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**REPORT 5**

*(1215/52/IM)*

**Wellington City Council (WCC) / Housing New Zealand Corporation (HNZC) partnership project  
Consultation on changes to the LTCCP and Draft  
Annual Plan**

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**1. Purpose of Report**

The purpose of this report is to

- update the committee on the progress made since February 2007 on the HNZC/WCC partnership;
- outline the feedback from the community on the proposed in principle agreement with Government for Crown investment in City Housing stock; and
- seek agreement that the Council formerly accept the Crown offer.

**2. Executive Summary**

The offer by the Crown to invest \$220 million in Council's housing over the next 10 to 15 years requires the Council to amend its Long Term Council Community Plan. The Council has consulted the community on the proposed offer and consequent amendments to the LTCCP. This consultation has followed the special consultative procedure.

Over forty written submissions were received on the Crown's offer, of which just under 80% were in support of Council accepting the offer. The submissions raised a number of issues which can be grouped into nine main areas covering

- Matters to be considered during upgrade
- Tenant involvement in the project
- Retaining bed-sit units for single people
- Minimising disruption to tenants
- Future rental increases
- Investment period
- Ownership and governance
- Social housing – a central government role
- Inadequate information.

The report recommends that, having completed the special consultative procedure, the Council confirms its decision to accept the offer of the Crown to invest \$220 million in Council housing over the next 10 to 15 years.

### 3. Recommendations

It is recommended that the Committee recommend to Council that it:

1. *Receive the information.*
2. *Note that the feedback through the Special Consultative Procedure has in large part confirmed the Statement of Proposal regarding Crown investment in Council housing*
3. *Agree to accept the offer from the Crown to invest \$220 million in Council housing over the next 10 to 15 years as set out in the Statement of Proposal attached as Appendix 1.*
4. *Confirm the Council's objective for this project is to identify options and find a solution to:*
  - a. *ensure the long term provision of social housing in Wellington*
  - b. *enable the City Housing to provide safe and secure housing to an appropriate modern standard*
  - c. *ensure the on-going financial sustainability of the City Housing portfolio.*
5. *Agree to amend the Council's Long Term Council Community Plan as set out in Appendix 2*
6. *Note that the formalisation of the agreement will be in 2 stages, through the signing of a Memorandum of Understanding in June/July and a Deed of Grant by December 2007*
7. *Note that the Memorandum of Understanding has changed in form since February 2007 and is now a high level non binding agreement*
8. *Note that the Memorandum of Understanding will be signed by the Ministers of Housing and Finance on behalf of the Crown and the Chairperson of the Board of Housing New Zealand Corporation*
9. *Note that in February 2007 the approval and signing of the Memorandum of Understanding was delegated to the Chief Executive Officer*
10. *Agree to retract the delegation to the Chief Executive to approve and sign the Memorandum of Understanding and delegate to the Mayor the authority to approve and sign the Memorandum of Understanding*
11. *Delegate to the Chief Executive Officer the authority to approve and sign the Deed of Grant (funding agreement) with HNZN to implement the offer accepted under recommendation 2 above*

12. *Note that the Deed of Grant will be subject to the approval of the work programme by the Ministers and Cabinet*
13. *Delegate to the Chief Executive Officer the authority to approve the Work Programme and Investment Plan prior to it being considered by the Ministers of Housing and Finance and Cabinet*
14. *Note that officers will report back on the Work Programme and Investment Plan once it has been finalised*
15. *Note that HNZA officials will report back to Ministers in September 2007 on the way forward for the Work Programme*
16. *Note that HNZA officials will report to Cabinet to obtain budget approval of the \$220m funding by December 2007.*

#### **4. Background**

The Crown made an offer to invest in the City Housing portfolio in February 2007 which the Council considered on 21st February 2007. The Council agreed to accept the offer in principle, subject to the consultation and procedural requirements required by the LGA 2002. The consultation documentation was presented to the full Council meeting on 21 March 2007 where Council resolved to approve the documentation for consultation and initiate the special consultative procedure.

Consultation on the proposed Crown investment in City Housing stock has followed the requirements of the special consultative procedure and was held concurrently with the consultation on the 2007/08 Draft Annual Plan. The period for submissions ran from 16<sup>th</sup> April to 18<sup>th</sup> May 2007.

#### **5. The offer from the Crown**

The offer from the Crown is to provide the Council with financial assistance of \$220 million over the next 10 to 15 years to upgrade its housing portfolio to provide safe, secure housing to a good standard. This represents a contribution of around \$150 million net present value that is projected to escalate to \$220 million over the 10 to 15 year life of the project.

The Crown's aim is to ensure the terms and conditions of the offer achieve its objectives for social housing in Wellington as a return on its investment. The terms and conditions are that the Council:

1. remain in social housing at approximately current levels for at least 30 years
2. ring fence all rental income from social housing for reinvestment in social housing
3. give the Crown first right of refusal should the Council choose to sell any of its housing stock

4. undertake a review of tenancy management, rent setting and tenancy allocation practices and policies, in conjunction with Housing New Zealand Corporation in the next 2 to 3 years
5. in accordance with the work programme that is to be developed, maintain approximately the same number of units currently provided. The Council will have the flexibility to divest and reinvest in social housing provided a similar level of housing need and housing standard is met
6. draw down funding each year to complete the work planned for that year.

If the Council breaks the terms and conditions within the 30 year timeframe, then the Council would be liable for the following penalty costs:

1. repayment of the nominal value of any funds disbursed
2. repayment of an additional penalty charge equivalent to 90% of the disbursed amount
3. repayment of a portion of the funds disbursed by the Crown if the portfolio is sold incrementally.

