line with standard Council project governance requirements. The application of these approaches to the project is described in the Management Case.

Strategic Case – making the case for change

The Strategic Case sets out the strategic context for a new housing entity to be established and take on the management and redevelopment of Whanganui District Council's social housing portfolio. It outlines the case for the form and functions of the entity necessary to meet housing needs in the district, and for capitalising the organisation to enable it to fully leverage housing development opportunities for the primary purpose of growing housing supply in the region.

In particular, the Strategic Case:

- sets out the need to enhance the status quo;
- identifies key context, policies, strategies informing or contributing to the establishment of the function and examines the alignment of other organisations in this space;
- articulates the agreed scope requirements, risks, constraints, dependencies and assumptions for the new function; and
- identifies a set of Investment Objectives to be used as a basis for evaluating options within the Economic Case.

1 Council Housing in New Zealand

Dating back to the 1940s, councils across New Zealand have offered housing at below-market rents to primarily elderly tenants. From the 1950s to the 1970s, the council housing sector grew robustly. Central Government heavily subsidised councils to develop and maintain housing for low-income residents. This funding came in various forms, including grants, subsidies, and low-interest loans. Such financial assistance was crucial for councils to develop, maintain, and expand their stock of social housing.

During the late 1980s and early 1990s, major economic reforms aimed at reducing government intervention in the economy led to a significant reduction and, in many cases, cessation of Central Government's subsidies for council housing in New Zealand. As a result of these policy shifts, local councils began to experience a marked reduction in financial support for social housing development and maintenance. Accordingly, many councils were led to reconsider their role as social housing providers.

For some time, councils were able to maintain their portfolios at below market rents and maintain assets to a minimum viable standard. However, subsidised rents have not been sufficient to fund depreciation and renewal of these assets, and thus many have had steady deterioration of condition and functionality. These factors have led many councils to reconsider their ongoing provision of housing and identify new delivery models that overcome the funding and growth constraints.

A Local Government New Zealand report[1] estimates that the number of council-owned social housing units consequently declined from around 15,000 in 1991 to ~12,000 as at today. Where councils chose to retain their portfolios, many employed a range of options to ensure the sustainability of their housing models, including rates funding housing activities, increasing rents to more market levels and/or deferring major capital upgrades. The ability to develop new housing and expand the housing stock was also reduced.

[1] https://d1pepq1a2249p5.cloudfront.net/media/documents/The-case-for-councils-being-community-housing-providers.pdf

2 The Whanganui District Council Housing Portfolio

Whanganui District Council (the Council) was formed in 1989 through the amalgamation of several local councils, covering an area of 2,337 km². Apart from the main urban area, the district includes small rural settlements and marae-based communities. The 2023 Census reported a resident population of 47,619, indicating a 5.10% growth in population from the 2018 Census' record of 45,309.

The then Council, encouraged by significant financial support from Central Government, began housing older residents in the late 1940s to alleviate an acute housing problem. Since then, the Council has owned and operated affordable housing for older residents with low to moderate financial means, allowing them to live independently. Currently, the Council manages a portfolio of 275 units spread across 16 complexes. Within this portfolio, there are 234 single units, including two specially designed for individuals with significant disabilities who use wheelchairs, as well as 41 units suitable for couples.

The goal of the housing service is to provide and maintain a network of housing for older residents, in a manner that promotes their health, safety and well-being. The objectives of the Whanganui District Older Person's Housing are set out in Council's Housing Policy, as follows:

i. *To provide housing to a standard that is suitable to meet the needs of older residents of low to moderate financial means that are able to live independently;*
ii. *To charge rental rates that are affordable;*
iii. *To ensure tenant's rights to quiet enjoyment are maintained;*
iv. *To ensure the well-being needs of the tenants are supported as far as practicable; and*
v. *To contribute to Council's climate change mitigation efforts and incorporate environmentally sustainable practices.*

The portfolio currently accommodates applicants 65 years and older. In periods of high vacancy, Council will consider accepting applicants over 60. The portfolio caters to a wide range of financial circumstance, with a relatively high asset threshold for a single set at circa $222,167 or less, averaging at a book value of $187,302 per unit.

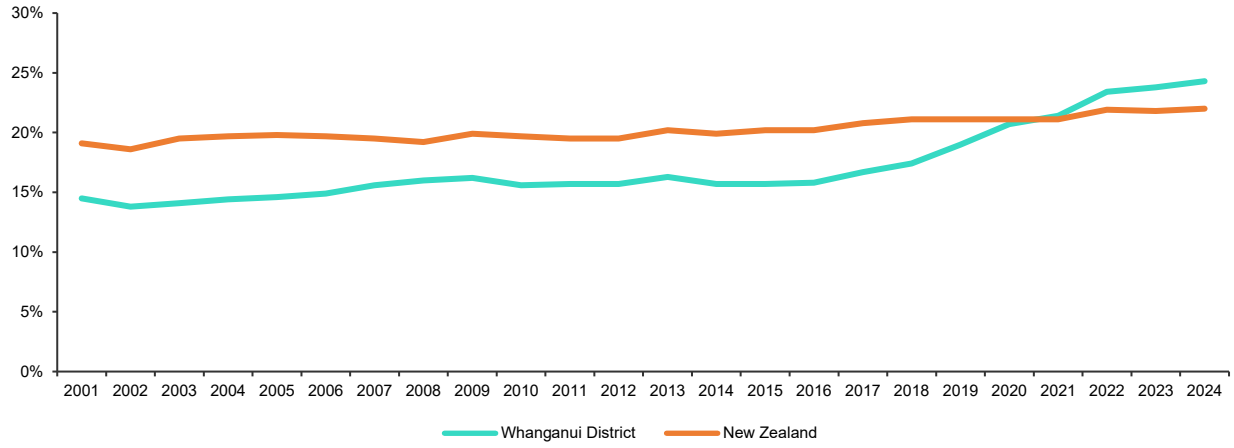
2.1 The need for growth in affordable housing in Whanganui

2.1.1 Whanganui faces challenges across the housing continuum.

Whanganui, like many areas in New Zealand is constrained by affordability issues. House prices in Whanganui have been rising more rapidly than incomes. According to Infometrics, the average household income in Whanganui for the year ending March 2024 was $99,014, as compared with the New Zealand average of $132,538. As at March 2024, the average house price in Whanganui has risen to $527,528, a significant increase from $191,262 in 2014. This represents an average annual increase of 17.6%, equating to an average rise of $33,627 each year.

More recently, inflation has put pressure on housing costs, with wage growth failing to keep pace. Rental affordability has also been impacted, with the average weekly rent price currently standing at $433 and displaying a faster growth rate than the national average. In terms of rental affordability, Whanganui ranks 45th out of 66 territorial authorities with the rent to income ratio having surpassed that of New Zealand since 2020, as shown in the graph below. Even within already stressed standards of New Zealand overall, Whanganui housing has become a relatively unaffordable place to rent.

Figure 1 Average weekly rent as % of average household income (Infometrics)



A study conducted on behalf of Council in 2016 highlighted several gaps in housing provision within Whanganui. These include:

1. Lack of emergency housing;
2. Available social housing is not suitable for those with mobility challenges;
3. Funding of WDC's pensioner housing stock is not financially sustainable;
4. Occupancy rate of WDC's pensioner housing consistently low; and
5. Insufficient direction and information about housing issues in the city.

While some progress has been made on addressing these issues (such as improving the occupancy rate of the portfolio), many of these challenges remain. In 2024, most complexes are fully occupied with some having relatively low levels of vacancy. The exceptions are the Rimu Street Flats, Walter Nash and Collins Street complexes, each with a vacancy rate of 20.00%, 16.67% and 10.00% respectively. This has not taken into account of the 2 properties in Walter Nash which are vacant due to subsidence issues, which when factored would reduce the vacancy rate for this complex to 10%. The total average occupancy rate for the older persons' portfolio is 95% as at November 2024 comparable to private sector rental benchmarks.

Table 5 Complex vacancy data

Complex	Units	Vacant	Vacancy rate
Captain Laye	6	0	0.00%
Collins Street	10	1	10.00%
Eugene Cotty	41	1	2.44%
Garden Court	11	0	0.00%
Heathdene Court	25	0	0.00%
Ivan Brown Villas	14	0	0.00%
Jack Brotherston	15	1	6.67%
Kawakawa/Nixon	13	0	0.00%
Ladysmith Flats	20	1	5.00%
Parsons/Konini	11	0	0.00%
Pukatea	10	0	0.00%

Puriri Street Flats	24	2	8.33%
Rimu Street Flats	5	1	20.00%
Rothesay	28	2	7.14%
Sandown Flats	20	1	5.00%
Walter Nash	14	4	16.67%
Total	277	14	5.05%

2.1.2 Insufficient housing stock for an aging population

Whanganui has an ageing population. According to StatsNZ, Whanganui's total population is projected to grow from 46,800 in 2018 to 51,100 in 2048. Within this, population trends show varying patterns across different age groups. Figure 3 below shows the forecast change in population to 2048. The 0-14 years and 15-39 years age groups both are projected to experience gradual declines. The 40-64 years age group is forecast to remain relatively stable but in contrast, the 65 years and over age group is expected to undertake significant growth, rising from 9,500 to 14,700.

Figure 2 Whanganui Population Projection by Age Group (2018 - 2048)

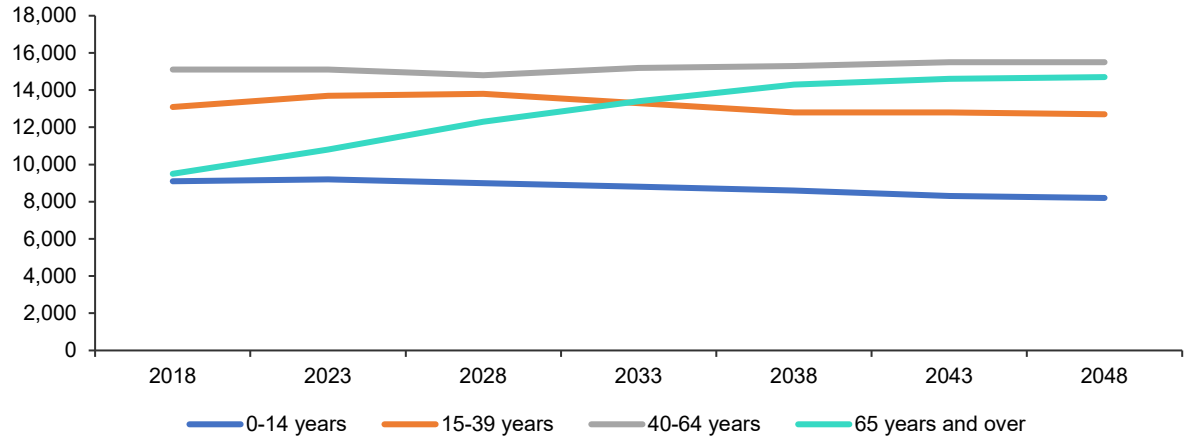
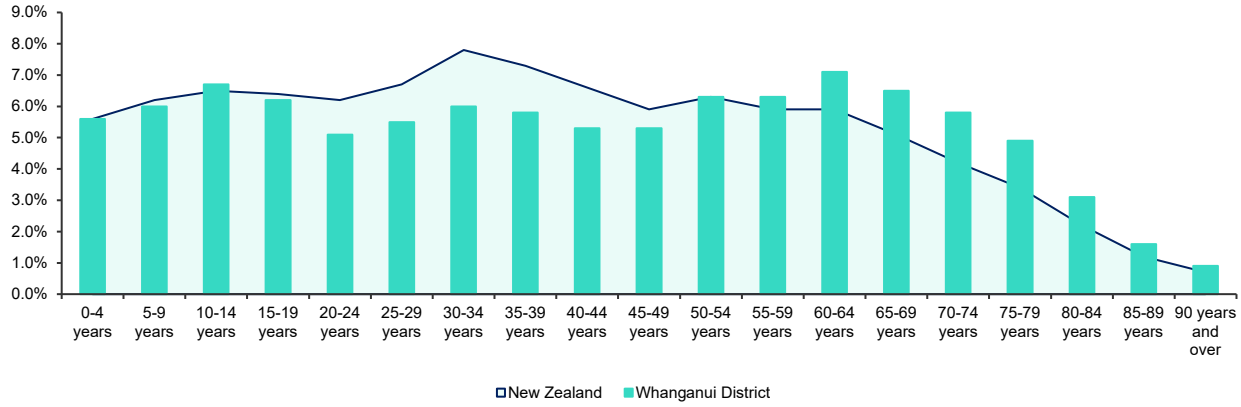


Figure 4 below shows that Whanganui already has a higher proportion of 55+ year old residents than nationwide. An increasingly aged population will exacerbate this distribution and put more pressure on local demand for small unit housing.

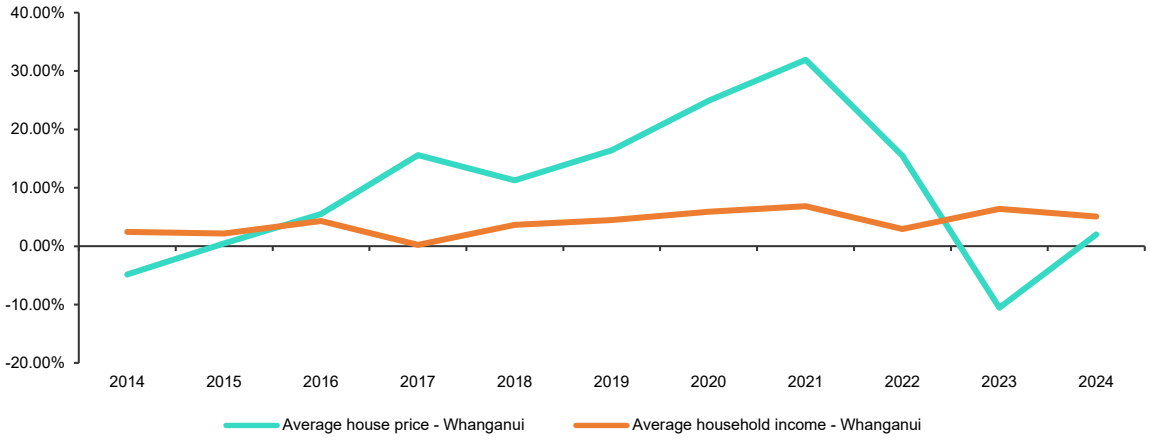
Figure 3 Population by 5-year age group in Whanganui and New Zealand (Infometrics)



The 2023 Census indicates that Whanganui's population has already increased by 5.3% since 2018, which, while lower than the national growth rate of 6.3%, shows that the city is catching up to the national trend. Additionally, the median age in Whanganui rose from 39.4 in 2018 to 39.7 in 2023,

above the national median of 38.1. At the same time housing supply only grew by 5.4% between 2018 and 2023, compared to a 9% increase nationwide. Figure 5 shows this change in average house price, as compared with household income.

Figure 4 House price vs. income, a comparison of the annual growth



Whanganui's ageing population, taken together with slow housing supply growth, highlights a potential future shortage of social housing required for low-income, particularly elderly residents.

2.1.3 Waitlist data show the demand for additional social housing.

The MSD Housing Register (the Register) records households who are eligible for social housing and who have urgent need for housing. As at 30 September 2024, the Register reported 279 applicants in Whanganui eligible for and ready to be matched to a suitable social housing property. All current housing applicants in Whanganui are classified as 'housing priority', with 98% categorised as priority A - applicants who are considered at most risk and with a *severe* and persistent housing need that must be addressed immediately. The remaining applicants fall under priority B, who have a serious housing need and includes households with a *significant* and persistent need.

In line with broader trends in New Zealand, Whanganui has seen a rise in the number of individuals on the waitlist for social housing, with 279 individuals registered with the MSD housing list in September 2024, marking a substantial 72% increase from September 2019.

Table 6 Breakdown of social housing waitlist by size of home as of September 2024

Bedrooms required	1	2	3	4	5+	Total
Number of registers	159	72	36	9	3	279
% of waiting list	57%	26%	13%	3%	~0%	100%

Over the past five years, there has been a 72% increase in the number of housing register applicants in Whanganui, growing from 162 in September 2019 to 279 in September 2024. This growth rate is higher than the national increase of 57% over the same period. Figure 6 below indicates that Whanganui's housing demand is more volatile than the national average. For instance, there was a sharp 35% increase in the housing register during the September 2020 quarter, primarily due to the effects of COVID-19, while the national trend remained more stable.

Figure 5 Change in number of housing register quarterly

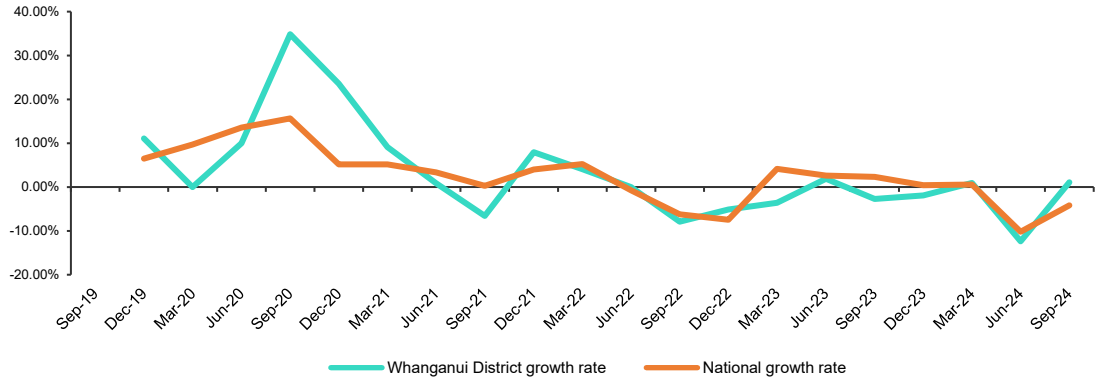
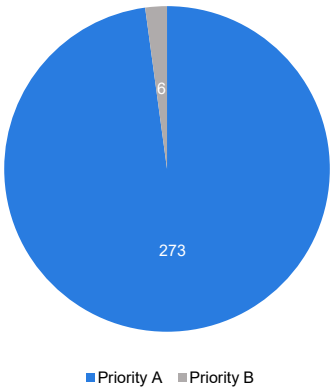


Figure 6 Number of housing register in Whanganui District as at September 2024



2.1.4 The Council's housing assets are reaching or past their useful life.

16 complexes make up the current WDC older persons' housing portfolio, built between 1946 and 1988. Many of the units are dated, cold and damp (with some having water ingress issues), many have steps and strip / slip hazards unsuitable for older persons, and the majority of the complexes require full roof replacements as well as other overdue maintenance items, requiring extensive capital expenditure to bring the existing units up to modern standards. A condition inspection undertaken in August 2022 found that:

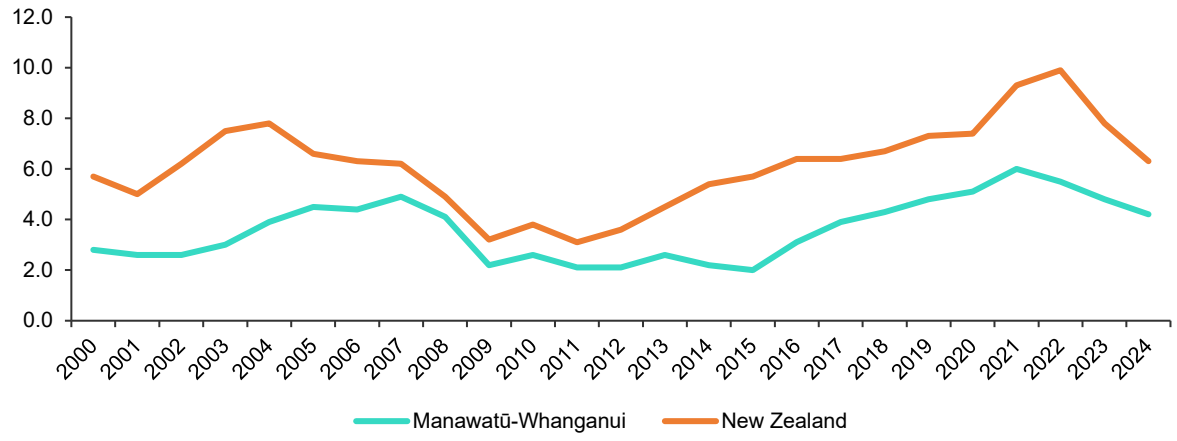
- Units of this type typically have an average lifespan of 50 years, with the majority of the units approaching or past their economic useful life.
- 4/16 complexes require minor refurbishment to meet modern functionality and condition standards
- 10/16 complexes require significant refurbishment to meet modern functionality and condition standards
- It will likely be more economical to dispose the residual two complexes as the cost of refurbishment will be equivalent or exceed the cost of a new build.

2.1.5 Expanding housing supply is urgent and necessary but there are significant challenges to achieving this.

The Whanganui Strategic Housing Investment Plan (SHIP) 2021-2031 was developed to deliver on the Council's Housing Strategy 2019 and to support the investment into housing portfolio as prescribed through the Long Term Plan 2021-2031. The document sets out the priorities for investment in housing for WDC over the 10-year period commencing 2021 as well as outlines the Council's intents to deliver these priorities. According to SHIP, the construction sector has been identified as a major limitation for Whanganui. New builds face a 9 to 12 month waiting period before they can commence. Furthermore, construction capacity is constrained with professional services in Whanganui to support infill subdivision processes. These limitations can lead to increased costs and prolonged timelines for housing development, which in turn affect the overall efforts to meet housing demand and address affordability issues in the region.

Coupled with these supply issues, building consents have been slower for Whanganui compared to national rate. As shown in Figure 8 below, while the trend for building consents in Whanganui has closely followed that of New Zealand, the number of new dwellings per 1,000 residents in the district remains lower than nationwide. Comparable markets elsewhere such as Rotorua have had similar challenges as development economics are not as favourable as in larger metros despite the need.

Figure 7 Number of new dwellings consented per 1000 residents



The potential for increasing housing provision could further be hindered and / or slowed down by the level of access to land. Whanganui, like many other regions, faces challenges related to land availability, zoning regulations, and land-use policies. Limited access to suitable land for development can create significant obstacles for expanding housing stock. Furthermore, if the land is constrained by geographical features, environmental protections, or ownership patterns, it might be difficult to acquire and develop land for new housing projects. For instance, the amount of usable land for the Ivan Brown complex in the existing older persons' portfolio is affected by a stream and its corridor and a protected tree, which reduces the development potential for the site. WDC is also undergoing a review for Plan Change 63 – Historical Heritage, in which the heritage value for the endorsed sites will be protected and will unlikely be suitable for redevelopment.

2.1.6 The portfolio, as it stands, is not financially sustainable in the medium to long term.

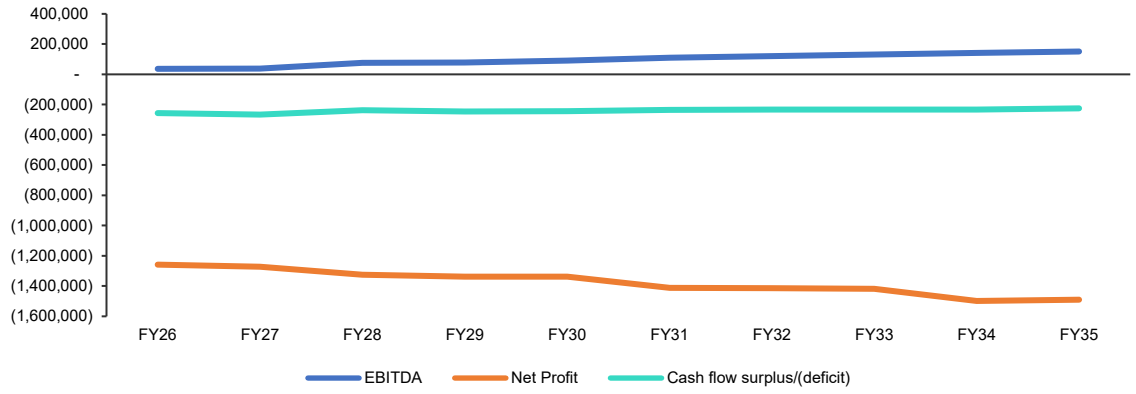
The older persons' housing portfolio operates a self-funding model whereby the revenue from Council's 275 units is financially ring-fenced from the Councils wider operations. As such it does not receive ratepayer funding.

The rental rate for single-person occupancy in older persons' Council housing is set at 32% of the net Superannuation rate. This increase, which was first initiated in May 2017, was intended to enhance the financial sustainability of the housing portfolio and follows a series of gradual increases from 30% in 2017, to 31% in October 2021 and to 32% in November 2022. The rental rate for a double-person occupancy (couple) is set at 22% of the combined Superannuation.

The Turley report was developed in December 2022 on Council's request to review WDC's current older persons' housing portfolio. The report investigated and advised on the future older persons' housing demand (how many new houses they would need to meet future demand) and recommendations for future- proofing the portfolio. The Turley report identifies that approximately 88% of total income from the older persons' portfolio was spent on maintenance (between July 2019 and September 2022), operating expenses and capital expenditure, with some of the complexes having required expenditure over and above the rental income they have generated, including the Captain Laye and Sandown complexes with average yearly expenditure to income of 109% and 106% respectively over the 3.25 year-period.

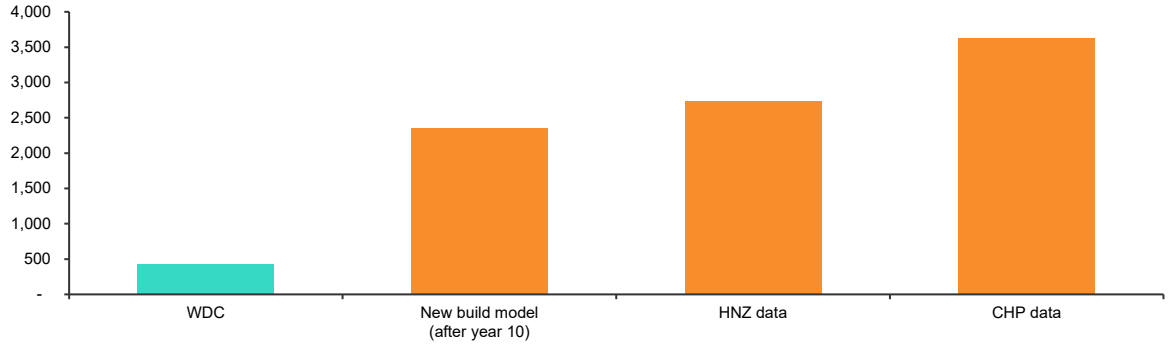
Under the status quo where WDC retains ownership and operates the older persons' housing portfolio as usual, the portfolio is expected to generate $2.1m in annual revenue and produce a small surplus before depreciation and finance cost, as shown in Figure 9 as EBITDA, or earnings before interest, taxes, depreciation and amortisation. However, once depreciation and a negligible amount of Council's finance cost are accounted for, the portfolio generates a large net accounting deficit. The portfolio also makes a modest loss on a cashflow basis, which excludes depreciation but includes capex.

