Future direction for Napier City Council's housing portfolio

Napier City Council

Final Report

MARTIN JENKINS

28 February 2024

Commercial in Confidence

Disclaimer

This report has been prepared solely for the purposes stated in it. It should not be relied on for any other purpose.

No part of this report should be reproduced, distributed, or communicated to any third-party, unless we explicitly consent to this in advance. We do not accept any liability if this report is used for some other purpose for which it was not intended, nor any liability to any third-party in respect of this report.

Information provided by the client or others for this assignment has not been independently verified or audited.

Any financial projections included in this document (including budgets or forecasts) are prospective financial information. Those projections are based on information provided by the client and on assumptions about future events and management action that are outside our control and that may or may not occur.

We have made reasonable efforts to ensure that the information contained in this report was up to date as at the time the report was published. That information may become out of date quickly, including as a result of events that are outside our control.

MartinJenkins, and its directors, officers, employees, agents, consultants, and advisers, will not have any liability arising from or otherwise in connection with this report (or any omissions from it), whether in contract, tort (including for negligence, breach of statutory duty, or otherwise), or any other form of legal liability (except for any liability that by law may not be excluded). The client irrevocably waives all claims against them in connection with any such liability.

This Disclaimer supplements and does not replace the Terms and Conditions of our engagement contained in the Engagement Letter for this assignment.

Executive summary

You have been considering the future of your housing portfolio for five years

Like many other councils, Napier City Council has been providing housing for the local community for over 50 years. You initially focussed on retirement housing, but you now provide housing for 412 retirement, social, and supported living tenants, across 12 villages.

You have been facing financial and operating constraints as a council housing provider, and therefore over the last five years you have been reviewing your housing role and have explored many options.

In 2022 you agreed that you would retain your housing portfolio and develop a Housing Strategy, so that your investment decisions would be based on a broader understanding of housing in Napier and the Council's role across the housing continuum.

Your investment context has changed significantly over the last year

Since that 2022 decision, your external context has changed significantly: housing pressures have got worse, Cyclone Gabrielle caused greater financial strain, and national housing policy settings are in flux.

Your internal delivery pressures have also worsened, and you have needed to contribute $9.4 million over the last five years. If your current approach continues you will need to contribute almost $10 million over the next five years, and almost $45 million over the period 2039–2043.

Napier has increasing numbers of elderly people who rely on affordable options for retirement

As your Housing Strategy notes, Napier has a growing population of elderly people who cannot afford retirement villages, and so rely on affordable rental options for their retirement.

The Council's housing villages continue to be one of the few options available in Napier to those whose income is limited to superannuation and who have no assets.

There are five broad options for the future of your housing portfolio

The Council has many levers it can use to provide council housing effectively and within your financial constraints. The following five broad options use different levers and combinations of levers:

Option 1. Current state

Option 1 is your current approach. This is where tenancy and assets management are done by the Council in-house. Rental income is based on a fixed 80% cost recovery rate, and control of the housing portfolio lies with the Council.

Option 2. Retirement only

Option 2 focusses on providing housing to tenants over 65 and includes the sale of three social villages. The Council retains control of the remaining retirement villages.

Option 3. Mixed delivery model

Option 3 builds on Option 2 and involves using various levers to optimise how you provide housing. This includes changes in your operating model, such as introducing partnerships and outsourcing. Rents are reset annually to be 80% of a three-year rolling average cost of providing housing. Under this option some assets remain in the Council's control, some are sold, and some are developed.

Executive summary (continued)

Option 4. Independent delivery

Under this option an independent housing entity provides the housing service for the retirement villages. Assets would be sold or transferred to the independent entity. This could potentially include a capital injection.

The entity's terms of reference and constitution would define the role of the Council in delivering this service and the levers the entity could use.

Option 5. No direct provision of housing

Under this option the Council would stop providing council housing and divest itself of the whole housing portfolio. The portfolio could be sold or leased to any entity for any purpose – not just housing. However, a new entity to which the portfolio is sold or transferred could possibly continue to provide council housing, and sale agreements could include that as a condition.

We assessed each option against five success factors

The success factor **Financial sustainability** considers which housing operating model and financial strategy will be affordable for ratepayers and will enable the Council to achieve its housing objectives.

Option 1 (Current state) is not financially sustainable, as expenses are forecast to increase to be more than planned rental income and Council funding. The other four options all present a better financial outlook.

Housing supply considers the impact on the overall supply of housing across Napier. The options that score the highest are those that best enable an increase in housing supply and that ensure the housing provided is affordable for tenants and can respond to demand. These are Option 3 (Mixed delivery model) and Option 4 (Independent delivery).

Tenants' needs considers the impact on tenants and communities, both now and into the future. The options that score highest are those that both minimise disruption to current tenants and also enable the housing portfolio to continue to be fit-for-purpose and to support cohesive communities. Option 3 (Mixed delivery model) scores highest here, as it balances minimising disruption to current tenants with ensuring the stock is fit-for-purpose.

Potential suppliers considers the capability and capacity of potential service providers (including the Council) and the external environment in which they operate. Options that score highest are those where the Council transfers or divests itself of assets – particularly Option 5 (No direct housing provision), which assumes a full commercial sale without conditions.

Council achievability considers the ability of the Council to influence whether the outcomes in its Housing Strategy are achieved and to implement the changes required. The options that score highest here tend to be those that are closer to Option 1 and current approaches. Part of this is because the Council has more influence over outcomes when it provides housing directly .

We recommend engaging with the community on the options

Because the necessary decisions would be consequential, and because you have engaged with the community previously on options for your housing portfolio, we recommend that your consultation on your Long-Term Plan also include consulting on:

- the financial implications of continuing your current approach
- your Housing Strategy and your re-focus on retirement housing, and
- four potential options the Council could progress.

Introduction

Napier City Council agreed to develop a Housing Strategy

Napier City Council owns 377 council housing units across 12 villages, housing 421 people. Many of the units date back to the 1960s and need significant ongoing investment to maintain and modernise them and meet tenants' changing needs.

In May 2022 the Council decided to retain their existing housing portfolio and instructed officers to develop a Housing Strategy. The development of a strategy meant that future decisions about investment could be made with a broader understanding of housing in Napier and the Council's role across the housing continuum.

The Housing Strategy is being developed in three stages:

- **Stage 1:** Development of a working draft Housing Strategy.
- **Stage 2:** Assessment of the options and trade-offs for providing council housing.
- **Stage 3:** Engagement with key stakeholders to finalise the Housing Strategy and the Council's approach to housing provision.

A draft strategy was developed in late 2023. The Council has now begun Stage 2 – assessment of options.

As part of Stage 2, this report provides our assessment of your options

The Council has asked MartinJenkins to assess its future options for providing housing, as part of Stage 2 of developing its Housing Strategy. This assessment will inform the consultation process for your Long-Term Plan (LTP).

In assessing options, we have built on previous analysis and advice the Council has received over the last five years from Morrison Low and PwC.

The previous analysis and advice canvassed three broad categories of options, where the Council would:

- retain the entire portfolio
- divest part of the portfolio, or
- divest the entire portfolio.

We began by reviewing Council documents and reports, including Council financials over the past five years, the Council's 2022 Strategic Housing Review, Telfer Young's 2022 market valuation, and the SPM Works Programme and Renewal Forecast report. We decided we would need to develop a more nuanced set of options than just the three options above, and we have developed our methodology to reflect this.

To supplement our desktop research and analysis, we also met with a handful of Council Officers to get a better understanding of the Council's financial situation, how it manages its housing portfolio, and the overall investment approach the Council is planning to take. We have also engaged with the Ministry of Housing and Urban Development to get a better understanding of central government policy.

Our analysis relies on the quality of the inputs provided to us, including market valuations by Telfer Young and condition assessments by SPM. We have not carried out our own due diligence on these aspects, nor have we undertaken any market soundings.

Next steps

Following this assessment, the Council will finalise the Housing Strategy, including its preferred options for providing housing. It is intended these options, or slight variations of them, will form part of the Council's engagement on its LTP.

Your housing portfolio

You have been providing council housing for over 50 years

The Council has provided housing since the 1960s

Napier City Council started providing community housing over 50 years ago, when, like many councils around the country, you received government low-cost loans to build housing units.

Councils across Aotearoa target and support different cohorts, but traditionally council housing has been for pensioners who need affordable homes and are able to live independently.

You have 377 units across 12 villages

Your 377 units are spread over 12 villages, on a total of 10.7 hectares. Your smallest village is Munroe St, with four single-bedroom semi-detached units; your largest is Henry Charles Village, with 80 single-bedroom units.

Your retirement village units are typically one-bedroom units suitable for single occupiers. Your social villages are mainly two-bedroom units, with a few one- and three-bedroom units. These are suitable for couples and small families. Some units are in two- or three-storey blocks.

The "social" and "retirement" split is not straightforward

Your villages are often described as three "social" villages and nine "retirement" villages. However, the mix is more complicated than that, as some of your retired tenants live in a social village and some social tenants live in a retirement village. For example, all three of your social villages have some retirement tenants. Further, some of the retirement units include social residents, as well as residents who receive a Supported Living Benefit.

However, your social villages are different in their make-up – containing multi-storey buildings and a mix of one-, two-, and three-bedroom units.

You provide both tenancy management and asset management services

The Council directly delivers tenancy management and asset management.

Tenancy management includes all services associated with ensuring tenants have appropriate housing and have the housing support they need.

Asset management includes all services associated with ensuring the units and villages are fit-for-purpose and meet legal requirements.

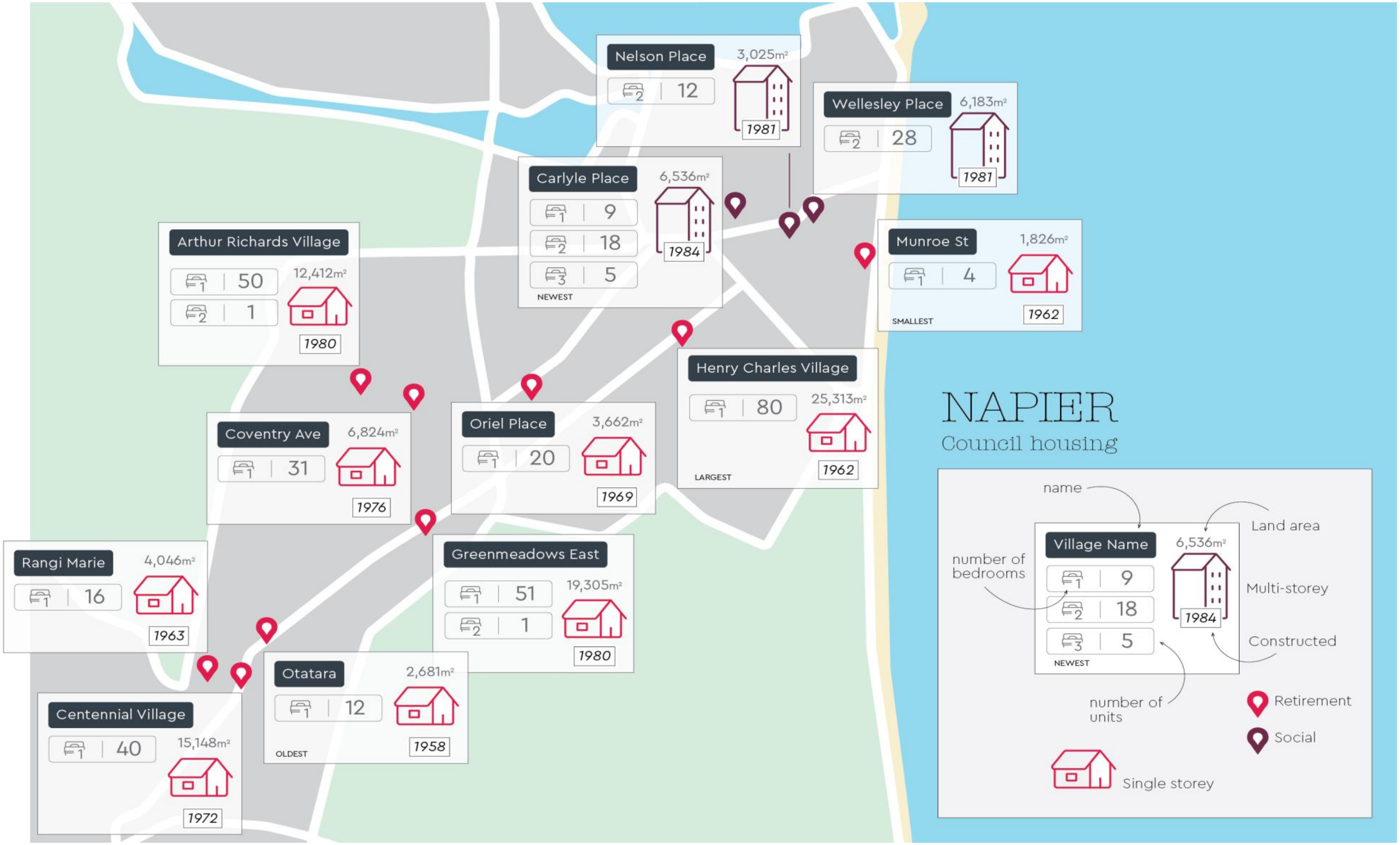
You charge tenants a flat rate

Your rent-setting policies have changed over the last few years. In 2022 you shifted from a policy based on income affordability (30% of the tenant's income), to a private/public rent-setting policy where the tenant (private) pays rent and the Council (public) funds the shortfall. Under this new approach you now set rents at a flat weekly rate of 80% of the cost of providing the housing across the whole portfolio. The Council contributes the remaining 20%.

The rent calculation was based on 2021/2022 expenditure, and you have pegged rentals at this level for the foreseeable future (see the figures below). The Council's contribution will therefore increase to exceed the planned 20% as expenditure exceeds 2021/2022 levels. The new rentals are being phased in as tenancies turn over.