The financing is to be made by way of a conditional grant with the penalty clauses as set out above. If the Council meets all the terms and conditions, then it would not be required to repay any principal or any penalty costs.

The offer is subject to the approval of a Work Programme by the Ministers of Housing and Finance.

In order to prepare the Work Programme as required by the proposal, a detailed investment plan will be developed that sets out the housing standard, concept designs, costing and timing of upgrade for each complex and unit within the Council social housing portfolio. The investment plan is programmed for completion in 2007/08.

The Crown offer suggests that the on-going relationship between the Council and the Crown is managed through the development of a Memorandum of Understanding. Finalisation of this Memorandum of Understanding is discussed further below.

## **6. Consultation on offer by Crown**

Consultation on the offer by the Crown to invest in Council housing has been carried out in conjunction with the Council's 2007/08 Draft Annual Plan. A 'Statement of Proposal' was included in the Draft Annual Plan documents, which was made available to residents and ratepayers and a summary of information covering the proposal (with a submission form) was sent to all current City Housing tenants.

In addition, the Government offer was part of presentations at the Pacific Island Forum, Maori hui, Ethnic Forum and meetings were held for tenants and social housing stakeholder groups.

The Council received over forty written submissions on the topic of social

housing and the Government offer and there were also a number of oral submissions. The issues raised in submissions are outlined below.

## **7. Issues raised in submissions**

Over forty submissions were received on the Statement of Proposal covering the Crown investment in Council's social housing. Just under 80% of these submissions expressed support or strong support for the proposed Crown investment. The issues raised in the submissions can be grouped into the following areas:

- Matters to be considered during upgrade
- Tenant involvement
- Retain bed-sit units for single people
- Minimise disruption to tenants
- Future rental increases
- Investment period
- Ownership and governance
- Social housing – a central government role
- Inadequate information

These are discussed further below.

### ***Matters to be addressed during upgrade***

A number of the submissions in support included suggestions on the areas that Council should focus on when considering the nature and scope of the upgrades to be undertaken. Issues raised included the need to adopt universal design concepts, ensuring Council properties are suitable for an aging or immigrant populations, reducing inter-tenancy noise, improving thermal insulation, reducing dampness in the units, upgrading kitchens and bathrooms and requests for additional storage space particularly wardrobe space.

The Crown offer requires the Council to upgrade the housing portfolio to provide safe, secure housing to a good standard. The issues raised in the submissions are all areas that have been identified as issues to be considered as part of the development of the upgrade programme.

Officers consider that the process to develop the Work Programme and Investment Plan will be the appropriate mechanism to address these issues.

### ***Tenant involvement***

A number of submissions requested current tenants and their advocates should be involved in the planning and design phases.

It is anticipated that tenants will be involved in the planning, design and implementation phases of the project. It is recognised that tenants are able to provide valuable input on identifying the main issues for their units and their involvement is critical to ensure the success of the project. It is anticipated that the upgrade project team will include a specialist tenant liaison officer who will

be responsible for ensuring that tenants are kept informed of the progress of the project and of any potential impacts on the tenants,

Officers consider that the process to develop the Work Programme and Investment Plan will give tenants and their advocates the opportunities to provide input into the broad nature and design of the modernised units.

### ***Retain some bed-sit units for single people***

Reconfiguration of bed-sits was raised in a number of submissions. The submissions ranged from support for the reconfiguration and enlarging existing bed-sits to concern that some tenants may wish to remain in a bed-sit rather than move to larger accommodation.

The intention through the Work Programme is to reconfigure only 50% of the bed-sits and consequently there will still be the ability for tenants to choose to live in a bed-sit if this meets their requirements. Officers acknowledge the desire by a number of existing Council tenants to remain in a bed-sit rather than move to larger (1 bedroom) accommodation. With just 50% of the bed-sits being reconfigured into 1 and 2 bedroom units, bed-sits will still make up approximately 24% of the total number of units in the portfolio once all reconfiguration is complete.

Officers consider that the reconfiguration of bed-sits will provide existing and prospective tenants the opportunity to live in accommodation which best suits their needs.

### ***Minimise disruption to tenants***

A number of submissions wanted reassurance that no one was going to be evicted as a result of the reconfigurations and that the stress and disruption to tenants during redevelopment projects is minimised.

It must be recognised that the upgrade programme will require tenants to be moved out of their existing accommodation when any major works are being undertaken. This relocation may be either temporary (for the duration of the upgrade works) or permanent. These matters will be dealt with on a case by case basis in discussion with the individual affected tenants. The tenant liaison officer in the project team will be responsible for working with support agencies to ensure that tenants are fully supported during the upgrade and potential relocation processes.

The turnover in tenancies in the bed-sits is over 25% per annum and there will be some flexibility to undertake some upgrade works whilst units are 'between' tenancies. Officers consider that given the reconfiguration is going to be completed over a number of years, the reduction in the number of available tenancies will be able to be managed through this turnover rather than requiring existing tenancies to be terminated solely to manage the upgrade programme.

Officers consider that the inclusion of the tenant liaison officer in the project

team who is able to focus on ensuring tenants are supported through any upgrade or possible relocation process will address these concerns.

### ***Future rental increases***

Concerns were raised about the probable rental increases signalled in the Statement of Proposal once upgrade works have been completed. In addition, a further concern raised was that the offer from the Crown did not result in an increase in the number of people on market rentals in Council housing. Another submission suggested that rentals should be set at 25% of income.

