

[In Confidence]

Office of the Minister of Finance

Office of the Minister of Housing

Chair Cabinet Economic Development Committee

Paper 1: Advancing the Auckland large-scale projects: portfolio decisions

Proposal

- 1 This is the first of four Cabinet papers that seeks to allocate funding from the Housing Acceleration Fund (HAF) to advance the Kāinga Ora large scale projects (LSPs). This paper is to meet the drawdown conditions by seeking key decisions:
 - 1.1 to manage the Crown's investment in the LSPs, including funding to be held by Ministers, decision-making on the subsequent business case process and the principles for monitoring, assurance and reporting.
 - 1.2 on the approach to co-funders and partners.
- 2 This paper seeks decisions on the overarching settings that will apply to all LSPs and is intended to be considered alongside three other Cabinet papers that seek to allocate funding and agree outcomes to be delivered by each LSP. The other papers are:
 - 2.1 Paper 2: *Advancing the Large Scale Projects: Mt Roskill and Oranga Precincts*
 - 2.2 Paper 3: *Advancing the Large Scale Projects: Mangere Precinct*
 - 2.3 Paper 4: *Advancing the Large Scale Projects: Tāmaki Precinct*
- 3 This suite of Cabinet papers seeks decisions on the Auckland LSPs only. In June, we will be seeking Cabinet decisions on further allocation of funding for Eastern Porirua.

Relation to government priorities

- 4 Our government has three overarching objectives: to keep New Zealanders safe from COVID-19, to accelerate our recovery, and to lay the foundations for a better future through reducing inequality and addressing child poverty, reducing carbon emissions and improving housing affordability [CAB-20-MIN-0525].
- 5 The outcomes sought through the proposed HAF investment in the LSPs align with the Government's priority to address wellbeing by ensuring that everyone can access healthy, secure and affordable housing within thriving, sustainable communities. Investment in the LSPs is investment in core infrastructure to enable significant housing development, further accelerating our recovery from the impacts of COVID-19.

- 6 The proposed investment in LSPs will also directly support Climate Change outcomes and transition to a net carbon neutral economy, by creating higher density housing in and around centres and public transport nodes, and by encouraging mode shift away from cars by improving connections to centres and public transport for walking, cycling and other forms of micro mobility.

Executive Summary

- 7 The Auckland LSPs (Mt Roskill, Tāmaki and Mangere, Northcote and Oranga) are programmes of work that leverage large Kāinga Ora landholdings in strategic locations to unlock density and a broader range of high-quality urban development outcomes. This is achieved by removing the public houses that have reached the end of their useful life, intensifying to increase housing supply, and replacing with a mix of public, affordable and market housing.
- 8 The LSPs are already underway and provide a unique opportunity to increase the pace and scale of housing supply in Auckland, but the context has changed significantly since they were established. They require funding to address unforeseen infrastructure and land development issues to realise expectations and opportunities.
- 9 In March 2021, Cabinet set aside \$1.996 billion of funding from the \$3.8 billion Housing Acceleration Fund for the Auckland Large Scale Projects [CAB-21-MIN-0190 refers] to provide for the critical infrastructure needed to accelerate the delivery of housing. The total cost of the Auckland LSPs is forecast at \$4.9 billion over five years. This cost will be met through Kāinga Ora revenues and investment from the Housing Acceleration Fund.
- 10 The \$1.996 billion is funding allocated over the next five years to undertake over 400 individual infrastructure projects, enabling build-out of housing over the next five to 16 years. This enables about 13,500 new additional homes and 4,000 replacement public homes on Kāinga Ora land. The infrastructure capacity provided by these projects has the potential to unlock a further 11,000 homes on surrounding privately owned land.
- 11 Cabinet requested that the Minister of Finance and the Minister of Housing report back to Cabinet on the business cases and the approach to drawdown, monitoring and reporting [CAB-21-MIN-0190 refers]. This paper contains that report back. In doing so it outlines an approach to the allocation of funding, decision-making on the subsequent business case process, and the principles for monitoring, assurance and reporting.
- 12 This paper also seeks agreement on an approach with Auckland Council who are a key partner in the delivery of infrastructure required to enable housing growth. Auckland Council has indicated it will provide \$288 million of funding towards the LSPs. This paper proposes that a Memorandum of Understanding be sought with Auckland Council that sets out joint goals. It also proposes a Strategic Partnership be established with Auckland Council s 9(2)(j) .
- 13 Given the anticipated market headwinds facing the construction sector, this paper also seeks that the joint Ministers of Finance and Housing retain \$280 million and consider allocating this funding to the LSPs on a case-by-case basis.