Figure 8 Financial performance forecast
($ per unit per year)



Cash flow is negative even under very low levels of renewal capital expenditure. The current renewals forecast is only $100k per year (or $364 per property), which is low in comparison with benchmarks applied in Figure 10.

Figure 9 Capex renewals cost comparison
($ per unit per year)



The following two graphs illustrate that while the portfolio's minor repair and maintenance costs are moderate compared to average data, its current operating / management costs are comparatively low, despite a relatively small portfolio offering poor scale economies.

Figure 10 Operating cost comparison (excluding insurance, rates, R&M and depreciation)
($ per unit per year)

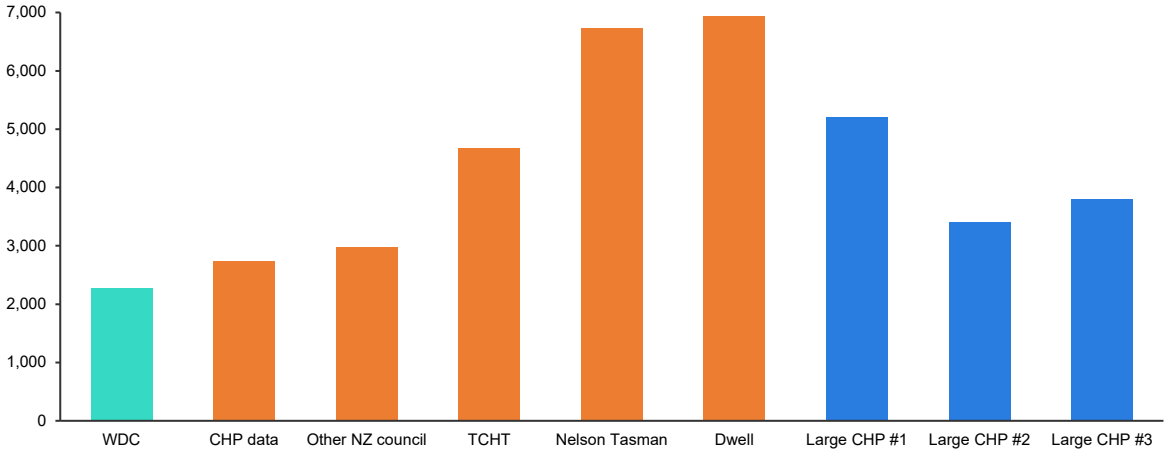
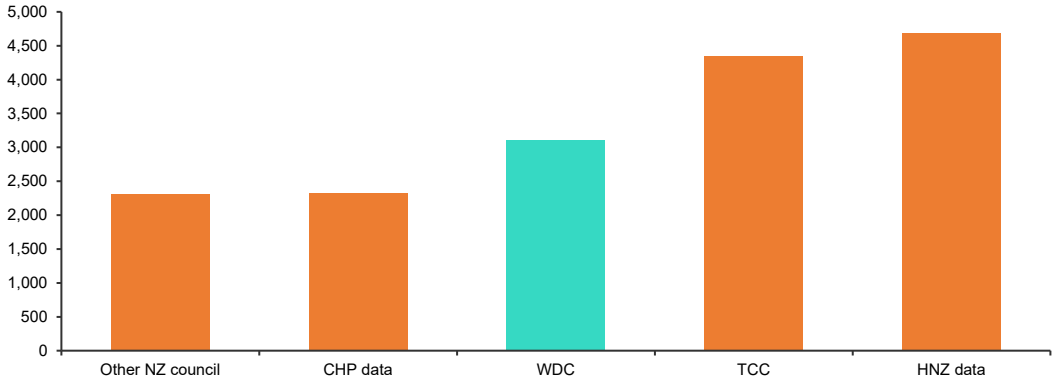


Figure 11 Minor repairs and maintenance cost comparison *($ per unit per year)*

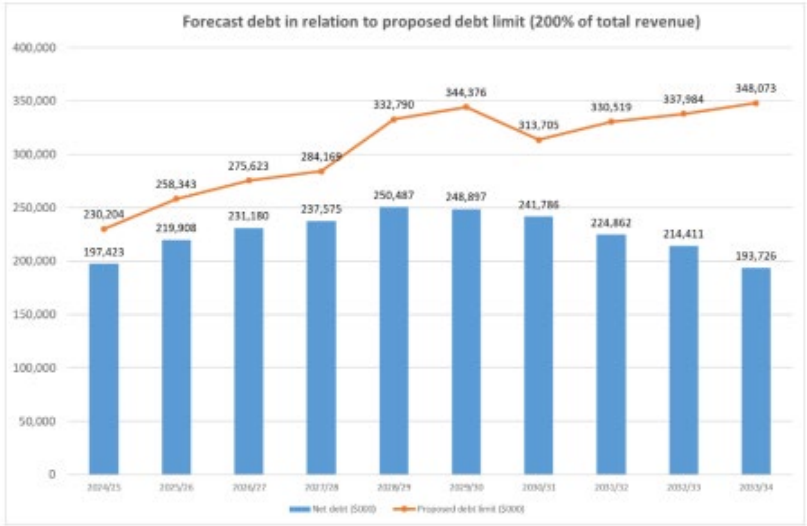


Overall, the Council has operated a thin, low-cost model to manage the portfolio. This has enabled it to operate with little to no ratepayer subsidy (something many other councils' portfolios have required). However, this model is not consistent with timely renewal of the existing portfolio or development.

2.1.7 The current structure constrains the ability to fund or finance growth.

Currently any growth in the portfolio would need to be financed through Council borrowing. In principles this is possible. The Council is able to borrow through the Local Government Finance Agency at competitive rates. However, this may be inconsistent with the Councils fiscal direction.

Through the 2024-2034 LTP the Council confirmed a 200% revenue to debt limit. In the most immediate (and most certain) years the headroom between forecast debt and the limit is modest (see chart below).



Source: Whanganui District Council 2024-34 Long-Term Plan

New development may generate additional revenue if the number of dwellings increase. However, any additional debt required would be many times larger than the net additional revenue, reducing headroom below the limit.

A bigger constraint to growth in generating revenue sufficient to service any borrowing. As presented above, the revenue generated from rents under the current model is roughly sufficient to cover operational costs and a low level of renewal, but generates little to no surplus that could be used to cover interest costs or pay down debt. Even if the Council was able to and willing to debt-finance development, there is little prospect of that debt being serviced through portfolio revenue, and

ongoing rates subsidies would be required particularly in light of the accelerated response the Council is seeking.

2.1.8 There are, however, significant opportunities maximise the utility of existing landholdings if it can be funded and financed

The land comprising the older persons' housing portfolio is underutilised. With 59,623m^2 of land under the portfolio, only 19% of land area are currently developed, there presents significant opportunities for redevelopment at higher densities. It is estimated that increasing land density to 35% across the current portfolio could generate a potential addition of 143 units. This is based on 50m^2 single story units, to allow for better mobility and useability for occupants and to be comparable with other modern older persons' housing developed in the market. Table 3 summarises the results of the recent evaluation of the likely housing development capacity of the existing housing portfolio.

According to Turley, the configuration of the units across each of the sites limits the potential for infill housing, necessitating a full or partial redevelopment of each site to generate the full potential yields. Full redevelopment would require a significantly higher level of capital investment but does have many potential benefits. Primarily, it would enable better / more effective use of the land, reduce the ongoing maintenance costs, and enable sites to be designed with full regard to future occupant needs.

Table 7 Site-by-site assessment of opportunities for redevelopment (Turley, 2022)

LOCATION	Current number of units	Potential units @ 35% utilisation	Condition	Location	Medium – long term action
Garden Court	11	11	Fair	Good	Potential for full redevelopment. Otherwise potentially disposal.
Captain Laye	6	8	Poor	Good, but undulating site	Could only have minor potential unit increases for full redevelopment. Otherwise potentially disposal.
Collins Street	10	9	Reasonably good	Average	Potentially redevelopment in conjunction with Walter Nash short term, full redevelopment long term.
Ivan Brown	14	34	Good	Less desirable	Usable site area and development potential is reduced due to a protected tree and a large area being affected by a stream and its corridor. Disposal could be considered in shorter term. Otherwise potential for full redevelopment long term.
Heathdene Court	25	34	Good	Less desirable	Potential for full redevelopment.
Ladysmith	20	19	Good	Good	Potential for full redevelopment and incorporating neighbouring property/ies.
Konini / Parsons	11	19	Average	Good	Full redevelopment to higher density.
Jack Brotherston	15	15	Average to good	Good	Full redevelopment to higher density.
Sandown	20	27	Reasonably good	Reasonably good	Full redevelopment to higher density.

Rimu Street	4	6	Poor	Good	Could only have minor potential unit increases. Disposal and reinvestment of sale proceeds into redevelopment of other complexes.
Rothesay	28	37	Reasonably good	Relatively less desirable	Full redevelopment to higher density.
Pukatea	10	10	Reasonably good	Undesirable	Disposal and reinvestment of sale proceeds into redevelopment of other complexes.
Eugene Crotty	41	64	Average to good condition	Average	Could accommodate a significantly greater number of additional units. Full redevelopment to higher density.
Walter Nash Place	24	61	Average, land subsidence and other issues	Average	Could accommodate a significantly greater number of additional units. Staged full redevelopment. Land subsidence remediation investigation required. Potential for the incorporation of the neighbouring Collins Street complex.
Puriri Street	24	49	Fair, signs of subsidence	Good	Could accommodate a significantly greater number of additional units. Full redevelopment to higher density. Land subsidence remediation investigation required. Otherwise, potential for disposal.
Kawakawa / Nixon	12	16	Average to good	Good	Full redevelopment to higher density.

Council has other landholding which could be developed for additional social, affordable and or market rental housing, adding to the scope for expansion and improvement of the portfolio. Turley identified the opportunity for an additional 40-50 units across one or two possible greenfield developments. According to The Property Group's (TPG) Property Portfolio Investment Plan 2018-2028, Whanganui District Council owns 23 properties that are considered surplus to council requirements and should be considered for divestment, with an aggregate land area of 1,003,412m^2. No decisions have yet been taken on the applicability of the sites, or the pathway to making these available for development.

2.1.9 The Council does not have the internal capability to redevelop the portfolio.

As no new housing has been developed by the Council in decades, there is no housing development capability within the Council. Even with the financial barriers addressed under the current model, for example through debt funding and rates subsidies, the Council would be poorly positioned to maximise value from the sites through capitalising on opportunities for external investment or other tenancies beyond older persons' housing. Even effective engagement with private property developer partners would be a challenge for the Council given the lack of experience here.

2.2 Key policies influencing the growth of affordable housing

2.2.1 Social housing

The primary funding mechanism for subsidised rental accommodation in New Zealand is the Income Related Rent Subsidy (IRRS), whereby market rent is subsidised to ensure tenants are paying at most,

25% of their income. Between the tenant and the subsidy, the housing provider receives market rate rent to cover costs. Only registered Class 1 Social Landlords (who must register with the Community Housing Regulatory Authority), and Kāinga Ora are presently eligible for the IRRS. Unlike for-profit and not-for-profit organisations, councils (and Council-owned entities) are not eligible to become Community Housing Providers (CHPs) and thus cannot offer tenants IRRS.

HUD enters into contracts with individual CHPs typically for 15-25 years of provision. These purchase agreements may define various features of provision such as location, typology and any limitations on which tenants will be accepted (e.g. limiting to older persons). The market rent is set according to comparable rent charged for other properties of a similar type, size and location.

Where CHPs develop net new supply housing, they typically can also negotiate an Operating Supplement (OS). The OS provides an additional top-up of up to 90-100% market rent, meaning new supply has the potential to generate up to 200% of market rent for its owners, making it a commercially attractive proposition. These 'top ups' are considered necessary to make most new supply commercially viable. Typically, these 'top-ups' are sufficient to allow a CHP to fully pay down its debt over the contract period (if the properties are CHP-owned) leaving the CHP with a valuable asset at the end of the contract.

2.2.2 The Public Housing Plan

The Public Housing Plan (PHP) is a strategic framework developed by the New Zealand Government to address the growing demand for public housing and improve housing outcomes across the country. It defines the Government's specific priorities, goals, and actions aimed at increasing the supply of public and transitional housing, as well as ensuring these homes are safe, healthy, and affordable for those in need. When the Government wants to increase supply of social housing, it needs to provide new funding through the Budget process.

The PHP 2021-2024 was extended to include 2024-2025 delivery by the incoming coalition government. It set out the Government's renewed social housing supply intentions and provides information about the location and number of the additional 3,000 social housing places it has committed to purchase, to be delivered in 2024-2025. The plan places greater emphasis on strengthening partnerships with iwi and Māori, Community Housing Providers (CHPs), Local Government and the construction sector.

There is a bipartisan support for growing social housing supply. A change in the Government in late 2023 has seen a shift in policy and approach to social housing by the Government, with a refocused expectation that CHPs will provide any net new social housing supply. It can be reasonably expected that there will be continued investment of new social housing supply, however, the pace of growth is a function of political Budget choices and not possible to predict.

It is expected that a new PHP will be released to guide investment in the provision of public housing post 2025 to more strongly reflect the policy shifting away from growing the Kāinga Ora portfolio with CHPs expected to take on the role of providing new supply.

In contrast, there is currently very little support from Central Government for affordable housing outside of IRRS-funded social housing. The only exception is support for those in acute need (transitional housing, emergency housing and homelessness programmes).

2.2.3 Government Social Housing Funding preferences

The Government's policy is to fund the 'net new housing supply' with a historical preference for public housing to be delivered as "build-to-own" (although recent comments by the Minister of Housing suggest this preference may be relaxing). In this model, the Community Housing Provider (CHP) retains ownership of the housing unit upon construction completion. The intent behind this

policy is to promote the long-term development of the CHP sector by favouring investments that enhance the organisation's balance sheet, thereby improving their capability to develop more housing in the future.

Where build-to-own developments are not an available option, "build-to-lease" (where the CHP leases the units from the asset owner) is also considered a viable option particularly if it can be delivered at a lower cost to the Crown.

Net new housing supply refers to funding housing places that are generated through the (re)development of a site, as opposed to a 'redirect', where existing houses, often those already in some form of affordable tenure, are moved into the social housing system. Historically, there have been two types of redirects:

- **Existing tenant redirects**: Where dwellings that have existing tenants eligible for social housing are able to receive IRRS; and
- **New tenant redirects**: Where existing dwellings can receive IRRS once the current tenant vacates and a new tenant off the Social Housing Register moves into the dwelling.

The Government has been progressively less willing to fund redirects as the priority has been on driving genuine new supply. A new policy was issued in 2024 saying that all future redirects will be by exception only (with no guidance on the process or standards to achieve an exception).

In the past, councils such Christchurch City Council and Auckland City Council have been able to benefit from redirects when establishing CHPs, providing them with access to the benefits of the CHP registration, but this will be more limited now.

Implications

Based on the current policy, redirects for existing tenants appear very unlikely at this point. While establishing a CHP used to provide a pathway to certain improvements in revenue over time, these benefits are now less certain. Under the current policy, establishing a CHP alone cannot be viewed as a route to a guaranteed additional revenue stream.

There still remains potential financial benefits to establishing a CHP. Redirects for new tenants for a portion of the portfolio seem more possible, subject to negotiation with HUD and the Minister and particularly if there is a growth-enabling story. However, there remains residual uncertainty about the rate at which the Government could or would fund redirects.

Regardless of redirects, a Council-established CHP could receive funding for any new supply. As this is the primary form of funding available for affordable housing supply, this will likely be critical to growing any portfolio at scale.

2.3 Recent trends (Market and funding trends)

The funding and policy environment for affordable and social housing regularly shifts, most recently with the change in the Government. The following table summarises recent developments and notes several possible future directions.

Recent developments	Possible future direction
The change of Government in late 2023 signalled a shift away from Kāinga Ora building new social housing supply, and instead focusing on growing the role of Community Housing Providers (CHPs) to deliver new social housing.	The Kāinga Ora review also identified the potential establishment of Housing Associations, which would take on ownership and management of Kāinga Ora assets on a more regional level. Kāinga Ora may undertake disposal of some of its existing sites. There is also the potential for a reversal of direction following the next change of Government.

Kāinga Ora is also reviewing all current developments.	
Growing number of vehicles for private investment in affordable housing (equity funds, CHP-focused debt and equity). Increasing retail banking comfort with lending to less-traditional models.	The government is introducing measures to enhance financing for CHPs, including making $70 million of Operating Supplement available upfront, adjusting IRRS contracts to attract financiers, and exploring credit enhancement options to provide CHPs with better access to debt on favourable terms, aiming for competitive neutrality with Kāinga Ora.
Widening pool of housing providers, particularly driven by growth in Māori housing providers and high demand for transitional housing and homelessness service providers in recent years. Local Government continues the trend of selling houses or shifting to arms-length entities.	Government interested in provider scale for social housing, transitional housing and other forms of supported housing. However, this may have less of an impact on Māori providers.
Growing diversity in approaches from affordable housing providers in general. Greater focus on 'affordable rentals' driven by fund availability. Differing approaches to rent setting, land ownership and management.	Diverse paths exist and are largely dependent on Central Government funding pathways and the willingness of key providers to fund and finance developments. Unclear whether recent financial support for affordable housing initiatives will be available in the future.
Affordable home ownership options are desired by many, and progress has been slower, but starts to increase. Many providers have struggled finding the right potential owners. Mix of out-right ownership, land-lease and rent to own models. Government appears to have paused direct support for Progressive Home Ownership.	Likely to grow with a focus on land trust / ground lease models and rent-to-own model. Likely to be aided as entities move past funding agreement periods and previous rentals can be sold.

3 Non-Council affordable housing supply in Whanganui

The Whanganui housing market consists of a number of state and non-state entities who provide subsidised affordable rental housing. These organisations and their presence are summarised below.

3.1 Kāinga Ora

Kāinga Ora is a key provider of subsidised rental accommodation in Whanganui. It currently manages 597 rental properties within the Whanganui District.

Table 8 Breakdown of Kāinga Ora social housing stock in Whanganui

Number of bedrooms	Bedsit	1	2	3	4	5	Total
Number of homes	-	87	304	164	39	3	597

Kāinga Ora has 13 two-bedroom homes currently under development in Whanganui and due to be completed by mid-2025. This includes eight on Egmont Street, three on Harper Street, and two on Puriri Street. These developments consist of a mix of projects where Kāinga Ora would replace older state housing with new homes at a higher density per site and cater for the increasing demand for more warm, dry and modern homes for individuals and families in the district.

Kāinga Ora has a number of projects underway to deliver more housing in Whanganui. However, these projects are uncertain as Kāinga Ora reassesses their viability after a Government-ordered review of the Crown agency. Beyond June 2025, the Government only plans to fund renewals and replacements of social housing units, maintaining the net supply level. This shift in policy has led to

stalled developments leaving empty development sites within the Whanganui township. Of the more than 300 projects being reassessed nationwide, 11 are in Whanganui, or 138 houses as listed below:

- Resource consent application for seven new homes at 101-103 Puriri Street has been approved by the local council and the development is currently under Kāinga Ora's assessment.
- The following homes are also under Kāinga Ora's assessment:
  - 15 new homes at 12-20 Maire Street and 95-97 Puriri Street;
  - 22 new two-storey homes at 1-13 Maire Street;
  - 19 new homes at 3-5 Akatea Street, 83-85 Harper Street and 1 Tui Place;
  - 31 new homes at 11-21 Churchill Crescent and 58-66 Smithfield Road Place;
  - 33 new homes at 10-20 Jones Street;
  - 9 new homes at 22-30 Marshall Avenue; and
  - 9 new homes at 12-14 Matarawa Street and 18 Wakefield Street;
- Additionally, Kāinga Ora purchased land at 3C Bignell Street, Gonville and 63 Kaikokopu Road a year ago and has been in the early stages of exploring how these sites could be redeveloped for new, fit for purpose homes. The organisation also purchased land at 32 Dehli Avenue, Aramoho which already had resource consent for subdivision of up to 10 homes.

If any developments are not advanced, Kāinga Ora may dispose these sites in order to fund other priorities.

3.2 Community Housing Providers

A number of CHPs are operating in Whanganui and the wider Manawatu district. A summary of these organisations and their activities is presented in Table 5 below.

Table 9 Regional CHP presence

CHP	Description
Habitat for Humanity New Zealand Limited Habitat for Humanity Central Region Limited	Habitat for Humanity New Zealand established in 1993 is a part of Habitat for Humanity, an international not-for-profit organisation, which began in the United States in 1976. They provide homes through affordable rental, home ownership, or other unique housing solutions, as well as ensuring and maintaining healthy home standards, and advocating for just and fair housing policies. Habitat for Humanity Central Region Limited's housing programmes and services consist of progressive home ownership, home repair programme, community rentals.
LinkPeople Limited	LinkPeople was established in 2016 by Keys Social Housing and Linkage. Their services include housing placements, sustaining tenancies, tenancy management and service navigation. They have their own housing that they support people to live in, and also help people access other social housing or properties in the private rental market. Especially, they have expert skills in working with people with experience of mental illness, addictions and homelessness, supporting them to transition from inpatient and residential care, community and emergency housing settings, into permanent, independent housing. In Whanganui, LinkPeople offers housing facilitation and acts as a social landlord to manage and sustain tenancies.
Trust House Limited	Trust House Ltd is a community-owned company based in the Wairarapa as a community landlord in Wairarapa and Tararua since 1999 and became New Zealand's first registered CHP in 2014. They provide affordable rental homes to

	low-income individuals and families in our communities who need them most. Trust House owns and manages almost 500 rental homes, from 1-bedroom units to 4-bedroom houses, in Masterton, Martinborough, Featherston, Pahiatua and Dannevirke.
Emerge Aotearoa Housing Trust	Emerge Aotearoa was established in 2015 and is a profit-for-purpose, charitable organisation that supports the oranga (wellbeing) for tāngata whaiora and whānau. With a mission to end homelessness in New Zealand, they provide a mix of housing services, including social housing, sustaining tenancy, transitional housing and emergency housing support, housing and support services to people leaving prison, and other social and care services.
Abbeyfield New Zealand Incorporated	Abbeyfield was introduced to New Zealand in 1991 and first established as a charitable organisation in 1992 in Nelson. They provide houses that are purpose-built for elderly people, creating a whānau environment, with 15 houses under management and six more currently in planning stages. Within the Manawatū-Whanganui region, Abbeyfield manages 12 tenants across studio units in Palmerston North.
Home in Place (New Zealand) Limited	Home in Place is a not-for-profit, regulated CHP, who offers specialist tenancy and property management services in Auckland and the regional North Island, from Wellington to Taranaki, including Whanganui. They provide tenancy and property management services and partner with Government and development partners to fund and deliver new models of secure, long term affordable, permanent housing. In a partnership with Soho Group, Home in Place replaced an old building with eight new purpose-built apartments for families as well as older residents with live-in carers.
Manawatū Community Housing Trust	Manawatū Community Trust was established in 2008 with the purposes of relieving poverty, providing housing, and promoting health and wellbeing of people within the Manawatū-Whanganui region. Their housing services include providing good quality, affordable housing and sustainable facilities, with 205 housing units currently under management and a forecast increase of 45 units by 2030, all of which are in Manawatū.
Tupoho Housing Limited	Tupoho Housing Ltd is a registered CHP in Whanganui. Their goal in housing space is to achieve housing opportunities for individuals, whānau, hapū, iwi and community within the rohe of Whanganui. Their housing services include Papakāinga, homelessness or transient, home ownership and rental of safe and affordable housing. The CHP currently have a partnership with Whanganui District Council under the Housing Governance Group and are a representative of Te Runanga ō Tupoho.

4 What have other Councils done?

Various housing models have been adopted across New Zealand to not only provide the appropriate housing supply but also enhance the wellbeing of older people and wider population in general. Through the Business Case process, several past examples were assessed to understand the experiences of several councils, highlighting their unique methodologies, challenges, and successes in creating supportive and sustainable housing environments, offering a roadmap that Whanganui can adapt to meet its specific needs and aspirations in housing growth. The following case studies were completed.

1. Te Toi Mahana (Council-established independent CHP)
2. UrbanPlus (CCO)
3. Haumaru Housing Leadership Partnership (CHP/JV)
4. Queenstown Lakes Community Housing Trust (Council Initiated CHP)

5. Council sales to Kāinga Ora or existing CHPs (Nelson and Tauranga)
6. Bay of Plenty Housing Equity Fund (investment fund)

From these case studies, a number of key findings were made. Notably that:

— Establishing a CHP is a common approach for councils exploring the future of their portfolios and provides a clear pathway for improving revenue;

— New CHPs require some form of equity when established to support them to develop new supply; and

— If an entity is not being directly capitalised, there needs to be some form of partner who brings the capital and expertise to undertake and / or accelerate developments.

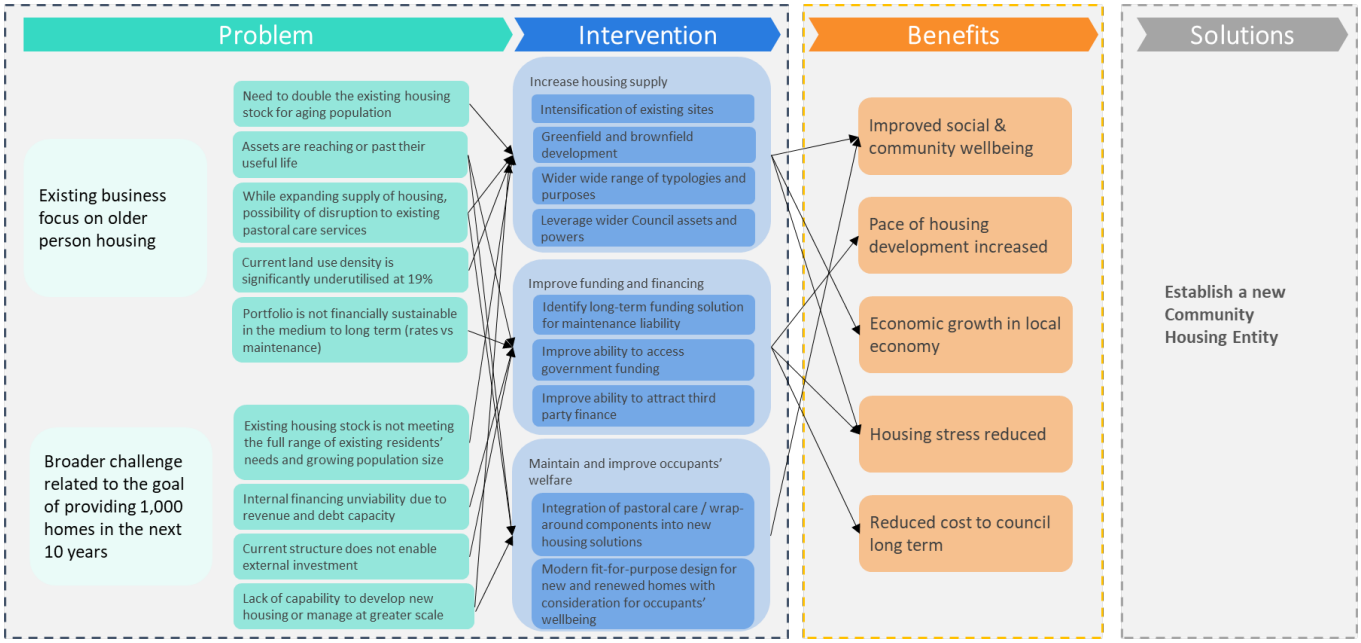
Refer to Appendix 1 for a detailed analysis of each case study.