The issue of affordability of the housing rentals will be addressed through the housing policy review in 2 to 3 years time which is required as part of the Crown offer. Presently, the Council's rental policy caps any annual rental increase to a maximum of \$30 per annum and sets the maximum possible rental as 35% of income. Whilst the conclusions cannot be pre-empted, officers consider it unlikely that the housing policy review would recommend the removal of the rental cap.

A change in rental policy to reduce the rentals to 25% of income would undermine the Council's ability to undertake a full upgrade programme. Such a programme will require additional investment over and above the \$220 million from the Crown. This funding will be derived from the ring fenced rental income whereby all income from housing will be reinvested in the housing portfolio. Setting the unit rentals to 25% of income will reduce the income from the housing significantly and mean that rentals are unlikely to cover the full costs of the housing business in the future.

Officers consider that the review of the housing policy in 2 to 3 years time will be the appropriate mechanism to address the issue of setting rental levels.

### ***Investment period***

One submitter raised a concern that the 10 to 15 years investment period was too long particularly when addressing issues such as safety, security and earthquake strengthening.

The Building Act 2004 requires owners of earthquake prone buildings to upgrade their buildings within a timeframe specified by the local authority. The prioritisation matrix to assess and strengthen earthquake prone buildings under the Council's Earthquake Prone Building Policy identifies a number of the housing complexes as having moderate priority. There are no high priority buildings within the portfolio. As such, complexes that are assessed as having moderate priority must be assessed and strengthened within the next 10 years.

Officers consider that the 10 year timeframe is a realistic timeframe to both plan and implement a project of this size and nature. This is consistent with the prioritisation framework identified in the Council's Earthquake Prone Building Policy.

### ***Ownership and governance***

The Wellington Regional Chamber of Commerce supported the funding but stated that they were 'not convinced the ownership and governance structure is in the best interests of the city'. In addition, the Chamber requested all options are considered and consulted on before a final decision is made.

The discussions with Housing New Zealand Corporation (HNZC) canvassed a range of options for the future of the Council's housing asset including changing the governance and ownership structures. The Council's objective throughout this process has been to identify options and find a solution to:

- ensure the long term provision of social housing in Wellington
- enable the City Housing to provide safe and secure housing to an appropriate modern standard
- ensure the on-going financial sustainability of the City Housing portfolio.

A range of governance and ownership options were considered by a working party of councillors prior to the current process of discussions which started in 2004. The working party concluded that there was no financial advantage to changing the ownership and governance structure.

During the discussions between the Council and HNZC culminating in the present offer from the Crown to invest in the Council's housing portfolio, a range of governance and ownership options were canvassed by the Corporation and Council. These options included

- transfer of the housing assets to an independent entity
- transfer of the housing assets to HNZC
- transfer of the housing assets to a new Council controlled organisation or
- establishing a management entity for the asset.

The underlying objectives of the Corporation when assessing these options were principally around achieving best value for money, ensuring the ongoing provision of social housing and protecting any Crown's investment in Council's social housing. These options were canvassed by HNZC in a paper to Cabinet, however due to the requirements for Cabinet secrecy, the Council was not party to either the detailed content or conclusions of this paper.

Officers consider that the current offer by the Crown to invest in Council's housing best meets the Council's objectives, and by implication also meets the Crown's objectives for its own investment.

### ***Social housing – a central government role***

A number of submissions were in opposition to the offer from the Crown on the basis that housing is not a local government role or function, but that of central government. The submissions requested that the housing asset should be transferred to central government. A referendum on this issue was requested by a single submitter.

The purpose of local authorities under the Local Government Act 2002 (LGA) is to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future. A local authority must retain and maintain its strategic assets to achieve any outcome that the local authority determines to be important to the current or future well-being of the community. Housing is specifically defined as a strategic asset under the LGA.

The Wellington city community outcomes process recognised the importance of social housing for the city and defined a key outcome for the city as  
‘Social services, especially public health and housing, will be affordable, accessible and available to all Wellingtonians’.

Officers consider that the provision of housing by the Council is consistent with the purpose of local government and Wellington’s community outcomes. Officers do not consider it appropriate to hold a referendum on the Council’s role in social housing.

### ***Inadequate information***

The Tawa Community Board submission stated that the information supplied in the Statement of Proposal was inadequate and that as a result they were unable to understand the long term liability for ratepayers under this agreement.

Officers consider that the Statement of Proposal included sufficient information to make an informed decision on whether to accept the offer and make an ‘in principle’ agreement. The agreement is subject to the development and signing of a Memorandum of Understanding and Deed of Grant which will contain the detail of the agreement. These documents will be consistent with the principles and key issues contained in the letter of offer from the Crown and acceptance (subject to consultation) by the Council.

## **8. Progress since February 2007**

In February 2007, officers believe the view that the Memorandum of Understanding was to be a technical document covering the detail and financial arrangements of how the Crown investment would be implemented. However, the processes that HNZN need to complete before the financial agreement can be signed will prevent the Memorandum of Understanding being this detailed. As such, officers have agreed that there will be two tiers of agreement, firstly a high level Memorandum of Understanding and secondly a detailed Deed of Grant. These are discussed further below.

### ***8.1 Memorandum of Understanding***

The Memorandum of Understanding will outline the broad commitments that have been agreed in principle through the exchange of letters between the Crown and Council in February 2007. It is a non-binding document and will cover issues such as

- o purpose
- o outcomes sought

- o roles and responsibilities
- o next steps
- o relationship management principles, and
- o an outline of the deed of grant.

The exchange of letters in February 2007 indicated that the agreement was subject to the Ministers of Finance and Housing approving the Work Programme in September 2007. This is written into the Memorandum of Understanding, however HNZC consider that the Work Programme will need to be agreed by full Cabinet and that this will form the basis of the justification for a budget appropriation for the \$220 million grant. This means that the Crown offer remains conditional until the Work Programme is agreed.