- 14 While retaining \$280 million provides a buffer to cost escalation, the dynamic nature of the projects and prominence of current market headwinds mean that further budget proposals may need to be considered in the next few years.
- 15 Three companion Cabinet papers *Advancing Large Scale Projects: Tāmaki, Mangere and Mt Roskill* seek allocation of the \$1.996 billion to each LSP (this includes Tranche 1 funding already approved). Below is a summary of the allocation breakdown, and houses enabled:

Precinct	Funding allocation	Houses enabled
Mangere	\$814.3 million	4,034
Tāmaki	\$496.5 million	4,640
Mt Roskill (including Oranga)	\$639.4 million	7,550
Northcote	\$45.5 million	1,600
Total	\$1,995.7 million	17,824

- 16 This paper also seeks approval for the allocation of Northcote funding. A separate business case was not prepared for Northcote because this LSP is almost complete.

Background

- 17 The housing market currently faces significant challenges as supply has not kept pace with increases in population, adversely affecting wellbeing and affordability outcomes, and increasing pressure upon public housing waitlists.
- 18 In March 2021, Cabinet agreed to establish the Housing Acceleration Fund (HAF) of \$3.8 billion to increase the pace and scale of housing supply [CAB-21-MIN-0061 refers].
- 19 As part of Budget 2021, Cabinet agreed to hold \$1.996 billion¹ of the Housing Acceleration Fund for Auckland LSPs [CAB-21-MIN-0190 refers]. A further \$307 million was set aside for Eastern Porirua. This recognises that the LSPs are the Government's best opportunity to directly increase housing supply and improve housing outcomes in areas of most need.
- 20 Kāinga Ora are currently delivering five LSPs in Auckland (Mt Roskill, Mangere, Tāmaki, Oranga and Northcote) over 20 years. Delivery started in 2017 and is well underway, with some neighbourhoods nearing completion and over 3,800 homes enabled as at 28 February 2022.

¹ CAB-21-MIN-0116.15 confirmed \$2.3 billion would be held for Auckland and Porirua Large Scale Projects (rounded from \$2,303 million). CAB-21-MIN-0190 confirmed \$307 million of this funding would be held for Eastern Porirua, leaving \$1,996 million for Auckland Large Scale Projects.

- 21 The LSPs will enable houses in the short to medium term. However, they require funding to address significant additional land development and infrastructure costs identified during two years of detailed technical assessments. These costs cannot be met by existing Kāinga Ora funding streams, or by Auckland Council.
- 22 In July 2021, the Minister of Housing and Minister of Finance agreed to release up to \$295 million for immediate infrastructure planning and development, land development for the Auckland LSPs as part of Tranche One funding [CAB-21-MIN-0190 refers]. A further \$136 million was approved for Eastern Porirua.
- 23 Cabinet agreed that further funding would not be spent on LSPs (excluding Tranche One), until Cabinet is satisfied that:
 - 23.1 there are appropriate business case processes in place;
 - 23.2 there is agreement on governance arrangements and how this will be put in place;
 - 23.3 there is agreement on monitoring arrangements and progress reporting [CAB-21-MIN-0116.15 refers].
- 24 Decisions sought across the four *Advancing Large Scale Projects* Cabinet papers fulfil these Cabinet requirements.

The LSPs are the best opportunity to increase housing supply and improve outcomes

- 25 The total cost of the Auckland LSPs is forecast at \$4.9 billion over five years. This cost will be met through Kāinga Ora revenues and investment from the Housing Acceleration Fund.
- 26 In May 2021, Cabinet set aside \$1.996 billion of funding for the LSPs and we are seeking Cabinet agreement to allocate funding to each LSP in the following companion Cabinet papers: *Advancing LSPs: Mangere, Tāmaki and Mt Roskill (including Oranga)*.²
- 27 At the Auckland portfolio level, the LSP proposals will:
 - 27.1 **enable more housing** – enable delivery of around 17,800 homes (13,400 additional) on Kāinga Ora land, including a mix of public affordable and market housing. The infrastructure will enable a further 11,000 homes on surrounding privately owned land
 - 27.2 **enable better public housing** – enable replacement of around 4,400 public houses reaching the end of their useful life with around 6,500 warm, dry, and fit-for-purpose public homes (an uplift of around 2,100 public homes).