5 The Case for Change

A facilitated case for change workshop was held in July 2024 to gain a common understanding of the business needs, identify the likely benefits expected from the investment and agree on the investment objectives.

In response to these challenges and the potential for growth and redevelopment, the Council has made the proactive decision to explore the establishment of a new affordable housing entity or a partnership with an existing entity. This entity would serve as a vehicle to expand and enhance the affordable housing stock in Whanganui.

Figure 12 Investment Logic Map



6 Investment objectives

The investment objectives define the desired outcomes for the proposed investment. At a facilitated case for change workshop held on July 2024, key stakeholders identified the investment objectives and reviewed the case for change for each of them.

The following section outlines the four investment objectives identified as part of the workshop process as well as the existing arrangements and business needs related to those investment objectives.

Table 10 Investment Objectives

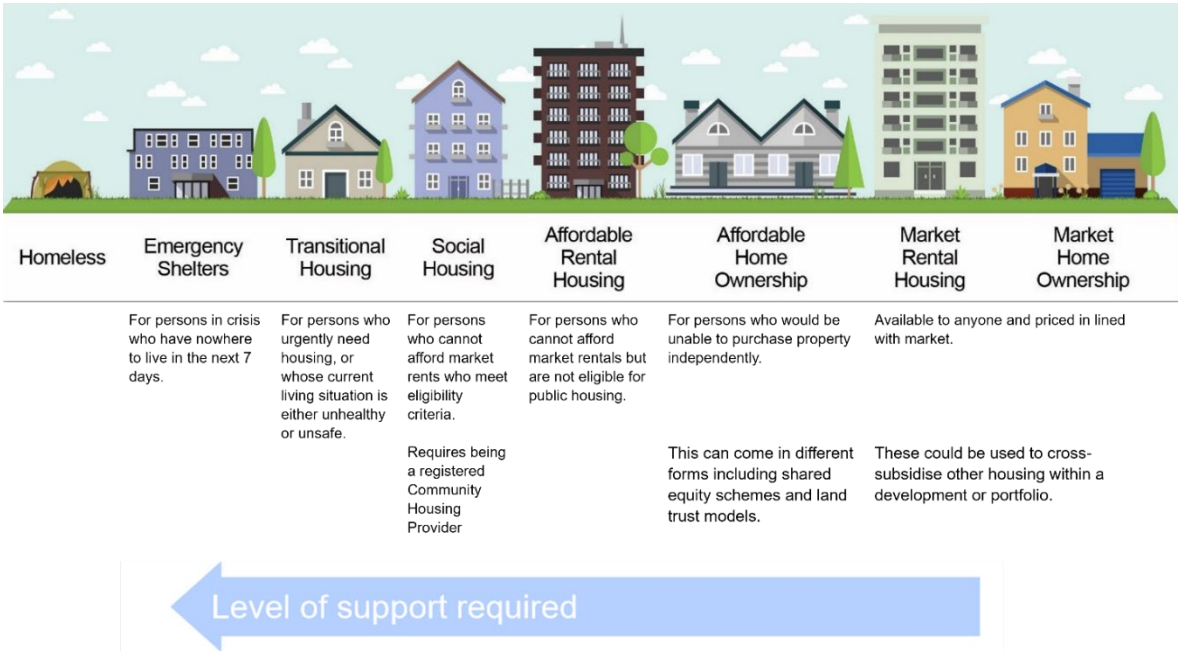
Investment Objective One	**Improve the supply of affordable housing in the Whanganui region by:** — **Growing the older persons' housing portfolio to maintain market share; and** — **Facilitating growth in a wider range of tenancies and ownership models.**
Existing arrangements	With the projected total population increase from 48,700 in 2022 to 53,000 by 2034, and the population of people aged 65 years and older forecast to continue increasing, Whanganui District Council aims to provide 1,000 homes in the next 10 years, including approximately 184-194 additional older persons' housing units by 2050. The existing housing stock is expected to be insufficient to meet the full range of existing residents' needs and the future population growth. Furthermore, internal financing is considered unviable due to the Council's revenue and debt capacity constraint, while the current structure does not enable external investment.
Business needs	The new entity requires the ability to deliver on council's growth ambitions. It must be able to attract government funding and private finance. This potentially includes, but is not limited to, the Income-Related Rent Subsidy (IRRS), Operating Supplement (OS), other government funding packages, developer contributions, and private equity funds. Better access to funding and increasing potential rental revenue will enable the delivery of 1,000 net new housing places enabled, including the focus of doubling older persons' housing and the rest for other purposes. The entity must further have capacity and capability to undertake investment across a range of affordable tenancies, possibly including affordable ownership models. This enables the nature of Whanganui's affordable housing provision to be flexible to changing requirements in the future.
Investment Objective Two	**Maintain appropriate affordability and social outcomes for existing and future housing occupants.**
Existing arrangements	Occupants of older persons' housing receive pastoral care, including specialised guidance, support, and assistance in accessing other service providers through Age Concern. Occupants live in largely appropriate dwellings, but most require modernisation and improvements to accessibility. Council's housing portfolio forecast predicts a 10-year average rental income of $294 per fortnight per house, or approximately 30% of the superannuation, representing roughly a 20% markdown from the median market rental rate. Improvements to the homes and levels of service are not financially feasible within current rent levels given that rents are set at affordable levels and no external funding can presently be accessed.
Business needs	The new entity in Whanganui needs to be able to set appropriate rents and ensure there is sufficient resources for pastoral care, as well as a high level of asset management practice. Pastoral care services are expected to be maintained at current levels, if not improved, and should be provided at an equitable basis for all current and future occupants. Furthermore, the entity must provide a path to improve the quality of existing housing assets, including their management, maintenance, renewals and redevelopment, as well as attracting and / or providing the resource for further development. This could be achieved through improved access to rental subsidy schemes.
Investment Objective Three	**Retain leadership of housing development and management locally.**
Existing arrangements	The council currently owns and manages older persons' portfolio.
Business needs	The approach to the development and delivery of housing reflects local context and needs, as well as enables a sense of community ownership of the entity and its activities. If the activities and functions are not carried by WDC or WDC controlled entity, they should have an appropriately local presence.
Investment Objective Four	**Establish the affordable housing service and portfolio to enable a stable, long-term financial footing.**

Existing arrangements	WDC complexes are ~98% compliant with the Healthy Homes Standards (HHS) and the older persons' housing portfolio met HHS by 1 July 2024 as per Government legislation, however the majority of the units are approaching or past their economic life (50 years on average) and would require maintenance / renewals to bring them up to modern standards. Furthermore, the portfolio only has two units with accessibility for wheelchairs. According to Turley's report, during the period from July 2019 to September 2022, around 88% of total rental income has been spent on maintenance, operating expenses and capital expenditure with some complexes having required expenditure over and above their generated rental income. This would not be financially sustainable in the long term.
Business needs	The entity must have or be able to raise the financial resources by improving the access or eligibility for a wider range of funding, both public and private, to address significant maintenance liability and meet the expectations of growth. There should be balance sheet separation for at least some of the assets and investments from the council's balance sheet to minimise the risk of adverse impact on WDC's financial position and / or borrowing capacity, ensuring better wider community outcomes. The entity must also be designed and incentivised to operate with commercial discipline alongside social outcomes focus so that the older persons' portfolio and beyond achieve operating profitability and eliminate expected operating loss.

7 Potential scope and services

A new housing entity has the potential to fulfil a range of roles and undertake a wide spectrum of housing-based activities. The housing system in New Zealand consists of a spectrum of housing solutions, which range in level of support, from emergency housing to provide shelter for those who are homeless, through to unassisted market rental and home ownership. These solutions also range in providers, funding models and complexity. The diagram below sets out the housing continuum at a glance.

Figure 13 The New Zealand Housing continuum



At a high level, the entity will focus on activities that involve a lower level of support to tenants, from social housing through to market rental housing, with some specific callouts below:

Affordable rentals - Affordable rentals seek to offer below market rent to tenants who do not qualify for social housing. The percentage of market rent can vary depending on costs and willingness to introduce operating subsidies to the model. Council currently occupies the subsidised affordable rental housing space and all tenancies offered are affordable. Affordable rentals are likely to always remain the core of the housing portfolio, for older persons who require a lower than market rent.

Social housing – Social housing, as described on section 2.2.1 provides the primary means to financial sustainability for the portfolio and has been identified as a key area of growth. Social housing could be offered to the existing tenant profile and those who are eligible for social housing. Generally new social housing tenants will be those with the highest assessed need on the Social Housing Register. Key activities of a social landlord include:

- allocate housing based on need;
- navigate tenants to appropriate support services such as budgeting and financial assistance, employment support, mental health and disability services, as well as engage with tenants to ensure they are able to access these services;
- provide responsive and adequate property maintenance; and
- provide opportunities for tenant involvement in the organisation (e.g. tenant surveys, tenant representation on the Board, exit interviews with tenants).

7.1 Out of scope

Although there is an undeniable need for emergency and transitional housing services within the region, these are not within the scope of the new entity's operations.

Emergency and transitional housing requires specialised support that encompasses not only providing a temporary place to stay but may also involve a range of services such as counselling, healthcare, and job training to help individuals and families transition to stability. The governance and management of emergency and transitional housing involve complexities such as crisis intervention, case management, and ongoing monitoring, which would demand a focused allocation of resources and potentially specialised staff.

These support services differ from the requirements of social and affordable rental housing, which primarily focuses on providing sustained, more permanent housing solutions at a much lower level of intervention into the households' lives. The Council has determined that incorporating these responsibilities would divert focus and resources away from the core purpose of the new entity, which is to manage and expand social and affordable rental housing portfolios effectively.

Furthermore, the Council believes that there are specialised organisations and agencies already equipped and experienced in delivering emergency and transitional housing services. These agencies have the expertise and focused mission to address the immediate and transitional needs of individuals in crisis. Therefore, it is more effective to allow these organisations to take the lead in this area while the new entity concentrates on long-term housing solutions, ensuring a better allocation of resources and higher efficacy in meeting the specific needs of the community.

8 Benefits

The business case is expected to yield a range of benefits and disbenefits. While benefits are commonly understood, disbenefits are potential negative impacts or drawbacks that may result from the business case or occur alongside the benefits when implementing a change.

The Projects key benefits are summarised below, noting the Management Case section of this report expands on these further.

- Access to additional funding and finance streams;
- Improved ability to achieve growth ambitions;
- Reduced regional housing stress;
- Improved occupant wellbeing; and
- Improved operational efficiency.

9 Risks

The following table summarises the key risks associated to achievement of the investment objectives. These risks cover the delivery and operation of the preferred options how and the Government policy landscape affects them. A mitigation strategy is in place for each of the risks, which should leave a low post-mitigation impact on the potential entity establishment at the aggregate level. The more fulsome approach to risk management, including the ownership and management of risks is discussed in the Management Case section of this report.

Table 11 Current risk analysis

Main Risk		Likelihood (H/M/L)	Impact (H/M/L)	Comments & Risk Management Strategies (Mitigations)
1	If the Council does not modernise or dispose of poor-quality housing, they may not comply with the regulatory and legislative requirements under the Residential Tenancies Act (1986) and the Healthy Homes Guarantee Act (2017).	L	H	While properties require modernisation, all currently meet the Healthy Homes Standards. A new entity should be empowered to invest in or dispose of assets.
2	If a willing partner cannot be identified to partner in the establishment of a new entity, there will be reduced options for the potential solution. Council will also likely bear all the establishment costs of a new entity.	M	M	Be clear on the partnership proposition when going out to market to generate a strong market interest.
3	If the Crown does not support sufficient redirect of properties to be subsidised by the Income Related Rent Subsidy, then portfolio revenues are unlikely to provide for the cost of renewal.	M	H	Demonstrate the growth that could be achieved through investment in Council's housing portfolio.
4	If the Council does not manage the transition of tenants and staff to the new entity well, this may negatively affect tenants' welfare and staff attrition.	L	M	Employ strong change management processes that are grounded in clear and regular communication with those impacted.
5	If the Council cannot identify willing investors for the equity fund, then the option will not be viable.	M	H	Approach investors early to understand demand for a fund, prior to investing significantly in progressing its design.
7	If Council / a partner does not capitalise the entity, it may have insufficient equity to borrow against to finance development.	M	M	Find partners with deployable capital. Transfer housing assets below at below market value.
8	The entity does not prioritise growth at a pace consistent with the ambitions of	M	M	Utilise provisions through the asset transfer process to

	Council, focusing largely on the management of existing tenancies.			incentivise partner's development behaviour.
9	WDC approaches the market before high value potential partners are positioned to respond effectively to an RFP.	**L**	**M**	Consider partner's ability to respond when timing RFP releases to ensure maximum responses.
10	Any private sector partner achieves unreasonable profits enabled by transfer at below market value.	**M**	**M**	Assess a fair sale price that reflects a balance of outcomes achieved through the transfer versus the potential profit a partner may achieve.
11	Process delays lead to long establishment time frames.	**M**	**M**	Active project management is required to maintain the pace of change. Clear articulation of roles and responsibilities will support this.
12	If appropriate controls are not in place, existing tenants may see rents raised to unaffordable levels	**L**	**M**	Consider rent setting protection mechanisms through the lease and / or partnership arrangements.

10 Key constraints, dependencies and assumptions

The proposal is subject to the following constraints, dependencies, and assumptions.

Management strategies have been developed to record these and they will be regularly monitored and managed during the project.

Table 12 Key constraints, dependencies and assumptions

	Constraints	**Notes**
C1	Council's ability to financially capitalise a new entity	The Council has competing pulls on its balance sheet which result in limited capacity to invest out-right in housing activities at a level that would achieve its housing goals (either through cash or taking on debt).
C2	Council's ability to leverage its own borrowing capacity to drive growth	
	Dependencies	**Notes & Management strategies**
D1	Enabling planning and infrastructure environment	The Whanganui District Council is separately undertaking a process to review its District Plan for the region. Under any model proposed by the business case, the ability to achieve regional housing growth at the necessary scale (e.g. 1,000 homes over 10 years) will be dependent on local planning provisions allowing for that growth. Without this, developers will be limited in their ability to consent new housing projects.
D2	Availability of IRRS funding	The social housing system provides by far the most commercially viable means for an entity to grow affordable housing at scale and build up its asset base over decades in a way that supports other affordable tenures. However, the ability to improve the financial sustainability of the portfolio by accessing the Income Related Rent Subsidy is heavily dependent on the availability of that funding. In 2024, the Government signalled a move away from 'redirects', such that these will be by exception only. While the availability of IRRS has been signalled for 'net new supply', funding for existing tenancies is uncertain. While it does not entirely erode the case for a new entity, the revenue benefits of establishing a new entity are heavily dependent on the ability to access IRRS. To manage the risk, the Council will engage early on options for accessing the IRRS.
	Assumptions	**Notes**
A1	The primary ownership of assets will remain for affordable housing purposes	Under any model proposed through the business case, it is assumed that the level of tenancies provided for older persons housing will be maintained to at least current levels. No decline in provision will occur, except in the short term where assets are required to be disposed of for strategic purposes.

Economic Case

The purpose of the Economic Case is to identify the option that achieves the investment objectives and optimises value for money. Having determined the strategic context for the establishment of a community housing entity in Whanganui and established the case for change, the economic case:

- identifies the critical success factors;
- generates the set of long list options;
- undertakes an options assessment to identify a limited number of short-listed options; and
- identifies a preferred way forward based on the short-listed options.

The preferred way forward forms the basis of the further analysis completed in the Commercial, Finance and Management Cases.

Based on the assessment detailed below, the establishment of the Joint Venture Community Housing entity is recommended. This decision reflects the enhanced ability of a joint venture to attract external capital and expertise which may not be accessible to the Council alone and to a lesser extent the efficient benefits of greater scale this offers.

The Joint Venture option was selected from a longlist of eight options, each assessed for its potential to meet the investment objectives and critical success factors (collectively termed the Assessment Criteria). Each assessment criteria was assigned a specific weight based on its importance to the overall investment priorities. This weighting ensured that the most critical factors had a more significant impact on the evaluation outcome. Each of the eight options was then evaluated against the weighted assessment criteria. The performance of each option was scored, reflecting its ability to meet the key priorities.

From this assessment, four options were identified as either not viable or unlikely to achieve the intended investment benefits, and the remaining four options that showed the highest potential to meet the assessment criteria were taken forward as the shortlist. All options involved establishing a new housing entity being to take on the management of the housing portfolio. The assessment considered whether:

— it would result in the growth of affordable housing supply;

— occupants experience of their property would improve;

— Council's leadership of housing outcomes would be maintained; and

— the financial viability and sustainability of the portfolio would improve.

This assessment clearly identified that Option 3 – Establish a Joint Venture, will best achieve the Assessment Criteria.

In addition to the core focus of the Business Case on an entity for ongoing management and development of the Council's housing portfolio, there was a recognition that a Council-enabled housing entity alone was unlikely to be sufficient to fully address Whanganui's affordable housing needs, which will require effort from a wide range of participants. Therefore, potentially complementary actions / investments were also considered. These were primarily considered as part of the long-list identification and assessment.

1 Critical success factors (CSFs)

At a facilitated options workshop held on 30 July 2024, the following critical success factors were confirmed by WDC and represented the criteria that a preferred option must align with in order to be short-listed.

Table 13 Critical Success Factors

Critical success factor	Overview	WDC specific consideration
Strategic fit and business needs	How well the option: – Meets agreed investment objectives; – Meets related business needs and requirements; and – Integrates with other strategies, programmes and projects.	– Alignment with the investment objectives of WDC to deliver the target housing supply. – Ensure a degree of localism and Council leadership while maximizing partnership opportunities. – Supports wider Council long term housing ambitions with respect to urban development.
Potential value for money	How well the option: – Optimises value-for-money with the optimal mix of benefits, costs and risks; and – Optimises public value with wellbeing benefits being considered.	– The ability to maximise development of affordable (older persons' and beyond) housing that supports the economic prosperity of Whanganui within likely resourcing constraints. – The extent to which housing supported by a new entity can provide better housing outcomes 'per dollar' than what other local parties are able or willing to provide. – Minimise the disruption of development to existing tenants and maintain responsibility to cater for wellbeing of future tenants.
Supplier capacity and capability	How well the option: – Matches the ability of potential suppliers to deliver the required services; and – Is likely to result in a sustainable arrangement over the contract term.	– The appetite and capability for the property developers to partner with and be involved in housing development facilitated by WDC. – The capability for and the degree of involvement of the entity in delivering the target housing supply over the long term.
Potential affordability	How well the option: – Can be met from likely available funding; and – Matches other funding constraints.	– Expected investment required. – Expected access to IRRS and other Government funding. – Attractiveness and accessibility of private capital. – Balance sheet impacts – including constraints (ie borrowing capacity). – Council willingness to invest given competing priorities.
Potential achievability	How well the option: – Is likely to be delivered, given the organisation's current ability to respond to the changes required; and	– Ability to attract the right capability under different organisational models. – The availability and willingness of partners necessary for the viability of some models (e.g. local CHPs).

	– Matches the level of available skills required for successful delivery.	– The long-term durability of the solution and council's exposure to housing market and political changes.

2 Long-list options and initial options assessment

2.1 Dimensions of choice for long-list options assessment

The purpose of this activity is to identify and assess a wide range of project options that meet the investment objectives and service requirements, and which lie within the scope boundaries identified above and meet the critical success factors.

A long list of options was developed based on five key elements that shape the structure of an entity. These elements incorporate crucial considerations, scope and scale choices, and play a vital role in establishing the community housing entity. Additional dimensions mentioned in section 2.2 are considered less significant at this point and are not included in the options analysis.

Table 14 Possible choices identified by dimensions of choice

Dimension	Choices within each Dimension
Housing models What types of housing does it provide / deliver?	1. Pensioner housing (rental policy set at % of superannuation) 2. IRRS social rentals (IRRS and OS funded housing places) 3. Affordable rentals (subsidised rental housing, e.g. 70-80% of market rent) 4. Market housing rentals 5. Market housing sales (build to sell) 6. Progress home ownership products
Functions What activities does it undertake?	1. Tenancy management 2. Pastoral care services 3. Property management (maintenance and renewals of existing managed properties) 4. New property development (for sale or rent) 5. Development facilitation (e.g. on council-owned land) and partnering 6. Management of housing equity fund (e.g. focused on investing in housing products that generate a return for shareholders)
Existing portfolio What is the relationship with the existing pensioner portfolio?	1. Council retained (no change) 2. Lease to new entity 3. Transfer (for nil consideration) 4. Transfer (for purchase price)
Form How is the organisation structured?	1. Internal to WDC (e.g. separate unit / team) 2. Council-Controlled Organisation 3. Independent organisation operating at arm's length of the Council

Funding How are the activities funded?	1. Occupant rental revenues 2. Government subsidies (e.g. IRRS, OS) 3. Council funding (e.g. upfront capitalisation, operating shortfalls, property gifts) 4. Asset disposals 5. Development margins 6. Inclusionary zoning revenues (if available)

2.2 Dimensions discounted

When conducting an assessment of dimensions of choice to evaluate the long list of options, the Council opted to discount certain dimensions that were deemed as less influential in the establishment of the community housing entity at this stage. Nevertheless, it was acknowledged that these dimensions would carry significance during the entity's operational lifespan.

Table 15 Discounted dimensions

Excluded dimension	Reason for exclusion
Functions Wider urban development activities (e.g. site identification and land agglomeration)	How to achieve the best urban development outcomes for the Whanganui District were considered out of scope of this business case.
Existing portfolio Market sale	The Council is invested in protecting and growing the provision of local subsidised affordable rental accommodation. A market sale was considered counter to these objectives.
Existing portfolio Sale to Kāinga Ora	The Government's policy shift away from growing the Kāinga Ora portfolio means a purchase is highly unlikely under the current government.
Investment scale What is the scale of investment is required?	This will be resolved through the financial case, once a preferred option has been identified
Timing / Pace How quickly is the organisation established?	The pace at which the organisation is established was considered secondary to whether an organisation should be established and will be resolved in later stages of the business case.

2.3 Options identification

Combining the feasible choices within each of the dimensions, a long list of options has been developed as shown below.

Table 16 Long-list of options

Long list option	Intent
Status quo – existing portfolio maintenance	
1. Status quo with portfolio growth	Meet ambition to grow older persons' housing portfolio with minimal complexity.
2. Establish a CHP / lease or transfer	Access new revenue streams to grow affordable housing supply while maintaining council influence.

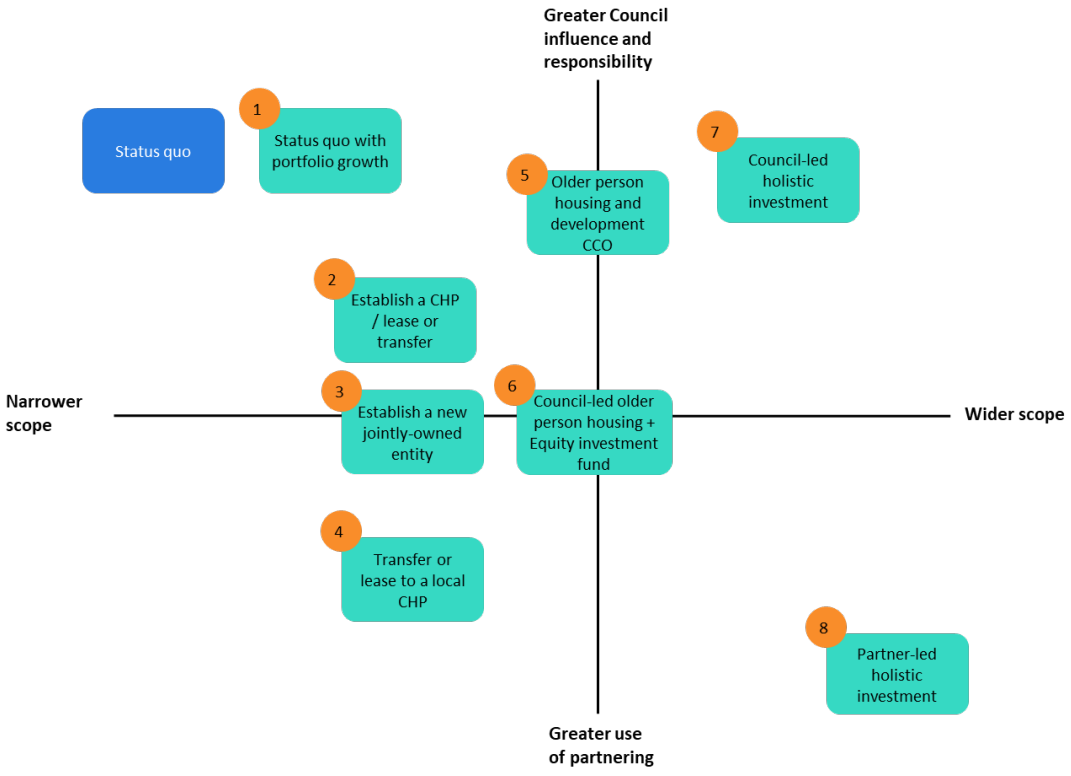
3. Establish a new jointly owned entity (JV)	Access new revenue streams to grow affordable housing supply while maintaining council influence as well as leverage partner experience and capital.
4. Transfer or lease to a local CHP	Access new revenue streams to grow affordable housing supply while avoiding complexities and cost of entity establishment.
5. Older person housing and development CCO	Provide means for focused growth of older persons housing portfolio and leverage Council's assets to support wider housing outcomes.
6. Council-led older person housing + seeding of an equity investment fund (modelled on Bay of Plenty Housing Equity Fund)	Meet the ambition to grow older persons' housing portfolio with minimal complexity while crowding in investment and expertise to support wider housing outcomes.
7. Council-led holistic investment (Council-led older person housing + seeding of an equity investment fund + Council affordable housing development facilitation)	Enable a wide range of housing outcomes while maintaining as strong a Council leadership role as practical.
8. Partner-led holistic investment (Transfer or lease to a local CHP + seeding of an equity investment fund)	Enable a wide range of housing outcomes leveraging external capability and capital while maintain local (but not Council) focus and leadership.

The long-list options can be viewed against two dimensions, including:

Scope: the potential degree of housing supply that the option could deliver, ranging from only maintaining the existing older person portfolio to delivering 1,000 social housing units.

Council's influence: the potential degree of leadership, involvement and influence that could be illustrated by WDC under the option arrangement, ranging from Council retaining complete ownership to diverting to partnership.

Table 17 Long-list option set summary against scope and Council's influence



2.4 Long list options assessment

The following tables set out the assessment of the long list options.

1. Status quo with portfolio growth	Progress to short list

The Status Quo option assumes that there are no changes to the current management of the portfolio and that operations continue as normal. It involves the Council maintaining and developing older persons' housing portfolio as per the current LTP, with opportunities for expansion constrained by the availability of Council funding. While the option provides limited advantages, it is a viable option and has therefore been taken forward for further assessment.