The Memorandum of Understanding is not yet finalised and a copy of the 'working draft' Memorandum of Understanding is attached as Appendix 3.

There are no significant issues that remain to be resolved however some minor editorial changes are still to be agreed. The Council delegated to the Chief Executive their authority to approve and sign the MOU as the scope of the MOU has changed. It is now considered more appropriate for the Mayor to sign the MOU.

### **8.2 Deed of Grant**

Currently, there is a gap between the HNZC and WCC understanding of what form the Deed of Grant will take. At present, HNZC have drafted the Deed of Grant using a commercial approach which requires the Council to give a number of assurances which WCC officers consider are inappropriate given the 'granting' nature of the offer and extend beyond the terms of the in principle agreement between the Crown and Council.

Officers are continuing discussions with HNZC on the Deed of Grant. Any material variation on issues agreed by Council will be brought back for consideration.

Officers recommend that the Council delegates to the Chief Executive Officer the authority to approve and sign the Deed of Grant. The Chief Executive Officer may only sign a Deed of Grant that is consistent with the decisions of the Council on the Crown offer.

### **8.3 Other agreements**

Council officers and HNZC have been discussing how the next phases of the project will progress for 2007/08. The current thinking is that these processes will be agreed by way of an exchange of letters between the two organisations. In particular, discussions have focused around

- o the nature and type of expertise and assistance HNZC will provide over the coming year to assist with the development of the work programme and investment plans
- o additional funding to develop the Work Programme and Investment Plan.

## **9. Conclusion**

The Crown offer represents a substantial capital investment in the Council's social housing portfolio and will enable the portfolio to be upgraded to a safe, secure and appropriate modern standard.

Whilst there are some issues still to resolve in the deed of grant, officers consider this is the best offer that the Council could hope to receive. The general tenor of the submissions on the proposal are supportive of the agreement and recommend that the Council accept the offer from the Crown and delegate to the Mayor the authority to approve and sign the draft Memorandum of Understanding.

Contact Officer: *Wendy Walker, Director, Community Services and Treaty Relations*

## **Supporting Information**

### **1) Strategic Fit / Strategic Outcome**

*This project has good strategic fit and supports the continued provision of social housing by the Council.*

### **2) LTCCP/Annual Plan reference and long term financial impact**

*This project impacts on the capital investment of the housing portfolio. In addition, if the offer from the Crown is accepted, then the housing income and expenditure will be ring fenced. This will incur a rates rise of 1. % from 2008/09;*

### **3) Treaty of Waitangi considerations**

*The Granville flats complex is on land leased from Wellington Tenth's Trust.*

*Newtown Park flats is sited on ex Town Belt land.*

*13% of City Housing tenants are Maori.*

### **4) Decision-Making**

*This is a significant decision. In large, this is a positive decision. The Special Consultative procedure has been used due to the scale of the decision required. The decision to accept the Crown offer requires an amendment to the LTCCP.*

### **5) Consultation**

#### **a) General Consultation**

*The proposal has been consulted on using the Special Consultative Procedure*

#### **b) Consultation with Maori**

*Consultation with Maori has been undertaken through the DAP consultation process*

### **6) Legal Implications**

*Council's lawyers have been consulted during the development of this report.*

### **7) Consistency with existing policy**

*This decision is consistent with existing Housing Policy*

### **Statement of Proposal: Crown Investment in the Council's social housing portfolio**

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#### **Introduction**

The Wellington City Council (WCC) owns and manages over 2300 units as social housing and has been considering the future of its social housing portfolio for a number of years. This has covered investigations of the most appropriate governance arrangements, as well as how to bring the asset up to an appropriate modern standard and the investment levels required.

Since 2004, the Council and Housing New Zealand Corporation have been working together to resolve these issues. This proposal is a result of this work and an offer made by the Crown to invest in the Council's social housing portfolio.

The decision to accept or decline the offer by the Crown to invest in social housing is significant. Under the Local Government Act 2002 (LGA), the implementation of the decision must be specifically authorised by the Council's Long Term Council Community Plan (LTCCP). The Council proposes to amend its 2006/16 LTCCP to make provision for the proposal. The LGA requires that the Council prepare a 'Statement of Proposal' and consults on the proposal using the special consultative procedure. The 'Statement of Proposal' must contain the information set out in section 84(3) of the LGA.

This statement of proposal contains (among other things):

1. a description of the proposal;
2. the reasons for the proposal;
3. a summary of the benefits, costs and risks
4. a summary of the options considered; and
5. any other information that Council considers is relevant.

#### **Council Objectives**

The Council's objective has been to identify options and find a solution to:

- ensure the long term provision of social housing in Wellington
- enable the City Housing to provide safe and secure housing to an appropriate modern standard
- ensure the on-going financial sustainability of the City Housing portfolio.

## The Proposal

The proposal is that the Crown will provide the Council with financial assistance of \$220 million over the next 10 to 15 years to upgrade its housing portfolio to provide safe, secure housing to a good standard. This represents a contribution of around \$150 million net present value that is projected to escalate to \$220 million over the 10 to 15 year life of the project.

In return, the Crown requires the Council to agree to various terms and conditions. The terms and conditions are that the Council:

1. remain in social housing at approximately current levels for at least 30 years
2. ring fence all rental income from social housing for reinvestment in social housing
3. give the Crown first right of refusal should the Council choose to sell any of its housing stock
4. undertake a review of tenancy management, rent setting and tenancy allocation practices and policies, in conjunction with Housing New Zealand Corporation in the next 2 to 3 years
5. in accordance with the work programme that is to be developed, maintain approximately the same number of units currently provided. The Council will have the flexibility to divest and reinvest in social housing provided a similar level of housing need and housing standard is met
6. draw down funding each year to complete the work planned for that year.