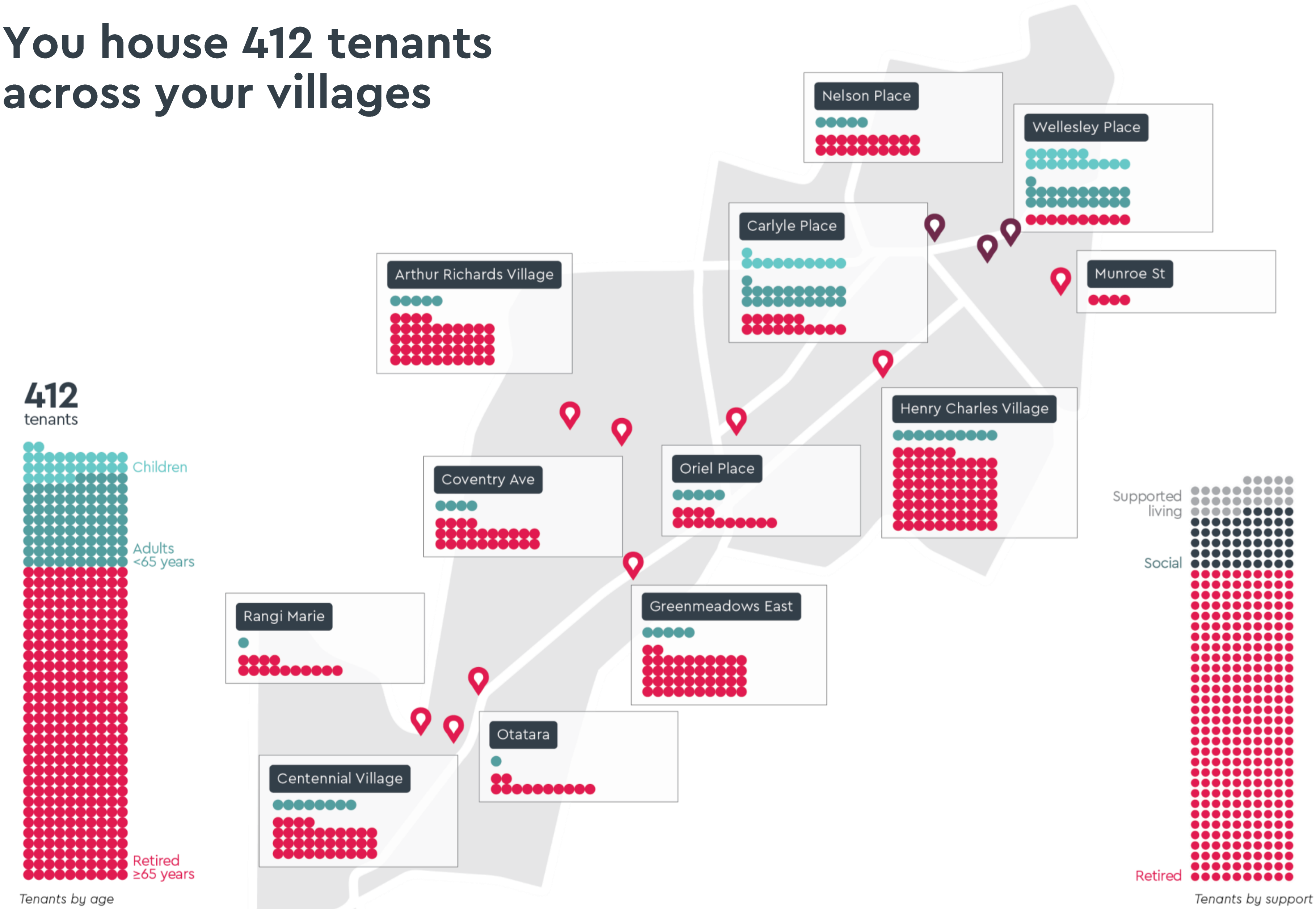
Unit	Single income	Multiple income	Supported living
1 Bedroom	$221	$287	$210
2 Bedroom	$240	$306	$233
3 Bedroom	$280	$346	$268

You own 377 council housing units across 12 villages



Munroe St and Carlyle Place are listed in Schedule 3 of the Napier Borough Endowments Amendment Act 1999

You house 412 tenants across your villages



Since 2018 there have been two reviews on the future of your housing portfolio

As a housing provider you continue to face numerous challenges, including:

- housing stock that is ageing, making it expensive to keep it fit-for-purpose
- increasingly complex tenants' needs and the tenancy management issues that arise from this
- more burdensome compliance and asset management requirements, and
- an increasingly unsustainable financial position for the delivery of housing services.

Since 2018 you have therefore been considering different options for the future of your housing portfolio, with two consecutive reviews.

Section 17A review by Morrison Low

In 2018, a Section 17A review (a cost-effectiveness review) considered several options – the status quo, asset optimisation (enhanced status quo), a shared service arrangement with Hastings District Council, and a partnership with a community housing provider.

Because the Council wanted to retain governance and control of the service, it ruled out establishing a council-controlled organisation (CCO) to deliver housing services, shared services through a joint CCO with Hastings District Council, a long-term lease, and selling the assets (Morrison Low, 2018).

Morrison Low's review found that the status quo was financially unsustainable. It also found that although shared services would reduce costs, this option would not resolve the fundamental need to fund redevelopment and refurbishment. The review recommended that the Council consider two options:

- divesting yourself of a number of villages in order to reinvest in the remaining units, and
- partnering with a community housing provider.

At the time, the Council decided to defer the decision.

A two-phase review by PwC

A more detailed assessment of options for retaining the housing was then done by PwC.

In its first phase, this review identified a potential option of selling part of the portfolio to help fund development of two sites that could generate additional income that would, along with a rent increase, fund the remaining units. This option introduced complexity, and therefore risk, to managing the portfolio (PwC, 2019).

Another option identified was to continue as is with the deficits being funded through a ratepayer contribution. PwC also identified a transfer of the portfolio (full divestment) as the alternative option.

In late 2019 you also reviewed your rent policy and increased rents but capped them at 30% of the tenant's income. This is a generally accepted percentage for housing affordability. With continued forecast deficits, you asked PwC to review, in detail, two options:

- divesting yourself of the portfolio, and
- divesting yourself of part of the portfolio and retaining the rest.

After the detailed second-phase review (PwC, 2021), you consulted on three options: Status quo, part retain / part sell, and sale to an entity in the social housing sector.

The community did not support selling the portfolio to another provider, and the Council agreed to retain the portfolio. Further information on this Council Resolution is set out in **Appendix 1.**

The problem and the changing context

Your external environment has changed since 2022

Since your decision in 2022, your context has changed significantly. You need to revisit the options available for the housing portfolio now to inform a consultation process on your LTP.

Napier has faced increasing housing pressure over the last decade

Over the last year and a half, Napier has seen numbers on the public housing register grow. Today it has the fifth-highest number of people on the housing register per 10,000 people (Ministry of Housing and Urban Development, 2023b).

Napier has a growing population, and the city will need an estimated 6,700 more houses over the next 30 years (Barker & Associates Ltd, 2023).

This population growth is across two of Napier's most vulnerable cohorts – its senior citizens and young Māori. A quarter of current residents are over 65 (Social Wellbeing Agency, 2021), and the city's over-65 population is forecast to increase by 60% over the next 30 years (Birman Consulting Ltd, 2023).

Māori make up 23% of the total population (Social Wellbeing Agency, 2021), and they also have a much younger age profile than the rest of the city, with 45% of Māori males and 42.5% of Māori females being under the age of 19 (StatsNZ, 2018).

The increasing demand for housing has caused house prices and rental unaffordability to increase significantly, as development in the city struggles to keep pace with demand. House sale prices have increased by 132% since 2013, compared to 107% nationally. Rents have followed similar trends, increasing 79% since 2013, compared to 47% nationally (Ministry of Housing and Urban Development, 2023a).

This has caused an increase in demand for non-market housing options. Increasing unaffordability has put pressure across the housing continuum, with high house prices and rents pushing more households out of the private market so that they need broader housing support.

Cyclone Gabrielle led to further financial pressure

On 14 February 2023 Cyclone Gabrielle caused widespread damage and resulted in a period of extreme isolation and vulnerability for local communities. The recovery from this event has placed significant further financial pressures on the Council.

Council costs have increased as a result of the added costs of infrastructure and community recovery, and of resilience planning for future events.

Last year the Council introduced a recovery budget of $1.5 million. This is funded by a 2% Disaster Recovery Rate (DRR), which amounts to $59 for each household and business. This money is ringfenced for cyclone recovery.

Operating complexity has increased

The Council's operating environment has become more complex as a result of the uncertainty involved with the reform of water services, resource management, and local government, and the introduction of the Severe Weather Emergency Recovery Legislation Act.

Your external environment has changed since 2022 (continued)

National housing policy settings are in flux

Policy settings for council housing and the possible delivery approaches are also potentially shifting – especially for community housing providers.

The Government has committed to ensuring that community housing providers and Kāinga Ora are on a level playing field. This includes giving community housing providers more support in the form of capital and operational funding and long-term contracts.

The Government has also signalled that it will establish a new procurement function in the Ministry of Housing and Urban Development (HUD) to allocate capital for new public housing, on a contestable basis, to Kāinga Ora, community housing providers, and other providers. It is also planning to use Social Impact Bonds, in partnership with providers who can shift families out of emergency housing.

However, the implications of these changes remain uncertain.

Income-related Rent Subsidy and the Operating Supplement

The majority of social housing tenants pay an **Income-Related Rent (IRR)** determined by the Ministry of Social Development, with the amount generally set at 25% of their net income.

The Ministry of Housing and Urban Development (HUD) pays the **Income-Related Rent Subsidy (IRRS)** to Kāinga Ora and registered community housing providers, to cover the balance between the tenant's rental payment and the market rent for the property.

Community housing providers can also access the **Operating Supplement (OS)**, a funding subsidy paid in addition to the IRRS for eligible 'net new' (additional housing) social houses to help enable new build supply. The OS is calculated as a percentage of market rent up to a percentage cap – for Napier the cap is 100% of market rent.

Local authorities and council-controlled organisations cannot register to be a community housing provider. However, a subsidiary of a local authority or CCO may apply to register as a community housing provider if it's operating at arm's length.

The subsidiary must genuinely be operating independently from the parent and not part of its corporate structure. This should be evident from its constitution, the membership of its governing body, and its structures for governance and financial management.

Under current policy, it is understood that an independent housing entity can access the IRRS and OS only on **net new units** within their portfolio, following a moratorium on "redirects" (providing IRRS on existing units) in previous years. In limited situations HUD will consider redirects, where through the additional funding the provider is able to bring on new supply. The OS, which is paid in addition to the IRRS for eligible net new public housing, was introduced by HUD to incentivise new builds, and it is calculated as a percentage of market rent up to a percentage cap.

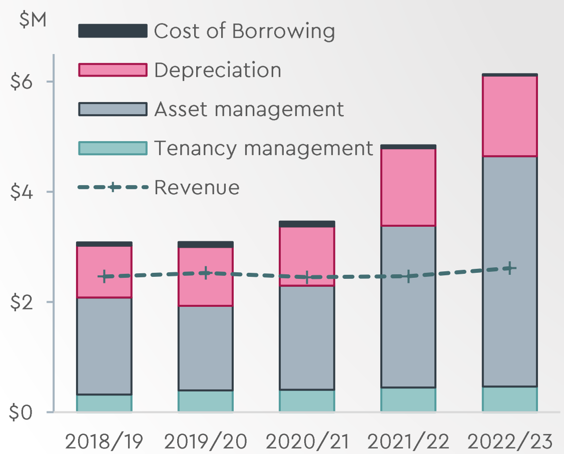
Further, existing tenants are not eligible for IRRS, only those who are from the public housing register. However, when taking tenants from the register, there is some discretion as to who can be allocated units based on set eligibility criteria (for example, residents must be over 65).

Your operating approach continues to be unsustainable

As earlier advice has noted, without capital investment in the portfolio the Council will not be able to expand its housing stock or ensure it has the varied mix of housing types needed to meet statutory requirements and tenants' increasingly complex needs. Insurance and building maintenance costs continue to increase significantly, with total operating costs now exceeding rental incomes.

The Council will continue to need to increase capital expenditure as the assets age and exceed their useful lives, in order to modernise them and keep up with tenants' needs and statutory requirements. This will have a direct impact on depreciation expense.

Historical Cost of Delivering Housing



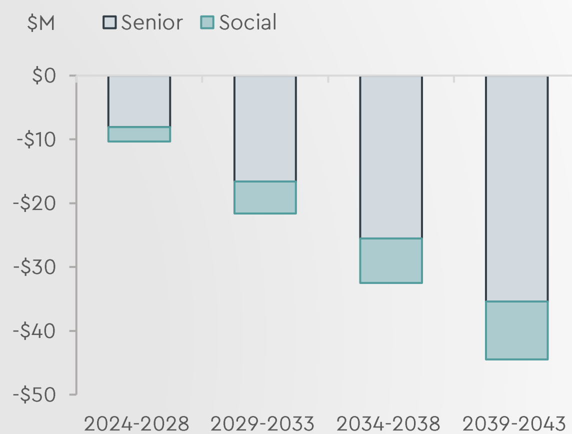
In the last five years the Council has made a net contribution of **$9.4 million.** This is against the Council's total expenditure of $162.8 million in 2022/23.

Even with the change to the private/public rental policy in 2022, the current delivery model is unsustainable. Under the new policy, rents for new tenants are set at 80% of expenses (averaged across the portfolio), but if rents **remain at this rate and are not regularly reviewed**, you will still need to contribute:

- more than **$10 million** over the next five years – or an average rates increase of 2.6% per year.
- almost **$45 million** from 2039 to 2043 – or an average rates increase of 11.1% per year.

This limits the Council's ability to meet future demand, including ensuring its portfolio can meet different types of housing need.

Council Contribution Required to Offer 377 Units



Setting a clear vision

A clear direction for the Council and its housing

In 2023, the Strategic Priorities adopted by the Council and the draft Housing Strategy set a clear direction for the Council as a housing provider in Napier.

Your strategic priorities

The Council's strategic vision, as agreed in August 2023, is:

> **"Enabling places and spaces where everybody wants to be"**

To achieve this, you have adopted five Strategic Priorities that will guide decision making over the coming years, including what projects, activities, and budgets you should prioritise in your LTP.