Key advantages

- A highly achievable option that requires no intervention from Council beyond that which has already been committed.
- Council continues to receive rental income from the existing older persons' housing portfolio.
- Council retains the entirety of asset ownership and leadership roles.

Key disadvantages

- Rental revenue from existing older person housing will remain the same. There is no opportunity to access a subsidy (for example IRRS) to improve the revenue quality as a whole.
- All maintenance costs remain with the council. It has been highlighted in the previous reports that maintenance costs have almost caught up to rental revenue, making it unaffordable to maintain and renew the older persons' housing portfolio. Therefore, if rental rates and maintenance costs remain unchanged and with the Council, the portfolio will continue to be unaffordable for Council.
- Limited internal funding and no access to external investment to deliver housing for wider range of purposes will constrain the ability to grow and diversify the portfolio.
- Will not deliver Council's ambition to grow the portfolio and improve outcomes for occupants.

2. Establish a CHP / lease or transfer	Progress to short list

Under this option, Council establishes a CHP to transfer or lease the portfolio, enabling the CHP to manage and potentially lead new housing development. This enables access to government funding while allowing the council to maintain influence.

Key advantages

- Offers a viability pathway to financial sustainability through improved accessibility to Government and other external funding to develop new housing supply.
- A straightforward establishment pathway likely offers the lowest risk approach to achieving Council's intended objectives.
- New occupants' affordability may improve as compared with the status quo, with gradual access to IRRS.
- Housing specific governance means a new organisation could be better positioned to focus on / deliver on occupant needs.
- Provides scope for Council to maintain a relatively material leadership role in the governance of the assets.

Key disadvantages

- Under the transfer sub-option, Council loses rent related revenue which will result in an (albeit small) balance sheet impact that would need to be considered.

- Growth of affordable housing supply is contingent on either Council capitalisation or the CHP having sufficient balance sheet.
- Uncertainty on the Government's willingness to fund redirected IRRS places is a material risk and detracts from the otherwise potential benefits of the option.

3. Establish a new jointly owned entity (JV)	Progress to short list

Under this option, Council forms a JV with one or more organisations, potentially including a CHP, to establish a partnership with shared responsibility for managing and developing the housing portfolio. The option offers a middle ground between independent control and full transfer of responsibilities. As the portfolio is either transferred, gifted or leased by the Council to the new entity, which is a JV under this option, the impacts on Council and the new housing entity's financials as well as the portfolio growth will be relatively similar to option 2.

Compared to a Council establishing a new CHP, a JV partnership offers already the benefits of established relationships with third parties that facilitate borrowing, as well as access to appropriate skills from experienced partners in the housing development sector. This option appears more financially viable and sustainable, with the potential for accelerated housing growth. While Council leadership is reduced as shared with the potential partner(s), local leadership could still be fully retained.

Key advantages

- Partnership with one or more parties in the governance and operation of the new entity provides additional sources of capital that Council would not otherwise have access to.
- Most viable route to developing housing supply beyond the older persons' housing needs, given the additional sources of capital and capability which a partner can provide.
- Inclusion of a local partner meets localism objective while also introducing an additional source of funding.

Key disadvantages

- This option is only viable if appropriate and willing partner(s) can be identified, and acceptable terms (for all parties) can be negotiated.
- Council loses rent related revenue and the balance sheet implications of this would need to be tested.
- Establishment and legal costs to develop the partnership arrangements are likely to be higher than options which do not require a partner to be identified.
- There are implementation risks associated with working in partnership (e.g. risks of competing objectives between partners).

4. Transfer or lease to local [social service provider]	Progress to short list

Under option 4, Council either transfers or leases the portfolio to an existing local social service provider, which could be an existing, registered CHP. The option mirrors options 2's (establishing a CHP then transfer or lease) function, without the requirement to establish a new entity.

While the potential for the older persons' portfolio growth is not eliminated under this option, any growth would be contingent on the CHP and its ability to finance developments. The portfolio presently makes a modest cash surplus and an accounting loss. Requiring a partner to pay a lease payment or finance the purchase cost of the portfolio is expected to negatively impact the organisation's ability to then undertake any form of development. As such, the options to either sell the portfolio at cost or lease the portfolio under a commercial lease arrangement have not been assessed further.

Key advantages

- Despite the CHP not being council-related, the Council may still show some level of involvement. The option can enable access to new revenue streams for expanding affordable housing without the complexities and costs of establishing a new entity.
- There is flexibility to transfer assets to an entity that has ambitions to become a CHP in the future, expanding the pool of partner options.

Key disadvantages

- Only viable if there are appropriate and willing partners (existing local CHP).
- Local leadership is retained, but Council involvement is minimal, particularly if assets are transferred.
- It is very difficult to ensure growth of the portfolio. Growth of non-IRRS older persons housing is unlikely.
- Likely partners (CHPs and / or local social service providers) are unlikely to have the capital of development expertise to facilitate the level of growth Council requires.

5. Older person housing and development CCO	**Not assessed further**

Under this option, the Council would establish a Council-Controlled Organisation (CCO) to manage the older persons' housing portfolio and support broader development.

This option focuses mainly on the growth of older persons' housing under non-IRRS affordable tenancy, where the CCO provides a broader development facilitation mandate and the Council's role in the provision of older persons' housing is maintained, satisfying the strategic goal of retaining local leadership.

On its own, a CCO does not improve either the financial viability or sustainability of the portfolio. On this basis the option has not be assessed further.

Key advantages

- Establishment of a CCO maintains Council involvement and leadership in the provision of subsidised housing in Whanganui.
- Establishment of a CCO provides a relatively low-complexity establishment and transaction process.
- A CCO may be better equipped to maximise the redevelopment of existing portfolio and new developments through mixed-tenancy and ownership.
- Improved commercial focus and the ability to attract and retain specialist staff as compared with the status quo.

Key disadvantages

- Establishment of a CCO offers limited benefits over and above the status quo, as it introduces establishment costs and additional management costs, without a pathway to improve revenue.
- CCOs are precluded from accessing IRRS. Without the ability to access government subsidies, the only potential additional revenue stream will come from development facilitation and portfolio growth.
- The viability of portfolio growth is contingent on Council's ability to capitalise the entity, which currently appears highly constrained.

6. Council-led housing + equity investment fund	**Not assessed further**

This option is similar to the status quo, with the addition of Council involvement to catalyse a local housing equity investment fund to grow the older persons' housing portfolio. An example of such fund is BoPHEF, which despite its complexity, can attract investment and expertise for broader housing outcomes.

As the Council's ownership role of the older persons' housing portfolio remains unchanged, there will be no benefits to rental revenue as Government subsidy stream remains inaccessible. While the introduction of a fund offers potential commercial returns, the majority of responsibility and material capital investment

resides with WDC as partners' funding availability and required return on equity are uncertain. The uncertainty is likely to make this option financially unviable and unsustainable, therefore it has not been continued for assessment.

Key advantages

- Potential to crowd in capital from both public and private partners for investment in a range of affordable housing outcomes.
- Leverage external investment and development expertise to catalyse affordable housing without the need to build large in-house apparatus.

Key disadvantages

- Material capital investment is required from WDC. Interest in equity investment from other partners is uncertain.
- Uncertain whether immediate Whanganui region has a sufficiently large catchment for the model. May need to extend fund coverage to adjacent urban areas.
- Unclear whether fund management fees received by Council would provide sufficient revenue to cross subsidise the capital repair programme.

7. Council-led holistic investment	**Progress to short list**

This approach involves the Council establishing a CHP (option 2) and a development facilitation and equity investment function through a CCO or a Council unit (option 5). The CHP would have the same function as option 2, with the added responsibility of development facilitation from the Council through the CCO / Council unit.

This option is likely to enable the older persons' housing portfolio to double, with a potential for housing development for other purposes and diversified typologies. Although it allows both the portfolio growth and wider housing outcomes while preserving local leadership, establishing and operating two new entities is highly complex and will come at a direct cost to Council. At this stage, the viability of an equity investment fund is highly uncertain.

Key advantages

- The advantages included in option 2 (Establish a CHP / lease or transfer) and option 5 (Older person housing and development CCO) as outlined above.
- Enables a variety of housing outcomes while maintaining a strong Council leadership role.
- Separate functions allow for a 'neutral' development facilitator.

Key disadvantages

- With two entities being established under this option, a CHP and a CCO / Council unit, the Council will need to bear approximately doubled the costs of establishment and transfer.
- Development capital and capital costs related to renewal and retaining of any assets will also be borne by the Council, with the growth of the older persons' housing portfolio and broader housing reliant heavily on the contribution of Council's capex.

8. Partner-led holistic investment	**Not assessed further**

This approach mirrors option 7, with the exception of the portfolio being transferred to an existing CHP (option 4), an establishment of an equity investment fund for future housing development and an additional function of development facilitation within the Council.

This option is expected to best enable portfolio growth under both non-IRRS and IRRS affordable tenancies as a benefit of a CHP. Furthermore, the facilitation of housing development for wider market is more likely under this approach as Council would be investing in a development facilitation role. On the other hand,

local leadership is of less focus and the financial viability and sustainability is significantly contingent on the existence and willingness of appropriate partners. Partnership is a critical risk of this option.

At this stage, the viability of an equity investment fund is highly uncertain, therefore the option has not been assessed further.

Key advantages

- Option 4's (Transfer or lease to local CHP) advantages as outlined above.
- Most likely to deliver the business need of growing affordable housing supply in Whanganui.
- Utilises external funding and capital management and provides fiscal certainty for Council following initial transactions.
- Enables a wide range of housing outcomes leveraging external capability and capital while maintaining local (but not Council's) focus and leadership.

Key disadvantages

- Outcomes inherently less predictable.
- Likely highest upfront costs to implement.
- Council role largely "hands-off" outside of development facilitation.

2.5 Assessing the long-list options to develop the short-list.

During the workshop on 20 July 2024 and a subsequent discussion on 06 August 2024, the long-list options were assessed against the Assessment Criteria to select and refine a short-list of options.

In the first phase of assessment, shortlisted options included both the core entity options and complementary options for achieving housing growth to provide a holistic sense. Given the overlap between some features of the remaining options, the short list for the primary focus on entity options was restructured along those options that had been retained through long listing. In practice, this meant the exclusion of a CCO, but the retention of other equity options.

On the basis the short-list is:

Option 1: Status quo option (retained as a baseline comparator)

Option 2: Establish a new arms-length housing entity (do minimum option)

Option 3: Establish a new jointly-owned entity (the preferred way forward)

Option 4: Transfer/ lease to an existing local social service provider

2.5.1 Market sounding

A key input to the shortlist options assessment was feedback from the market on the viability of the different options. To inform the assessment, KPMG, on behalf of Council, approached several registered CHPs, developers, and housing investors to get their views. The primary purpose of the meetings was to determine the level of interest and appetite for partnering, purchasing, or leasing a housing portfolio. Specific attention was focused on understanding features that make potential partnerships more or less attractive, the viability of partnership options, and the Council's role in development.

This market sounding primarily focused on:

- Existing Community Housing Providers and other social service and housing providers; and
- Property developers and investors with experience in social and affordable housing.

The primary insights from these sessions is summarised in Table 14 below.

Table 18 Market sounding summary

Interest in managing the existing portfolio	Organisations saw the opportunity to own or manage a 275-unit portfolio attractive, but noted challenges: — A shared concern about the viability of accessing IRRS funding; — CHPs are wary of stepping into regions without clear governmental support signals; — CHPs need assets to be at a maintainable standard to support financial viability and whānau Hauora; — Importance of a clear strategic plan at the Council level and pipeline certainty from HUD; — No parties were interested in inheriting a capital liability; — CHPs were concerned about limited capital for reinvestment in properties; and — Investor / developers were more optimistic about their ability to deploy capital.
Interest in asset transfer and Joint Ventures	There was general appetite for a full asset transfer, lease or JV arrangement: — Parties were open to a range of partnership structures; — Stipulated a need clarity in decision-making processes; — JVs with assets transferred at fair market value were seen as viable but some noted this would require rents to be raised; and — Fair market value transfer seem to impede future development opportunities.
Attractive factors for deals	— Clarity in political and strategic expectations (both at the Central and Local Government levels); — Flexibility in rent setting; — Autonomy in operations; — Concerned about fair market value assessments and potential capital constraints; — Interested in the prospects of long-term, scalable projects with clear capital and growth commitments; and — Parties would seek a partnership arrangement that is conducive to raising additional capital and attracting development expertise.
Appetite for Development	Parties were asked what their interest was in undertaking developments in Whanganui: — **Investor / Developers:** Interest varies but generally inclined towards projects promising clear economic returns and scalability over the 5-10 year span. — **CHPs:** Limited self-financing capacity but possess strong adaptive reuse and operational capabilities. Interested in partnerships that provide financial viability and community benefits. — **Both:** Development would substantially hinge on HUD purchasing intentions for Whanganui.
What will they not do?	— **Developers and Investors:** Hesitant to engage in roles requiring significant upfront capital without corresponding returns, especially in markets with equity limitations. — **CHPs:** Unwilling to undertake roles that involve holding assets without sufficient rent subsidies or outside capital investment.

Market Sounding Conclusions:

Based on this non-exhaustive market sounding there appeared to be a viable range of potential partners that could bring capital, development and management experience, and sector credibility that it would be difficult for the Council to achieve on its own subject to:

- Council openness to a wide range of potential partners including national-scale CHPs, for-profit entities and organisations with little or no existing Whanganui activity.
- Willingness to transfer assets (initially or on a deferred basis) at below market value reflecting the required long-term social good purpose.
- An efficient partner procurement process with high quality information on unit condition, supported by a clear political mandate from the Council.

In evaluating these options, it is assumed the Council will be able to satisfy these conditions.

2.5.2 Short-listed options

The summary assessment of each short-listed option is included below.

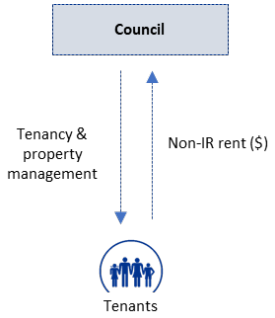
Status quo

Assessment summary:

Under status quo, Council will maintain and manage the older persons' portfolio, as well as is responsible for the development of the portfolio. This option enables the expansion of older persons' housing supply to meet the Council's growth ambitions with minimal complexity and higher level of achievability and allows Council to retain full control of the portfolio. However, the scale of the expansion will be relatively small compared to other options due to the unavailability / limitation of government subsidies and external funding and financing.

Key elements:

- Council continues to own and manage all houses.
- Retains all of the revenue and costs.
- Any growth would likely need be financed through Council borrowing and subsidised with rates revenue.



Market implications:

Status quo is a business as usual option that would not require the Council to approach the market for a partner or to establish any entity. On this basis, it provides the simplest and most achievable pathway.

The option assumes that Council would either fund or attract funds for development. Given Council has limited means to fund developments from its own balance sheet, it relies on Council's existing and future relationships with market players to enable the future delivery of housing growth. Discussions in the early market sounding suggested that there was appetite from property developers to partner with council on developments, across a range of typologies. However, unless Council was open to leasing, it is unlikely it would have the capital to meaningfully engage. It may be difficult to leverage existing property holdings in this way.

These factors combine to suggest that council is unlikely to achieve its intended housing growth under this option. Accordingly, it appears to *not meet* the housing growth investment objective.

Financial implications:

For council:

- WDC retains the $2.1m of annual revenue and benefits from any future increase in the rent charged or portfolio growth. However, there will be no access to IRRS subsidy revenue stream.
- The entirety of capex and opex will be borne by Council.

As previously noted, without an additional stream of revenue, the current levels of revenue and costs are unsustainable to maintain the portfolio.

Key option risks:

Absence of outside capital and development experience reduces ability to grow	**High risk**
Absence of housing development capability within Council	**High risk**
Constrained ability to fund requisite property renewals	**High risk**

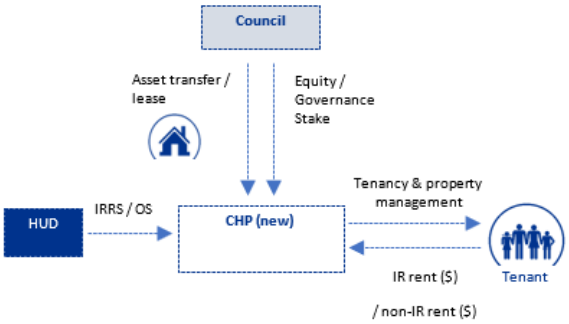
Option 2 – Establish a CHP

Assessment summary:

Option 2 is a viable option that provides a platform for new revenue as it does not rely on the identification of partners, however, the timeline for delivering the investment benefits is likely to be slower than options requiring partnership and it is a potentially less efficient option due to the modest scale of the portfolio.

Key elements:

- Council establishes a standalone entity
- It has a governance stake in the new entity at a level that Council decides (<50%)
- Existing staff and resources would likely be transferred in
- The new entity would need to register as a CHP to access the potential revenue benefits
- Partnership occurs at the development level on a project-by-project basis



Market implications:

Option 2 is a council-initiated process that would not require Council to approach the market for a partner to establish the entity. On this basis, it provides a simple, and achievable pathway.

The option assumes that Council would either fund or attract funds for development. Given Council has limited means to fund developments from its own balance sheet, it relies on the new CHP building relationships with market players to enable the future delivery of housing growth. Discussions in the early market sounding suggested that there was appetite from property developers to partner with council (or a future entity) on developments, across a range of typologies.

These factors combine to suggest that council may be able to achieve a level of its intended housing growth, on a project-by-project basis. Accordingly, it appears to *partially meet* the housing growth investment objective.

Financial implications:

For council:

- As the portfolio is either transferred, gifted or leased by the Council, WDC may lose the $2.1m of annual revenue. Should leasing be an option, the maximum revenue received by council would be the return of a lease payment, which is likely to be lower than the counterfactual rental revenue.
- The ongoing capex requirement will be dependent on the terms of the transfer or lease, and it is expected that any partner would require the assets to be transferred at a maintainable standard.

- Council investment will remain crucial to the portfolio development and housing growth as the new entity will not be able to bring in additional capital in the near future.
- Council will bear the establishment cost of the new entity and the transfer cost should there be one. This will include a working capital injection (approximately $250,000 - $500,000).
- All the other operating costs, such as property and tenancy management costs, will be eliminated and transferred to the new entity.

For CHP:

- The CHP will benefit from the overtime increase in rental revenue resulting from available government subsidies, such as IRRS (assumed to be modest), OS and any increases to rents.
- The CHP would fund a majority of the capital costs of new supply and bear all opex, such as lease payments to Council, property management and tenancy management.
- Although there is a potential for CHP to borrow, being a newly established entity may hinder this in this short term, potentially making it challenging for the CHP to generate sufficient capital.
- The CHP is expected to require higher administrative costs than the Council owing to the need for senior leadership and likely separate finance and other administrative functions. Shared services may be able to mitigate this but may not be practical. Additionally, take a leadership role in new development will require internal skillsets not currently required by the Council team.

The key financial benefit of this option is improved development feasibility. While there is a possibility of transitioning tenancies to IRRS over time, this rate of this (based on current policy direction) is assumed to be modest. However, by establishing and registering a CHP, the new entity will benefit from access to the OS, and other government housing development funds that may become available over time. The option provides an improved pathway on the status quo to enable housing development for other purposes and diversified typologies.

Key option risks:

Absence of outside capital and development experience reduces ability to grow	**Medium risk**
Lack of track record with HUD may reduce willingness to invest in new social housing supply	**Medium risk**
Less viable option than 2-3 years ago due to central government policy shifts (specifically, lack of willingness to transition existing units to IRRS)	**High risk**
New CHP seen to compete in local CHP market for funding	**Medium risk**

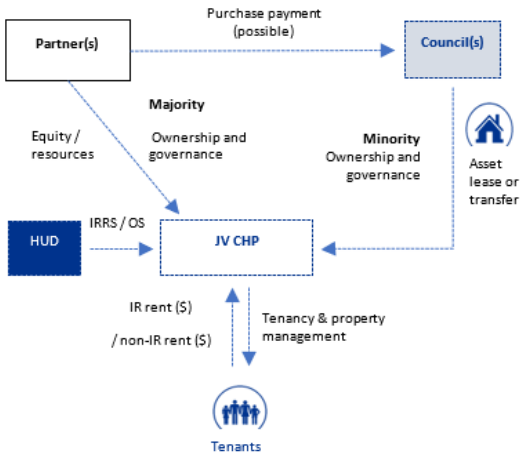
Option 3 - Establish a new jointly owned entity (JV)

Assessment summary:

Option 3 is the preferred option as it is most likely to attract new sources of revenue and capital. It provides the best route to growth. Success of option is subject to identifying an appropriate partner.

Key Elements:

- Council undertakes a Request for Proposal (RFP) process to identify a suitable partner(s)
- These partner(s) must at a minimum bring access to deployable capital and development experience. Preferably also social housing management capability
- Council establishes some form of partner entity
- Both Council and the partner have a governance stake in the new entity
- The JV will hold the assets and could either register as a CHP to access revenue benefits or leverage the partner's CHP registration
- Potential to include other Councils in model at the outset or in the future to provide economies of scale and development opportunity



Market implications:

Responses from the market suggested a JV for managing the housing portfolio and delivering housing growth a had high level of attractiveness. Investment in Whanganui also appeared to align with the strategic priorities of organisations with the financial resources to achieve the growth objectives of this business case. On the basis of interest and available capital, this option is deemed to *highly meet* the investment objectives.

Under this option, housing growth is expected to be enabled within a shorter timeframe compared to Option 2 due to the availability of equity, funding as well as the capabilities and resourcing from the development / investment partner(s).

Financial implications:

For Council:

- Possibly similar to Option 2 – Establish a CHP. If a new CHP was required it is expected that the partner would share in a proportion of the establishment costs, thereby reducing Council's initial investment requirement.
- However, it is possible and desirable that under this model an existing CHP could be leveraged reducing the need for, at least scale of, establishment costs.

For JV:

- Similar to Option 2 – Establish a CHP; except for
- It is assumed the JV partner(s) will provide some of funding and equity to finance capital costs of new housing developments it undertakes.
- It is also assumed the JV would be able to leverage its existing reputation and experience to facilitate the securing loans and attracting funding.

Key option risks

Absence of outside capital and development experience reduces ability to grow	Low risk
Inability to identify a suitable partner	High risk

Risk of profit capture by the partners, particularly if for-profit investors included	Medium risk
Inability to influence development outcomes once properties transferred	Medium risk

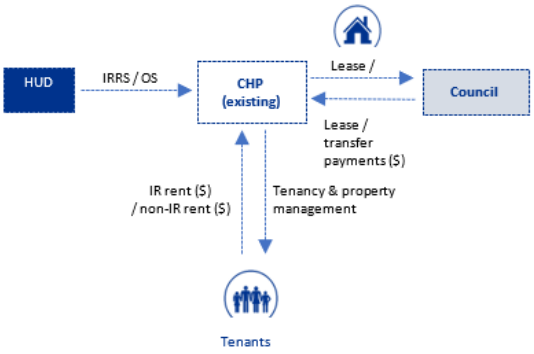
Option 4 – Transfer or lease to local provider

Assessment summary:

Option 4 is a viable option but unlikely to deliver growth at a pace consistent with Council's ambitions.

Key Elements:

- Council initiates an RFP to transfer / lease of the portfolio
- Council leases portfolio to a partner entity
- May be able to direct activities to some extent through the terms of the lease or through provisions in the sale agreement
- Analysis of a sale price or lease payment mechanism required
- Development would occur at the discretion of the CHP but could be influenced by terms of the lease / transfer



Market implications

Based on the market sounding, lease to an existing CHP was seen as a viable option in terms of level of interest. E.g., were council to go to market for a portfolio manager, it was deemed highly likely that there would be a reasonable level of response. However, many several organisations suggested they were unwilling to undertake roles that involved holding assets without sufficient rent subsidies (e.g. a clear path to access IRRS) or outside capital investment. It was also apparent that CHPs are likely to have limited capital for (re)investment in properties, on the basis that capital has already been deployed or that they have limited balance sheets to achieve growth of their own accord. It would difficult, and perhaps impossible, to provide any real assurance of future growth. On this basis, it appears unlikely that a lease or sale to a local CHP would meet the investment criteria and align with Council's growth ambitions.

Financial impact:

For Council:

- Similar to Option 2 – Establish a CHP; except for
- No establishment cost needed.

For the existing CHP:

- Similar to Option 2 – Establish a CHP; except for
- Despite being an existing CHP, due to low levels of equity and retained earnings, it will be challenging for the entity to finance the capital costs of new housing developments it undertakes directly.

Key Option risks:

Inability to influence long-term outcomes	High risk
Inability to find appropriate partner	High risk

Partner has limited capital and development experience	Medium risk
Partner has no current, local presence, impacting transfer process	Medium risk

3 Shortlist option assessment

Multi-Criteria Analysis (MCA) was selected as the preferred approach for this business case due to its ability to evaluate and balance a wide range of non-monetary factors. In scenarios where costs and are not the primary differentiators and where monetization of benefits is impractical, MCA allows for a comprehensive assessment by incorporating both quantitative and qualitative criteria such as stakeholder interest, ability to attract external capital and the how well an approach might realise the desired benefits.

In this business case, the financial costs to the council across the entity options are expected to be relatively consistent noting that:

- all options excluding status quo have equivalent cash flow impact.
- the capital requirements, and how costs could be shared across partners are inherently uncertain and will need to be agreed through the partner selection process.
- if the land is required to be used for affordable housing purposes, the value of any lease or transfer to a new entity will be equivalent across entities (see financial section).

To facilitate a more comprehensive assessment of the feasibility of the short-list options, a number of considerations were raised and incorporated to inform the rating and analysis of the shortlisting process. In particular:

- The likelihood of finding a suitable partner(s) capable of supporting the option, if required
- The likelihood of the financial impact of the option to align with Council's appetite for investment and risk.
- The extent to which the option provides future flexibility for adapting to changing local housing needs and the political environment.
- The viability of the option in "Whanganui context"

The progressed options were scored against the nine criteria using the MCA below in Table 15. Options were then ranked from highest to lowest on a weighted and unweighted basis. A weighted basis better reflects the relative importance of each assessment criteria, and in this case emphasises the importance of growing affordable housing supply and delivering a financially sustainable solution.