If the Council were to breach the terms and conditions within the 30-year timeframe, then the Council would be liable for the following penalty costs:

1. repayment of the nominal value of any funds disbursed
2. repayment of an additional penalty charge equivalent to 90% of the disbursed amount
3. repayment of a portion of the funds disbursed by the Crown if the portfolio is sold incrementally.

It is proposed that the funding will be provided by way of a conditional grant with the penalty clauses as set out above. If the Council meets all the terms and conditions, then it would not be required to repay any principal or any penalty costs.

In order to prepare the work programme as required by the proposal, the Council considers it must develop a detailed investment plan that will set out the housing standard, concept designs, costing and timing of upgrade for each complex and unit within the Council social housing portfolio. The investment plan is planned to be completed in 2007/08.

The proposal suggests that the on-going relationship between the Council and the Crown is managed through the development of a Memorandum of Understanding. Finalisation of this Memorandum of Understanding is subject to the current consultation on the proposal.

# **The Reasons for the Proposal**

## **Wellington's social housing**

WCC is the largest social housing provider in Wellington. The Council provides housing for low income households with rental set at 70% of the market rental for each property with a cap on rent levels set at 35% of household income. High needs groups are targeted and approximately 80% of tenant households receive government assistance of some kind. Targeted groups are the fit elderly (over 65), refugees and migrants, people with low-level psychiatric problems, households facing multiple disadvantage, all households with 50% rent to income ratio and people with physical disabilities.

## **Increasing need for social housing in Wellington**

A 2006 analysis of housing need in Wellington city showed that the number of households in rental properties experiencing growing financial pressure because of housing costs will increase by almost 50% in the next 20 years. Of these households, many will be seeking social housing services to meet their housing needs. This will place increasing pressure on current social housing providers in Wellington such as the Council and Housing New Zealand Corporation.

## **Poorly configured and aging stock**

The Council owns over 2300 housing units, of which over 70% are either bed-sits or 1 bedroom units. The stock is aging and physically unattractive. The individual units are small, often poorly configured for modern living, unable to accommodate basic modern amenities, lack adequate ventilation, and are cold and noisy.

80% of the total housing portfolio is more than 30 years old, of which 95% is in the larger housing complexes of Central Park, Hanson Court, Kotuku, Granville and Newtown Park. These larger complexes contain between 100 and 280 units per complex. All complexes require significant investment in the short to medium term to bring them up to an appropriate modern standard. Other large complexes such as Arlington, Berkeley Dallard and Pukehinau, constructed in the late 1970's and early 1980's, make up a further 11% of the portfolio and present similar modernisation issues.

## **Scale of investment required**

Work by the Council indicated that the scale of the investment required to upgrade the portfolio was financially unsustainable under the current Council policy to provide below market rental accommodation. A substantial portion of the required investment in the asset would have little or no financial return. The Council therefore only had a choice of either funding this investment through increasing rates, increasing the Council's debt levels, increasing the percentage of market rent levels charged or through partial sale of the housing asset. None of these options were acceptable and an alternative solution was sought.

## **Working in partnership**

The Council has worked with the Government to ensure the continuing provision of social housing in Wellington. This proposal represents the best option to deliver both the Council's and Crown's social housing objectives.

## **Summary of Benefits, Costs and Risks**

### **Benefits**

The proposal will provide for the Council's social housing portfolio to be upgraded to a modern standard and provide safe and secure housing for City Housing tenants. The health impacts of improving the quality of housing accommodation have been documented in the medical research literature and are expected to accrue to City Housing tenants.

The investment will be used to address issues within the units and upgrade the external appearance and functionality of the complexes. Urban design and crime prevention through environmental design principles will be employed to develop solutions to the current issues. The Council will also consider sustainability issues and the use of renewable energy sources as part of the upgrade programme.

The proposal effectively retains the City Housing stock in public ownership for a minimum of 30 years. This provides certainty for low income households that affordable rental housing in Wellington will continue to be provided by the Council.

The Council's current policy is to set the rent level charged to tenants at 70% of market rental. In addition, the Council caps any rent charged at 35% of the household's income. The proposal requires the Council to review its tenant management and policy setting for the housing portfolio in 2 to 3 years with Crown input. This is to ensure the ongoing financial sustainability of the housing portfolio continues throughout the term of the proposal.

### **Costs**

Increasing the quality of the housing stock will have some flow on effects to tenants in terms of the rental levels. Improvements to the housing stock to increase thermal insulation, noise reduction and ventilation are unlikely to increase market rentals. However, other improvements, such as new kitchens and bathrooms, are likely to mean that the market rent level of the units will increase.

The proposal will 'ring fence' the housing income and expenditure. This means that the operating surplus from housing rental income will not be available to reduce the general rate requirement as has occurred in previous years. City Housing currently has a net operating surplus of approximately \$1.2 million. Ring fencing of the housing income and expenditure would begin in 2008/09 and would have an estimated rates increase of approximately 1%.

Ring fencing the housing income and expenditure will mean City Housing has an estimated \$33 million net cash surplus over the first 10 years. This is to be reinvested in its social housing stock. Financial modelling of the housing portfolio suggests that the ring fencing will produce an estimated additional \$120 million for reinvestment in social housing over the 20 years following the period of investment by the Crown.

