

INTERNAL MEMO

Ruapehu social housing project, reconsideration for Infrastructure Reference Group funding

To: Andrew Crisp

From: Fiona McCarthy

Date: 4 August 2021

Security level: In Confidence

Priority: Medium

Purpose

1. This memo outlines a proposal to reconsider a Ruapehu social housing project for Infrastructure Reference Group (IRG) funding, and the next steps necessary to progress this.

Recommended actions

2. It is recommended that you:

1. **Note** that this project was considered for IRG funding in 2020 but Crown Infrastructure Partners did not recommend it due to concerns at the time about benefit realisation and cost profile. *Noted*
2. **Note** that a revised, smaller scoped, project was approved by Ministers in April 2021. *Noted*
3. **Note** that Kāinga Ora has been working with Ruapehu District Council (RDC) and Ngāti Rangī to understand housing need in Ruapehu, and are supportive of this project, and happy to partner with RDC to deliver public housing. *Noted*
4. **Note** that Minister Woods could seek an instruction from IRG Ministers to fund the project from the IRG fund. *Noted*
5. **Agree** to brief Minister Woods, and recommend that she seeks that instruction.

Agree / Disagree

Background

Previous decision on the Ruapehu Social Housing Project

The Ruapehu Social Housing project was originally assigned to Crown Infrastructure Partners (CIP) as the Infrastructure Reference Group (IRG) Agency responsible for delivery. CIP's internal due diligence process for IRG projects includes a review of the project from an engineering, commercial, and financial perspective. Following the review, a report is considered by a due diligence committee (DD committee) and following this, to a Steering Group who make the final recommendation to Ministers.

The DD committee considered the project twice; in July 2020 and December 2020. The DD Committee and Steering Group considered this project again and did not approve the Project for recommendation to Ministers. The outstanding concern was the high risk that the outcomes/benefits would not be realised (due to lack of a build partners or developers) and that the empty sections would sit unoccupied. There were also concerns regarding the project budget (which included very high proportion of advisor and project management costs) and deliverability. At the time, Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) and Kāinga Ora expressed reservations about the proposal.

The Steering Group were more favourable towards the 6 housing units proposal (with a cost of \$1.5 million), as the funding would lead to a clear benefit/outcome. Ministers noted this recommendation in December 2020. In April 2021, the DD Committee & Steering Group approved the rescoped project (6 x social housing units) and recommended this project to Ministers for approval. Ministers approved this rescoped project in April 2021.

Recent developments

Kāinga Ora has been working with RDC and Ngāti Rangi to understand the housing need in the community. From these conversations it is clear that there is an agreed need for public, affordable and worker rental accommodation in the region.

Kāinga Ora operates 12 State Houses in Ohakune and there are no Community Housing Providers or other Public Houses in the area. The MSD housing register has grown from 3 to 8 over the past year. In discussions between Kāinga Ora, the RDC and iwi, it is clear that the housing register understates the true Public Housing need in Ohakune. Ohakune currently has no emergency or transitional housing.

Developers in Ruapehu are responding to the high end of the market but RDC note that new initiatives are needed to address the social and affordable housing end of the market; and that RDC needs partners to help deliver public and affordable housing.

Hon Dr Megan Woods attended the Central and Local Government Forum on 3 March and extended an invitation to RDC to propose ways to increase the supply of housing. RDC provided an updated proposal, outlined below.

The updated proposal

RDC own a 9.5ha piece of residential zoned land in Ohakune on Tei Tei Drive, which could deliver around 200 sections. RDC approached Kāinga Ora to partner with them to build housing for 'Stage 1', being 44 units comprised of 15 Public Houses, 15 Affordable houses, and 14 homes for worker rental accommodation.

Under the proposal, Kāinga Ora would partner with RDC and a developer to provide infrastructure and build 'stage 1' (44 homes - 1.6ha). Kāinga Ora would acquire the Public Housing (a mix of 2, 3 and 4 bed homes) and seek to underwrite the Affordable Housing (2 and 3 bedroom housing) using the KiwiBuild scheme.

RDC still expect the infrastructure costs to be \$5.3 million. These costs cover civil works, infrastructure, building platforms, planning costs and include allowances for contingencies and professional fees. This will provide full infrastructure for stage 1 development, with the balance of the land (7.9ha) being infrastructure enabled (i.e. infrastructure to the boundary).

Feasibility

RDC do not have a budget for the infrastructure needed to enable the development, but would enable the project by making the land available at cost. Kāinga Ora similarly do not have budget for the infrastructure – hence the suggestion to apply for IRG funding.

Kāinga Ora engaged PwC to do a feasibility analysis of the proposal. PwC analysis confirms that IRG funding is needed to ensure the viability of the project.

PwC analysis also shows that the average purchase price for the 15 affordable new builds would be between \$450,000-\$500,000. Kāinga Ora analysis of 2018 Census data suggests that 422 renting households in the district could afford to buy a \$450,000 2 bedroom house and 335 could afford to buy a \$500,000 3 bedroom house.¹ This indicates that there is potential demand in the district for the Affordable Housing that is proposed.

Comment

Kāinga Ora (through Deputy Chief Executive Daniel Soughtton) have advised that they support the proposal, are keen to see it proceed, and to be involved. They note that they would not be in a position to fund the enabling infrastructure.

CIP have been appraised of the updated proposal, and the suggestion that Kāinga Ora be involved with delivery. They have noted their support for Ministers reconsidering this project.

Kāinga Ora has engaged with two major employers in the area s9(2)(ba)(i) who have identified a shortage of worker accommodation and cited availability of housing as a barrier to recruiting staff. These employers currently own or lease homes to employees and have expressed support and interest in purchasing or leasing homes if the Tei Tei Drive project proceeds.

There is around \$200 million of IRG funding contingency remaining, meaning that there is scope to support this project, however Ministers would need to initiate this process, rather than CIP, as their Steering Group process is completed.

¹ Spending no more than 30% of household income on their mortgage, assuming interest rates of 5% and 20% equity/deposit.

Next Steps

In light of the updated proposal, we could recommend to Minister Woods that she seek an instruction from IRG Ministers to fund the project from the IRG fund.

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