Table 19 MCA weighted assessment of shortlist options

Long list option		Weighting	Status quo	Establish a CHP / lease or transfer	Establish a new jointly owned entity (JV)	Transfer or lease to a local CHP
Investment Objectives	Growth of affordable housing supply	40%	0.4	0.8	1.2	0.4
	High quality and equitable occupant experience and outcomes	20%	0.6	0.6	0.6	0.6
	Local leadership	10%	0.4	0.3	0.3	0.2
	Financial viability and sustainability	30%	0.3	0.6	0.9	0.6
Initial Rank			3	2	1	4

Critical success factors	**Strategic fit and business needs**	20%	0.2	0.6	0.8	0.4
	Potential value for money	20%	0.2	0.6	0.6	0.4
	Supplier capacity and capability	20%	0.2	0.6	0.8	0.4
	Potential affordability	20%	0.2	0.6	0.8	0.4
	Potential achievability	20%	0.8	0.8	0.6	0.4
Final Rank			**4**	**2**	**1**	**3**
Consultation Option				Back-up	**Preferred Option**	

4 Recommended preferred option

4.1 Preferred option

Based on the options assessment, the preferred option is to establish a Joint Venture Community Housing Provider, on the basis of:

- The strategic case emphasises the need to develop more housing across a range of typologies in Whanganui. This option appears to align most closely with Council's high degree of ambition for this entity, and regional housing outcomes. Further, a joint venture, while more uncertain, offers the most realistic chance of growth consistent with these ambitions.
- The existing portfolio roughly breaks even at a modest level of renewals, but the current delivery structure (e.g. in-house council ownership/delivery) would rely on council funding to upgrade/expand. Given the level of investment required, the status quo is not expected to facilitate growth.
- While certainty of access to IRRS funding for existing places is low, a CHP does offer an opportunity for an improved overall funding pathway. Establishing a new entity is not a magic bullet on its own, but it has potential to access Operating Supplement funding, which council cannot access under the status quo.
- There appears genuine interest in the market to enter into a partnership making this a realistically viable option and initial conversations have indicated potential for a partner to bring access to growth capital.
- A JV offers the opportunity to leverage external, existing experience, relationships and market credibility that would take time and be expensive for a Council-established CHP to develop.
- The JV offers the likely fastest pathway for realising the intended project benefits and investment objectives as identified in this business case. Although it is likely to have a longer set-up time than a Council established CHP (due to the RFP process), the overall pace of growth could potentially be higher with a JV.
- A JV provides the possibility for use of an existing CHP to give the benefits of scale efficiencies and incorporation of best-practice tenancy and property management. While a pure transfer to an existing CHP also provides this option, it does not provide a likely path to growth.

4.2 Alternative, viable option

In contrast, Council establishing a CHP on its own would be faster and more straightforward, allowing for more direct control over timelines and processes. This 'standalone CHP' approach could still involve partnerships with developers and investors for individual developments, though it may lack the depth of resources and expertise available through a JV, potentially slowing down the realisation of the investment's intended benefits.

In practice selecting a JV as the preferred options amounts to a decision to invest the resources and time into undertaking a process to identify a preferred partner and seek to negotiate terms. It is not possible to be certain that an appropriate partner will be identified or terms that are clearly more attracting than the Council establishing a CHP on its own can be agreed. Effectively the Council would be 'buying the option' of taking a JV/partner-driven approach. Inherent in this approach is the ability to revert to an alternative option if preferred.

Option 2 (Council established CHP) is the most attractive alternative viable option to proceed with if the JV approach proves infeasible, or insufficiently attractive.

Given the potential upsides in terms of benefits realisation and cost savings, the time and effort invested in exploring a JV through an RFP process appears justified and is recommended by this Business Case. It is also recommended that Option 2 be agreed as the preferred 'back-up' option.

The following cases are developed on the assumption that the Joint Venture option is advanced and preferred, with the understanding that a contingency plan is in place.

5 Complementary investments

As discussed above, as part of the long-listing process, complementary actions the Council could take to the meet the objectives of this business case were considered. Within the holistic options advanced, two complementary investments were included:

- Seeding and housing equity fund
- Council development facilitation

5.1 Housing equity fund

The Housing Equity Fund considered is based on the currently operating Bay of Plenty Housing Equity Fund (BoPHEF). Key features of such a fund are expected to be:

- A managed equity fund with a professional fund manager, identified by the Council (and potentially other prospective investor organisations).
- The fund managers would develop key fund documentation and seek investment. Likely potential investors are local government authorities, private charitable trusts and potentially central government entities. For example, the BoPHEF investors are Bay Trust ($10 million) Tauranga City Council ($15 million), Trust Horizon ($5 million), TECT ($10 million), and Rotorua Trust ($5 million) and the central Government-owned New Zealand Green Investment Fund ($10 million).
- Generally, the fund would seek to invest in housing developments with some social/affordable character, this may range from fully affordable to mixed-tenure developments.
- The fund would seek to provide a financial return that is positive, but still below typical returns from property equity, reflecting the intended mixed financial and social purpose of the fund. For example, the BoPHEF seeks a 4% after fees return.
- The fund would fill gaps of hard to access finance (equity and development finance) for affordable housing developers. It would have a reasonably flexible mandate with which to do this, noting that some of the larger investors sit on an investment committee which must approve any investments identified by the fund managers.

Such a fund couple play a role in catalysing investment for a Council-established housing entity, but also other Whanganui and regional housing organisations.

It is outside the scope of the business case to fully assess whether seeking to catalyse and invest in such a fund would be value for money for the Council. However, the feasibility of such a fund was explored. The critical barrier to viability for such a fund is scale. As the fund requires committed on-the-ground staff to identify, pursue and manage opportunities there is a minimum viable scale. This

is expected to be roughly $40 million (the BoPHEF was launched on the basis of $45 million initial investment). The fund is also expected to need to operate regionally and attract multiple investors.

To explore feasibility, a limited market sounding was undertaken with potential regional investors in the fund, including local authorities and charitable trusts. Key findings were:

— While several local authorities saw merit in the model, the general expectation is that there would not be funding available to invest at this time.

— There was more interest from some charitable trusts with openness to explore.

Overall, it was unclear whether or not there would be sufficient partner investors should the Council itself invest here.

5.1.1 Recommended way forward

At this stage there is not sufficient available capital for the Council to act a cornerstone investor in a housing equity fund. Additionally, with limited internal resources, it is necessary to prioritise advancing the housing entity.

This business case proposes that a housing equity fund be retained as a potential future option, to be revisited:

— Following the key steps in the establishing the housing joint venture.

— If and when there is a source of investable capital, including through the sale of land and housing assets to a housing entity.

5.2 Council development facilitation

Also considered was a Council affordable housing development facilitation function. The purpose of such a function would be to act as an enabler of development of affordable housing in Whanganui through:

— managing relationships with the housing entity to maximise the impact of the transfer of housing assets to that entity.

— facilitating development through the sale and lease of Council land (excluding the existing land already used for housing transferred to the housing entity

— delivering any other means of Council support for affordable housing development that Council identifies[2]

— liaise with affordable housing developers to assist with consenting and other Council engagement processes.

Such a function represents a further means that the Council can leverage its position and resources to facilitate affordable housing development by a range of parties.

This function would in practice likely be limited to a single role given the scale of the Council.

5.2.1 Recommended way forward

A development facilitation function would be intrinsicality connected to the Council's ongoing role in engaging with a JV housing entity though its asset-owner relationship. This would include the potential transfer of non-housing land to that entity for future development, land which might also be transferred to another local housing provider.

As the Council will need to undertake internal changes (discussed in the management case) as a result of movement of housing functions into a new entity and the creation of new functions within

[2] For example, guarantees, head leases, inclusionary zoning, rates relief are initiatives other Councils have used.

the Council, the consideration of the role for ongoing development facilitation cannot be advanced separate from these considerations.

Therefore, the business case recommends that, as part of the process of determining the ongoing Council resources and model post housing entity establishment, that the potential for an ongoing development facilitation function to be included in the Councils role be considered at that time.

Commercial Case

This commercial case outlines the key commercial considerations and choices associated with establishing the preferred joint venture model. As this is not a standard capital investment typically associated with business cases, the commercial case focuses less on detail of procurement process and more on substantive commercial matters. On that basis in some cases, it presents options which the Council will need to continue to consider over time. The structure of the commercial case is as follows:

- Key challenges to be resolved through procurement;
- Entity Capitalisation options, and recommends a lease with deferred transfer;
- Entity Structure options, and recommends a CHP as owner of Asset Holding Companies; and
- Key elements of the procurement process.

1 Challenges

Within the preferred option, there are a number of core challenges that any commercial arrangement should seek to address:

- The process for selecting joint venture partners could be unattractive to potential partners leading to inability to form a JV.
- The entity could have insufficient equity to borrow against to finance development at the right stage.
- The entity could have insufficient cash flow to appropriately fund maintenance and redevelopment.
- The entity may not prioritise growth at a pace consistent with the ambitions of Council, focusing largely on management of existing tenancies.
- A private sector partner could achieve unreasonable profits enabled by transfer at below market value.

Additionally, affordable housing development potential and the associated asset value that therefore results are highly sensitive to future HUD/Government investment choices. This makes the identification of an appropriate sale price in advance of that understanding difficult to set.

The proposals below are intended to address these challenges within constraints.

2 Entity capitilisation

The Council's primary contribution to the entity is through its capitalisation. Gifted capital is what will support this entity to undertake affordable housing activities, particularly those outside IRRS-funded social housing. This equity can be provided in two ways:

- The transfer of assets below their value (accounting for required use of the assets); and / or
- Cash injection.

2.1 Options

The options below provide the different ways in which the Council could capitalise the entity providing it with equity to support development. The options primarily relate to the use of the existing council housing assets.

- Lease only: The Council maintains ownership of existing assets for foreseeable future. It retains responsibility for renewing assets as appropriate. Council leases the assets at a submarket rate sufficient to meet the asset renewal requirements on a long-term lease. Council provides only working capital (e.g. $0.5 million). Any equity for development must come from other partners in the near term. Redevelopment on existing land could occur with land leased and built assets owned by private sector partners. It is possible that if cash flows from the assets were sufficient, a peppercorn lease could support sufficient profitability to build up equity within the entity over time.
- Lease and financially capitalise: As above with respect to current Council housing assets. In addition, the Council provides capital consistent with supporting a share of growth. This could be in the form of cash or non-housing property that could be developed on or sold by the entity. This capitalisation could occur at the outset, or at the time of development.
- Transfer assets upfront: The Council gifts or sells the housing assets well below market value to the entity at establishment. Price is primarily based on existing use (near zero) but may reflect some development potential. It would also be possible to have a development uplift payment built into the agreement to try to capture future gains.
- Lease with deferred transfer: Assets initially leased as per 'lease-only option'. Council and partners enter into a best endeavours agreement to transfer the land at a value consistent with affordable housing purposes when development is occurring. Land may be transferred in several stages as development occurs. At some stage if there is sufficient confidence in the partners and/or pre-identified Key Performance Indicators are met, all remaining assets may be transferred.

In practice a mix of options is possible. For example, a portion of assets could be transferred immediately, with the remainder leased and then transferred only once a clear development plan was in place.

The table below outlines the relative advantages and disadvantages of the various options.

Table 20 Capitalistion approach assessment

Option	Advantages	Disadvantages
Lease only	**Lowest economic cost to Council** Ability to exercise influence through asset ownership	Inconsistent with growth aspirations for the entity Complexities around development on leased land
Lease and financially capitalise	Ability to exercise influence through asset ownership **Financially supportive for growth**	Financial cost to Council Inconsistent with the intent of leveraging existing assets for growth
Transfer assets upfront	Consistent with enabling growth Low transaction costs **Likely most attractive to partners / the entity**	If growth does not materialise, Council has little recourse to address (difficult to unwind) Difficult to plan for mixed-use development and appropriate disposals Risk of mispriced transfer given uncertainty about future use

Lease with deferred transfer on development (Indicative preferred option)	Provides asset transfer when required to enable financing Allows transfer price to consider CHP's circumstances / development economics **Provides the Council with influence on development and an opportunity to exit arrangements in the event growth is not occurring**	Multiple transaction periods will increase costs compared to single point in time transfer A deferred transfer will add some complexity to the development process for the entity

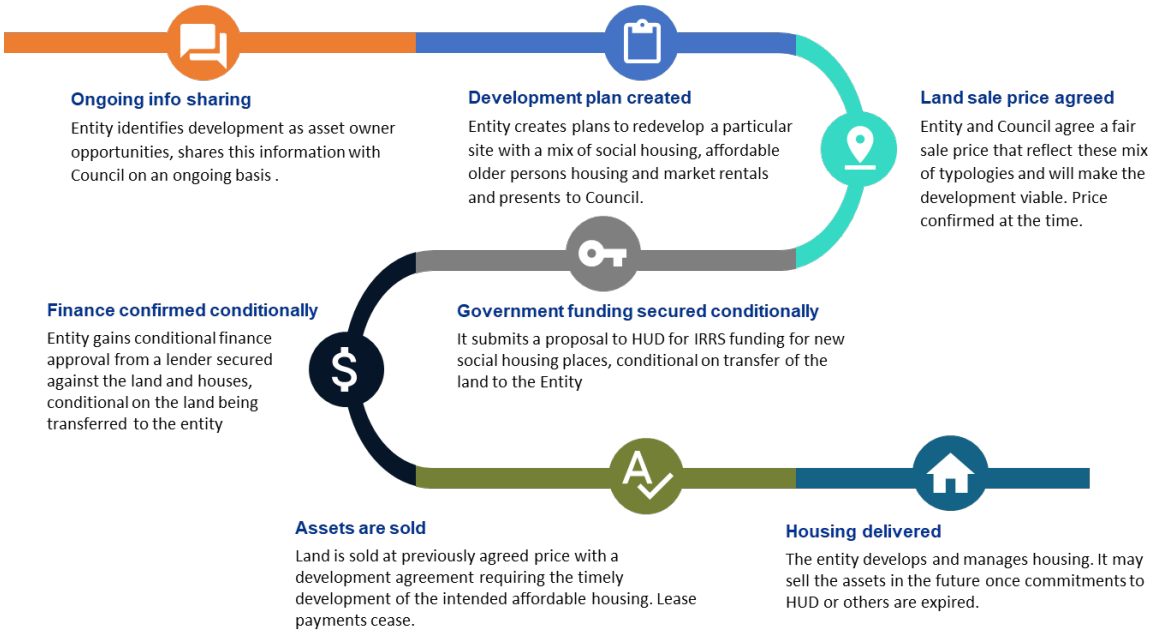
2.2 Preferred approach

From the Councils perspective, a lease with deferred transfer appears to be the optimal approach. This enables the entity to leverage assets for development, while allowing the Council to mitigate the risk that assets are transferred and then either held without development or applied towards purposes other than affordable housing. Market sounding did point to comfort with a deferred transfer approach. However, partners may prefer an upfront transfer.

An upfront transfer is also a viable option, particularly in the assets are transferred into an entity in which the Council has an ownership stake (see entity structure option 2 below). If this approach is taken, it may be possible to include development uplift payments to the Council (if the land is redeveloped within a particular timeframe into a higher value use, the Council is compensated).

2.3 Indicative deferred land transfer approach

The diagram below presents an illustration of a deferred land transfer approach for a particular development.



The deferred approach allows for any transfer price (if applicable) to be determined on a case by case basis, with reference to intended use and the CHP's capital constraints. Requiring a sale price would have trade-offs for achieving new supply. An illustrative framework is set out below as an example.

Table 21 Impacts of property use on sale price

Intended tenancy	Land sale price

Affordable housing without IRRS	Significant discount to market, potentially gifted
IRRS-funded social housing	Small discount to market price (i.e. 15-30%)
Affordable home ownership options	Moderate discount to market (i.e. 20-40%)
Market rental or sale	Near market
Disposal on private market to fund other development	Dependent on intended use of sale funds

3 Entity Structure

Within a general concept of a joint venture model (involving the Council bringing assets and existing tenants and the partners bringing capability and financial capital) there are a number of ways in which entities can be arranged in terms of entity ownership, asset ownership and cash flows.

Joint venture partners will have their own views on preferred entity structure, which will be informed by how each individual organisation prefers to structure investments.

The discussion below assumes that joint venture partners will bring both:

— An 'investor-developer partner' that brings deployable capital and property devleopment experience and capacity

— An operations partner that bring experience operating affordable housing and which may be a registered community provider.

In practice this may be:

— different unconnected organisations coming together as a consortium

— a single entity that is both an affordable housing operator and developer investor (such as a larger well-capitalised CHP)

— separate but related enitites sitting under a single parent

— only an investor-developer partner without an operations partner[3]

3.1 Existing CHP or Newly Established CHP

Any model will require a registered Community Housing Provider which will manage tenancies, undertake day to day property management and contract with HUD for any IRRS-funded social housing. However this may be:

— A newly established entity developed between the partners and the council

— An existing registered community housing provider (one of the partners)

— An existing housing or social services entity intended to register as a community housing provider.

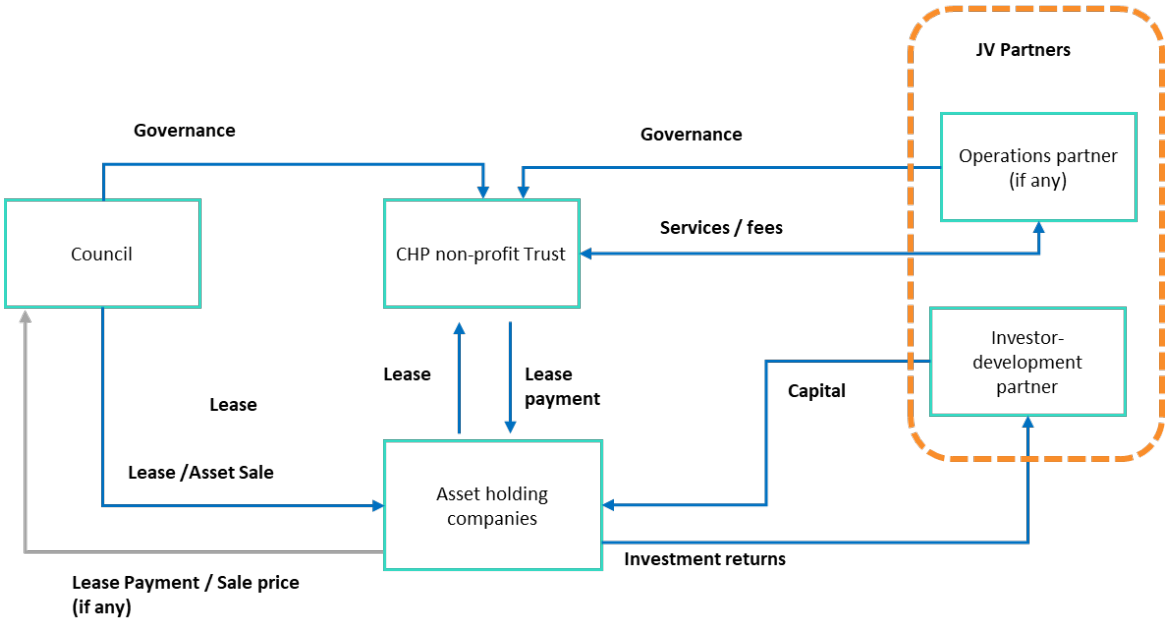
As discussed elsewhere in this business case, provided a fit-for-purpose partner can be found, it is most attractive to use an existing registered CHP, or failing that an existing housing or social services entity. While establishing a wholly new entity is viable doing so would add establishment and administrative cost and delay the path to delivering outcomes (due to establishment timeframes and registration process).

[3] A proposal with only an operations partner would not be a viable option.

The models below assume a new CHP entity is required, to present the most fulsome example of the arrangements that may may be required. However, both models would be viable with the right, existing CHP partner.

3.1.1 Option 1: CHP as owner of Asset Holding Companies (preferred)

This model involves Council partnering to establish a new Community Housing Provider as a non-profit trust which is a full or part owner of Special Purpose Vehicle (SPV) Asset holding companies. These SPVs provide the vehicle for private investment. Residual profits enabled by Council investment would flow back to the CHP.



The key interactions, implications and responsibilities of each party to the structure are set out below:

- **Council**: Leases assets to holding company that have not yet been sold. Sells assets to the holding company once a development plan is in place and may receive a sale price. Elected members and/or officials on board of CHP Trust. May provide additional subsidies to CHP Trust if it wishes (e.g. inclusionary zoning revenues, rates relief)
- **Operations partner (if any)**: Positions on Trust Board. Provides services to CHP Trust as required on a fee for service basis.
- **Investor-Developer Partner**: Collaborates with CHP trust undertake development planning. Provides capital with a defined return or share of asset holding company profits. Likely has a seat on CHP Trust board.
- **CHP Trust**: A charitable Trust that is responsible for the tenancy and property management. Leases assets either from the Council or the Asset Holding Company. Owns a share in Asset Holding Company. Contracts with HUD for an IRRS-funded social housing. May be a newly established CHP, or an existing CHP.
- **Asset Holding Company**: Owns Assets and leases them to CHP trust. Undertakes renewals work. May be a single holding company, or multiple over time for specific development. Assets may revert to CHP Trust following completion of investment term.

Benefits

— Has a charitable trust as the ultimate beneficiary of profits and retained capital once returns have been provided to investors. These profits and assets are able to be ringfenced, such that they are only used to support the provision of affordable housing.

— Council effectively capitalises the CHP Trust (which is the owner of the asset holding company) through subsidised asset sales .

— The separation of the assets from the CHP allows for-profit investor development partners to gain a fair return while retaining the value fo the subsidised sale price to the CHP (who is the ultimate owner of the holding company). In general this development SPV model is reasonably common in this sector.

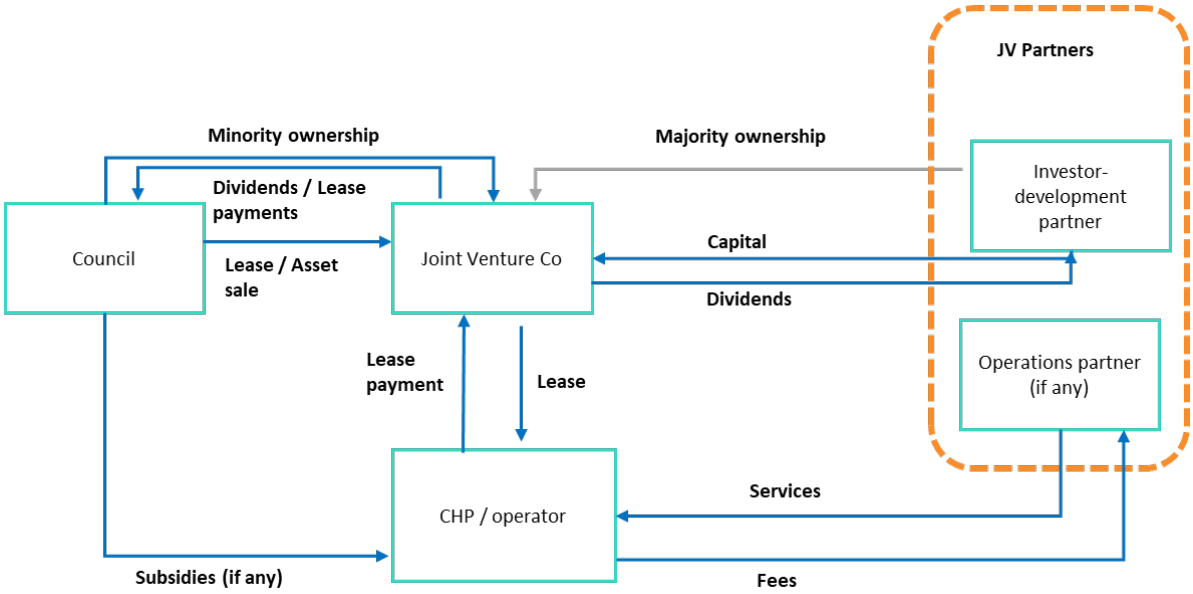
— The partnership structure is inherently flexible and it would be possible to bring in new partners in the future.

Risks

— Has the intention of an enduring relationship with an investor-development partner, although ultimately does not guarantee it given less firm initial relationship. Agreement is still required on the specific terms of sale and return for development.

3.1.2 Option 2: Jointly-owned profit-making entity

This model involves the establishment of a jointly-owned for-profit company that would own manage assets and would provide the vehicle for private investment, with residual profits enabled by council investment flowing back to the Council. It could include the establishment of a new CHP or the use of an exiting CHP to operate housing.



The key interactions, implications and responsibilities of each party to the structure are set out below:

— **Council:** Owns a likely minority share in JV Co. Receives dividends. Sells assets to JV Co upfront. May provide additional subsidies to CHP Trust if it wishes including through recycling profits from

— **Operations partner (if any)**: Provides services to CHP Trust as required on a fee for service basis. Potential position on JV Co Board. Alternatively may act directly as housing operator.

— **Investor-Developer Partner**: Likely majority owner of JV Co. Provides financial capital for share of equity and receives dividends.

— **CHP / Operator**: Either a charitable trust or subsidiary or JV Co. Leases assets from JV Co. Contracts with HUD for IRRS-funded social housing. May be an existing CHP (the operation partner) if an appropriate entity is part of the partnership.

— **JV Co**: Owns housing assets, undertakes renewals work. May operate non-IRRS funded housing (e.g. older persons housings) directly.

Benefits

— Allows assets to transfer immediately with the Council retaining influence through a minority ownership in holding company.

— Provides residual profits back to Council over time, providing it with flexibility as to how it wishes to use these to support affordable housing (or other means).

— Enables the use of an existing operations partners as the CHP if a viable option exists.

— Provides for an immediate and clear enduring relationship between the Council and the investor development partner.

— Provides an enduring commercial and financial interest for the Council with attending oversight responsibilities. May or may not be preferred.

— Potentially requires upfront financial capital from partner which may not be deployed for some time. Alternatively, a deferred transfer and financial capitalisation is possible with this model as well.

Risks

— Requires an open-ended role for the Council, including ongoing choices around how to apply any dividends from the joint venture, rather than the simplicity of the having residuals profits flow to the CHP.

— Investment partners are less likely to be attracted to being shared owners of a company with a Council**.**

— Balancing Council and partner ownership shares over time may be complex. Council could find itself a small minority shareholder at some stage in the future. This could drive a public sense of accountability for the Council, when in fact it had little power to direct the focus of the joint venture company.

4 Partner procurement

The primary procurement-like process for establishing the entity under the preferred model is the process to identify partners and agree the key features of the partnership. This section outlines a proposed approach to that process and key features necessary to make it fit for purpose.

Key factors that influence the appropriate aproach include:

— As the sale of specific properties is not a feature of the proposed deal, there will not be a defined price proposed in the RFP. Instead evalutation of preferred bidder(s) will need to be on the basis of a qualitative assessment of a partner's capability, credibiltiy and financial capacity to support portfolio growth.

— The opportunity Council is proposing to the market is inherently uncertain and needs to be open to a wide range of partnership models, including those that the Council itself may not have identified. This may make comparison of proposals challenging.

— Potential partners will gauge their willingness to participate in part on their confidence in the Council's mandate and commitment to advancing a partnership.

The key phases of this procurement process are outlined below, commentary on key considerations.

4.1 Pre-procurement

In advance of finalising and issuing an RFP there are several critical steps that need to be completed (beyond the finalisation of this Business Case).

- Approval of this business case and its preferred option.
- Public consultation and subsequent council decision: It will be important to potential partners that the public has been made aware of the intended partnership approach, including a role for for-profit investment partners, and that in light of that council remains committed.
- Condition Assessment and approach to renewals on existing portfolio: The portfolio does not currently have a condition assessment and costed renewals plan. Potential partners will expect to have this information, and some indication of how the Council proposes to address any renewals deficit (reduced transfer price of assets, Council commitment to fund from rates or lease payments).
- Confirmation of non-housing Council-owned sites identified as available for future transfer to the entity.
- Engagement with HUD and the Minister for Housing on the scope for redirects within a new entity.