The proposal includes a penalty clause should the Council decide to exit social housing in part or in full within the next 30 years. The penalty clause declines in nominal terms

over that period. The Council considers that this is an acceptable method to recognise the value and length of the investment in social housing. The financial impacts to Council are included in Attachment 1 and the amendments to Part 4 of the LTCCP amendment.

## **Risks**

The proposal has a number of risks relating to the requirement for the Council to remaining in social housing for a further 30 years. The main risks are from:

- escalating costs of upgrading the portfolio significantly above the current inflation rate
- buildings either coming to the end of their practical asset life
- natural disaster causing substantial structural damage to a large proportion of the portfolio
- current and future building code reviews increasing the building standard required or changing the definition of earthquake prone building.

The Council considers that these risks exist for the housing portfolio with or without the investment by the Crown and that they are not exacerbated by the proposal. Council's exposure to these risks will be managed through any final agreement with the Crown.

## **Options Considered**

A number of options were canvassed during the discussions with the Government over possible Crown investment in Wellington City Housing. These options included transferring the ownership and management of the housing stock to an independent entity, transferring the ownership of the housing to another party such as Housing New Zealand Corporation, developing alternative governance arrangements for the stock and sale of some of the complexes to fund the upgrade of the remaining portfolio.

None of these options were considered a viable alternative as they did not meet the Council's objectives for social housing in Wellington and:

- were less cost effective than the current proposal
- did not retain the existing housing portfolio for the long term as social housing,
- increased operating costs, or
- required divestment of all or part of the housing portfolio.

The proposal to retain the housing stock in Council ownership with Crown investment to upgrade the portfolio best meets the objective outlined above and is considered the only practicable option.

## **Summary**

The proposal by the Crown to invest in Wellington City Housing represents the best option to meet the Crown's and Council's objectives for social housing in Wellington city.

## Appendix 2

### Proposed amendments to the 2006/16 LTCCP

#### Strategy Area 6: Social and Recreation (pages 247 - 305)

1. Delete paragraph 3 under section 6.1.1 'Community Housing - What we do' (page 253).
2. Insert new paragraph 3 under section 6.1.1 'Community Housing - What we do' (page 253).

“Over the next three years, we will plan for and begin a significant upgrade of our housing units. This work is the start of a 10 to 15 year upgrade programme funded by the Crown’s investment of \$220 million in our social housing. The upgrade will ensure all our housing is safe, secure and of an appropriate modern standard.

See ‘How we will manage our assets’ below.”
3. Delete third and fourth paragraph under the heading 'How we will manage our assets' (pages 253 & 254)
4. Insert as new paragraph 3 under the heading 'How we will manage our assets' (page 253) as follows:-

“Over the next three years, the Council will develop an investment plan and programme of works for the upgrade of our housing stock. The upgrade programme will take 10-15 years to complete. We will agree the work programme with the Crown in 2007/08 and it will be the basis of an annual drawdown of funds from the Crown. We will also review our current maintenance priorities and programmes and co-ordinate these with the upgrade programme of our housing assets.”
5. Delete the table ‘who should pay’ (page 254) and replace with the following

WHO SHOULD PAY	
User charges	60%
Other revenue	40%
Targeted rate	0%
General rate	0%
<b>Total</b>	<b>100%</b>

6. Delete the financial information on page 255 and replace with the following:

**WHAT IT WILL COST**

<b>Operational Spending 2006-07 - 08/09</b>		<b>Expenditure 2006/07</b>	<b>User Charges and other revenue</b>	<b>Net expenditure/ revenue</b>
<b>Project description</b>		<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>
C125	Housing Operations and maintenance	19,400	(15,749)	3,651
<b>Total for 2006/07</b>		<b>19,400</b>	<b>(15,749)</b>	<b>3,651</b>
<b>Total for 2007/08</b>		<b>22,353</b>	<b>(16,553)</b>	<b>5,800</b>
<b>Total for 2008/09</b>		<b>18,023</b>	<b>(34,819)</b>	<b>(16,796)</b>

<b>Capital Spending 2006/07 - 08/09</b>		<b>Expenditure 2006/07</b>
<b>Project description</b>		<b>(\$000)</b>
CX370	Housing upgrades	800
CX371	Housing renewals	3,386
<b>Total for 2006/07</b>		<b>4,186</b>
<b>Total for 2007/08</b>		<b>2,232</b>
<b>Total for 2008/09</b>		<b>19,915</b>

7. Delete the financial information for C125 (page 289) and replace with the following and consequentially amend the total:

Net operating expenditure (by strategy area, activity and project for 10 years)

Annual Plan Project	Forecast 2006/07	Forecast 2007/08	Forecast 2008/09	Proposed 2009/10	Proposed 2010/11	Proposed 2011/12	Proposed 2012/13	Proposed 2013/14	Proposed 2014/15	Proposed 2015/16
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
C125 Housing Operations and maintenance	3,651	5,800	(16,796)	(18,590)	(20,280)	(21,460)	(21,513)	(22,195)	(22,261)	(22,926)
<b>6.1.1 Provider - Community Housing</b>	<b>3,651</b>	<b>5,800</b>	<b>(16,796)</b>	<b>(18,590)</b>	<b>(20,280)</b>	<b>(21,460)</b>	<b>(21,513)</b>	<b>(22,195)</b>	<b>(22,261)</b>	<b>(22,926)</b>
<b>Total Social and Recreation</b>	<b>50,385</b>	<b>55,315</b>	<b>36,195</b>	<b>38,334</b>	<b>37,399</b>	<b>37,861</b>	<b>39,950</b>	<b>40,101</b>	<b>41,398</b>	<b>42,787</b>