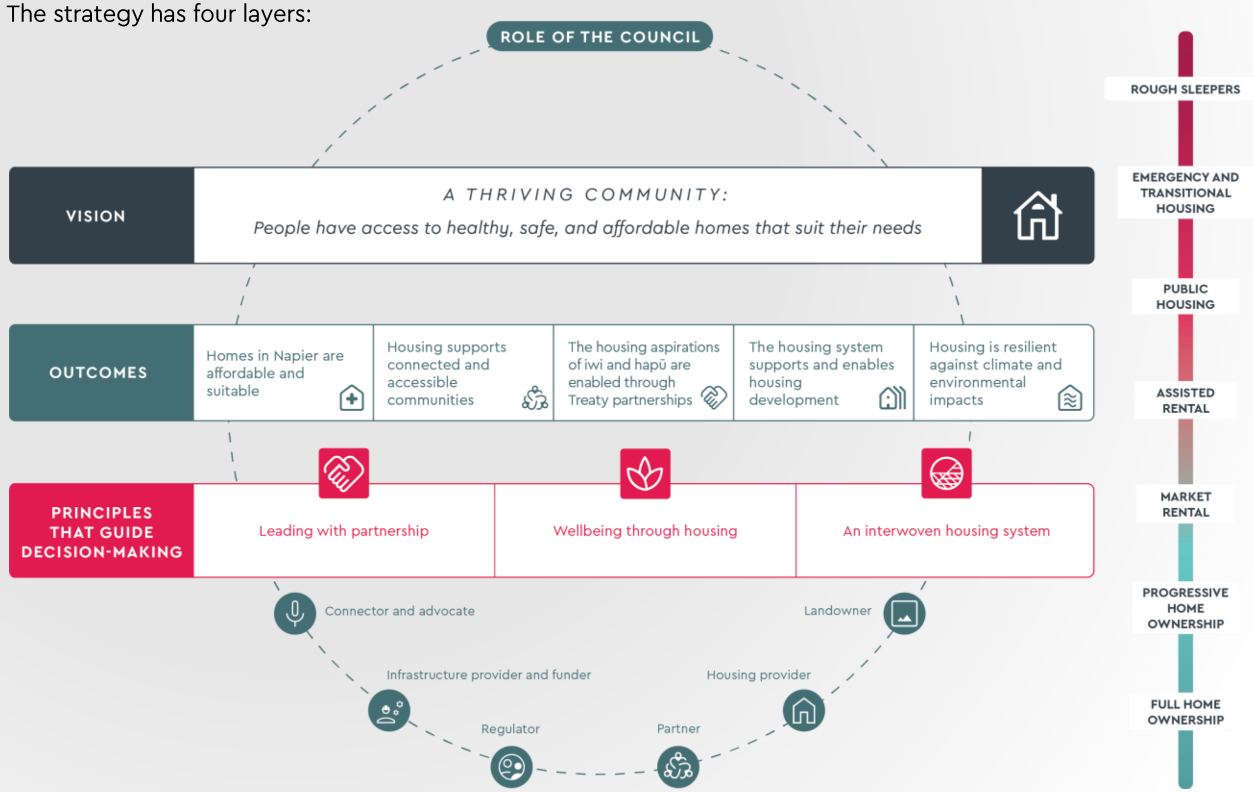
These priorities are:

- Financially sustainable council.
- A great visitor destination.
- Spaces and places for all.
- A resilient city – the ability to thrive and withstand impacts, knocks and shocks.
- Nurturing authentic relationships with our community and partners.

Draft Housing Strategy

Your draft Housing Strategy also sets out a vision and framework for the Council to address Napier's housing needs and the stress across the housing continuum.

The strategy has four layers:



A clear direction for the Council and its housing (continued)

As described in the Housing Strategy, the Council is in a unique position to support those households who need housing support, using its council housing portfolio and its role as a housing provider. However, as these units require significant ongoing investment to maintain and modernise them, the Council needs to decide how to make the most effective use of its housing portfolio.

You have an opportunity to explore indirect roles, such as "Connector and Advocate". In that role the Council can work with partners such as Kāinga Ora and other community housing providers to deliver public housing effectively across the city. You could also consider region-wide approaches.

As set out in the Housing Strategy, there is a clear shortfall of non-market housing in Napier. High house prices and rents are causing more and more households to fall out of the private accommodation market, and to seek housing support in the form of public housing, council housing, transitional housing, or emergency housing.

You have indicated a preference for focussing on retirement housing

The Housing Strategy provides a strategic frame for reconsidering the options available to the Council for achieving the strategy. It describes:

- an **enabling approach** that explores options for working with other providers
- a long-term **regional approach** that explores options for working with neighbouring councils, and
- a **targeted approach** that prioritises **retirement** housing.

The majority of councils still provide retirement housing

Together, councils are currently the third-largest provider of public housing, sitting just behind community housing providers, with Kāinga Ora as our main provider. More than 80% of our councils still provide housing to some degree. Some have small portfolios of less than 20 houses, but some larger councils have portfolios in the hundreds, others even in the thousands.

The primary cohort focus for council housing across Aotearoa is retirement housing. Historically, councils became the main provider of housing for low-income older people, while central government focussed on state housing for families.

Napier has a growing elderly population

With Napier's ageing population, demand for housing options that suit older people will increase. This will typically involve smaller housing units that are suitable for one or two occupants, that require less care and maintenance, that are warm and secure, and that preferably are situated among similar kinds of units so that the tenants are among other older people in similar housing situations. It has been estimated that between now and 2053 there will be a demand for 2,450 more retirement village-based independent-living units (villas and apartments) (Birman Consulting Ltd, 2023).

However, an increasing number of elderly people cannot afford retirement villages and rely on affordable rental options for their retirement. This cohort is set to grow as more and more working-age people are unable to afford to buy their own home and so must rent through the private market or rely on public housing. Many of this cohort are not specifically catered for by government housing support.

Napier City Council has a focus on retirement housing

The Council's housing villages remain one of the few options available in Napier to those whose income is limited to superannuation and who have no assets. Your current income and asset thresholds already target this cohort.

Understanding your options

Different approaches have been taken across Aotearoa

Many other councils are finding it increasingly unsustainable to provide housing

Rents often aren't enough to keep the service sustainable in the long-term. The housing is often older and so more expensive to maintain. Councils are also not on a level playing field with other providers, as they don't have access to the IRRS (and their tenants can't access IRR).

Councils across the country are looking at ways to continue to provide the best outcomes for the tenants while also absorbing the increasing delivery costs.

A number of councils have been reviewing their council housing portfolios and reconsidering their role as direct housing providers.

Some are adjusting policy settings such as rents, but some are changing their whole delivery model. For example, some have established a community housing provider and have leased or transferred their portfolio to it, so that they can retain a form of ownership while also accessing the IRRS. This subsidy caps a tenant's rent at 25% of their income, with the balance in any residual market amounts paid for by the Crown.

Others have established different council-controlled organisations or sold all or part of their housing stock to other providers.

Many councils who have made changes have done so across their whole portfolio.

Case studies on different approaches that other councils have taken are set out in **Appendix 2**.

You have previously considered a range of options

One of your five housing outcomes focusses on ensuring that *"Homes in Napier are affordable and suitable*". No matter what type of housing people need, it should be affordable and provide security and stability. The options assessment focusses on this outcome.

Over your previous reviews you have considered a number of options for the future of your housing portfolio.

The services you provide

Contracting out tenancy services

You explored whether the Council should retain the day-to-day maintenance and asset management but contract out tenancy services to a community housing provider. Tenancy services would then be provided by a specialist agency that could better connect tenants with social services.

How you deliver the services

Regional partnerships

You explored whether council housing could be delivered as a shared service with Hastings District Council, with the two councils jointly providing tenancy management and asset management services.

Partnership with a community housing provider

You explored whether the Council could enter into a partnership with a community housing provider, with the Council retaining ownership of the asset. This could be through a trust or limited partnership. Leasing options were considered but discounted following market soundings.

Redevelopment potential

You explored whether the Council could continue to provide asset and tenancy management, as well as the redevelopment and building of new housing stock. This would be done with the aim of improving your housing stock.

Selling the social villages

One of the options considered here was selling your social housing villages. You explored whether these villages could be sold or leased to a community housing provider.

Selling some of the retirement villages

You explored the sale of retirement villages based on their suitability for housing older people. This would be done to unlock capital for improving the rest of the portfolio.

Selling a mix of villages

You also explored selling a mix of your retirement villages and some of your social villages.

Rental changes

You have explored and implemented two rental changes.

In 2019 you changed your rental setting policy to set rents at no more than 30% of income. The intention of this policy was to increase rents to cover increasing costs while also keeping rents "affordable".

- Rent for tenants receiving superannuation or supported living benefits increased by 5% of their income.
- Rent for other tenants was set at 92% of market rent or 30% of the tenant's income, whichever was lower.

In 2022 you implemented a private/public rent-setting policy. This policy aimed to recover the costs of housing provision and was pegged at 2021/2022 total housing expenditure. The policy has two cost recovery mechanisms:

- 80% through fixed weekly rent paid by tenants, and
- 20% through Council funding.

There are a number of levers you can adjust

You can use different levers to effect change

The draft Housing Strategy outlines the Council's six core housing roles: Connector and advocate; Housing provider; Infrastructure provider; Partner; Regulator; and Landowner.

In your roles as housing provider and landowner you have levers that can be used to deliver council housing effectively and within your financial constraints. They can be used to develop a broad set of options and understand the interdependencies between them.

Customer focus	*Who do you want to provide housing to?*	Retirement housing; Social housing; Needs based*
Scope of housing services	*What housing services do you want to provide?*	Tenancy management services; Asset management services; Other wraparound services*
Delivery mechanisms	*Who delivers your housing services?*	Council delivery; Mixed delivery; Independent delivery
Composition of the portfolio	*What housing assets do you want in your portfolio?*	Keep; Sell; Develop; Transfer
Funding	*What funding mechanisms can you adjust?*	Rental increase; Investment Income; Reserves; Debt; Efficiencies

* We ruled out these levers for further analysis as they don't align with the role of housing provider in the draft Housing Strategy (the scope of this options analysis). They may fall under other housing roles in the Strategy.

Five broad options to consider

Based on the levers identified on the previous page, we have outlined five broad options sets for consideration ahead of LTP consultation.

These options are not mutually exclusive, or exhaustive, but rather a useful grouping of levers to understand the options available to the Council.

It is also important to note that there are many permutations of each option.

Option 1. Current state

Option 1 is your current approach. This is where tenancy and assets management are done by the Council in-house. Rental income is based on a fixed 80% cost recovery rate, and control of the housing portfolio lies with the Council.

Option 2. Retirement only

Option 2 builds on Option 1, using your current operating model but focusing on providing housing to tenants over 65. Under Option 2, the three social villages are sold, and the Council retains control of the retirement villages.

Rental income continues to be based on a fixed 80% cost recovery rate.

Option 3. Mixed delivery model

Option 3 builds on Option 2, involves using various levers to optimise how you provide housing.

Housing provision continues to be controlled by the Council, but there would be opportunities for operating model changes such as partnerships and outsourcing. Rents are reset annually to be 80% of a three-year rolling average cost to provide housing.

Under this option some assets remain in the Council's control, some are sold, and some are developed.

Option 4. Independent delivery

In Option 4 an independent housing entity provides the housing services for the retirement villages. Assets would be sold or transferred to the independent entity. This could potentially include a capital injection.

The entity's terms of reference and constitution would define the role of the Council in the Housing Strategy and the levers the entity could use to deliver that strategy. This could include, for example, rental settings, use of debt, and changes in asset use.

This option could include a requirement to continue to provide retirement tenancies.

Option 5. No direct provision of housing

In this option the Council would stop providing council housing. This option assumes the Council would divest itself of the housing portfolio.

The portfolio could be sold or leased to any entity for any purpose. It is possible a new entity to which the portfolio is sold or transferred could continue to provide housing, and sale agreements could include that as a condition.

Although the operating model and financial strategy become largely irrelevant in this option, there will be costs specific to implementing this option such as the cost of change or sale and potential legacy rental obligations.

How the levers look across the options

<table>
<tr><th></th><th>Option 1
Current state</th><th>Option 2
Retirement only</th><th>Option 3
Mixed delivery model</th><th>Option 4
Independent delivery</th><th>Option 5
No direct provision of housing</th></tr>
<tr><td rowspan="2">Customer focus</td><td colspan="4">Retirement</td><td></td></tr>
<tr><td>Social</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Scope of housing services</td><td colspan="4">Tenancy management</td><td></td></tr>
<tr><td colspan="4">Asset management</td><td></td></tr>
<tr><td>Delivery mechanisms</td><td colspan="2">Council</td><td>Mixed</td><td>Independent</td><td></td></tr>
<tr><td rowspan="3">Composition of the portfolio</td><td colspan="3">Keep</td><td></td><td></td></tr>
<tr><td></td><td colspan="4">Divest</td></tr>
<tr><td></td><td></td><td>Develop</td><td>Transfer</td><td></td></tr>
<tr><td rowspan="4">Funding</td><td>Debt</td><td colspan="3">Proceeds from divestments</td><td></td></tr>
<tr><td></td><td></td><td>Investment income</td><td></td><td></td></tr>
<tr><td></td><td></td><td>Efficiencies</td><td></td><td></td></tr>
<tr><td></td><td></td><td>Rental increases</td><td></td><td></td></tr>
<tr><td>Examples</td><td></td><td></td><td>Partnership, outsource</td><td>CCO, CHP, CCTO</td><td></td></tr>
</table>

Assessing the options

We assess each option against five success factors

Critical success factors

To help identify necessary trade-offs, we assessed each of the five broad options against these five critical success factors:

- Financial sustainability
- Housing supply
- Tenants' needs
- Potential suppliers
- Council achievability.

We expand on and explain these success factors on the next page.

We identified the success factors based on: previous work commissioned on your housing portfolio; the draft Housing Strategy; the Council's Strategic Priorities; and our analysis of the changing context.

Impact on ratepayers

For each option we also describe the impact on rates.