² Mt Roskill and Oranga were assessed together in the same programme business case as Oranga is close to the Mt Roskill precinct, is much smaller in size (similar to a neighbourhood within Mt Roskill), and they share the similar opportunities and challenges.

- 27.3 **intensify in the right places** – provide much needed housing in areas that are close to transport hubs, schools and jobs, thereby supporting mode shift to more active and public transport and addressing climate change objectives
 - 27.4 **provide the opportunity to partner** with iwi to realise Māori aspirations
 - 27.5 **invest in areas with poor socio-economic outcomes** to respond to complex and intergenerational social and economic challenges through the regeneration of neighbourhoods
 - 27.6 **provide critical transport, water and community infrastructure** that improves wellbeing for the wider community and provides infrastructure capacity for wider growth.
- 28 The funding set aside for the LSPs provides certainty for five years to enable Kāinga Ora and Auckland Council to plan and make financial and contractual commitments to enable build-out over five to sixteen years. Funding certainty will also better enable the construction sector to upskill and scale up operations to deliver the programme.
- 29 This funding is for land development and infrastructure only and does not cover the cost of building the houses. Kāinga Ora is already funded for public house construction through other funding streams. Market and affordable housing is being built by Kāinga Ora private construction partners following the sale of build-ready superlots.
- 30 Investment in LSPs aligns with other Government priorities. Two of the LSPs are along the Auckland Light Rail Corridor³, presenting opportunities to align with and leverage wider Government investments to provide an integrated approach to redevelopment. Auckland Light Rail is in an earlier planning phase, with work to integrate the projects at strategic and delivery levels being ongoing.
- 31 Investment in the LSPs also enables intensification in the right places and provides a platform for Kāinga Ora to lead the market in providing for density in areas close to transport hubs and town centres, supporting implementation of the National Policy Statement on Urban Development.

Implementing the Large Scale Projects

LSPs are complex, long-term projects, that carry risk and uncertainty...

- 32 The LSPs are New Zealand's first experience with large-scale brownfields urban development. These are long-term projects with multiple dependencies and revenue streams. They integrate land development and investment in over 400 individual infrastructure projects, many of which require co-funding from the Auckland Council (and their asset-based council-controlled organisations) and Waka Kotahi (NZ Transport Agency).

³ Mt Roskill and Mangere precincts.

- 33 The LSPs are the Government's best opportunities to directly increase the supply of housing and regenerate public housing stock. However, they are also complex urban development projects that carry inherent risk.
- 34 The following factors could lead to an increase in costs and financial pressure:
- 34.1 **Inflation and escalation** - the business cases approved by Kāinga Ora are unescalated (i.e., do not include inflationary allowances) as in normal circumstances costs and revenue are likely to move in parallel offsetting the need for significant changes.
 - 34.2 **Interdependencies in delivery** – multiple infrastructure projects need to be approved and delivered within the neighbourhoods, given the interdependencies, the risk of schedule slippages is higher, which in turn could impact on costs
 - 34.3 **Rescoping due to technical constraints** – these projects are scoped and costed prior to all the technical assessments and detailed design being undertaken. There is a residual risk that the scope of infrastructure required to deliver the outcomes could change, impacting cost
 - 34.4 **Working with existing communities** – these projects are being delivered within existing communities, with thousands of tenants to be relocated and managed.