4.2 RFP preparation

As this is not a tender specific deliverables or a sale of assets, the RFP will need to provide for reasonable flexibilty in describing the precise requirements and outcomes, as follows:

- *What Council's purpose and objectives are in catalysing this housing entity:*
  - growth of affordable housing supply across tenancies
  - supporting existing tenants.
- *What the Council can bring to partnership:*
  - the existing housing portfolio (including the condition of that portfolio and its financial performance)
  - potentially additional developable sites
  - Council facilitation of development
  - Provision of working capital and establishment costs for a new CHP (if necessary).
- *What it expects from partners:*
  - Ability and committed willingness to invest in new supply of affordable housing overtime (required)
  - Capability and experience in developing affordable housing (required)
  - Capability and experience in managing social and affordable housing (desired).
- *What is off the table:*
  - An immediate sale of the existing portfolio to be maintained in its current use
  - A sale of the portfolio for non-affordable housing purposes (noting that some sites could be disposed of to enable affordable development elsewhere).
- *The high level commercial arrangements expected including:*

- A preference for a lease than transfer approach, but openness to considering other approaches if sufficient confidence in development can be provided
- Openness to either of the commercial models presented above, including the use of a newly established CHP of an existing CHP
- How renewals are proposed to be managed prior and after transfer
- How any lease payment would be set
- Rent setting policy for any exiting tenants the partner would be required to adopt.

The RFP in expected include the following attachments:

- Redacted Business Case
- Turley Report
- Condition Assessment (to come)

It will not be practical for partners to present a concrete development plan or growth path as this will be subject to market conditions and funding available, particularly for social housing places. Therefore, the RFP should seek responses that focus on capability, capital availability and intended approach. An indicative view on the preferred commercial arrangements will also be sought. The response requirements will prioritise attracting a wide range of credible partners. In addition to questions regarding capability and experience, the RFP should seek responses on:

- Source of deployable capital and constraints on its use
- Preferred high level commercial arrangements
- General approach partner(s) would take to the management and growth of the portfolio
- If a consortium (e.g. a CHP and a developer) the track record of these organisations working together and how they would propose to do so in this case
- Expectations for the Council

4.3 RFP evaluation and negotiation

The RFP is expected to be evaluated by a panel of Council staff.

The following indicative assessment criteria will be applied:

- Affordable development capability and experience
- Social and affordable housing management capability and experience
- Ability to deploy capital for growth
- Approach.

Following evaluation, likely one respondent will be progressed to negotiation, although there is the option to advance two if there are two comparably attractive respondents.

The purpose of negotiation is to confirm that acceptable arrangements can be agreed between all parties, and if necessary, further assess strengths of competing respondents. This would include key commercial arrangements as previously discussed as well as expectations around lease payment levels, and specific renewals commitments from Council (if any).

These expectations are to be drafted into a memorandum of understanding which will form the basis of a Council decision on approving the partnership (or deciding between two potential partners).

If, as a result of evaluation, no suitable partners have been identified or it is not possible to agree mutually acceptable terms, the Council will at this stage revert to establishing a CHP on its own.

Financial Case

The Financial Case outlines the funding requirements and financial implications for the preferred and backup options identified in the Economic Case – either to establish a Joint Venture Community Housing Entity or for Council to establish its own Community Housing Provider. This investment proposal informs decisions on the optimal approach to manage and achieve growth in the elderly housing portfolio. The financial case is based on the following high-level strategic assumptions:

- Based on the market engagement and the MCA, a joint venture is an attractive option to the market, and preferred. Costings are therefore developed on the assumption that this is progressed.
- A partner will improve the financial viability of the portfolio and future developments. However, there are a number of uncertainties regarding the level of capital that a partner might bring, and the phasing at which this would be released.
- It is preferable that a JV partner brings an existing CHP, however this cannot be guaranteed and will only be confirmed through the procurement process.
- Given the relative uncertainties, the costing presented below assumes that:
  - a new CHP is established,
  - council funds the establishment of a new entity and that
  - the partner brings capital for development.
- Any variation on the assumptions would result in a lower investment requirement for Council (e.g. the JV partner contributes to entity establishment costs, or the partner brings its own CHP, thereby eliminating the need to establish an entity).

1 Recap on the status quo financials

The portfolio financial position is summarised in the Strategic Case from section 2.1.6. At a high-level, the portfolio operates a small operating surplus before depreciation and finance cost driven by:

- ~$2.1m annual revenue generated from the portfolio and
- ~$2.0m annual Opex projected from FY25 base year, all of which are estimated in real terms.

Factoring depreciation, the portfolio has an accounting deficit, resulting in modest loss on a cashflow basis. This is based on the relatively low level of renewals currently (~$100k p.a.) or ~ $363 per property.

Other features of the portfolio's financials include:

- A self-funding model whereby the revenue from Council's 275 units is financially ring-fenced from the Councils wider operations (no ratepayer funding is presently used).
- Rental rates set in line with the net Superannuation rate for singles and couples and have been gradually increased since 2017. Rents differ for singles and couples, however there is an effective 58% combined discount to the Whanganui District market rent.
- Between 2019-2022, 88% of total income from the older persons' portfolio was spent on maintenance alone. In some cases, the maintenance costs for sites exceeded the revenue that was generated from the respective site's rents.
- Low operating costs compared to benchmarks. The Council has operated a thin, low-cost model to managing the portfolio. This has enabled the portfolio to operate without ratepayer subsidy.

— The portfolio does not generate sufficient surplus cashflows to generate growth. Revenue generated from rents under the status quo is roughly sufficient to cover operational costs and a low level of renewals but generates little to no surplus that could be used to cover interest costs or pay down debt.

— Under the status quo, any growth in the portfolio would need to be financed through Council borrowing.

2 Financial modelling of the preferred option

2.1 Introduction

The financial analysis of the preferred option demonstrates that it is likely to be affordable.

The preferred option includes the potential establishment of a new CHP, for which the impacts on overall portfolio and on Council are estimated through a high-level financial model. Any additional impact from JV partner(s) is highly contingent and is not yet able to be estimated on a quantitative basis.

The key financial benefit of the preferred option is improved development feasibility. While there is a possibility of transitioning tenancies to IRRS over time, this rate of this (based on current policy direction) is assumed to be modest. However, by establishing and registering a CHP, the new entity will benefit from access to both IRRS and Operating Supplement[4] for new supply, and other government housing development funds that may become available over time. The option provides an improved pathway on the status quo to enable housing development for other purposes and diversified typologies.

2.2 Key modelling impacts from establishing a CHP

The key financial impacts of establishing a CHP on the existing portfolio include:

— Establishment of a CHP improves revenue over time. The new entity will register as a Class 1 Social Landlord and access IRRS. A high-level assumption of 5% and 10% attrition and shift to IRRS tenancies suggests approximately 40% and 65% turnover of existing elderly housing units over a period of nine years that could then earn a market rent. While a shift to IRRS would be net positive, this would take some time to build up and the additional cash may be required for renewals in existing stock. The aggregate nine-year increase in revenue is estimated to be $9.8m and $15.7m respectively. Any material, upfront improvement in revenue is most likely to be achieved through the increase of tenant rents. The calculated achieved rents exclude any available Operating Supplement revenue, which could only be enabled through redevelopment.

— As a CHP will be established as a stand-alone entity, management costs are expected to be higher, reflecting services no longer being shared across council, and additional roles likely needing to be created to deliver the ambitions of the entity.

— Establishment of a CHP may help to fund renewal however the Capex requirement is likely to be higher. As discussed in status quo scenario, average council's renewal cost LTP estimate $100k per year for 275 units is considered relatively low. The annual benchmark renewals spend for provided in Figure 10 is comparatively $963k.

— Increasing the rate of renewal is expected to have an impact on the minor maintenance cost, reducing it by $407k annually or $1,481 per property.

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[4] For the purpose of this report, OS has been excluded from the calculations. Any future OS achieved would need to be negotiated with Government and would have an impact on the revenue and capital requirements of new supply.

— Without some form of capitalisation, the entity will still lack an ability to fund development and require equity up-front to support delivery of new supply (i.e. the CHP would otherwise rely on modest retained earnings accumulating over time).

— The quantified amount of the lease payments is contingent on the agreement between the Council and CHP. The ability for the CHP to make a lease payment depends on the increase of rental revenue, either through IRRS transition as shown in Figure 16 or organic rent increase.

2.3 Key assumptions

The financial tables in the section illustrates the capital expenditure (capex) and operating expenditure (OpEex) required to establish a new housing entity (either by JV or Council alone). A time horizon of five financial years is selected as this represents a reasonable period where forecasts can be predicted accurately.

2.3.1 Revenue

— Rental revenue is based on WDC's LTP forecast of $2.1m annually, in line with the status quo. Note: rental revenue is likely to be required to be higher if necessary to establish wholly new CHP to cover the costs of management and operation of CHP. Rental revenue will also need to increase if the pace of renewals in increases, see discussion of a potential lease payment below.

2.3.2 Capital costs

— Establishment cost: The approach to establishment, whether an entity needs to be established and how costs might be shared are contingent on the outcomes of procurement. Given the size of the portfolio and scope of the CHP, a conservative estimate of estimated cost ranges from $500k - $1m to establish a CHP. This is inclusive of direct establishing costs, CHP registration costs and a working capital injection. For the purposes of the modelling, the upper end of the estimate range has been used.

— Renewal cost: As mentioned above, council's Long Term Plan estimate was used. Up to date asset condition data is not held and any estimate of capital costs will need to be updated once a full asset condition survey with costings for work has been completed.

2.3.3 Operating costs

— Minor repairs and maintenance including planned maintenance: Based on the benchmark for average CHP and comparable Councils in New Zealand, an annual figure of $1,047 (before inflation) was used for the purpose of this assessment. Note: this is an indicative figure and further investigation of the true cost is required.

— Insurance premiums: An aggregate estimate of $212,137 annually (before inflation), in line with Council's forecast.

— Rates expense: An annual forecast of $436,200 in total (before inflation), in line with Council's forecast.

— General operating costs: Based on the benchmark for average CHP and comparable Councils in New Zealand, an annual figure of $5,269 per unit (before inflation) was used for the purpose of this assessment. Note: this is only an indicative number, in future a bottom-up costing of the CHP would be required.

2.3.4 Escalation

— An inflation profile of 2% a year has been applied to both revenue and costs, in line with Council's LTP estimate.

2.4 Financial modelling outputs

The anticipated cash flows for the establishment of a Joint Venture are as set out below.

Table 22 Financial costing table for the recommended option in the next five years

Financial year >		2025/26	2026/27	2027/28	2028/29	2029/30	Total
Capital Expenditure							
1	Establishment cost	1,000,000					**1,000,000**
2	Renewal	115,260	143,857	159,806	146,846	147,708	**713,477**
3	**Total Capital costs (CAPEX)**	**1,115,260**	**143,857**	**159,806**	**146,846**	**147,708**	**1,713,477**
Operating Expenditure							
4	Repairs and maintenance incl. planned	293,603	300,067	306,672	313,116	319,696	**1,533,154**
5	Insurance premiums	211,395	216,048	220,804	225,444	230,181	**1,103,873**
6	Rate expenses	444,930	454,724	464,735	474,500	484,471	**2,323,359**
7	General operation costs	1,477,907	1,510,442	1,543,692	1,576,130	1,609,248	**7,717,419**
8	**Total Operating costs (OPEX)**	**2,427,834**	**2,481,281**	**2,535,903**	**2,589,190**	**2,643,596**	**12,677,805**
Total Expenditure							
9	**Total Project Costs (CAPEX + OPEX)**	**3,312,574**	**2,337,424**	**2,376,097**	**2,442,344**	**2,495,887**	**14,391,282**

Figure 14 Financial costing for the recommended option

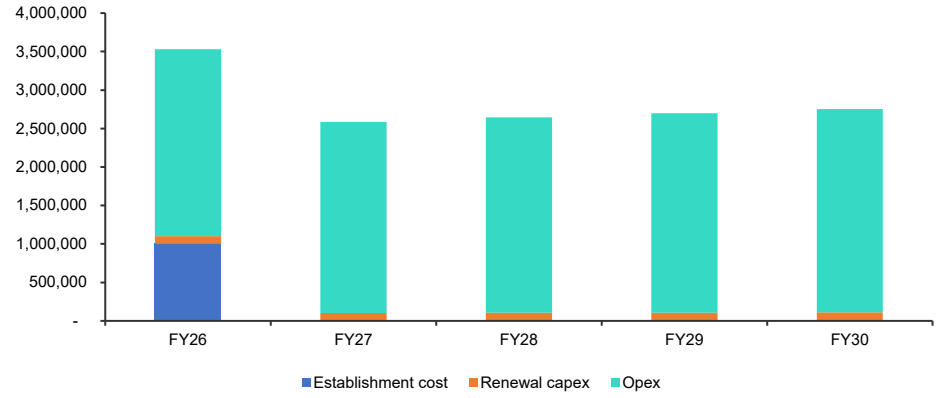
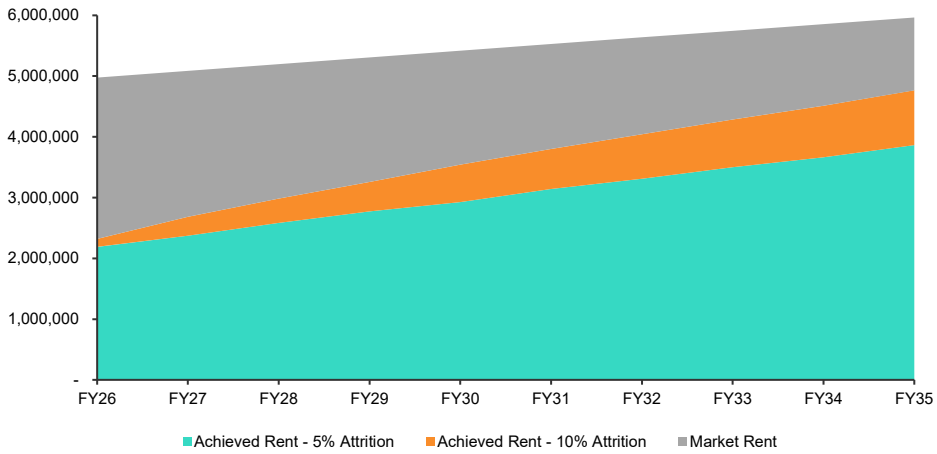


Figure 15 Rental revenue under 5% and 10% IRRS attrition for the recommended option



3 Implications on the Council of the preferred option

3.1 Council revenue impacts

Currently, Council receives $2.1m in rents collected from tenants, annually. As a new CHP is established, the agreement on the portfolio ownership between council and the CHP will have an impact on council's revenue, such that:

- If the portfolio is gifted to a SPV, WDC will lose the entirety of the rental revenue, although it would be longer liable for ongoing costs.
- If the portfolio is sold to SPV, there will be a one-off payment made by CHP to the Council which will unlikely be at market value. A transfer at discount or at book value means a loss on sales for the Council. No rental revenue generated from the portfolio would be received by council past this transfer. Again, costs will cease.
- If the portfolio is leased to the SPV, Council will receive a lease payment from the entity. As discussed in the Commercial case, an initial lease is the preferred option. This lease may either be a peppercorn or commercial lease. While being lower than the potential counterfactual rental revenue, the lease payment will be equivalent to what is necessary to recover Council's asset renewal cost. Effectively the lease payment would be set at a level of that makes the

3.1.1 Calculating a future lease payment

Any lease payment would be for the purpose of revenue to fund renewals. An asset condition assessment and updated renewals programme is not yet available. Therefore, potential lease payment is therefore modelled under two scenarios, which include the council's current forecast renewal expenditure scenario and the benchmark renewal scenario. The council's overall revenue impact during the lease payments is shown in the tables below.

- Based on the LTP 2021-2031, Council's projection on annual renewal ranges from $113k to $186k over the next nine years (pre inflation), indicating an average current renewal cost per property / equivalent lease that could be paid of $556 per year, or an aggregate annual lease payment of $153k. Table 19 outlines the estimated lease payments under the current Council's renewal scenario in a five-year period.
- The benchmark renewal cost scenario based on publicly available CHP data suggests an average per property renewal cost per property of approximately $3,500. While establishing a CHP expects the level of renewals to increase, given the expected redevelopment or disposals of some areas over time, a lower than typical renewals path is likely more appropriate, estimated at $2,000 per unit per year. This equates to an annual investment of $550k as shown on Table 20.
- Effectively the increase in rents that would be required to service the additional level of renewals is $397k, equivalent to $1,444 per unit. This additional renewal investment would manifest in the need to increased rents. At current rental levels, the entity would be unable to service a higher lease payment. The entity would therefore have to raise rents, which would be indicatively $28 per unit, per week.
- The indicative increase equates to an effective 21% increase on single dwellings and 16% on couple dwellings. The proportionate split could be reviewed to ensure fairness across the different property types. The affordability of this increase to tenants has not yet been tested.
- Alternatively, redirecting some properties to IRRS-funded social housing may provide sufficient revenue to offset the need for rental increases to fund a lease payment under these conditions.

Table 23 Council revenue projections for the preferred option - Current council's renewal scenario

Financial year >		2025/26	2026/27	2027/28	2028/29	2029/30	Total
1	Current rental revenue that is lost	(2,053,921)	(2,099,107)	(2,145,288)	(2,190,339)	(2,236,336)	**(10,724,990)**
2	Lease payment	155,856	159,285	162,789	166,208	169,698	**813,836**
3	**Net impact**	**(1,898,065)**	**(1,939,822)**	**(1,982,498)**	**(2,024,131)**	**(2,066,638)**	**(9,911,154)**

Table 24 Council revenue projections for the preferred option - Benchmark renewal scenario

Financial year >		2025/26	2026/27	2027/28	2028/29	2029/30	Total
1	Current rental revenue that is lost	(2,053,921)	(2,099,107)	(2,145,288)	(2,190,339)	(2,236,336)	**(10,724,990)**
2	Lease payment	561,000	573,342	585,956	598,261	610,824	**2,929,382**
3	**Net impact**	**(1,492,921)**	**(1,525,765)**	**(1,559,332)**	**(1,592,078)**	**(1,625,512)**	**(7,795,608)**

3.2 Council impacts

- Under the preferred option, Council is expected to be in a roughly equivalent position in terms of cash flow on an ongoing basis, as lost rental revenue will be offset by reduced management and maintenance costs.
- Lost revenue (~$1-2 million per annum during the lease period, over $2 million per annum beyond that) would have a have a modest impact on the Council's debt to revenue ratios. It would reduce revenue applicable to debt covenants approximately 0.75-1.5%, reducing debt head limits by the same proportion against what they would otherwise be. This is arguably not material to the Council's overall borrowing capacity.
- Council will bear a portion of establishment cost of the new entity and the transfer cost (or loss on asset sales) should there be one. A full costing of the transition and potential establishment of a new entity has not been completed at this stage. A high-level indicative range of $500k - $1m has been used, however the exact quantified amount will require a more extensive level of modelling and be subject to the preferred entity structure. In an existing CHP is used, as is preferred, these costs will be much lower.
- Ongoing renewals are expected to be funded by council until such point that the portfolio is transferred. For a partnership to be viable, Council's renewal investment is expected to increase to match with the market / benchmark requirement. However, this increase is expected to be offset by an increase in lease revenue which could be paid back to Council as a lease payment. The net effect between council's revenue and investment in renewal would therefore be unchanged.

3.3 Council balance sheet impacts

The older persons' housing portfolio remains on the Council's balance sheet until a transfer is actioned.

The balance sheet impacts at that stage are dependent on the commercial model progressed. Under the preferred approach in the Commercial Case, the assets would be transferred to an SPV in which the Council does not have an ownership position, therefore the assets would no longer be held by the Council.

Under the jointly owned profit-making entity option, the Council would own shares in an entity. These shares would initially have very little value. Once the assets were transferred to the entity and the investment partner contributed its own capital, the shares would have value commensurate with the proportionate value of those assets, which would be recognised on the Council's balance. The value of these shares is likely to be lower than the transferred property assets, but still material.

4 Role of a Joint Venture partner

The potential roles of a JV partner are set out in the Commercial Case and include:

- Governance position on CHP non-profit Trust Board alongside with the Council;
- Collaboration with CHP Trust to undertake development planning;
- Provision of capital required for development;
- Share of ownership of the portfolio and future housing assets;
- Provision of any services to CHP Trust on a fee for service basis; and
- Direct role as a housing operator.

What exactly the JV partner brings will be determined through procurement. Any capital or resources that the JV partner brings could potential offset Council's investment requirement.

5 Capitalisation options and redevelopment of the portfolio

As identified in the commercial case, the entity will require some form of capitalisation to enable it to achieve the business case objectives. Approaches to capitalisation are set out on section 2 of the Commercial Case and summarised below. The exact level of financial capitalisation is yet to be identified and would require a decision from Council.

5.1 Equity sources

- The housing entity would need its own equity to support redevelopments – an entity that purely manages the portfolio without a balance sheet of any substance would struggle to raise finance. The likely sources of equity are:
    - Retained earnings (surplus) generated from existing portfolio – expected to be limited in the short-term.
    - Cash/property provided by the JV partner to the SPV.
    - Cash/properties transferred from Council to the SPV.
- In the first instance, the preferred model is for some initial capital to be provided by the partner. Additional upfront Council capitalisation could be provided in the form of cash or unencumbered assets (i.e. land).
- Where land is provided, the new entity could raise finance against this land. Where cash is provided, this could be directly invested in new supply alongside debt.
- While capitalisation assumes a level of upfront investment is being made, ultimately council could provide either additional cash or land to the new entity at any time. On the following pages, we discuss an approach where transfers could occur over time as the CHP wishes to undertake new developments.

5.2 Indicative capitalisation

The following table summarises what different levels of capitalisation could achieve, and the basis on which these calculations have been made, noting:

- The Turley report, among other things, assessed the current portfolio's redevelopment potential. While not costed, it indicatively estimated a further 184 - 194 units could be developed on Council's landholdings. The following table provides a sense of scale of what could be achieved at different levels of capitalisation. These are high-level calculations only.
- Build costs are assumed at ~$400k per unit (with no additional land cost),

- The SPV is gifted properties and is able to finance at 70% against total equity, including land's value and potential new builds.
- Additional capital gain over time would also provide additional equity but this recycling of capital has not been calculated.
- The below table does not account for additional capital that an investor partner may provide as well.

Capitalisation of gifted land by the Council ($)	Financing capacity @ 70% LVR	Units financeable from initial capitalisation (@ $400k per unit)
$5m	$12m	29
$10m	$24m	58
$20m	$47m	117

Management Case

1 Planning for successful delivery

The Management Case confirms that the proposal is achievable and details the arrangements proposed to both ensure successful delivery and to manage project risks, while maintaining a focus on delivery of benefits.

1.1 Negotiation priorities

There are two key actions, critical to advancing the investment proposal.

Subject to the Council's comfort with a proportion of the current units being transferred from their current use to social housing, Council will engage with Government Officials and Ministers to negotiate the availability of IRRS. While is it impossible to predict how officials and Ministers will respond, consideration has been given to their likely priorities.

Table 25 Negotiation priory elements

Negotiation strategy elements	Action / priority
Key Ask: To seek agreements for redirects for some minority of the portfolio.	
Crown's likely priorities	• Addressing housing demonstrable, and evidence-based housing needs • Developing *net new* social housing (e.g. that funds are being applied to construct homes that do not already exist) • That the proposal offers good value for money
Inputs required to support negotiations	• the financial and demographic case for government investment in Whanganui • An assessment of existing tenant's eligibility for IRRS • Information from this Business Case and the Turley report on the growth potential of the portfolio, subject to the establishment of a joint venture • Renewals requirement following Asset Condition Assessment (when available)
Actions to secure commitment	• Resolve ambiguity on the Government's redirect policy and investigating whether an exception could be made for Whanganui • Understand under what circumstances the Government would consider making the exception • Explore whether the provision of IRRS needs to be tied to development commitments and determining the level of development required to support the transition of the existing portfolio to IRRS • Test the extent to which new social housing places in existing development can be limited to older persons
Considerations	• Unlikely that any existing tenants will be redirected to IRRS • There is a reasonable level of precedent for the Crown to fund some proportion of Council properties (e.g. Wellington, Christchurch, Auckland, Tauranga, Nelson) • Limited availability of IRRS to tenants may create equity issues whereby tenants of equal financial position may pay somewhat different rents

1.1.2 Design priorities

When issuing the RFP, the Council needs to clearly describe to the market how it intends to work with partners and what it is offering. This, in part, will be informed by the outputs of community consultation.

One key input mentioned previously in this business case is the collation of asset condition data. Council will need to scope a fit-for-purpose renewals programme, accounting for possible redevelopment. Council would also need to identify an approach for funding this up until the assets are transferred (at which point Council would cease to have any financial commitment to the properties). The preferred funding approach is most likely to be a combination of rates (possibly debt funding initially) and increased rental revenue passed through in the form of a lease payment as discussed in the financial case.

Council's approach to its role will influence the attractiveness of the partnership to potential partners. Key distinctions include whether a completely new Community Housing Provider (CHP) is established or if an existing entity is used. Retaining interest in the assets, terms of leases, and (potential) sales agreements will also be critical considerations.

A council decision will be required to confirm the preferred approach and Council will need to resolve those outstanding design choices, which include:

- The preferred Joint Venture entity arrangement.
- The preferred portfolio transfer mechanism as an input to the RFP.
- The maximum form and value of entity capitalisation that the Council might provide, as an input to the RFP.

1.2 Project plan and milestones

The project is planned to run over four workstreams and is estimated to take approximately 18 months. The workstreams are:

- Commercial and Financial Refinement
- Partner Procurement
- Tenant and Property
- Change Management and Transition

Appendix 3 provides an 18-month project Gantt chart and outlines a high-level plan for delivering the preferred option. If consultation concludes that the JV option is not preferred, then Council will proceed in a similar manner but without the requirement to consult the market for a partner.

The project plan includes key decision points, which include:

- Confirming preferred option and authorisation to develop and release of an RFP
- Council agreement to the preferred partner and MOU critical terms (note, prior to a Council decision being taken, Council will receive an update via workshop on the process, the entities which have responded and the implications of different partnership options)
- Agreement of the lease key term sheet.

If a new CHP is needed to be established that will add additional time and process.