Strategic priorities

- Financially sustainable council
- A great visitor destination
- Spaces and places for all
- A resilient city – the ability to thrive and withstand impacts, knocks and shocks
- Nurturing authentic relationships with our community and partners

Housing strategy

Council housing roles

- Connector and advocate
- Housing provider
- Infrastructure provider
- Partner
- Regulator
- Landowner

Housing outcomes

- Homes in Napier are affordable and suitable
- Housing supports connected and accessible communities
- The housing aspirations of iwi and hapū are enabled through partnership
- The housing system supports and enables housing developments
- Housing is resilient against climate environmental impacts

Changing context

- Increasing housing pressure
- Cyclone Gabrielle
- Changing government policy settings
- Increasing financial costs of delivery

Levers

- Funding
- Customer focus
- Scope of housing services
- Delivery mechanisms
- Portfolio composition

Critical success factors

- Financial sustainability
- Housing supply
- Tenants' needs
- Potential suppliers
- Council achievability

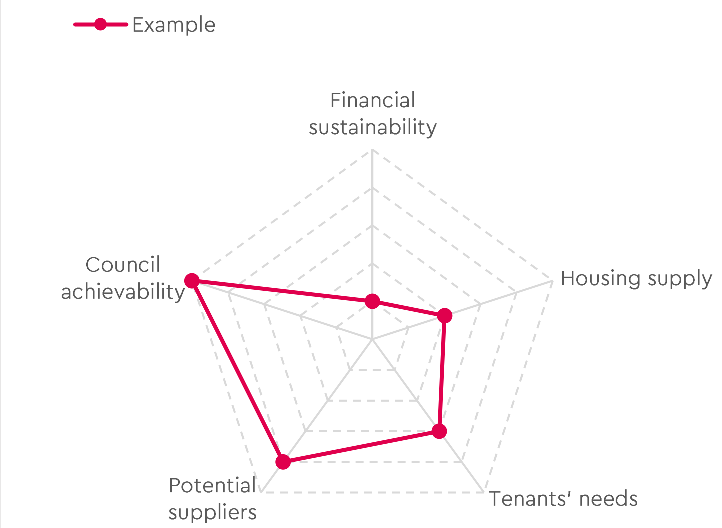
Broad options

- Option 1 Current state
- Option 2 Retirement only
- Option 3 Mixed delivery model
- Option 4 Independent delivery
- Option 5 No direct provision of housing

Expanding on the critical success factors

FACTORS	DESCRIPTION	MEASURES
Financial sustainability	Considers which housing operating model and financial strategy will be affordable for ratepayers and will enable the Council to achieve its housing objectives.	Operating sustainability Funding requirements Portfolio value
Housing supply	Considers the impact on the overall supply of housing across Napier.	Sufficient supply of non-market housing (public housing) Affordability for tenants Responsive to changing demand
Tenants' needs	Considers the impact on tenants and communities, both now and into the future.	Disruption to current tenants is minimised Housing is fit-for-purpose for tenants Housing provided supports cohesive communities
Potential suppliers	Considers the capability and capacity of potential service providers (including the Council) and the external environment in which they operate.	There is supplier demand to provide housing services Potential suppliers have the capability to provide housing services Potential suppliers have the resources to provide housing services
Council achievability	Considers the ability of the Council to influence whether the outcomes in its Housing Strategy are achieved and to implement the changes required.	Ability for Council to influence the direction for housing in Napier Council has appropriate resources to deliver change Strategy and change can be easily delivered in a compliant way

Critical success factors are ranked from 0 to 5 for each broad option and shown on a spider diagram like the example below. 0=Lowest, 5=Highest



Options assumptions and asset analysis methodology

Options assumptions

Unless otherwise stated in each option summary, the following assumptions are included in the options analysis:

- Rents are held at the current rate, being 80% of 2021/2022 housing costs (including operating and capital expenditure). This is consistent with your approach to continue to provide affordable housing.
- Capital expenditure cannot be funded from accumulated depreciation and so new capital is needed.
- Forecast operating expenditure growth is based on PwC's prior forecasts. This assumed growth at an average 3.4% per year over the 10-year forecast period. This growth rate has been applied to a restated current year forecast to reflect the significantly higher increase in expenditure over the previous four years (8.9% per year).
- Any assets sold are assumed to be sold at the Council's June 2023 book value, regardless of the sale date and with no discount required.
- Proceeds from asset sales are invested and earn a return of 5% per year, with this income ring-fenced as housing reserves.
- All investment income is spent in the year it is realised so compounding interest is not applicable.
- Future development costs are modelled at $4,000 per square metre, which is based on guidance from Building Guide.
- Net Present Value calculations are based on a 10-year timeframe and a 5% discount rate, in line with Treasury guidance.
- Each options excludes the repayment of existing debt.
- The Impact on 2030/31 rates calculation uses the Amended LTP Rates Revenue data for 2023/24, which are published at a forecast $80.022 million.
- Cumulative housing reserves reflects both the Council contribution, where required, and the deficit to be funded.
- Indirect costs have been apportioned to each village, based on the number of units: for example, staff costs and Council overheads.
- The cost allocation methodology for Council overheads has not been assessed and no allowances have been made for changing the cost of Council overheads for housing.
- Forecast capital expenditure is based on the PwC forecast. This used the asset renewal forecast calculated by SPM and added in an allowance for unplanned renewals.
- Both supported living tenants and social tenants are excluded across Options 2,3,4 and 5 where the focus is on retirement housing.
- Rental income for the social villages has been forecast using the supported living rate, which is lower than the social tenant rate. This is a financially conservative approach.

Asset analysis methodology

For the asset strategy analysis, we used the asset valuation data provided by the Council and allocated the annual operating and capital requirements to each village. We calculated the annual income by village in each option.

Then for each option:

- we allocated an activity to each village of Hold, Sell, Transfer, or Develop, to understand the portfolio composition for each year
- we calculated sale proceeds and reinvestment income by year, where required
- we calculated annual cashflow position, reflecting the portfolio composition, and
- we calculated accumulated housing reserves.

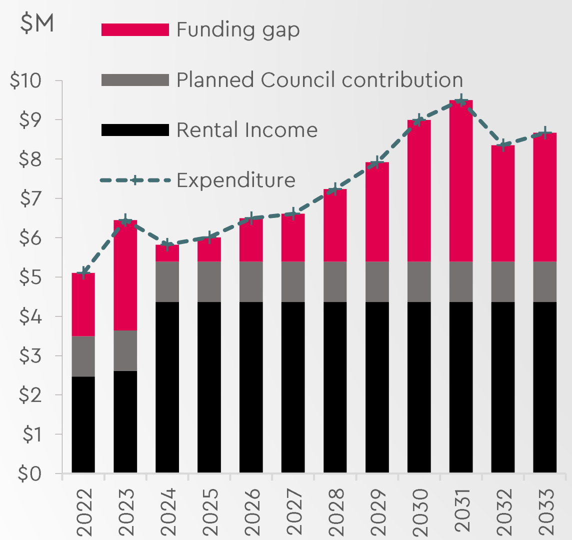
Summary of our assessment

Financial summary

Operating model

Option 1 (Current state) is not financially sustainable. Expenses are forecast to increase in excess of planned rental income and Council funding. This continues to get worse post 2033.

Operating Sustainability – Option 1



There are differences in income and expenditure between the current state and proposed options. For Option 2 (Retirement only), income and expenditure forecast remain the same, less those from social housing. For Option 3 (Mixed delivery model), there is reduced expenditure growth through the assumption that tenancy and asset management services could be delivered more efficiently through alternative operating models. It also includes an increase in planned rental income and some Council funding contribution in some years.

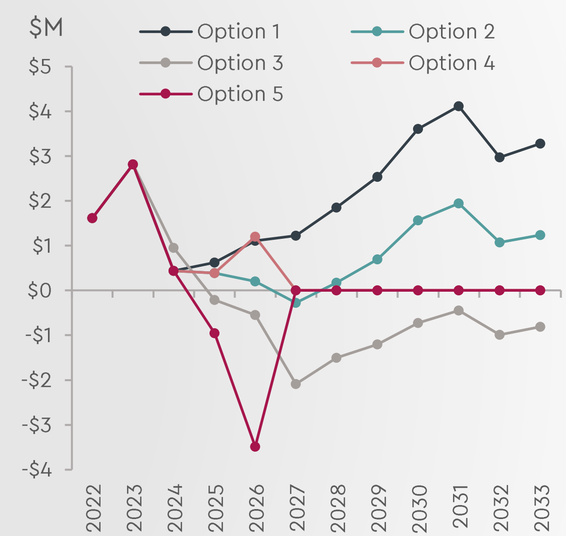
For Option 4 (Independent delivery), there is a breakeven position for Council through an independent delivery model. Option 5 (No direct provision of housing) has no ongoing expenditure or revenue for Council from housing provision.

Funding gap

Annual funding gaps continue under Options 1 (Current state) and 2 (Retirement only), although Option 2 is proportionally less than Option 1 reflecting the sale of the social housing villages.

There are short-term establishment or change costs for Options 3 (Mixed delivery model), 4 (Independent delivery), and 5 (No direct provision of housing). The annual funding gap is reduced to zero for Options 4 (Independent delivery) and 5 (No direct provision of housing). Option 3 (Mixed delivery model) results in an annual funding surplus.

Annual Operating Funding Gap



Note: Consistent colour coding has been used for each option in graphs and tables

Option 1 Current state | Option 2 Retirement only | Option 3 Mixed delivery model | Option 4 Independent delivery | Option 5 No direct provision of housing

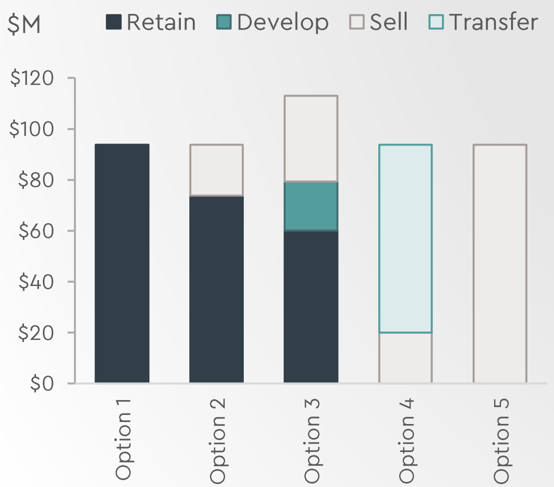
Summary of our assessment (continued)

Asset strategy

Each option has different implications for the portfolio composition. On one end of the spectrum, Option 1 (Current state) retains the current portfolio position, and on the other end, Option 5 (No direct provision) results in a full sale of the portfolio.

Options 2 (Retirement only), 3 (Mixed delivery), and 4 (Independent delivery) include differing combinations of partial sale, development of some sites and potential transfer of the villages to another entity.

Portfolio Composition



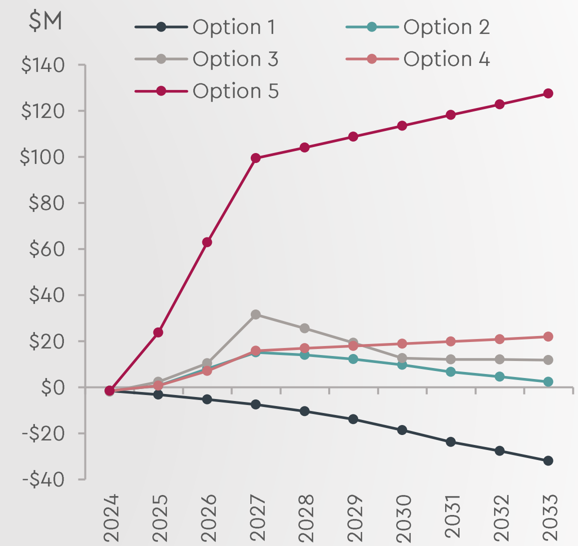
Housing reserves

The cumulative housing reserves reflects the non-portfolio asset values attributable to housing (i.e., the value of the proceeds from sales).

Option 1 (Current state) continues to have a negative balance as debt is required to fund operations. All the other options create housing reserves from the sale of assets.

The growth in reserves under Option 5 (No direct provision of housing) is attributable to the increases in value of the reserves through investment.

Cumulative Housing Reserves



Option 1 Current state | Option 2 Retirement only | Option 3 Mixed delivery model | Option 4 Independent delivery | Option 5 No direct provision of housing

Summary of our assessment (continued)

Success factor trade-offs

Assessing the five options across the critical success factors shows a number of trade-offs.

For example, options that score highly for **financial sustainability**, such as Option 4 (Independent delivery) and Option 5 (No direct provision), also score lowest on factors such as Council achievability and Tenants' needs. These options would be significant shifts for the Council and would require the correct resources to deliver change.

Those options that score highly on **council achievability** are often more closely linked to the current option and approaches. Part of this is because the Council has more influence over outcomes when it provides housing directly.

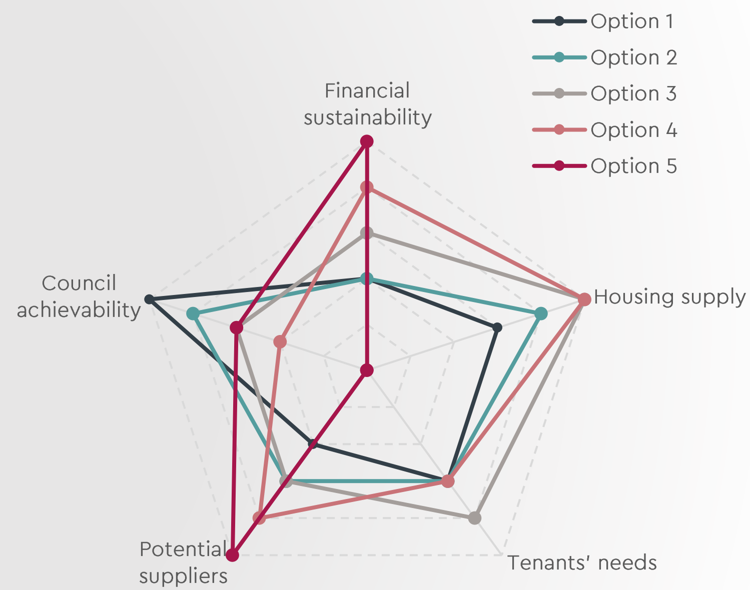
The options that score highest for **tenants' needs** are those that both minimise disruption to current tenants and also enable the housing portfolio to continue to be fit-for-purpose and to support cohesive communities. This is why Option 3 (Mixed delivery model) scores highest, as it balances minimising disruption to current tenants with ensuring the stock is fit-for-purpose.

The options that score highest on **potential suppliers** are those where there is a divestment or transfer of assets. In particular, as Option 5 (No direct housing provision) assumes a full commercial sale, a willing buyer is assumed and would need to be tested with the market.

Option 4 (Independent delivery) requires a willingness for a CHP or a private entity provider to come to the table. Further analysis is required to fully understand future independent options including through market sounding.

The options that score the highest on **housing supply** are the options that best enable an increase in supply, that offer supply that is affordable for tenants as well as the ability to respond to demand. These are Option 2 (Mixed delivery model) and 4 (Independent delivery).

Critical Success Factors



Option 1 Current state | Option 2 Retirement only | Option 3 Mixed delivery model | Option 4 Independent delivery | Option 5 No direct provision of housing

Option 1. Current state

Option summary

Option 1 is the Council's current approach and involves maintaining the current operating model and asset strategy for housing provision. Fundamentally, council controls of the provision of housing.

Operating model

Under this option, the Council will continue to provide tenancy and asset management services (in-house) to retirement and social housing tenants.