... and market headwinds facing the construction sector exacerbate short-term risks

- 35 The construction sector is facing headwinds due to the availability and cost of building materials and labour, higher freight costs, rising interest rates and inflation, tighter lending criteria, and declining house price expectations. This places extra uncertainty on the costings and pressure on LSPs.
- 36 Analysis finds these headwinds are likely to disproportionately impact the delivery of the housing typologies that New Zealand needs the most, including higher density and affordable housing.
- 37 The impact of these headwinds is expected to worsen in the next 6-12 months. Kāinga Ora has some contingency built into the programme business case costings, however, the anticipated headwinds are likely to exceed this contingency. Below we are seeking decisions to help reduce Crown risk.
- 38 While the uncertainties created by market headwinds pose some risk to the cost and delivery of new housing supply, the LSPs remain the Government's best mechanism to enable the supply of much-needed public, affordable and market housing, as well as providing a boost to the construction sector.
- 39 The Government Policy Statement on Housing and Urban Development seeks to ensure that more affordable homes are built, and notes that it is critical that we sustain and build on the current high levels of construction sector activity by ensuring a clear and well-aligned pipeline of infrastructure and development projects.

The following decisions are sought to help the Crown reduce risk

- 40 Given the scale of investment and the criticality of increasing housing supply, we are seeking agreement to additional measures to help manage the risk of cost overruns and provide Ministerial oversight of the LSP programme. These decisions relate to retaining the Auckland Council contribution within the programme, preserving ongoing Ministerial decision-making rights, and establishing processes for assurance, monitoring and reporting.
- 41 The \$1.996 billion held for the Auckland LSPs in May 2021 was based on Kāinga Ora cost estimates at that time [CAB-21-MIN-0116.15] and was exclusive of any Auckland Council contributions. Since then, Kāinga Ora has amended their costings to reflect escalation since the 2020 numbers included in the Budget bid, increased land revenue and improved quantitative risk assessment. The Kāinga Ora business cases attached to the companion Cabinet papers indicate a funding level of \$2.133 billion to meet a standard programme business case contingency. This is \$137 million above the available Budget funding, but we have set the expectation that Kāinga Ora make best endeavours to manage within the existing budget.

Funding held by joint Ministers to help reduce the impact of emerging headwinds

- 42 In the May 2021, Cabinet agreed that any remaining funding following the completion of work on Large Scale Projects costs be redirected to the infrastructure fund component of the HAF [CAB-21-MIN-0116.15].
- 43 Due to the emerging headwinds, we propose that joint Ministers of Finance and Housing hold \$280 million and consider allocating additional funding to the LSPs on a case-by-case basis, instead of reallocating this funding back into the Infrastructure Acceleration Fund. The holding of this \$280 million by joint Ministers does not require changes to appropriations, with the programme to be met within the \$1.996 billion allocation, on the basis that Auckland Council will contribute \$288 million.
- 44 s 9(2)(f)(iv)

Subsequent decision-making

- 45 Following approval of funding allocations through the companion Cabinet papers *Advancing Large Scale Projects: Mt Roskill (including Oranga), Tāmaki and Mangere*, Kāinga Ora is required to prepare detailed neighbourhood and infrastructure business cases that seek to drawdown on the approved precinct funding for works to continue in these areas.
- 46 There are 16 proposed neighbourhood business cases (NBCs) and further infrastructure business cases (IBCs) which vary in complexity and risk.

- 47 Companion Cabinet papers *Advancing Large Scale Projects: Mt Roskill & Oranga, Tāmaki and Mangere*, seek delegated authority for the joint Ministers of Housing and Finance to approve these subsequent neighbourhood and infrastructure business cases. In doing so, Ministers intend to retain decision-making rights for those business cases:
- 47.1 of significant value, where the contribution from HAF is a significant component of the overall funding
 - 47.2 of high strategic dependency, and aligns with other significant proposed or prospective Crown investment, or has delivery complexity with multiple funders
 - 47.3 that have a requirement to access the \$280 million of funding held by joint Ministers.
- 48 Following this approach, we expect that the following neighbourhood business cases, at a minimum, will be provided to us for approval by June 2023.
- 48.1 Wesley West (Mt Roskill)
 - 48.2 Waikōwhai (Mt Roskill)
 - 48.3 Mangere West A (Mangere)
 - 48.4 Glen Innes Northwest (Tāmaki)
 - 48.5 Panmure North – Phase 1 (Tāmaki)
 - 48.6 Point England - Phase 1 (Tāmaki).
- 49 Appendix A provides a schedule of business cases to be completed for the five-year HAF funding.
- 50 The joint Ministers of Finance and Housing will consider further delegation to the Kāinga Ora Board to approve business cases that are of low risk, on the condition of Ministerial consultation.
- 51 To provide adequate Ministerial oversight, we recommend that Cabinet sets the following expectations for all subsequent business cases:
- 51.1 Early consultation with Ministers, to assess parameters and options to be considered through the business case, assess risks of delivery and decide level of Ministerial oversight
 - 51.2 Agreement on robust escalation assumptions between HUD, the Treasury, and Kāinga Ora.
 - 51.3 Reasonable options analysis and assessment of the financial impact across the programme will be included.