Table 26 High level project schedule

Key Project Milestone	Approximate Date
Community consultation	April – May 2025

Confirm preferred option (post-consultation)	June 2025
Go to market for a JV partner	August 2025
Post RFP evaluation update to councillors	November 2025
Preferred partner and key terms agreed	February 2026
Approval of Lease	June 2026
Management of properties transfers	July 2026

2 Project management arrangements

2.1 Proposed project governance arrangements

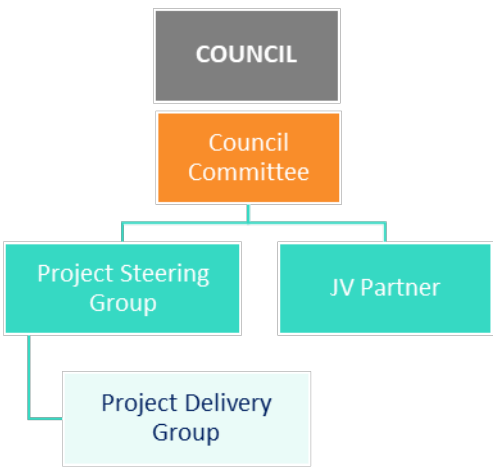
The establishment-phase of the JV Community Housing Entity will be managed and governed through the following structure.

The proposed governance arrangements, consistent with standard Council practice, are as set out in Figure 17 and are as follows:

- **Council** – overall decision-making responsibility, receives updates and makes key design decisions
- **Council committee** – approves delegations, makes decisions and receives reports via the Project Steering Group
- **Project Steering Group** - be accountable for the success or failure of the project, provide unified direction to the project, identify and appoint the project director, provide the resources to the project, delegate authority for the funds, be visible and provide sustained support to the project, address any issues with the project, monitor progress against plans, assess that risk management is being adhered to
- **Project Delivery Group** – led by the project director, project manage all aspects of the transition and establishment phases including partner procurement and evaluation, resolve residual design issues, receive specialist advice, create progress/interest reports and make recommendations to the Project Steering Group
- **Audit and Risk Sub-Committee** – Receives risk reports as required.

Additionally, the council and Takapau Whariki (WLS) have committed to work together to reset their relationship through Te Tomokanga ki Te Matapihi, which will be vehicle to address the role of Iwi within the project governance structure.

Figure 16 Proposed Governance Structure



Membership to the Project Steering Group and Project Delivery Group, and the skills and capabilities necessary to enable to effectively deliver the project are set out in the tables below. In some cases, these roles and capabilities may be filled by more than a single person, or a single person may fulfil the requirements of more than one role provided they have the requisite skills and this does not create sufficient oversight of conflicts.

Table 27 Project Steering Group membership

Title	Role	Requisite skills / capabilities
Executive Sponsor	Overall responsibility from delegations and delivery perspective. Is delegated responsibility from Council to enter into contracts and partnerships.	Chief Executive or equivalent
Elected member representation	Provides political input and support to the projects, champions at a Council level	Awareness of social housing portfolio financials
Financial	Oversight and guidance on appropriate delegations and expenditure processes including cashflow, financial reporting, forecasting and budgets	CFO or equivalent
Project Director	Provides leadership, management and delivery of the project across the workstreams, may continue on to be the housing interface lead once JV is established	Project management Procurement Preferred bidder negotiations Contract execution Property development (preferred)
Communications	Oversight and support for the development and execution of effective and timely communications strategy	Understanding of council communication requirements

Table 28 Project Delivery Group Membership

Title	Role & responsibilities
Project Director	Leads, manages and delivers the various workstreams of the transition project, along with leading the delivery against project plan, leads procurement and commercial negotiations
Finance and funding advisor	Specialises in financial analysis, funding strategy, and negotiation. This role involves negotiating with the Crown or other governmental entities on the availability of funding, ensuring the project's financial viability and securing necessary financial resources.
Commercial advisor	Supports the competitive procurement process. They are responsible for preparing RFP documents, evaluating bids, and contributing to the negotiation of terms with potential partners to ensure a fair and competitive selection process.
Legal advisor	Specialised in property and commercial law to handle all legal aspects of the transaction, ensuring compliance and protecting the interests of the Council.
Property manager	Oversee the transition of properties to new ownership/management, including the handover of management responsibilities and ensuring minimal disruption to existing tenants.

Project administrator	Provides administrative support to project. Works across all project phases and supports collation of reporting material.
Stakeholder and Communications Manager	Manages relationships with all stakeholders, including community groups, and internal teams. They ensure transparent communication and address concerns and requirements from stakeholders.

3 Benefits Management Planning

To comprehensively assess the value of the investment, both the primary potential benefits and disbenefits have been summarised in the tables below, alongside possible indicators. In some cases there is potential for an impact (e.g. on service quality) to be both a benefit and disbenefit. Whether the impact is positive or negative will largely depend on the implementation of the preferred option.

This project will manage benefits in accordance with Council's standard process.

Table 29 Primary potential benefits

Domains	Benefit
 *Financial*	***B1: Access to additional funding and finance streams*** A new entity is likely to have access to additional funding sources such as grants, government subsidies and donations which are not available to council managed housing services. It may also be able to attract third party finance. **Key indicator**: Diversity of external funding and finance secured annually compared to council management
	B2: Operational savings The specialised focus and flexible operating structure may lead to operational benefits through improved efficiency and cost savings (for example in asset management and planning). **Key indicator**: Compare operational costs (e.g. per unit) before and after transition.
	B3: Reduced cost to council long term Over time, the financial burden on Council can be considerably lessened, allowing resources to be reallocated to other important community services and infrastructure. **Key indicator**: Dollar value of rates funding directed to social housing on an annual basis
 *Community and social benefits*	***B4: Increased social value*** CHPs often have a stronger focus on generating social value, and are required under regulation to support their communities in a manner appropriate with being a social landlord. Common activities can include community development initiatives and support services for residents. **Key indicator**: Track the investment in and impact of social value programs (e.g., job training, community centres).
	B5: Housing stress reduced Establishing a new entity may facilitate the development and supply of new housing units, thereby reducing regional housing stress (caused by lack of access to affordable housing) in the community. It is also likely to facilitate access to government subsidies, improving the affordability of tenancies provided through the Council. **Key indicator**: Percentage increase in new units annually. Percentage turnover of tenancies to IRRS. Decrease in households spending more than 30% of their incomes on housing in Whanganui.
	B6: Improved occupant wellbeing

Domains	Benefit
	A new entity may provide pathways for improved management of tenancies and assets, leading to a better occupant experience. Modern fit-for-purpose assets and renewed homes are also likely to improve occupant health outcomes. **Key indicator:** Monitor tenant satisfaction scores through annual surveys.
	B7: Māori and Pacific cultural needs are recognised: A new entity can facilitate the integration of Māori and Pacific cultural practises in the design of new buildings, ensuring they are thoughtfully incorporated. Additionally, there may be increased opportunities for Māori and Pacific representation in the entity's governance and management, enabling better acknowledgment and respect for cultural needs. **Key indicator**: Monitor tenant satisfaction scores by ethnicity through annual surveys.
 *Service quality benefits*	***B7x: Improved standards*** Establishing a new housing entity eligible to register as a Community Housing Provider (CHP) has the potential to significantly enhance internal policies and procedures. Registered CHPs undergo annual monitoring and scrutiny and must adhere to a comprehensive set of minimum standards across various service areas. This rigorous oversight provides continuous feedback and review, fostering an environment of accountability and continuous improvement. As a result, the consistency and quality of service delivery are likely to align closely with that of other registered entities, ensuring high standards and better outcomes for tenants. **Key indicator**: Periodic internal audit of policies and procedures.
Operational benefits	***B7: Specialised housing management expertise*** Establishing a new entity will provide the opportunity to attract additional capability to the organisation, either through the direct management or through shared governance via a JV. **Metric**: Measure improvements in key performance indicators (KPIs) related to housing management efficiency.

Table 30 Primary potential disbenefits

Domains	Disbenefit
 *Operations and governance*	***DB1: Reduced Operational efficiency*** The efficiency of housing management operations may decline, resulting in longer times to re-let vacant properties, lower rent collection rates, and delays in maintenance completion. ***Key indicator***: Monitor turnaround times for re-letting vacant properties, rent collection rates, and maintenance completion times before and after transfer.
	DB2: Increased Administration costs Establishing and managing a new entity can involve higher administrative expenses due to additional layers of management, legal fees, and operational costs than would exist under the status quo. ***Key indicator***: Compare the administrative costs pre- and post-transfer, including staffing, legal, and operational costs.
	DB3: Service quality decline Transitioning to a new management structure has the potential to lead to temporary disruptions in services as processes and systems are adapted and staff are either onboarded or adjust to new roles and responsibilities. Examples could be slower response times to maintenance requests and unresolved complaints. ***Key indicator***: Track performance metrics such as response times to maintenance requests, tenant satisfaction ratings, and the number of unresolved complaints.
	DB4: Transparency and Accountability

Domains	Disbenefit
	A transfer in management might lead to an increase in resident complaints due to perceived or actual declines in service quality and responsiveness. ***Key indicator***: Track the monthly number of complaints related to service delivery issues (e.g., repairs, communication) prior to and after management transfer.
	DB5: Employee turnover Changes in organisational structure and management could lead to uncertainty and dissatisfaction among staff, resulting in higher turnover rates. ***Key indicator***: Track staff retention rates and turnover rates within the new entity compared to the former council-managed structure.

4 Risk Management Framework

Risk management is as an integral part of good management practice and is an important aspect of corporate governance. Risks associated to the project will be managed proactively and in accordance with Council's Risk Management Policy and Risk Management Framework 2022 – 2025.

Strategic and delivery risks associated to the business case have been identified in the Strategic Case.

The strategy, framework and plan for dealing with the management of risk are as follows:

1. The Council and the Executive Leadership Team commit to ensuring that all reasonable measures will be taken to maintain a responsible risk management environment such that obligations and stakeholder commitments are fully met.
2. Council will manage risk, according to its risk appetite, to support the successful achievement of its strategic, operational, asset management, health and safety and project objectives.
3. An enterprise-wide risk management framework has been implemented, the principles of which are aligned with the principles of AS/NZS ISO 31000:2018:
    a. Risk management is integrated into all organisational activities
    b. A structured and comprehensive approach to risk management
    c. The framework is customised to our needs
    d. An inclusive approach is taken with stakeholders
    e. Risk management is dynamic and able to respond to changes and events in an appropriate and timely manner
    f. Best available information is used
    g. Acknowledging that human behaviour and culture is a significant influence
    h. Continual improvement through learning and experience.
4. The Risk Register lists all risks identified in this business case, and the results of the analysis and evaluation. The risk register will be regularly and frequently updated and reviewed throughout the project.

4.1 Project risk responsibilities

Council staff have specific responsibilities in identifying and managing risks associated to the project. Key responsibilities are noted in table below:

Table 31 Project risk role allocation

Role	Responsibilities
Council	Council will: — Ensure an appropriate risk governance structure is in place. — Receive reports on high profile risk elements.
Chief Executive	The Chief Executive will: — Ensure critical and high risks are reported with treatment options. — Have oversight of the risk management policy. — Ensure a strategic, comprehensive and systematic approach to risk is followed.
Project Steering Group	The Project Steering Group: — Receive risk control and treatment plans for execution and approval by the steering team. — Ensure all relevant project staff are aware of and comply with the risk assessment, control procedures and treatment plans. — Approve risks they have delegation for.
Project Delivery Group	The Project Delivery Group: — Will manage risks that may affect the delivery of the project. — Identify and manage risks in accordance with the risk management framework.
Project Manager	The Project Manager: — Identify and assess risks that may affect the delivery of the project. — Have full visibility of the complete risk profile of the project through regular reporting to the steering team. — Ensure risk registers are established and maintained to ensure visibility of identified and new risks. — Oversee the development of risk control and treatment plans for execution and approval by the steering team.

4.2 Risk rating methodology

The table below sets out the approach for identifying risks. The methodology categorises risks based on their potential impact on the achievement of investment objectives (consequence) and their likelihood of occurrence (likelihood). A high-risk rating is assigned to risks with a greater than 60% probability of occurring over the course of the project or where a risk has the potential to have significant negative impact on the Investment Objectives.

Table 32 Likelihood assessment

Likelihood	General Description	Frequency Expression
Almost certain	Risk event expected to occur in most circumstances	80% chance
Likely	Risk event will probably occur in most circumstances	60% chance
Possible	Risk event should occur at some time.	40% chance
Unlikely	Risk event could occur at some time.	10% chance
Rare	Risk event may occur only in exceptional circumstances.	Up to 5% chance

Table 33 Consequence assessment

Likelihood	Consequence				
	Very minor	Minor	Moderate	Major	Catastrophic
Almost certain	5	10	15	20	25
Likely	4	8	12	16	20
Possible	3	6	12	12	15
Unlikely	2	4	6	8	10
Rare	1	2	3	4	5

4.3 Combined risk scoring

Likelihood	Consequence				
	Very minor	Minor	Moderate	Major	Catastrophic
Almost certain	M	H	C	C	C
Likely	L	M	H	C	C
Possible	L	M	M	H	C
Unlikely	L	L	M	M	H
Rare	L	L	L	L	M

4.4 Risk reporting and escalation

Once risks have been identified, evaluated and treatment plans in place, the risks will be systematically monitored, reviewed and reported on an on-going basis to ensure appropriate actions are taken with agreed timeframes.

Risks will be escalated as required, in accordance with Table 23 below.

Table 34 Risk Escalation Matrix

Rating	Action Required	Project Risk
Critical	Immediate action required: Risk escalated firstly to Chief Executive then as appropriate to the Audit and Risk Committee. Action plans and management responsibility specified with scrutiny required. Only the Chief Executive and/ or Council can accept this level of risk	Steering Group (monthly) Project Manager (monthly) Executive Sponsor (Monthly)
High	Project Steering Group attention required. Action plans and management responsibility specified with periodic scrutiny required. The Project Steering Group can accept this level of risk.	Steering Group (monthly) Project Manager (monthly) Executive Sponsor (Monthly)
Medium	Project Steering Group attention required. Action plans and management responsibility specified with periodic scrutiny required.	Steering Group (monthly) Project Manager (monthly) Executive Sponsor (Monthly)

Annexes

Annex 1: Case studies in detail

Case study 1: Te Toi Mahana (Council-established independent CHP)	Number of units: ~1,900
	Housing model: Establish a CHP / lease

Established in 2023, Te Toi Mahana ("TTM") is an independent not-for-profit Charitable Trust. Having taken over the management and operation of Wellington City Council's ("WCC") social housing portfolio, it is the most recent CHP to be established by a Council in New Zealand. A primary objective of the transaction, as well as improving the financial performance of the portfolio and tenant wellbeing, was to enable the growth of social housing provision in Wellington.

WCC's social housing portfolio was formerly managed by City Housing. Long-standing financial challenges constrained City Housing's ability to maintain and expand its social housing portfolio. These challenges peaked in FY23, with City Housing reporting an operating deficit. Key drivers were the receival of concessionary rent (~70% of market rent) and large annual depreciation expenses.

The WCC has a contractual obligation via a 2008 Deed of Grant that it agreed with central government, to undertake a major housing upgrade programme (HUP2). HUP2 is forecast to cost at least $286m, alongside the implementation of Healthy Homes upgrades. TTM's lease payment is made to a ringfenced fund, managed by Council, which will be used solely for the purposes of investing in the housing portfolio.

Description of transaction / entity establishment / development

- In June 2022, following community consultation the Council adopted an LTP amendment to establish a CHP to help to resolve City Housing's financial challenges.
- At the time of establishment. TTM leased 1,781 properties from WCC. A remaining 143 properties, which are currently leased by other CHPs in the Wellington area, can be added to the lease at a future point.
- On establishment, WCC also gifted TTM $10m worth of property assets and $23m in cash as an upfront capitalisation. The property and cash were gifted to enable TTM to build its balance sheet and redevelop the property sites to add new housing.
- The sites were selected based on their development potential to enable TTM to achieve its new supply objective.
- WCC also funded $2m worth of establishment costs.
- Following TTM's establishment, all existing tenants were transferred across along with all prior rental conditions, including subsidies.

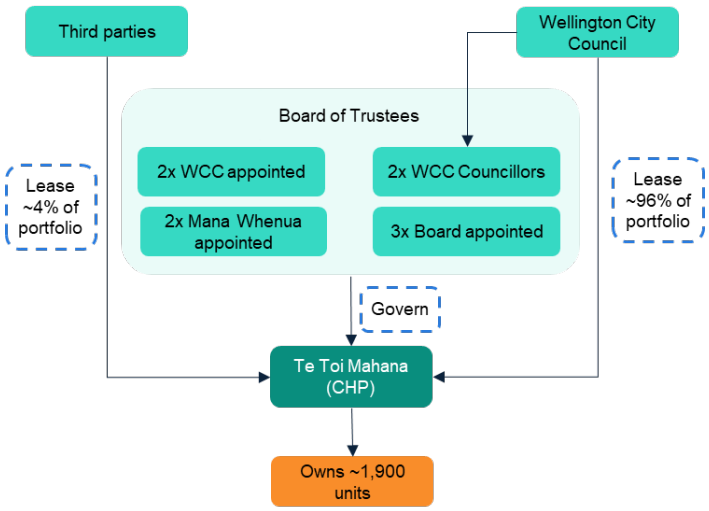
Functions

- TTM aims to ensure Whānau across Pōneke have homes that suit them, in the right place to support their wellbeing. In doing so it will:
  - Improve the quality and sustainability of homes and communities
  - Grow the provision of housing to meet need
  - Maintain its commitment to affordable living.

- TTM is responsible for property management activities, and maintenance. It currently provides accommodation to individuals eligible for elderly-low income and social housing. TTM currently has no plans to expand this scope.
- TTM's primary monitoring and oversight is carried out by CHRA. Its performance is further monitored by the WCC through its governing documents, in particular the trust deed (created when TTM was established) and the leasehold agreement between the WCC and TTM.

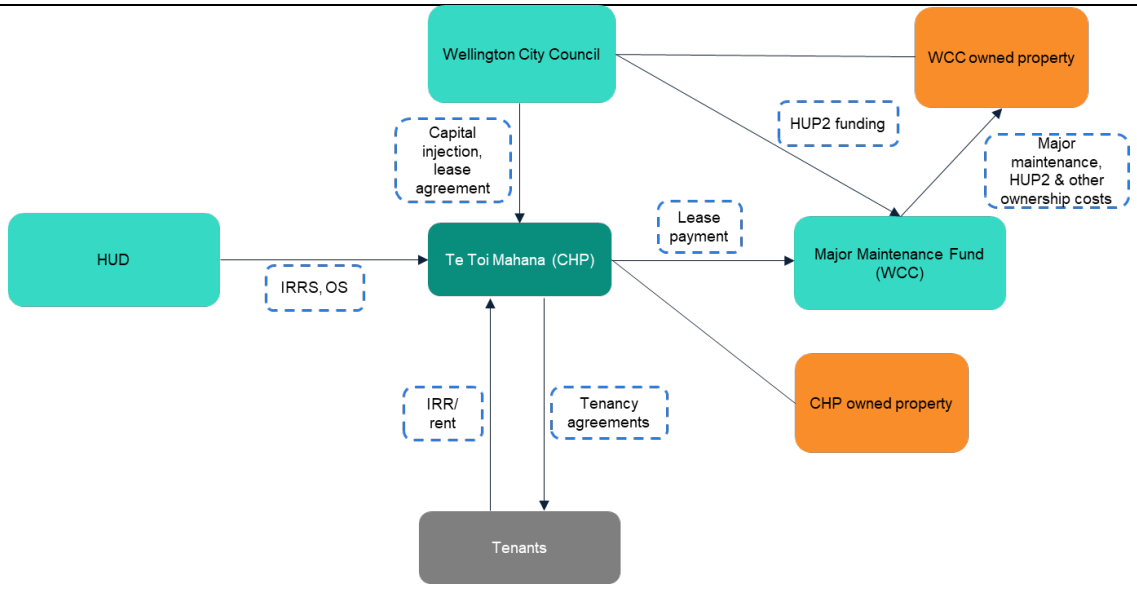
Summary of ownership structure

- Te Toi Mahana is governed by a Board of nine Trustees. Two seats belong to Wellington City Councillors, while an additional two seats, including the Board Chair, are appointed by WCC. Two seats are appointed by Mana Whenua. The remaining three seats are appointed by the Board to independent trustees.
- The relationship between TTM and WCC is governed by a series of agreements encompassing leasing, funding and relationship and reporting.



Funding

- Of TTM's housing portfolio, 96% is owned by WCC and leased back to TTM, while the remaining 4% is leased to third party providers. The WCC lease has an initial term of 35 years.
- The lease payment to WCC is comprised of base and variable rates. These payments are intended to meet the costs of asset ownership incurred by the Council, which include rates, insurance and major asset upgrade and renewal work.
- As a registered Community Housing Provider, TTM has access to the Government's Income-Related Rent Subsidy ("IRRS"). The IRRS is paid by HUD to social housing landlords to cover the balance between what a public housing tenant pays in rent and the market rent for property. The majority of social housing tenants receive the IRRS subsidy, with the amount capped at 25% of their net income. Hence, via IRRS, TTM's rental income is topped up to market levels, rather than the ~70% received previously by City Housing. This additional funding assists TTM in improving and expanding its existing housing portfolio.
- At the time of this report, TTM is capped at providing 380 IRRS funded places. This allocation is understood to have not yet been exhausted.



Key implication

- Provides a model with recent precedent for redirecting Council housing to social housing and gaining access to IRRS.
- Demonstrates the ongoing obligations that Council may still have under such an arrangement.
- Demonstrates the degree of independence required to enable CHP model, while still retaining local leadership and focus, and continued role for Council through governance.
- Outstanding maintenance liability was ultimately a significant driver of the final commercial arrangements.

Case study 2: UrbanPlus (CCO)	**Number of units: ~200**
	Housing model: Elderly housing and development CCO

UrbanPlus ("UPL") is a Council Controlled Organisation under Hutt City Council ("HCC"). Historically its role was largely limited to the management of HCC's elder housing portfolio. In recent years its mandate has been expanded to support wider housing and urban development activities in Lower Hutt. UPL currently owns and manages a rental housing portfolio of approximately 200 units.

Description of transaction / entity establishment / development

- In 2007, UPL was established by HCC as a council-controlled organisation. It operates as a Council Controlled Organisation under the Local Government Act 2002.
- It was initially tasked with providing specialist property services and took over the ownership and managerial responsibilities of HCC's elderly housing portfolio.

Functions

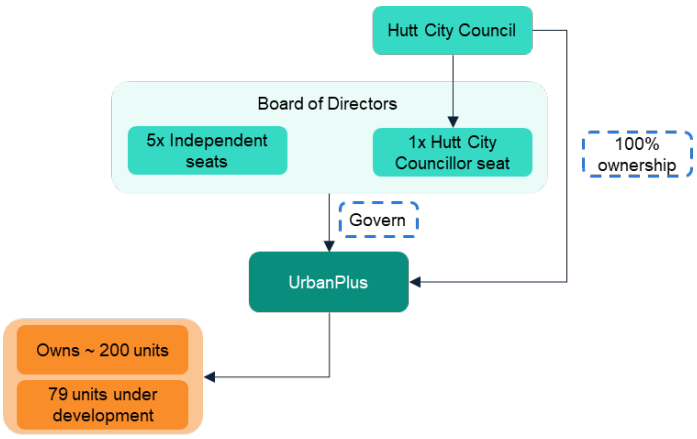
- UPL was established to deliver social housing to the low income elderly and to release affordable housing into the local market for sale.
- In 2020, HCC revised its key priorities and expectations as a shareholder. Examples of these include:
    - Provision of wider housing need outside of the 'low income elderly' scope
    - Release of Council-owned land for development

- Establish further housing partnerships. Targeted partnerships include CHPs, mana whenua, developers, NGOs and Crown agencies
- Build pathways to permanency
- Achieve wider local outcomes including the facilitation of training and employment.

- Existing partnerships include Dwell, Kahungunu Whanau Services and Weltec.
- Since 2018, UPL has overseen the completion of five housing projects with a total of 124 units.

Summary of ownership structure

- UPL operates as a CCO under the Local Government Act 2002.
- Its activities are governed by a Board of Directors. Of the six seats, one seat is appointed to a Hutt City Councillor and the remaining five are appointed to independent Directors.
- In addition to its board seat, HCC approval is required for material changes to the governance of UPL or for major transactions and expenditures.



Funding

- In providing affordable housing to the low-income elderly, UPL receives rental income at a below market rate.
- In 2023, UPL designed and built 19 homes as part of the Takai Here Tāngata initiative in partnership with HCC, Kahungunu Whānau Services, and Te Rūnanganui o Te Āti Awa. The homes were funded by HUD via the Whai Kāinga Whai Oranga and MAIHI programmes.
- Development facilitation operating expenditure

Key implication

- Example of delivery of older person housing through a purpose built CCO for a comparably sized and growing portfolio.
- Shows potential of a development facilitation function in a larger, but comparable, territorial authority, including the costs and the outcomes of such an approach.

Case study 3: Haumaru Housing Leadership Partnership (CHP/JV)	**Number of units: ~1,475** **Housing model: Established a new jointly owned entity (JV)**
Haumaru Housing was established in 2016 as a limited partnership between Auckland City Council and the Selwyn Foundation, and originally focused on managing the Council's existing elderly housing portfolio. Haumaru Housing commenced its services on 1 July 2017. It has since expanded	

into providing IRRS-funded social housing with a continued focus on older Aucklanders. Since the initial transfer via a peppercorn lease of 1,412 units from Council, it has managed and developed in total of 1,475 units.

A joint venture was attractive to Auckland City Council as the partnership provides expertise in elderly housing and care from The Selwyn Foundation while maintaining local leadership through Council. Additionally, in the form of a CHP, Haumaru Housing enables access to IRRS funding scheme which Council is not eligible for.

Description of transaction / entity establishment / development

- Auckland's retirement population is increasing, while ageing housing stocks running down and requiring upgrading, amenities were poorly located such as public transport and not evenly spread across Auckland, and budget was limited. This raised the need to maintain the current number of homes and the current level of service, then to increase that number and improve the quality of homes.
- In December 2015 following a contestable process, council approved The Selwyn Foundation as the preferred partner to deliver services to older people in Auckland. Eke Panuku and council began working with Selwyn to establish a joint venture company, Haumaru Housing, as the business model for the partnership and leased the elderly housing portfolio to it.
- The partnership aims to:
  - improve quality of housing for Auckland's older people by refurbishing existing villages and building new ones from scratch to meet the health, social and community needs of older people; and
  - improve the associated services provided by helping secure the futures of older people and enhance their wellbeing.