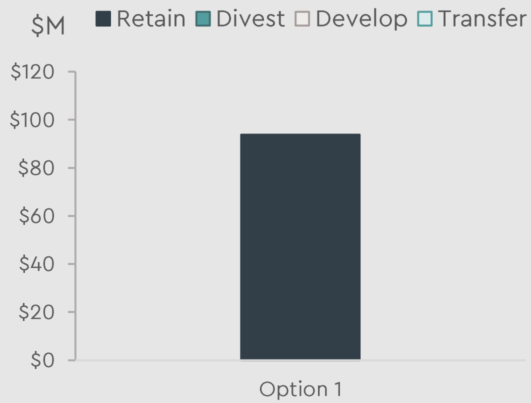
Rental settings are aligned with current rental setting policy. This is based on 80% of costs (as at 2022 year-end) and are not forecast to increase over the assessment period. No efficiencies or cost of provision savings are included in this option.

	OPTION 1
Retirement	Yes
Social	Yes
Tenancy management	Council
Asset management	Council
Control	Council
Deficit funding	Debt

Asset strategy

Under the option, the Council maintains its current portfolio composition. The housing portfolio remains unchanged, and all assets are retained.

Portfolio Composition



OPTION 1
Net present value (10-year)
-$23.5M
Impact on rates (2030/31)
1.4%
Rental income increase required to fund deficit (10-year)
50%

Option 1. Current state (continued)

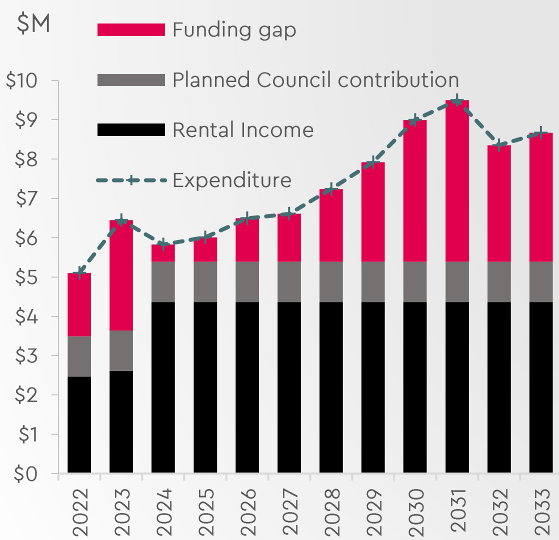
Critical success factors

Financial sustainability

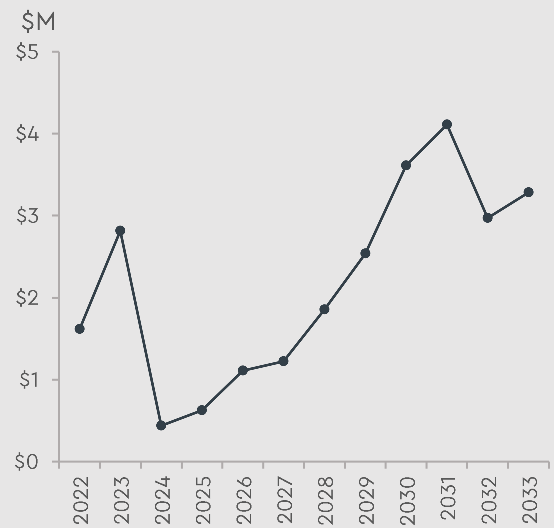
The cost of providing housing increases over the 10-year period – from just over **$5 million to around $8.5 million.**

As the rental-setting policy is fixed, there are significant increases in the annual deficit.

Operating Sustainability – Option 1

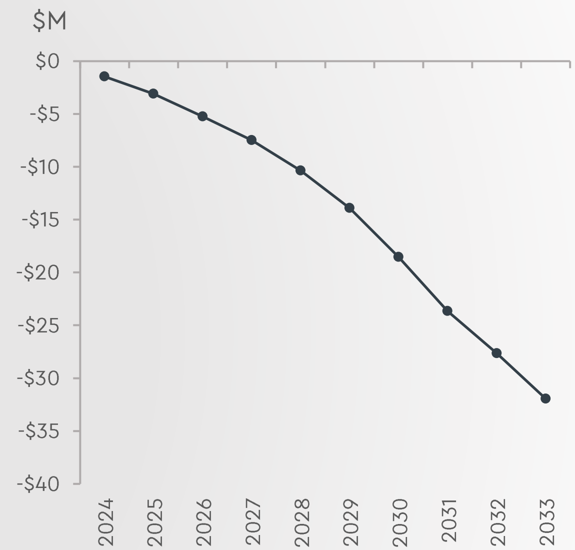


Annual Funding Gap



Council continues to fund 20% of the expenditure. Debt continues to fund the operating deficit as there are no alternative funding options. It would require significant funding to close the cumulative operating deficit of **$31.9 million worth of debt by 2033** if the current funding policy continues.

Cumulative Housing Reserves



The asset value of the housing portfolio is maintained, but the portfolio does not generate any other income or provide for any sale proceeds.

Option 1. Current state (continued)

Housing supply

The current approach to council housing meets Napier's needs for non-market housing to some extent, by providing affordable units for a market that is not specifically catered for by other providers.

Current rental prices continue to be relatively affordable for tenants.

However, the Council is limited to the extent it can adapt to future requirements.

Tenants' needs

There is minimal disruption to current tenants if settings do change.

The housing provided also meets regulatory requirements but is not fully optimised for the needs of current tenants. For example, some of the multi-storey units are not suitable for retirement tenants.

The current utilisation of assets to some extent lends itself to the development of cohesive communities. However, this is limited by the integration of social tenants in retirement villages and retired tenants in social villages.

Potential suppliers

The Council currently has the capability and capacity to continue to provide housing services under this approach. However, it also faces significant challenges in delivering these services.

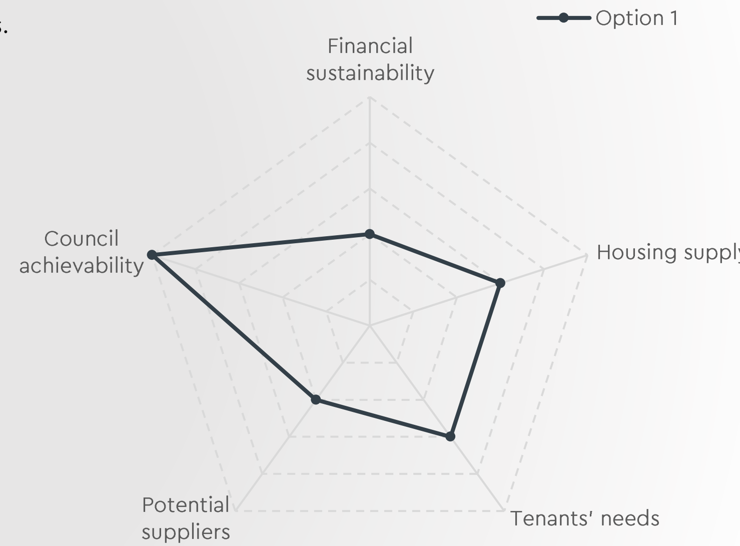
The Council does not have access to further housing subsidies (such as the IRRS) or other sources of income to supplement rental income.

Council achievability

Currently, Napier City Council can directly influence housing outcomes through its role as a provider of council housing.

For this current state option, no resources are needed for changes and no additional regulatory requirements are assumed.

Critical Success Factors



Option 2. Retirement only

Summary of the option

Option 2 assumes a sole focus on retirement housing and tenants. Council maintains control of the provision of housing.

Operating model

Under this option, the Council will continue to provide tenancy and asset management services to retirement housing tenants. This will be done in-house.

Rental settings are aligned with current rental-setting policy. This is based on 80% of costs (as at 2022 year-end) and is not forecast to increase over the assessment period. No efficiencies or cost of provision savings are included in this option.

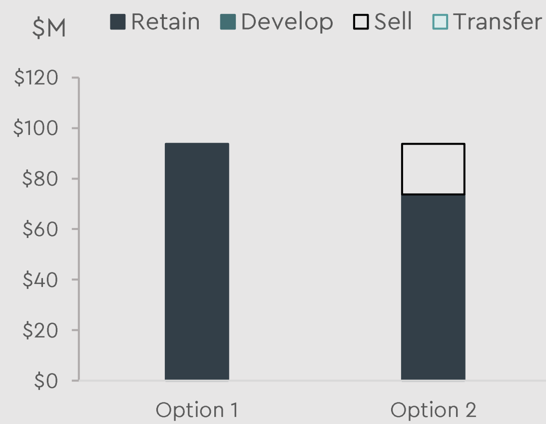
	OPTION 1	OPTION 2
Retirement	Yes	Yes
Social	Yes	No
Tenancy management	Council	Council
Asset management	Council	Council
Control	Council	Council
Deficit funding	Debt	Divestment proceeds, return on investments

Asset strategy

Option 2 will see the Council divest itself of the three social villages – Nelson Place, Carlyle Place, and Wellesley Place.

The villages would be divested at their current book value and proceeds invested to generate income assumed to be 5% per annum.

Portfolio Composition



	OPTION 1	OPTION 2
Net present value (10-year)	-$23.5M	$4.0M
Impact on rates (2025/26)	1.4%	0.2%
Rental income increase required to fund deficit (10-year)	50%	20%

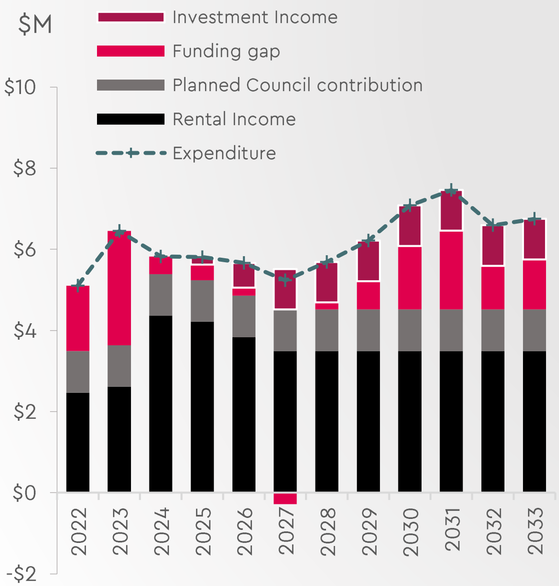
Option 2. Retirement only (continued)

Critical success factors

Financial sustainability

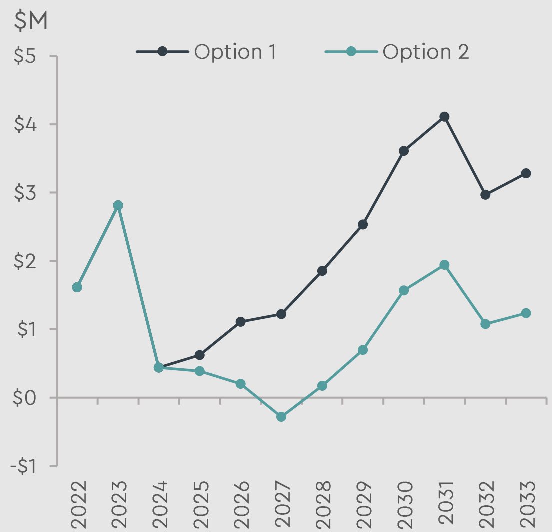
Overall, this option allows Council to use the proceeds of the sale of the three social villages to offer retirement housing for the medium term. However, this will deplete the housing reserves and is not sustainable over the long term.

Operating Sustainability – Option 2



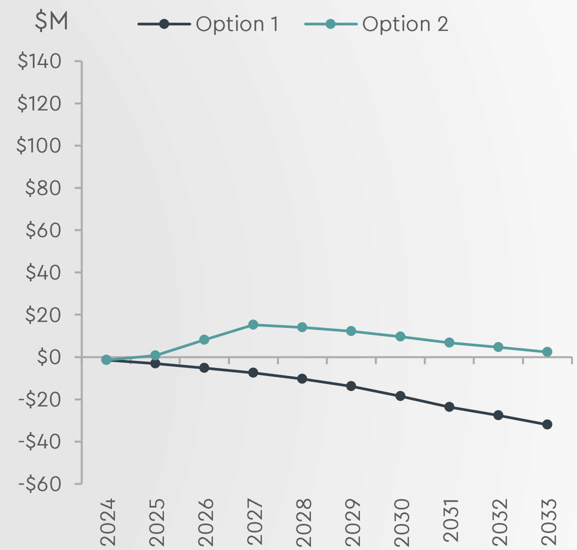
As with Option 1, Council continues to contribute 20% of housing expenditure and there continues to be a funding gap with the operating costs of housing provision continuing to significantly outweigh the income earnt from rentals.

Annual Funding Gap



This results in a **cumulative funding gap over the 10-year period of $25.4 million**. The funding gap is filled by the proceeds from the asset sales and reinvestment income up until 2033/34 when the reserve fund is fully depleted.

Cumulative Housing Reserves



Although housing reserves are higher than under Option 1, the value of the housing portfolio decreases through the Council divesting itself of the social housing villages.

When these housing reserves are depleted, forecast to occur in 2033/34, the Council will be back in the same position as now, albeit with a smaller asset base.

Option 2. Retirement only (continued)

Housing supply

Option 2 would to some extent meet Napier's needs for non-market housing by providing affordable units for a market that is not specifically catered for by other providers. However, the Council would target the housing towards retired tenants.

Under this option, rents will continue to be affordable for tenants.

The cash reserves from the sale of the three social villages would mean the Council would be more able to adapt to future requirements in the medium term, unlike under Option 1 (Current state).

Tenants' needs

Tenants in social villages would need alternative housing support when the villages are sold. However, there would be minimal disruption to those in retirement villages. The inclusion of social tenants in retirement villages would also be phased out.

The housing provided meets regulatory requirements and can to some extent be optimised for needs of current tenants using the further cash reserves from the sale.

The retirement focus lends itself to more cohesive communities, as there won't be a tenant mix within each village.

Potential suppliers

There is a willingness to continue to provide these services to retirement tenants given the focus on this cohort as outlined in the Housing Strategy.

Council currently has the capability and capacity to continue to provide housing services under the current approach.

However, the Council does not have access to housing subsidies or other sources of income to supplement rental income.