Approach to monitoring and reporting

- 52 Housing officials are developing a monitoring and reporting framework alongside the Treasury and Kāinga Ora. Further detailed work is required to complete the monitoring and reporting framework, and we are seeking Cabinet's agreement to the proposed approach, as set out below.
- 53 We suggest an enhanced monitoring model that supports a no-surprises approach, enabling the joint Ministers of Finance and Housing to make critical decisions about scope and cost early. This is important where there is significant uncertainty around the interaction between scope, cost, revenue and schedule in the current phase of planning and delivery. While this investment will be monitored at the precinct-level (by LSP), additional reporting will be rolled up to enable tracking across the portfolio of Auckland LSPs.
- 54 The monitoring framework will comprise the following components and be undertaken from the baseline established for each precinct:
- 54.1 **Monitoring and reporting framework:** the information to be provided to Joint Ministers and Monitoring Agencies to support monitoring and oversight
 - 54.2 **Change control:** the thresholds that trigger escalation to joint Ministers and Cabinet and the subsequent process of developing and actioning advice
 - 54.3 **Integrated assurance:** the assurance arrangements, comprising the Kāinga Ora internal assurance process, Gateway reviews and other independent assurance, as required.
- 55 At the precinct level, both the reporting framework and change control thresholds will be structured around the following criteria:
- 55.1 **Scope:** the number and mix of housing enabled and the activities, deliverables and outputs required to achieve benefits. For instance, the planning and delivery of house enabling, water and transport infrastructure.
 - 55.2 **Benefits:** the delivery and forecast performance of benefits across the portfolio, precinct, or neighbourhood. These may be different across precincts depending on the business case.
 - 55.3 **Cost:** the expenditure and forecast costs, covering the entirety of the scope required to deliver benefits by phase of delivery, compared to the approved budget/baseline.
 - 55.4 **Revenue and third-party contributions:** the revenue generated from all activities related to the programme, including superlot sales and funding from other parties such as Auckland Council or Waka Kotahi.
 - 55.5 **Schedule:** the delivery schedule covering the entirety of the scope, highlighting key milestones by phase, critical pathways and risks.
- 56 Regarding change control, what would constitute a significant change to any of the components will be defined and provided for agreement as part of the final

monitoring framework. Such changes, as well as any associated changes to the reporting approach, would require escalation to the joint Ministers of Finance and Housing for decision, with minor variations below this level being approved by the Kāinga Ora Board.

- 57 Given the size of Crown investment, it is recommended that Ministers have visibility over the assurance approach proposed and retain a power for a Ministerial enacted independent review if required. The assurance approach will cover:
- 57.1 Kāinga Ora assurance activity (first, second- and third-line defence in line with Office of the Auditor General guidance) and
 - 57.2 supplementary assurance activities (such as Gateway reviews, Ministerial and Cabinet report backs).
- 58 Further work is required to complete development of the monitoring framework and its components, with certain aspects reliant on additional information (such as the outputs of neighbourhood and infrastructure business cases, which are yet to be approved).
- 59 We are seeking delegation for approval of the final monitoring approach, including metrics and thresholds, to the joint Ministers of Finance and Housing to be completed by May 2022.
- 60 We envisage that the first drawdown of funding (subsequent to Tranche One) will not occur until the joint Ministers of Finance and Housing are satisfied that an appropriate monitoring and reporting framework has been established and an assurance plan for this investment agreed.