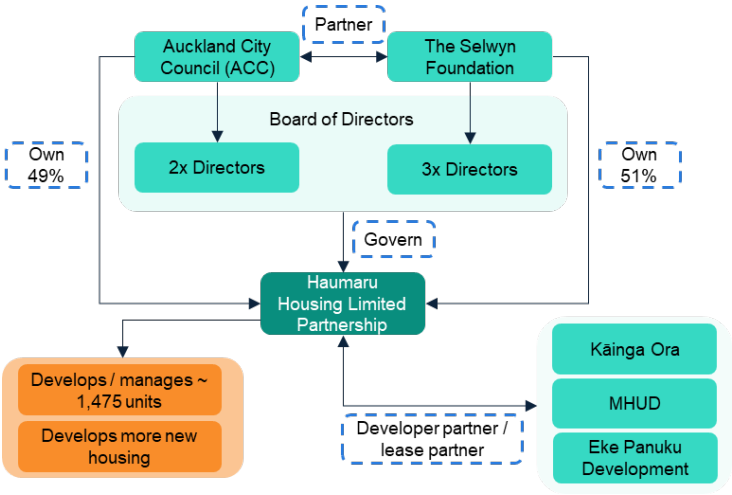
Functions

- At establishment, Haumaru Housing was in charge of managing 1,412 units across 62 villages which were transferred from the Council, and developed 40 more units in Wilsher Village. As at 31 June 2023, the portfolio increased to 1,475 housing units across 63 villages.
- Due to the nature of the lease, Haumaru Housing retains any earnings to help facilitate developments.
- As a registered CHP, Haumaru Housing is able to access the Government's IRRS funding scheme.
- In forming a partnership with Kāinga Ora and MHUD, Haumaru Housing is expecting to manage more than 90 additional units across two new developments in North and West Auckland via a long-term lease and provide IRRS to all tenants. Haumaru have also lodged consent for a 40-unit development in West Auckland.
- The redevelopment of the villages by Eke Panuku has an added spin-off for Aucklanders looking to buy their own home. Besides ensuring new homes for elder people, the redevelopment will enable approximately double the total number of units on the sites, which will include a mix of affordable and market-priced homes.

Summary of ownership structure

- Haumaru Housing Limited Partnership is governed by a Board of five Directors. Being a 49% shareholder, Auckland City Council has two seats in the Board in which one is still currently to be appointed. The remaining three seats belong to The Selwyn Foundation as majority (51%) shareholder.

— Haumaru Housing is in partnership with Panuku Development Auckland, Kāinga Ora and the Ministry of Housing and Urban Development (MHUD) to grow the portfolio. In some cases, land purchases and property development will be undertaken by Kāinga Ora and leased back to Haumaru Housing.



Funding

— No capital funding was provided at the establishment of the JV. However, council supported by transferring the elderly housing portfolio to Haumaru Housing via a peppercorn lease. Under this arrangement, Haumaru Housing could retain earnings to enable redevelopment facilitation.

— Haumaru Housing is supported by a partnership with Eke Panuku Development, who is an active property developer in the market, to enable redevelopment opportunities, despite it not recognising assets on its balance sheet.

— Kāinga Ora undertook some land acquisition and properties development, then leased to Haumaru Housing for an initial 25 year term.

Key implication

— Partnering with an existing provider enables access to external expertise.

— Demonstrates potential partner could be a service provider.

— Peppercorn lease arrangement provided Haumaru limited ability to undertake developments in its own right.

— The existing partnership between council and its urban development entity Eke Panuku is crucial to model.

Case study 4: Queenstown Lakes Community Housing Trust (Council Initiated CHP)	**Number of units: ~361** **Housing model: Established a CHP (including Inclusionary Zoning)**
Queenstown Lakes Community Housing Trust (QLCHT), like Te Toi Mahana (Case study 1), is an independent, community owned, not-for-profit CHP. Queenstown Lakes District Council (QLDC) initiated the establishment of the Trust for the purposes of relieving housing poverty and increasing the supply of social housing in Queenstown. QLCHT receives land by way of local developers' contributions, through the Inclusionary Zoning process, which are primarily payments from land ‘up-zoning’. Payments are made by developers to council in the form of either cash,	

land, or built houses. It currently manages 138 properties and is involved in the development of a further 126 units.

Establishing a local CHP was an attractive option to QLDC as it is in a better position to assist with affordable renting and ownership with a wider variety of services provided and better funding access, one of which is IRRS which councils are ineligible to acquire and is specialised in managing and developing housing. QLCHT is also in charge of implementing Inclusionary Zoning.

Description of transaction / entity establishment / development

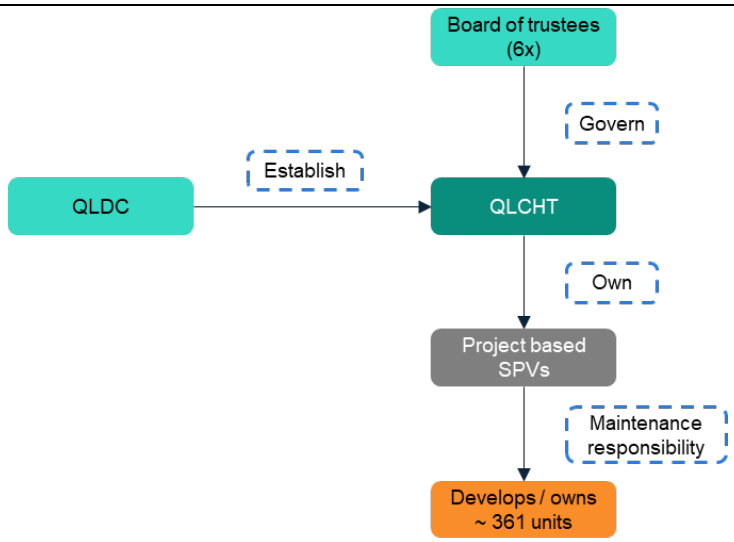
- In 2007, the QLDC identified a problem with the shortage of affordable housing and responded by establishing the Queenstown Lakes Community Housing Trust (QLCHT), which operates as an independent, nonprofit, community-owned organisation.
- The partnership aims to:
    - Increase provision of housing in QLDC, with the primary objective to provide affordable, community housing solutions.
    - Enhance stakeholder relationships, between ie. funders, local Iwi, QLDC, community trusts, central government / agencies, communities and others.
    - Be self-sufficient and sustainable.
    - Lead in housing sector, including being local and national advocacy for Inclusionary Zoning.

Functions

- Facilitates different housing programmes to intervene and support for circumstances across a housing continuum, including emergency / transitional housing, public housing rental, affordable rental, rent saver, secure home, market rental and independent ownership. Its 2023 strategic plan's objective is to build 1,000 homes by 2038.
- Starting solely as a not-for-profit entity, after being registered as a CHP in 2014, QLCHT has been able to access to government / private funding, especially IRRS, to enable faster housing development and enhance affordable rents / home ownership.
- Since established, QLCHT has built and delivered:
    - 9 housing developments, or 129 homes on land received through an inclusionary housing-type process.
    - 132 other homes purchased.
    - Further housing developments totalling 100 homes underway at Northlake, Hāwea and Arrowtown.

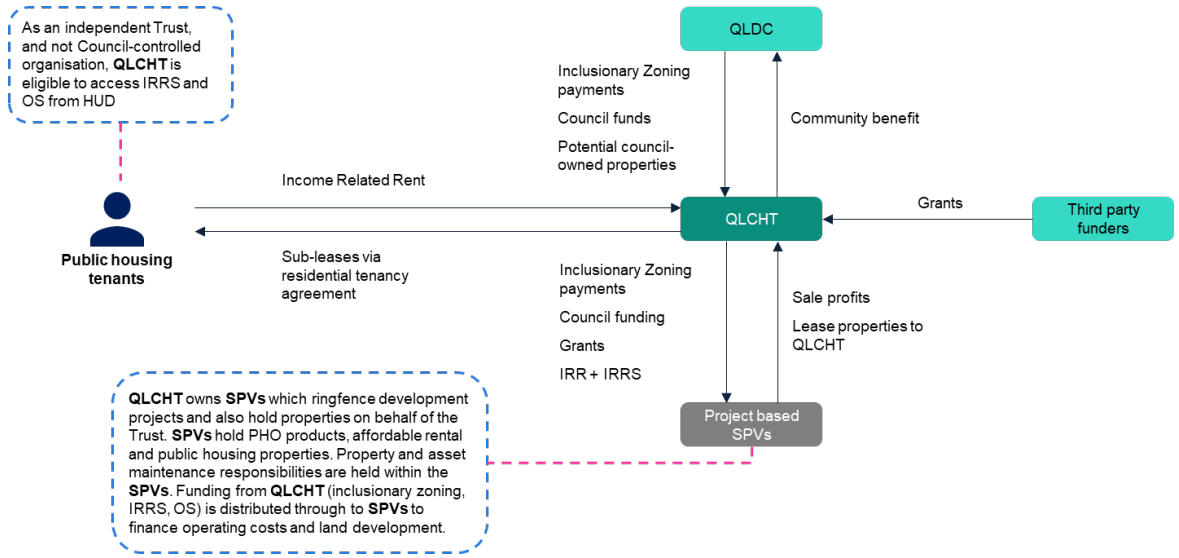
Summary of ownership structure

- QLCHT's activities are governed by a Trust Deed administered by a Board of six trustees, of which none are allocated to Council.
- Partnership between the QLCHT and the QLDC is governed by a Relationship Framework Agreement detailing collective and individual responsibilities. QLDC also provided establishment funding for QLCHT, besides inclusionary zoning.



Funding

- QLCHT's establishment funding consisted of original fund from QLDC and Inclusionary Zoning revenue.
- Ongoing fund has been contributed by capital funders, including Sotherby's, Community Trust South and Central Lakes Trust, in form of grants and / or interest free loans.
- Local developers, including Universal Developments – Longview, Arrowtown Lifestyle Village, Hanley's Farm, Exclusive Developments Ltd – Hikuwai and Bullendale, through the Inclusionary Zoning process outlined in the resource consent, obligate to provide contributions which are primarily payments from land 'up-zoning'. Payments are made by developers to council in the form of either cash, land, or built houses, ie. 5% allocation of the project's value to affordable housing when rezoning a rural area to an urban zone.



Key implication

- Demonstrates a model where a diverse range of services and programmes are offered, with the flexibility to adapt to changes in housing priorities.
- The only domestic precedent for inclusionary zoning in New Zealand, which is a central feature of QLCHT funding model.
- Demonstrates a model for isolating construction risk from core tenancy operations, through the use of project based SPVs.

Case study 5.1: Council sales to Kāinga Ora or existing CHPs (Nelson)	**Number of units: ~142**
	Housing model: Transfer to a local CHP

The Nelson City Council owned and managed 142 properties across nine sites in Nelson, primarily constructed during the 1960s and 70s using low-interest loans from the central government. Tenants' rents were fixed at 25% of New Zealand Superannuation. With an estimated upgrade cost of $20 million spread over the next 20 to 25 years for the ageing portfolio, the council awarded a management contract for the units to the Nelson Tasman Housing Trust in November 2017. This new contract came at a higher cost due to the need for adequate social support for tenants, leading to community housing moving from a cost-recovery activity to being subsidised by ratepayers, at a level of $160,000 in most years of the current ten-year plan. In March 2019, the ownership of the 142 community housing units was transferred to Kāinga Ora, with the new ownership under Kāinga Ora taking effect in February 2021. NCC was attracted to Kāinga Ora as a potential purchaser due to its access to central government funding for subsidised housing, providing an advantage for upgrading, replacing, and increasing housing stock. Furthermore, unlike councils, Kāinga Ora can offer more than just being a landlord, including access to wrap-around services such as budgeting advice and disability support, and provide new tenants with access to IRRS.

Description of transaction / entity establishment / development

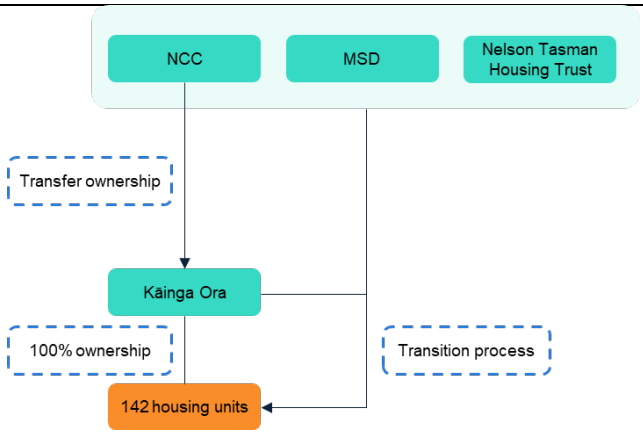
- Nelson City Council sold its 142 community housing units across nine complexes to Kāinga Ora for $19.8 million following the 2019 Special Consultative Procedure that asked Nelsonians their thoughts on divesting the properties to a new provider.
- The sale is a mutually beneficial agreement that aims to:
    - Increase investment in housing in Nelson while retaining access to community housing for existing tenants.
    - Prioritise the welfare of Nelson’s existing community housing tenants.
    - Help provide quality housing for Nelsonians, who may face challenges in securing a home through the private market due to growing demand for affordable and social housing, as evidenced by a significant increase in housing register applicants since the 2018 Census.
    - Stimulate a wider range of housing options in Nelson.

Functions

- Kāinga Ora, as a registered housing provider, is able to receive the Income Related Rent Subsidy (IRRS), whereas Council, without that status, is not eligible for it.
- Three-month handover period, where Council worked collaboratively with Kāinga Ora, the Ministry of Social Development (MSD) and the Nelson Tasman Housing Trust to ensure community housing tenants are well informed, reassured and supported.
- Kāinga Ora took over management of the Council’s properties and their tenants.

Summary of ownership structure

- Kāinga Ora took full ownership of 142 properties from NCC.
- In the transition process to full ownership, NCC, MSD and Nelson Tasman Housing Trust assisted while eligibility assessments were undertaken for the new tenants and to ensure they were given all the appropriate support.



Funding

Proceeds of the sale have been/ are to be used as follows:

- $12m put into "housing reserve" immediately on settlement to support affordable and social housing projects in Nelson.
- $5.1m held back for 15 years to cover a share of the costs for retrofitting or renewal, consenting for expansion and rent top-ups for tenants who do not qualify for the government rent subsidy.
- $2.7m used for Healthy Homes upgrades and to pay back a loan from Kāinga Ora.

Key implication

- Introduction of a CHP to manage properties was not financially sustainable and introduced additional cost to Council.
- Council retained a reduced maintenance liability and continues to subsidise occupants who did not qualify for IRRS.
- Sale proceeds enabled Council to invest in the development of a housing equity fund to accelerate regional housing outcomes.
- Although this arrangement would enhance affordability by allowing immediate access to IRRS for existing occupants, it is unlikely that Kāinga Ora purchase will occur due to the current government policy environment. Therefore, it is not being considered as a viable option at this time.

Case study 5.2: Council sales to Kāinga Ora or existing CHPs (Tauranga)	**Number of units: ~197** **Housing model: Transfer to a local CHP**

The ownership of seven out of nine elder housing villages, comprising of 197 units located in Tauranga Central, Greerton and Mount Maunganui, was transferred to Kāinga Ora from the Tauranga City Council in 2022. The council retained ownership of the other two villages located in Pitau Road and Hinau Street, which were considered unsuitable for public housing and will be sold at market value for private development. Similar to the NCC sales (case study 5.1), Tauranga was attracted to Kāinga Ora as a potential purchaser because, as public housing provider, they have access to central government funding for subsidised housing, giving them an advantage for upgrading, replacing, and increasing housing stock. Moreover, unlike councils, Kāinga Ora can offer more than just being a landlord, including access to wrap-around services such as budgeting advice and disability support, and provide new tenants with access to IRRS.

Description of transaction / entity establishment / development

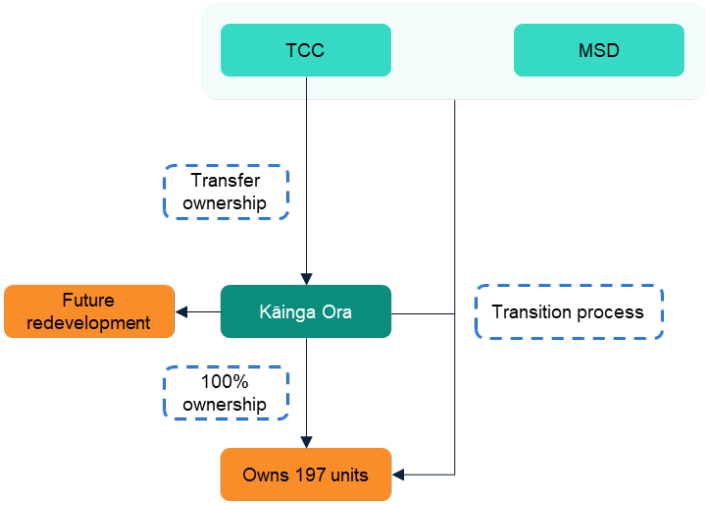
- In 2017, TCC reviewed its elder housing portfolio and presented initial findings at a committee meeting. The committee recommended further investigation into two options: retaining ownership and partnering with a CHP, or divesting the portfolio to a CHP.
- In the TCC's Long Term Plan 2018-28, the decision to divest the elder housing portfolio to Kāinga Ora was made with the welfare of elderly tenants as the top priority. Kāinga Ora's ownership of seven out of nine villages commenced on 15 November 2022, while the other two were retained by council as deemed unsuitable locations for community housing.
- The partnership agreement aimed to achieve the following outcomes:
    - Security of tenure
    - Maintenance of rents affordable for existing tenants
    - Retain of the number of units and addition of higher quality units over time
    - Enablement of welfare improvements and home ownership.

Functions

- During the six-month transition period, Kāinga Ora worked collaboratively with TCC and the Ministry of Social Development (MSD) to support tenants living in the seven villages.
- Kāinga Ora took over management of the Council's properties and their tenants.
- Kāinga Ora has committed to invest a further $32.4m on upgrading the existing units and redeveloping the villages to support strong and increasing demand for public housing in the next 25 years.
- At the moment, there are no specific plans in place for the redevelopment of the villages. However, Kāinga Ora will be investigating potential redevelopment opportunities within the next 2-3 years.

Summary of ownership structure

- Kāinga Ora took full ownership of 197 properties within seven out of nine elder housing villages from TCC. Besides managing the properties, Kāinga Ora will later be responsible for redevelopment of the sites to increase social housing supply in Tauranga.
- In the transition process to full ownership, TCC and MSD provided assistance to ensure existing tenants were given all the appropriate support.



Funding

- Proceeds of sale: $17.2m, of which:

- Some has already been committed to support local community housing providers and Papakāinga housing
- $10m was proposed to be invested in a Housing Equity Fund, which would ultimately be spent within Tauranga city (now the Bay of Plenty Housing Equity Fund).

- Commitment by Kāinga Ora to invest further $32.4m on upgrading and redeveloping the villages for public housing within the next 25 years.

Key implication

- Sale proceeds enabled Council to invest in the development of a housing equity fund to accelerate regional housing outcomes.
- As above, relies on Kāinga Ora investment and therefore is not being considered as a viable option at this time.

Case study 6: Bay of Plenty Housing Equity Fund (investment fund)	**Number of units: N/A**
	Housing model: Council-led elderly housing + Equity investment fund

The Bay of Plenty Housing Equity Fund is a privately managed fund enabling investment in housing solutions across a range of pillars (e.g. key worker housing, senior housing, public housing). Via a private equity investment model, it combines public and charitable capital to deliver a mix of commercial and social outcomes for its investors. The Fund had yet to publicly announce any investments as at July 2024.

Description of transaction / entity establishment / development

- The Bay of Plenty Housing Equity Fund was established to catalyse the development of much needed, large-scale new housing supply for members of the community most in need of improved housing options. Additionally, it aims to provide a commercial rate of return to investors.
- BayTrust catalysed the opportunity by issuing an RFP from potential fund managers with the intent of being a cornerstone investor.
- Fund managers New Ground Capital and Brightlight were successful and subsequently developed a proposed model and pitched.
- The Tauranga City Council was a founding shareholder and saw the fund as a suitable way reapportion the proceeds from the 2022 sale of its elderly housing portfolio to Kāinga Ora (see case study 5.2). It cited the commercial return as a means to sustain ongoing reinvestment whilst providing continuous housing benefits. The Council's investment is ring-fenced to developments in Tauranga City, rather than the surrounding districts.
- Several other local trusts have also invested. Other Councils were approached for investment but none decided to invest initially.

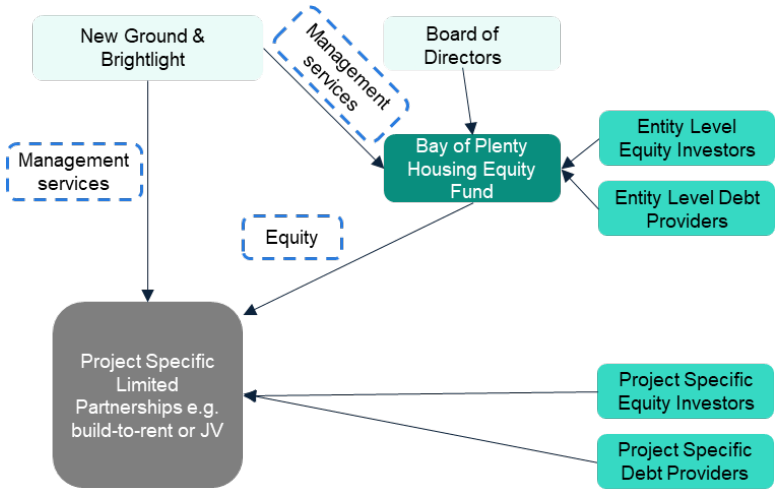
Functions

- Social outcomes include the provision of:
  - Affordable rental and ownership options;
  - Elder housing and supported housing for people with disabilities
  - Crisis accommodation.
- Commercial outcomes include:

- 4% + CPI return per annum (pre-tax, net of fees).

Summary of ownership structure

- The Bay of Plenty Housing Equity Fund is governed by a Board of Directors and co-managed by New Ground Capital and Brightlight.
- The Fund is open to investment on both an entity and project level. At an entity level, investment is made in cash, via a land contribution or through housing in-specie. At a project specific, investment can be made via a joint venture or build-to-rent structure, alongside other structures.



Funding

- Existing entity level capital of $100m has been sourced from a combination of debt and equity as follows:
  - BayTrust ($10m)
  - Trust Horizon ($5m)
  - TECT ($10m)
  - Rotorua Trust ($5m)
  - Tauranga City Council ($15m)
  - Borrowed capital ($45m).
- The Fund's open-ended structure allows for flexibility and the potential for scale when raising equity capital. It aims to raise a further $400m in capital over the next five years.

Key implication

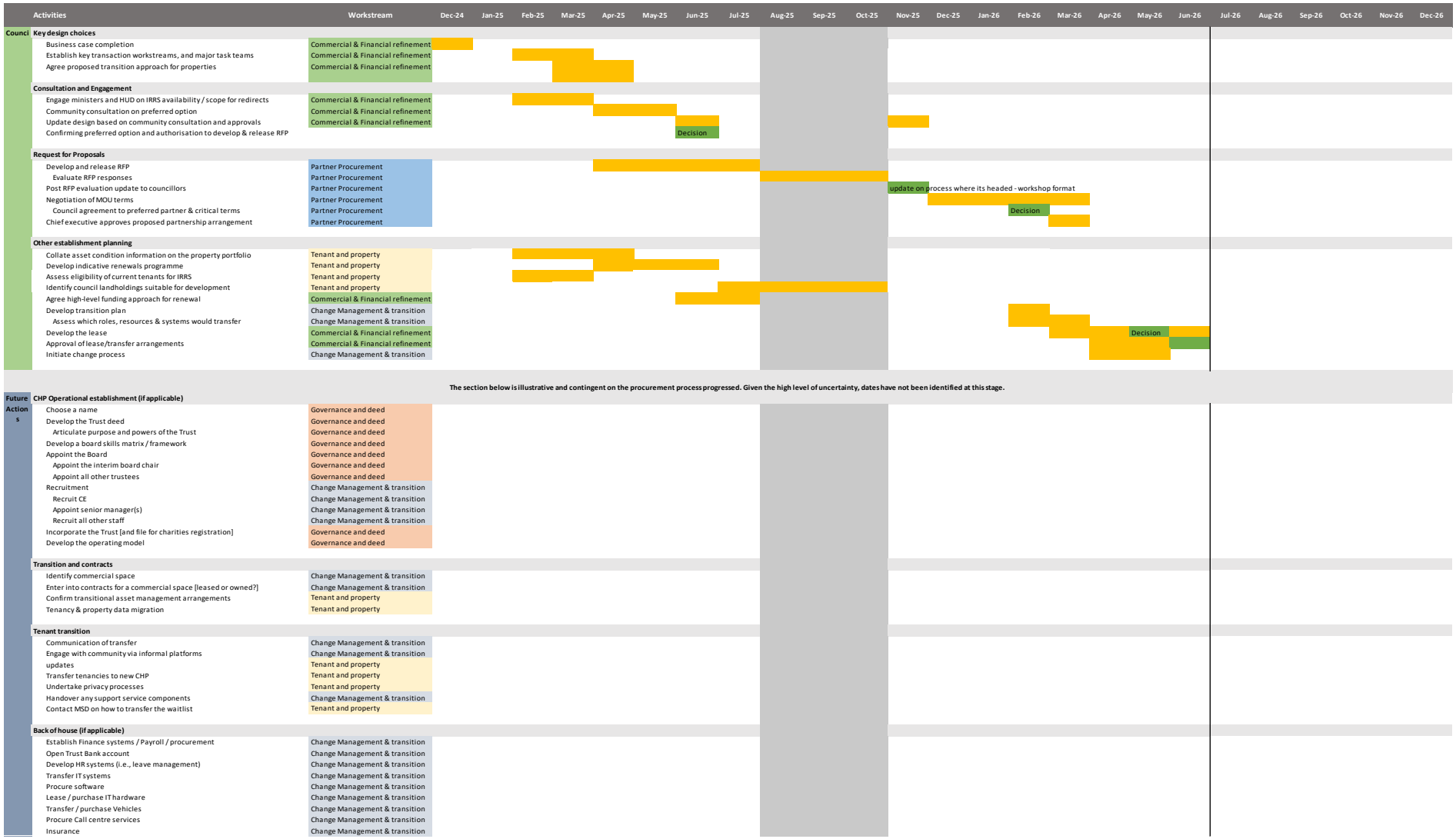
- Provides a model for relatively hands-off investment in a wide range of housing outcomes.
- Novel model, which has merit and broad stakeholder support, but has yet to be proven at this stage.
- Gives a sense of the realistic minimum scale of such a Fund. Notably attractive to TCC in large part due to the existing capital it was committed to investing in housing outcomes.

Annex 2: Longlist Assessment

Table 35 Unweighted assessment of the long-list options

Long list option	Investment Objectives					Critical Success Factors					Total	Rank
	Growth of affordable housing supply	High quality and equitable occupant experience and outcomes	Local leadership	Financial viability and sustainability	Total	Strategic fit and business needs	Potential value for money	Supplier capacity and capability	Potential affordability	Potential achievability		
Status quo with portfolio growth	1	3	4	1	9	1	1	1	1	4	17	8
Establish a CHP / lease or transfer	2	3	3	2	10	3	3	3	3	4	26	**2**
Establish a new jointly owned entity (JV)	3	3	3	3	12	4	3	4	4	3	30	**1**
Transfer or lease to a local CHP	1	3	2	2	8	2	2	2	2	2	18	7
Older person housing and development CCO	2	2	4	2	10	3	3	3	2	3	24	4
Council-led older person housing + Equity investment fund	3	2	3	1	9	2	3	3	2	1	20	6
Council-led holistic investment	4	3	3	2	12	4	3	3	1	2	25	**3**
Partner-led holistic investment	4	2	2	1	9	3	4	2	4	2	24	**4**

Annex 3: Project plan and schedule



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