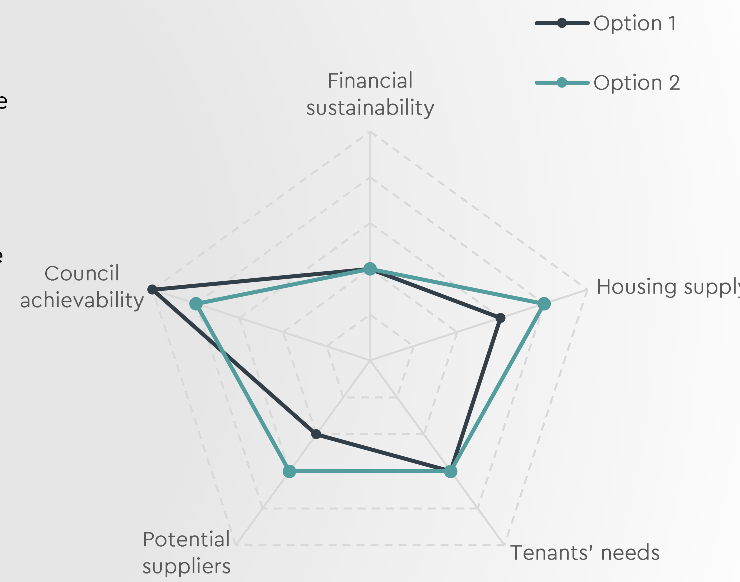
Council achievability

Currently, Napier City Council can directly influence housing outcomes through its role as a provider of council housing.

Divesting itself of the social villages would require the Council to provide some additional resources in order to complete the sale, particularly to obtain an optimal price for the assets, and to make the associated operational changes.

We do not expect that the sale of the social villages would involve any material regulatory requirements.

Critical Success Factors



Option 3. Mixed delivery model

Summary of the option

Option 3 involves using various levers to optimise the provision of housing through changes to the operating model and asset strategy. Council maintains control of the provision of housing.

Operating model

Under this option, the Council will focus on providing housing to retirement tenants, and with the potential for tenancy and asset management services to be provided by a third-party or through a partnership model.

Rental settings are reset annually at 80% of the rolling three-year average cost (comprising the last year and two forecast years), in order to smooth the changes.

	OPTION 1	OPTION 3
Retirement	Yes	Yes
Social	Yes	No
Tenancy management	Council	Mixed
Asset management	Council	Mixed
Control	Council	Council
Deficit funding	Debt	Divestment proceeds, return on investments

An outsourcing or partnership approach could possibly achieve efficiencies or reduce the cost of providing housing, with 5% of operating cost savings built into this option.

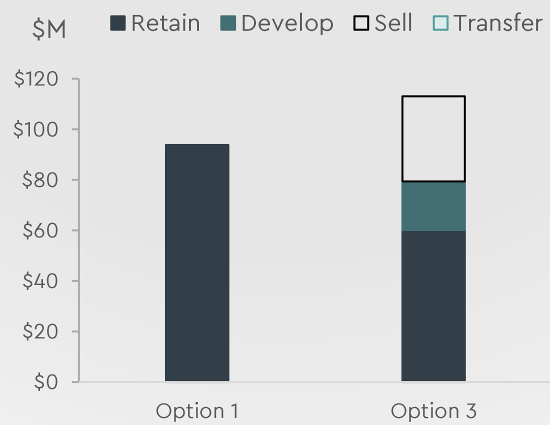
Asset strategy

The portfolio will have a mixture of divestment and development of new units on existing land.

The three social villages and two retirement villages (Munroe St and Arthur Richards Village) are sold at their current book values, with proceeds invested at 5% per year.

80 new units are developed (in a multi-storey building) on the unused land at Greenmeadows East as an example.

Portfolio Composition



OPTION 1	OPTION 3
Net present value (10-year)	
-$23.5M	$17.5M
Impact on rates (2025/26)	
1.4%	-0.7%
Rental income increase required to fund deficit (10-year)	
50%	40%

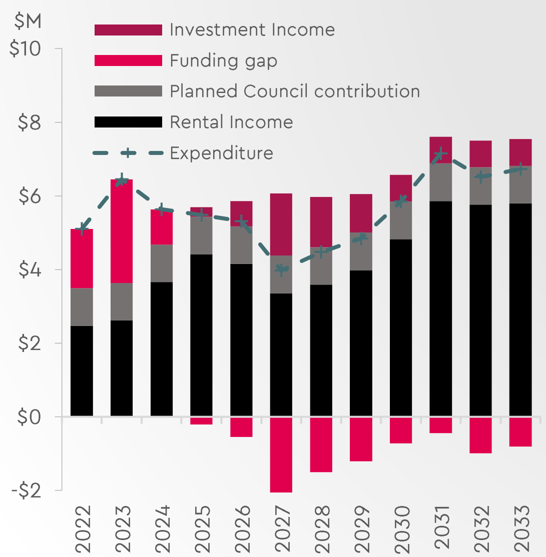
Option 3. Mixed delivery model (continued)

Critical success factors

Financial sustainability

Overall, this option allows the Council to sustainably provide a greater number of retirement units than currently. Under this option, efficiencies of 5% are forecast to be achieved through alternative operating models, such as outsourcing asset management services. A combination of increased rental investment income generated from the sale of the villages, and, in some years, the 20% Council contribution enables income to cover expenditure. In some years the Council will not need to contribute the 20%.

Operating Sustainability – Option 3

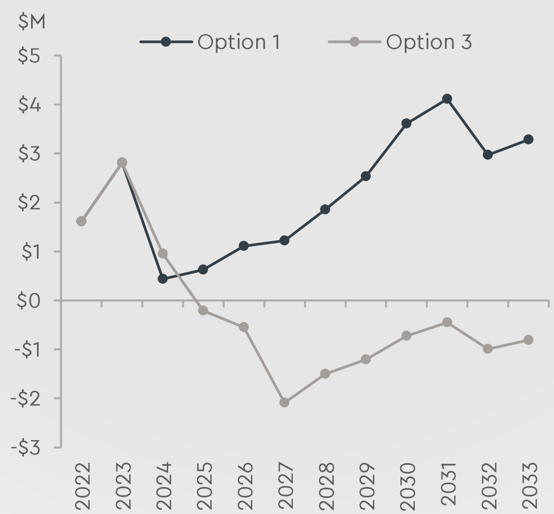


The proceeds from the asset sales will provide the capital funding for the proposed development on the Greenmeadows East site, forecast at $19.2 million.

Due to the lead time to implement this option, some debt funding will be needed in the short term. This will be partially offset by the income generated from reinvesting some of the proceeds from the asset sales.

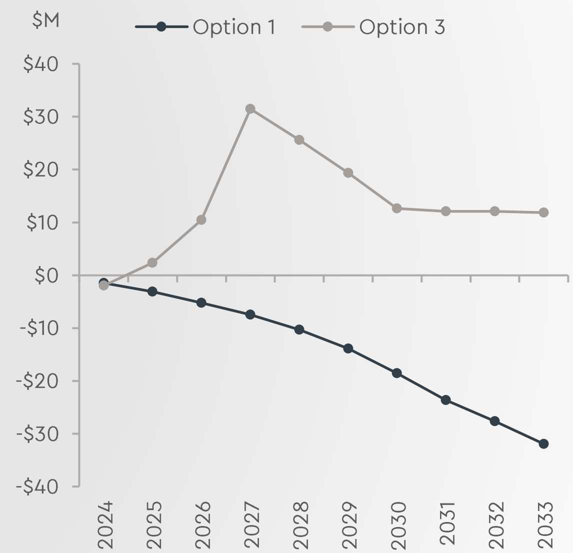
There is no negative funding gap for this option after 2025.

Annual Funding Gap



There will be some depletion in the value of the portfolio through asset sales, but some of the sale proceeds will be reinvested to improve other assets.

Cumulative Housing Reserves



Option 3. Mixed delivery model (continued)

Housing supply

The Council would continue to provide the current number of retirement tenancies, but, as with Option 2, you would no longer provide housing to your social tenants.

The annual resetting of rents would result in rent increases for tenants, but the rents would continue to be less than market rents.

The Council would be more able to adapt to future changes in the quantity and type of housing needed.

Tenants' needs

Tenants in social villages will need alternative housing and there will be some disruption to retirement tenants as the composition of their village changes. As with Option 2, the inclusion of social tenants in retirement villages would also be phased out.

This option enables enough funding to deliver the planned renewals and maintenance for the villages to be fit-for-purpose into the future. The asset requirements are built into the capital expenditure forecast.

Communities would be somewhat more cohesive in that the Council would be better able to match tenants to suitable villages and ensure a modern design of villages.

Potential suppliers

There are third-party organisations that could provide tenancy management and asset management services, but our analysis of Option 3 has not included assessing demand among these organisations for providing these services for Napier City Council.

It is assumed these service providers have the capability to provide these services, but this would need to be tested through further due-diligence processes.

The Council may need to subsidise these services if no third party decides it would be financially viable for them to provide the services

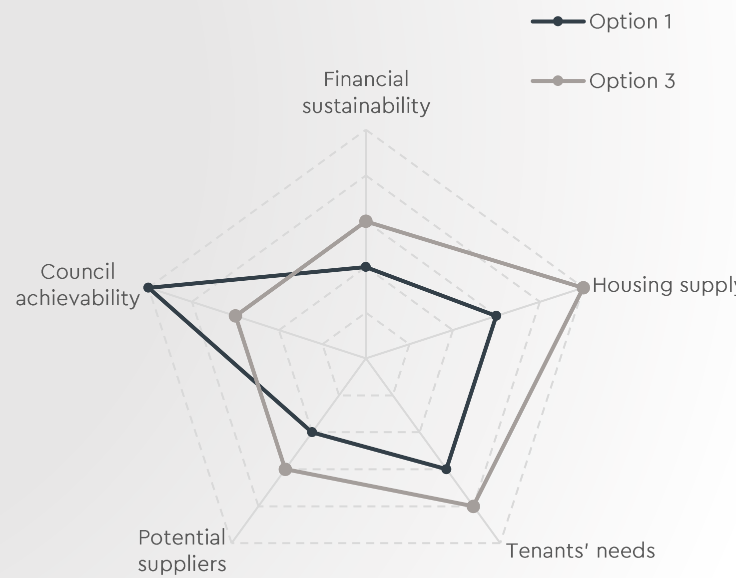
Council achievability

Through its current housing provider role the Council can directly influence housing outcomes. Option 3 also allows the Council to carry out further redevelopment and so further shape housing outcomes.

Significant additional resources would be needed to complete the sale of villages and make the associated changes in the operating model, particularly to achieve the best commercial outcomes.

The proposed changes would probably involve some regulatory requirements – for example, the re-zoning or repurposing of land.

Critical Success Factors



Option 4. Independent delivery

Summary of the option

Under this option, an entity independent of the Council would provide housing. Depending on the model adopted, the Council would maintain some or no control of the provision of housing.

Operating model

The ability for the Council to set outcomes for the provision of housing would depend on the governance model of the entity that is established.

This option assumes the entity has the objective of breaking even or making a surplus on the delivery of housing, so there would be no ongoing operating costs for the Council.

The independent entity would determine the preferred operating model for the delivery of housing. However, the Council could set some conditions as part of the transfer.

An independent entity could receive government housing subsidies that are unavailable to the Council if a CHP model is pursued (although this approach has some limitations, as described on page 13).

Under Option 4, the assets could be fully transferred or just leased to the entity.

	OPTION 1	OPTION 4
Retirement	Yes	Yes
Social	Yes	No
Tenancy management	Council	Independent
Asset management	Council	Independent
Control	Council	Independent
Deficit funding	Debt	n/a

Asset strategy

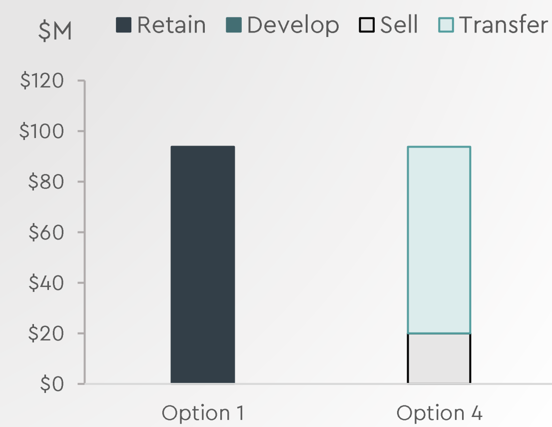
The portfolio will include the divestment of the three social villages and the transfer of the remaining assets to the independent entity.

The Council will sell the three social villages, with proceeds invested at 5% per year, providing an annuity income to the Council.

It is assumed the retirement villages will then be transferred or gifted to the independent entity for nil upfront with no requirement for a capital injection.

	OPTION 1	OPTION 4
Net present value (10-year)	-$23.5M	$17.5M
Impact on rates (2025/26)	1.4%	-0.8%
Rental income increase required to fund deficit (10-year)	50%	n/a*

Portfolio Composition



* No analysis has been undertaken as to whether an independent delivery model would require rental increases.

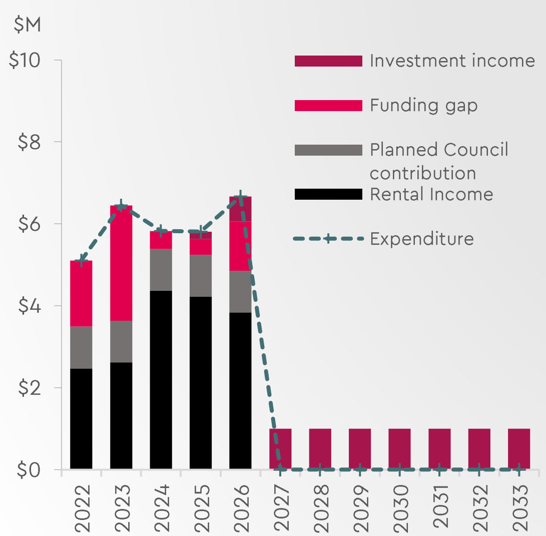
Option 4. Independent delivery (continued)

Critical success factors

Financial sustainability

Overall, this option is sustainable and provides the Council with an annuity using proceeds earned from selling the social housing portfolio. This option assumes the independent entity does not require any financial contribution and may have access to the IRRS, which could make it more financially sustainable. However, this is only if a CHP model is pursued.