8. Delete the financial information for CX370 and CX371 (Page 292) and replace with the following and consequentially amend the total:

Net operating expenditure (by strategy area, activity and project for 10 years)

Annual Plan Project	Forecast 2006/07	Forecast 2007/08	Forecast 2008/09	Proposed 2009/10	Proposed 2010/11	Proposed 2011/12	Proposed 2012/13	Proposed 2013/14	Proposed 2014/15	Proposed 2015/16
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
CX370 Housing upgrades	800	-	15,754	17,376	18,658	20,034	20,635	21,254	21,891	22,548
C125 Housing renewals	3,386	2,232	4,161	2,702	3,134	2,881	3,049	3,166	3,532	3,802
<b>6.1.1 Provider - Community Housing</b>	<b>4,186</b>	<b>2,232</b>	<b>19,915</b>	<b>20,078</b>	<b>21,792</b>	<b>22,915</b>	<b>23,684</b>	<b>24,420</b>	<b>25,423</b>	<b>26,350</b>
<b>Total Social and Recreation</b>	<b>15,483</b>	<b>25,547</b>	<b>53,782</b>	<b>32,724</b>	<b>30,411</b>	<b>30,381</b>	<b>29,893</b>	<b>33,419</b>	<b>31,268</b>	<b>33,316</b>

9. Insert new level of service in table 6.1.1 'Community Housing Level of service' (page 294) as follows;

- “we will upgrade our housing units to provide safe, secure housing to an appropriate modern standard.”

Working Draft of Memorandum of Understanding  
Version dated 13<sup>th</sup> June 2007, 3.30pm

**MEMORANDUM OF UNDERSTANDING**

**Between**

**HER MAJESTY THE QUEEN**

**And**

**HOUSING NEW ZEALAND CORPORATION**

**And**

**WELLINGTON CITY COUNCIL**

## **DATE:**

## **PARTIES**

**HER MAJESTY THE QUEEN** in right of New Zealand acting by and through the Ministers of Finance and Housing (**Crown**); and

**HOUSING NEW ZEALAND CORPORATION** (**Corporation**); and

**WELLINGTON CITY COUNCIL** (**Council**).

## **BACKGROUND**

- A The New Zealand Housing Strategy's vision is that "All New Zealanders have access to affordable, sustainable, good quality housing appropriate to their needs". As part of achieving that vision, the Crown and the Corporation are committed to working with a range of community organisations, including local government, to improve the delivery of social housing for low and modest income families in all areas of the country.
- B For many years the Council has been providing safe, secure and affordable housing in Wellington to people disadvantaged in the housing market. The Crown and the Corporation acknowledge that the Council is the largest social housing provider in Wellington, and consider that the Council's social housing stock has an important role in providing housing in central Wellington. The Council houses a diverse range of people with special needs. These people benefit from living in the city and being close to essential city services. The stock is unique and is complementary to social housing provided by the Corporation in the region (both in terms of housing type and tenant mix).
- C The parties agree that families and individuals benefit from housing which is safe, healthy and secure and which offers a certain level of amenity. The parties recognise that the built environment plays a significant role in contributing to tenant health and wellbeing, especially where housing is multi-storey.
- D The Crown and the Corporation acknowledge that the Council faces significant costs in the next 10 years to maintain and upgrade its housing stock. The Crown and the Corporation recognise that the Council's housing stock is different to the social housing portfolios held by most other local authorities, in particular, much of the stock is high rise, and of reinforced concrete construction, which results in escalated building costs and significantly higher seismic strengthening requirements.
- E The parties recognise that they have a joint interest in the Council retaining and upgrading its social housing portfolio in Wellington. The parties have worked collaboratively together to consider the best way to ensure that social housing need in Wellington is met now and in the future. In February 2007 the Crown offered to invest \$220 million in the Council's social housing portfolio on certain terms and conditions. The decision to accept or decline this offer is significant and required the Council to conduct a special consultative procedure under the Local Government Act 2002. On [date] the Council agreed to accept the Crown's offer. The parties now wish to enter into this MOU to record their decisions and to outline their next steps.

## PURPOSE

- 1 The purpose of this Memorandum of Understanding (**MOU**) is to:
  - a set out the broad terms of the funding initiative agreed to by the parties (the **Initiative**); and
  - b establish the next steps for the Corporation and the Council to achieve the Initiative; and
  - c establish principles that will govern the ongoing relationship between the parties in relation to the Initiative.

## THE INITIATIVE

- 2 The parties have agreed that the Initiative will have the following broad terms:
  - a The Council has agreed to upgrade its housing portfolio over the next 10-15 years to provide safe, secure housing to a good standard to its tenants.
  - b Subject to final Cabinet approval being given under paragraph 7 below, the Crown has agreed to provide a conditional grant (the **Conditional Grant**) of \$220 million to the Council over the next 10-15 years to achieve the upgrade and reconfiguration of the Council's housing portfolio.
  - c The Conditional Grant represents a contribution of around \$150 million net present value (in today's dollars) over the 10-15 year life of the project, which is the estimated time frame necessary to complete the work.
  - d To ensure that the Crown achieves its objectives for social housing in Wellington, the Council will be required to:
    - ring fence all rental income from social housing for reinvestment in social housing;
    - give the Crown first right of refusal should the Council choose to sell any of its social housing stock;
    - undertake a review of tenancy management, rent setting and tenancy allocation practices and policies, in conjunction with the Corporation in the next 2-3 years;
    - in accordance with the work programme (**Work Programme**) and investment plan (**Investment Plan**) to be developed under paragraph [6] below, remain in social housing at approximately current levels for at least 30 years. Council will have the flexibility to divest and reinvest in social housing provided a similar level of housing need and housing standard is met; and
    - draw down funding each year to complete the work planned for that year.
  - e If the Council breaches certain terms and conditions of the Conditional Grant during its 30-year term, then the Council will be liable to repay grant monies received together with a penalty charge.