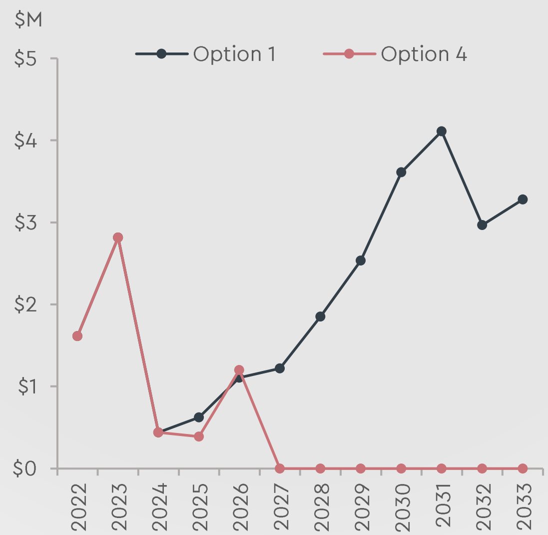
Operating Sustainability – Option 4



The delivery entity will be accountable for providing housing in a financially viable manner. Council operating costs will probably increase in the short term with the transition to the new model, and those increases will not be recovered through income.

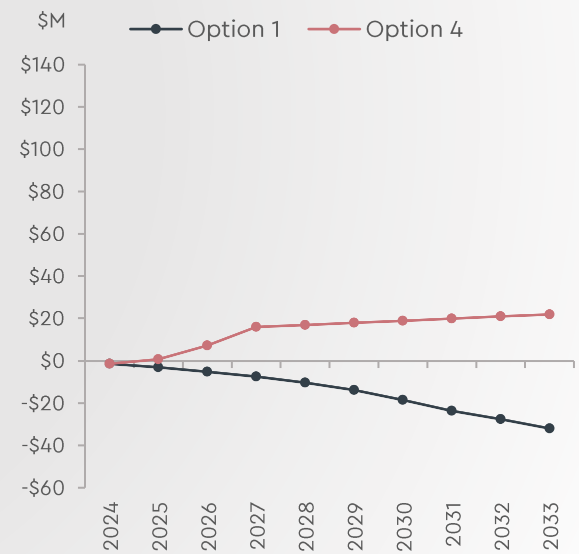
Some debt funding will be needed in the short term to cover these transition costs, but further long-term debt is not expected.

Annual Funding Gap



If further asset sales beyond the three social villages are needed in order to fund a capital injection into the new entity, this will cause a further depletion in asset value. However, those further asset sales are not expected to be necessary.

Cumulative Housing Reserves



Option 4. Independent delivery (continued)

Housing supply

The delivery entity could be required to continue to provide retirement tenancies, although it would need to make supply decisions within the confines of its terms of reference and constitution.

The rental-settings policy would be determined by the new entity within the confines of the terms of reference and constitution.

The new entity's independent character should enable it to be more responsive to changes in the housing environment.

Tenants' needs

There would be minimal disruption to current tenants in the short to medium term beyond the disruption involved with Option 2 (Retirement only) and Option 3 (Mixed delivery). If or when the independent entity makes changes to the portfolio, it is likely there will be disruption for tenants.

The independent character of the new entity (and the potential capital injection) should mean that the entity would have appropriate resources to ensure housing is more fit-for-purpose. However, this will still be constrained by available cash reserves.

The entity's independent character (and the potential capital injection) should also result in somewhat more cohesive communities, as the entity would have the resources and the agility to better match tenants to villages and to improve villages – however, this will still be constrained by available cash reserves.

Potential suppliers

Many Councils have transferred their functions as a housing provider to an independent entity. We have assumed there would be some demand for this approach for Napier. However, further due diligence would be needed.

We have also assumed that the entity would have the capability to provide these services, but this would need to be tested through due diligence.

It is possible an independent entity will receive government housing subsidies that are unavailable to Council if a community housing provider model is pursued. This would reduce the level capital injection that may be required. Other Councils have taken this approach.

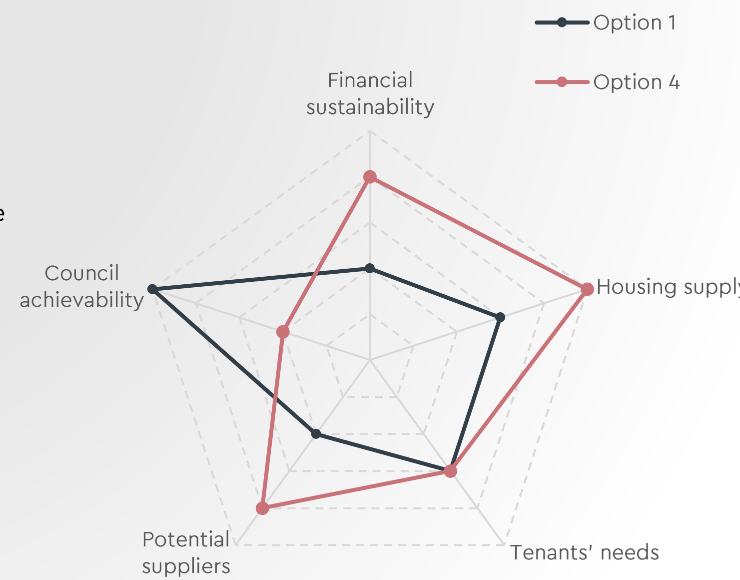
Council achievability

Given the independent delivery, Council would not continue to play a housing provider role and so this would limit its ability to influence outcomes.

The establishment of an independent entity would require significant resources in the short term, and the Council would probably need to procure these services externally.

There will be regulatory and compliance requirements for the proposed changes – for example, the legal and accounting requirements for establishing the entity.

Critical Success Factors



Option 5. No direct housing provision

Summary of the option

Under Option 5, the Council would discontinue its housing provider role. This does not mean the Council would not play any role in housing within Napier; it just means it will stop playing the housing provider role that is identified in the draft Housing Strategy.

Operating model

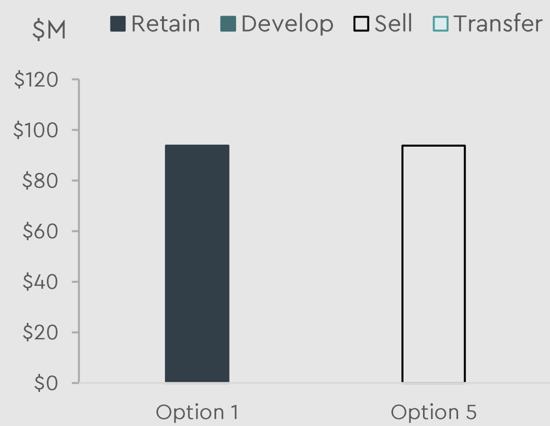
Under this option, the Council will not provide tenancy or asset management services to any tenants.

	OPTION 1	OPTION 5
Retirement	Yes	No
Social	Yes	No
Tenancy management	Council	None
Asset management	Council	None
Control	Council	None
Deficit funding	Debt	n/a

Asset strategy

The Council would divest itself of its entire portfolio by 2027, so no assets would remain with the Council. This option assumes each village is sold at its current book value and that the proceeds are invested at 5% per year, providing annuity income to the Council.

Portfolio Composition



OPTION 1	OPTION 5
Net present value (10-year)	
-$23.5M	$104.9M
Impact on rates (2025/26)	
1.4%	-3.9%
Rental income increase required to fund deficit (10-year)	
50%	n/a*

* No analysis has been undertaken as to whether other providers would require rental increases.

Option 5. No direct housing provision (continued)

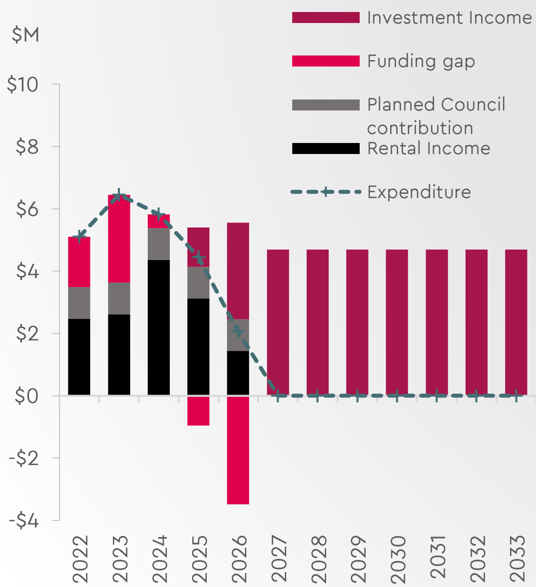
Critical success factors

Financial sustainability

This option is sustainable and provides the Council with an annuity using proceeds earned from selling the entire housing portfolio.

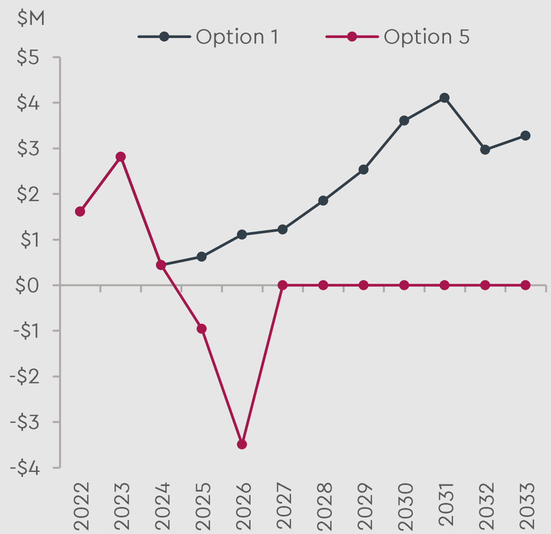
The assumptions in this option do not include any allowance for existing central Council costs that may decrease due to not needing to support the provision of housing, for example the horticulture team or IT overheads.

Operating Sustainability – Option 4



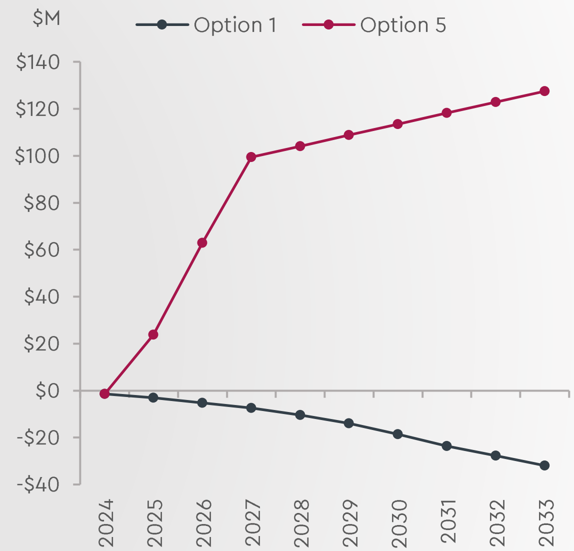
There will continue to be deficits requiring debt funding until the assets are sold.

Annual Funding Gap



The value of the housing portfolio would be completely depleted by the sale of the assets. However, after the repayment of debt and any stranded costs, the proceeds from the sale could be used for other council purposes or reinvestment.

Cumulative Housing Reserves



Option 5. No direct housing provision (continued)

Housing supply

It is very unlikely that the assets would continue to be used to provide affordable housing after they are sold. Therefore, all the measures for this success factor, including sufficient supply of non-market housing, affordability for tenants, and responsiveness to changing demand, are unlikely to be met.

Tenants' needs

As for Housing supply above, it is very unlikely that the assets would continue to provide housing in the same form after they are sold, and therefore the measures relating to fit-for-purpose housing and supporting community cohesiveness would not be met.

There will be significant disruption to current tenants, depending on who the assets are sold to. We have not analysed what rental charges may be. However, this could be negotiated as part of a commercial arrangement (though this would impact assumed proceeds from sale).

Potential suppliers

Given the shortage of land for development in Napier, and the villages' strategic locations, we have assumed there will be demand for the assets and the land. However, this would need to be tested through market soundings.

Buyers of the assets are generally experienced in these types of acquisitions, and we have assumed they would have the capability to invest in these sites.

The current economic climate could constrain buyers' access to capital to fund the purchase or development.

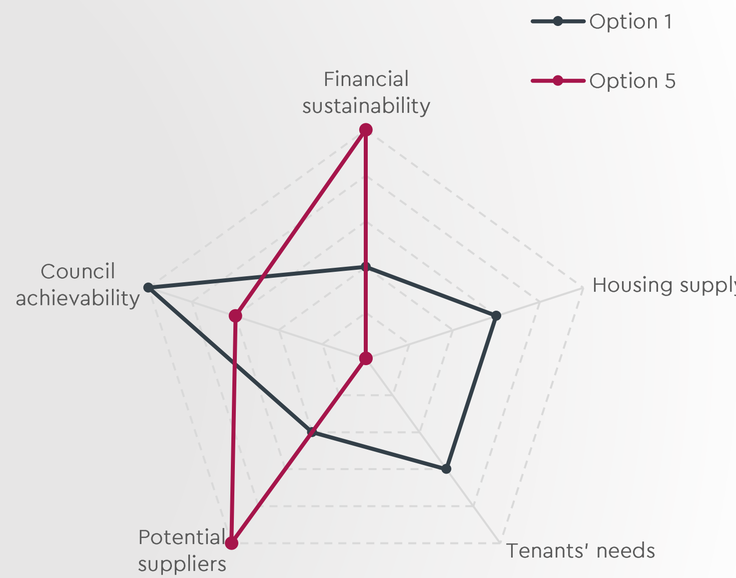
Council achievability

The Council would cease being a housing provider. This would significantly reduce its ability to influence housing outcomes.

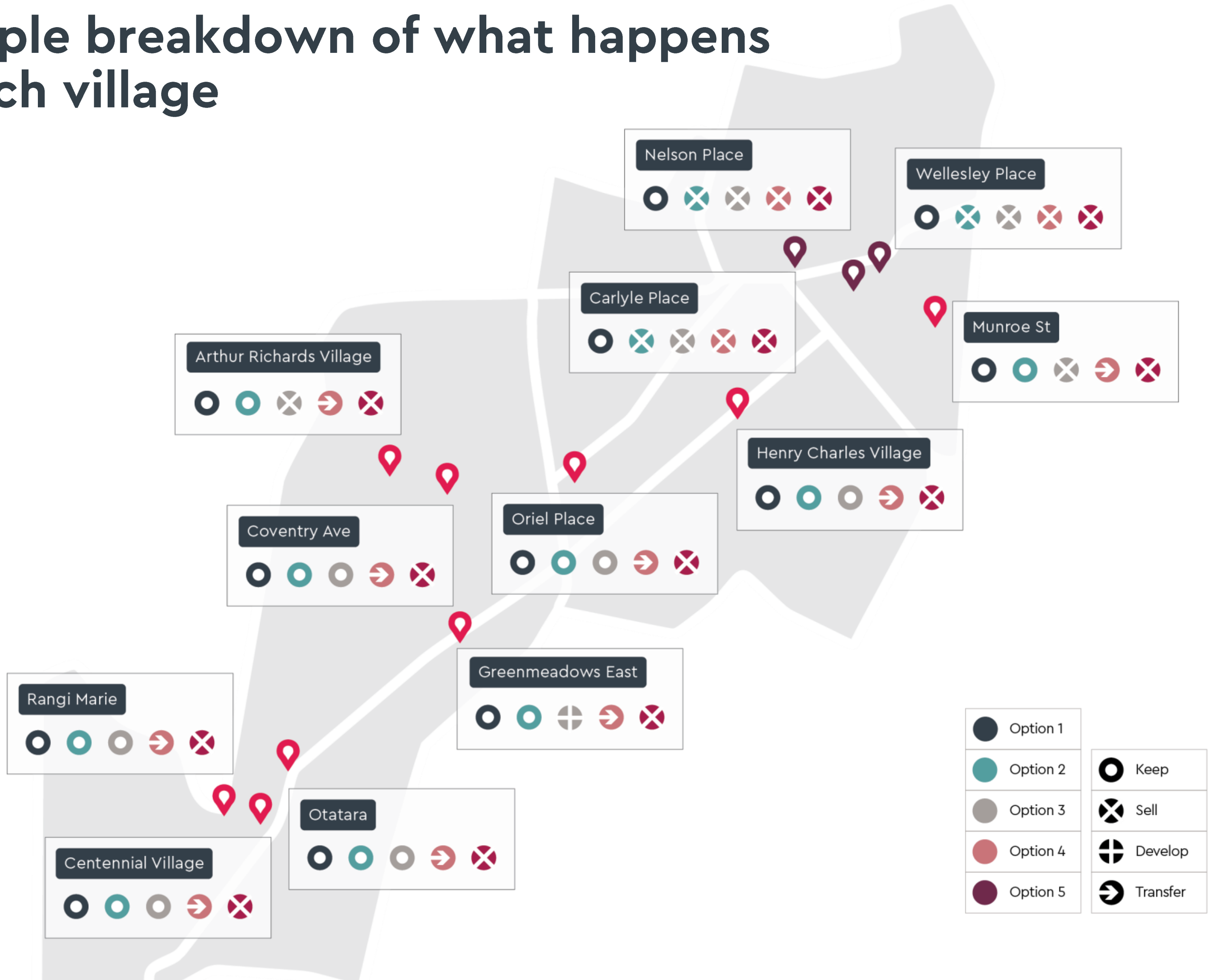
Divesting itself of its portfolio would require the Council to provide some additional resources in order to complete the sale, particularly to obtain an optimal price for the assets, and to make the associated operational changes.

We do not expect there would be material regulatory and compliance requirements for the divestment. However, the Council would need to seek advice for the two villages listed in the Napier Borough Endowments Act 1876 (in Schedule 3, added in 1999).

Critical Success Factors



Example breakdown of what happens to each village



Engagement and next steps

Approach to integrating housing into your Long-Term Plan

Key considerations for community engagement

The financial implications

The last five years has resulted in a net contribution by the Council of **$9.4 million**. This has been partly funded through debt.

If you continued on this track, the Council would need to contribute:

- more than **$10 million** over the next five years, and
- almost **$45 million** from 2029 to 2043.

To cover these costs in the current state, rents would need to increase by 50% to break even over a 10-year period.

This is linked to the broader financial challenges the Council faces – which will be set out in the rest of the LTP. These include Cyclone Gabrielle and the challenging economic environment.

Your Housing Strategy and re-focus on retirement housing

Housing Strategy signals a focus on retirement housing. Napier has an increasing number of elderly people who cannot afford retirement villages and rely on affordable rental options for their retirement. This cohort is set to grow as more and more working-age people are unable to afford to buy their own home and so must rent through the private market or rely on public housing.

Council housing remain one of the few options available in Napier to those whose income is limited to superannuation and who have no assets.

Four potential options with a preferred approach

There are four broad potential options that are not the current state: Retirement only, Mixed delivery model, Independent delivery, and No direct provision of housing. These four options all require varying, but significant, effort to execute changes from the current state.

These options, presented alongside the draft Housing Strategy, demonstrate the strategic shifts the Council wants to achieve. By presenting the four options, you will be able to maintain commercial and financial flexibility, take market soundings, and engage further with the community.

As part of setting out these options, the Council would signal a preferred option. It should seek advice from Council Officers as to how to frame a relevant question for inclusion within the public engagement in your LTP process.

Five principles to guide decision-making

In line with the Housing Strategy and critical success factors outlined in this report, Elected Members decided on five principles to guide their decision making at a workshop on the housing review.

1. Honour our current tenants and make sure they have a home
2. Make sure there is as little financial pressure as possible on our community, ratepayers and on our tenants
3. Over time move away from social housing
4. Keep and potentially increase our retirement housing
5. Enable further investment into retirement housing including healthy homes for tenants

Next steps

Further analysis should be done alongside this engagement

We have based our analysis on desktop research, relying on the previous reviews, and the inputs provided to us, including market valuations and condition assessments. Our assumptions are set out fully on page 27.

We therefore recommend that further analysis be done for the preferred approach. Market soundings should also be taken so that you understand the demand profile for the different assets. You should also get legal advice on divestment.

Engagement with mana whenua

Given the significance of these options, we recommend that you engage extensively with mana whenua on these proposals, alongside the draft Housing Strategy.

We also note that Hastings / Munroe and Carlyle Place are listed in Schedule 3 of the Napier Borough Endowments Act 1876 (as added in 1999). Both parcels of land were transferred to Council from the Crown and were originally in Māori ownership prior to their transfer to the Crown.

As such, both sites are subject to the requirements of the Napier Borough Endowments Act 1876 (NBEA), Local Government Act 2002 (LGA), as well as the terms of the registered endowment instruments and the historical endowment agreements themselves. There may also be Public Works Act 1981 obligations.

We recommend that further legal advice is sought on these sites, as well as engagement with mana whenua to preserve iwi environmental, cultural, and heritage values in the sites. This also provides an opportunity for meaningful consultation and partnership.

Any development will also require regard for 'Sites of Significance' to Māori.

Phase 1: Engagement with community and mana whenua	Confirmation of consultation item for LTP, including the draft Housing Strategy and confirmed options for the housing portfolio.
Phase 2: Due diligence on options	Further analysis of your preferred option (or options), for example: • assessment of the development opportunities across the villages for Option 3 • market soundings, and • legal advice, including legal obligations on different land parcels.
Phase 3: Decision on preferred approach	Final decision made, and implementation plan is developed.

Appendices

Appendix 1: May 2022 Council resolution

You agreed to retain the housing portfolio

Following community consultation, in May 2022 the following resolution was made:

That Council:

a. Retains all of the existing portfolio implementing a public/private benefit approach based on 80% private and 20% public ratio.

b. Implement a sustainable cost recovery rent setting policy, and the current and anticipated costs are reviewed as part of the setting of the policy.

c. Directs council officers to investigate further property and tenancy management operating models and bring the options back to Council.

d. Instruct council officers to develop a housing strategy.

e. Continue to lobby central government for access to the income-related rent subsidy.

f. Continue to fund the deficit from loans until the rates increase has been consulted on and implemented.

g. Instruct council officers to develop a full plan outlining the next steps, including the specific consultation processes required for the option selection to proceed.

You have completed some of these, with others underway

Since the resolution, progress has been made on:

- implementing the public/private benefit approach based on 80% private and 20% public ratio (a)
- developing a draft housing strategy (d)
- continuing to fund the deficit from loans (f), and
- continuing to lobby central government for access to the Income-Related Rent Subsidy (e).

As part of this current work, you are also now considering:

- sustainable cost recovery rent setting approaches, and
- property and tenancy management operating models.

Appendix 2: Case studies of different approaches

Sale to a community housing provider

Horowhenua District Council sold their housing portfolio of 115 units in Compassion Housing (a community housing provider) in 2017 for $5.25m. The sale also include the sale of 1.1 hectares of land to enable Compassion Housing to build further housing in the future.

The portfolio was sold with the express intent of retaining the portfolio for older persons housing. If sold on the open market it may have sold for a higher price, however the council wanted to ensure security of tenure for current tenants.

Hamilton City Council took a similar approach in 2016 and sold 344 pensioner housing units to Accessible Properties. Accessible Properties made the commitment to cause as little disruption as possible for current tenants, including welcoming them to stay in their homes.

Establishment of a community housing provider

Christchurch City Council established the Ōtautahi Community Housing Trust in 2016 with the aim of moving to a financially sustainable model. The trust is a registered community housing provider and manages a portfolio of over 2,200 social housing units under a long-term lease, with the Council having a 49% interest. New tenants can access the IRRS, with around two thirds of tenants currently on grand parented rentals (historical arrangements), and one-third accessing the IRRS.

Wellington City Council is in the process of establishing a community housing provider (Te Toi Mahana) to deliver the service. It is an independent community-owned trust. Assets are leased to the trust (not transferred) via a leasehold agreement and the community housing provider will be supported with upfront capital to enable it to get underway with housing upgrades and invest in new supply.

Hutt City Council established Urban Plus in 2007, a specialist property company operating as a Council-Controlled Trading Organisation (CCTO). Urban Plus manages the Council's social housing portfolio and is involved in property development activities. As a CCTO, Urban Plus works to ensure the best financial return, which is driven through property development.

A transfer to Kāinga Ora

Nelson City Council transferred their portfolio to Kāinga Ora in February 2021. With financial sustainability becoming an issue (particularly due to increasing regulatory requirements), Kāinga Ora was seen as the option that offered the most secure tenure to retain and manage existing tenants, as well as the expertise and ability to offer wraparound services.

Many existing tenants qualified for IRRS, but for the small number of tenants who didn't meet the criteria, money was set aside to provide rent top-ups. Generally, only new tenants are eligible for IRRS, however existing eligible tenants could access it in this case.

Tauranga City Council sold seven of its nine older persons villages to Kāinga Ora in 2022 who could better redevelop and update the units. This was done with the agreement that Kāinga Ora would continue to deliver affordable housing to existing tenants. The remaining two villages were sold for private development.

Redevelopment

Palmerston North City Council Palmerston North City Council funded a new development of 50 units to transform the existing social housing stock built in the 1960s. This development is being done in phases.

About the authors

This report has been prepared for Napier City Council by Susan Burns, Cathryn Lancaster, Aaron Gabbie, and Sarah Baddeley from MartinJenkins (Martin, Jenkins & Associates Ltd).

For 30 years MartinJenkins has been a trusted adviser to clients in the government, private, and non-profit sectors in Aotearoa New Zealand and internationally. Our services include organisational performance, employment relations, financial and economic analysis, economic development, research and evaluation, data analytics, engagement, and public policy and regulatory systems.

We are recognised as experts in the business of government. We have worked for a wide range of public-sector organisations from both central and local government, and we also advise business and non-profit clients on engaging with government.

Kei te āwhina mātau ki te whakapai ake i a Aotearoa. We are a values-based organisation, driven by a clear purpose of helping make Aotearoa New Zealand a better place. Our firm is made up of people who are highly motivated to serve the New Zealand public and to work on projects that make a difference.

Established in 1993, we are a privately owned New Zealand limited liability company, with offices in Wellington and Auckland. Our firm is governed by a Board made up of partners Kevin Jenkins, Michael Mills, Nick Davis, Allana Coulon, Richard Tait, Sarah Baddeley, and Nick Carlaw, as well as independent director Sophia Gunn and independent chair David Prentice.

Key references and glossary

Key references

Barker & Associates Limited. (2023). Napier Hastings FDS issues and Options Report DRAFT: Prepared for Napier City Council, Hastings District Council and Hawke's Bay Regional Council. Retrieved from https://hastings.infocouncil.biz/Open/2023/07/NFDSJ_11072023_AGN_5676_AT.PDF

Birman Consulting Limited. (2023). Retirement Village Sector Housing.

Market Economics. (2021). Housing Development Capacity Assessment 2021: Prepared for Napier City Council, Hastings District Council and Hawke's Bay Regional Council. Retrieved from https://www.hpuds.co.nz/assets/Document-Library/Reports/Housing-Development-Capacity-Assessment-2021-Napier-Hastings-Urban-Environment-by-Market-Economics-Limited-September2021.pdf

Ministry of Housing and Urban Development. (2023a). Change in Housing Affordability Indicators. Retrieved from https://www.hud.govt.nz/stats-and-insights/change-in-housing-affordability-indicators/compare-regions

Ministry of Housing and Urban Development. (2023b). Local Housing Statistics. Retrieved from https://www.hud.govt.nz/stats-and-insights/local-housing-statistics/outcomes

Morrison Low. (2018). Review of social housing delivery. Retrieved from https://www.napier.govt.nz/assets/Document-Library/Plans/Annual-Plans-and-Ten-Year-Plans/Consultation-Document-for-LTP-2018-2028/LTP-2018-28-Housing-Review-Report.pdf

PwC. (2019). Napier City Council Strategic Review of Community Housing

PwC. (2021). NCC Community Housing Options - Phase two market soundings, detailed analysis and evaluation report

Social Wellbeing Agency. (2021). Community Insights Explorer. Retrieved from https://swa.govt.nz/what-we-do/community-insights-explorer/

StatsNZ. (2018). Napier City. Retrieved from https://www.stats.govt.nz/tools/2018-census-place-summaries/napier-city

Glossary

Community housing provider: Provides housing for the purpose of either community rental housing or affordable rental housing, or both, and is eligible for the IRRS.

Council housing: Properties owned by Napier City Council for the provision of housing.

Public housing: Properties owned or leased by Kāinga Ora and Community Housing Providers for use as public housing – often used interchangeably with social housing.

Retirement tenants: Tenants aged over the age of 65 that meet an asset and income threshold set by the Council.

Social tenants: Tenants aged over the age of 18 that meet an asset and income threshold set by the Council.

Supporting living tenants: Tenants that over the age of 18, receiving the Supported Living Benefit, and meet an asset and income threshold set by the Council.

MARTIN JENKINS | 30 YEARS

WHAKANUI · CELEBRATE

Wellington T +64 4 499 6130
Level 1, City Chambers, Cnr Johnston and Featherston Streets, Wellington 6011, PO Box 5256, Wellington 6140, New Zealand
Auckland T +64 9 915 1360
Level 16, 41 Shortland Street, Auckland 1010, New Zealand
info@martinjenkins.co.nz **martinjenkins.co.nz**