- f The precise terms of the Council's obligations under paragraphs 2(d) and (e) above will be detailed in the deed of grant (**Deed of Grant**) developed under paragraph 5 below.

## **OUTCOMES SOUGHT**

- 3 The parties agree that the following outcomes will guide the decisions and conduct of all parties under this MOU:
- a Council's social housing portfolio level of service is maintained at approximately the same levels
  - b Council's social housing portfolio is financially sustainable into the future.
  - c Council's social housing portfolio is:
    - Safe and secure.
    - To a good standard for modern living.
  - d Council social housing tenants contribute to and benefit from living in Wellington.

## **ROLES OF THE PARTIES**

- 4 During the term of this MOU, the parties will each assume the following principal roles:
- a HNZC's principal roles will be to:
    - work with Council to develop the Work Programme and Investment Plan;
    - work with Council to carry out a review of Council's tenancy management policies and practices in accordance with the Deed of Grant;
    - advance funds to Council over the next 10 – 15 years in accordance with the Deed of Grant, the Work Programme and the Investment Plan, and administer the Deed of Grant;
    - work with Council to manage transition arrangements for tenants during the upgrade process; and
    - advise stakeholding Ministers on progress on the Initiative.
  - b Council's principal roles will be to:
    - develop the Work Programme and Investment Plan in consultation with HNZC;
    - carry out a review of its tenancy management policies and practices in consultation with HNZC in accordance with the Deed of Grant;

- apply funds received from HNZC to upgrade its housing portfolio over the next 10 – 15 years in accordance with the Deed of Grant, Work Programme and the Investment Plan; and
- effectively manage transition arrangements for tenants during the upgrade process.

## **NEXT STEPS**

### **Deed of Grant**

- 5 Subject to final Cabinet approval being given under paragraph 7 below, the parties agree that they will enter into a binding Deed of Grant of Funding, in substantially the form and on the terms set out in Schedule One to this MOU.

### **Work Programme and Investment Plan**

- 6 The parties agree that officials from the Corporation and the Council will work together to develop the Work Programme and the Investment Plan to be attached to the Deed of Grant. A brief description of what will be contained in the Work Programme and the Investment Plan is set out in schedule [x] of the Deed of Grant attached to this MOU.
- 7 The Corporation and the Council will endeavour to have an outline of the Work Programme and Investment Plan ready to be presented for approval by the Cabinet by 30 September 2007. Should Cabinet approval not be obtained by such date, the Corporation and Council will take all necessary steps, including updating and modifying the Work Programme and Investment Plan and arranging subsequent presentation to Cabinet, with a view to obtaining Cabinet approval before 30 December 2007.
- 8 The Corporation and the Council intend to have a comprehensive Work Programme and Investment Plan agreed by 30 April 2008.
- 9 The parties acknowledge that if there is any inconsistency between the terms of this MOU, the Deed of Grant, the Works Programme and the Investment Plan, the documents will be interpreted in the following order of priority:
  - a Deed of Grant;
  - b Work Programme;
  - c Investment Plan;
  - d MOU;so that the terms of the higher ranked document prevail to the extent of any inconsistency.
- 10 The parties acknowledge that this MOU is not legally binding and is not enforceable at law. All commitments of a legally binding nature will be recorded in the Deed of Grant described below.

## **RELATIONSHIP MANAGEMENT**

- 11 The parties agree that the following high-level principles will govern their relationship during the term of this MOU. The parties will:
- a work in a collaborative and constructive manner recognising each other's viewpoints and respecting differences.
  - b act towards each other openly, honestly and always in good faith.
  - c communicate with each other openly, promptly and in a clear and timely manner.
  - d recognise the accountabilities that each has to the other.
  - e encourage new and creative ways to achieve the outcomes anticipated by this MOU.
  - f recognise, appreciate and respect the regulatory, statutory and policy parameters and conventions within which each party operates.
  - g address issues of potential or actual conflict in an effective and timely manner in accordance with clause [x] of the Deed of Grant (Disputes Resolution).
  - h bear their own costs and expenses incurred in connection with the preparation and implementation of this MOU.
- 12 The parties agree that the following sections of the Deed of Grant will govern their relationship and are deemed to be incorporated into this MOU:
- a Clause [x] (Confidentiality); and
  - b Clause [X] (Communications and Announcements)

## **TERM**

- 13 This MOU shall commence on the date that it is signed by the parties and will continue until 30 June 2037, or such other period as is agreed by the Corporation and the Council in writing.

## **AMENDMENT**

- 14 This MOU can only be amended or varied by agreement in writing between the Corporation and the Council.

**SIGNED**

SIGNED for and on behalf of  
HER MAJESTY THE QUEEN by  
the MINISTER OF FINANCE:

\_\_\_\_\_  
Hon. Dr. Michael Cullen

SIGNED for and on behalf of  
HER MAJESTY THE QUEEN by  
the MINISTER OF HOUSING:

\_\_\_\_\_  
Hon. Chris Carter

SIGNED for and on behalf of  
WELLINGTON CITY COUNCIL by:

\_\_\_\_\_  
Mayor Kerry Prendergast

SIGNED for and on behalf of  
HOUSING NEW ZEALAND  
CORPORATION by:

\_\_\_\_\_  
Patrick Sneddon (Chairman)

Draft

**SCHEDULE ONE – DEED OF GRANT**