Allocation for incurred costs

- 61 The LSPs have been in delivery since 2017, and over the past two years tranching investment has maintained momentum and ensured that contractors remain mobilised. This investment has supported the delivery of 3,850 homes.
- 62 There are two components to the tranching investment:
- 62.1 Kāinga Ora board approved costs of \$453 million incurred prior to April 2021 (yet to be allocated)
 - 62.2 Costs approved by Joint Ministers as Tranche One in May 2021 - comprising \$431 million for costs (between April 2021 and June 2022) to maintain momentum while the business cases were being prepared for Ministerial consideration.
- 63 The \$453 million incurred prior to April 2021 is made up of the following components:
- 63.1 \$226 million compensation for demolished houses (starting rents) across all LSPs. Due to the nature of the LSP programme, superlot sales occur in later years of the business cases which means that some of the costs incurred to date are offset within the business cases by future sales.

- 63.2 \$69 million for internal Kāinga Ora costs to advance the programme
- 63.3 \$316 for infrastructure and land development costs
- 63.4 Offset by \$157 million of revenue.
- 64 In addition, we seek approval for the allocation of \$45.5 million for Northcote LSP, which will complete the redevelopment. Northcote was well advanced when the business cases were being prepared. The funding incurred to maintain momentum was for the final stages of Northcote, thereby enabling 1,600 homes.
- 65 The LSP business cases and this Cabinet paper present the total cost of investment over five years, noting that build-out may occur over a longer period. They include both components of tranching investment to maintain momentum and future investment post June 2022. These costs are included within the funding approvals of the separate Precinct Cabinet papers.
- 66 The Kāinga Board approved initial costs of \$453 million (prior to April 2021) in order to maintain momentum while the process to consider Budget appropriation was being worked through. These costs currently sit on Kāinga Ora's balance sheet with no identified funding stream to pay off the debt.
- 67 There is a low likelihood that Kāinga Ora could successfully reprioritise funding to cover this shortfall without negatively impacting other priorities. For example, the programme would require re-scoping, resulting in a delay of at least a year. The context for this scenario is made worse by the challenging operating environment with market headwinds that Kāinga Ora currently faces as part of the construction sector across its investment programmes (e.g., public housing build to June 2024, healthy homes compliance).

Formal relationships with key funders and partners are needed

- 68 The LSPs are complex, long-term projects with multiple funders. For successful delivery, and to minimise risks to the Crown, these co-funders need to be committed to the LSPs both in terms of financial and non-financial commitments.
- 69 The key relationships are with the Auckland Council and their Council Controlled Organisations, and Waka Kotahi, and in the future the new Water Service Entities

Entering a formal Memorandum of Understanding with Auckland Council

- 70 Delivering the LSPs to meet their intended objectives will require close co-ordination with Auckland Council. This is to support successful delivery of proposed funding through the HAF, to ensure an integrated programme of urban development and to support the long-term success of the LSPs.
- 71 We are therefore seeking, as a matter of urgency, to establish a Memorandum of Understanding (MoU) with Auckland Council to publicly affirm both the Crown and Auckland Council's joint responsibility for growth in the LSP areas in the immediate and longer term.

- 72 The Government and Auckland Council are already parties to the Auckland Partnership, where the LSPs have been identified as a joint spatial priority for growth. The proposed MoU for the LSPs progresses this relationship by setting out specific expectations for the LSPs.
- 73 This MoU would define a relationship and joint expectations with Auckland Council with a view to entering into a binding agreement in 2024. At that time, Auckland Council will be in a stronger financial position following Three Waters reforms, which are anticipated to provide additional borrowing capacity that could be directed towards the LSPs. By 2024, other significant infrastructure projects, including the Cross Rail Link (CRL) and Central Interceptor waste-water project, will also be near completion.
- 74 We are seeking Cabinet approval of the following MoU parameters, which require Auckland Council signal their intent to:
- 74.1 retain the identified \$288 million (at a minimum) towards the LSPs over the next five years
 - 74.2 retain \$633 million (at a minimum) towards LSPs in years 2026–31 (noting that a portion of this funding is from Waka Kotahi)
 - 74.3 negotiate a binding agreement with the Crown ahead of the 2024 Long Term Plan when Auckland Council will be in a better financial position following Three Waters Reform
 - 74.4 commit to the Strategic Partnership, and any joint work
 - 74.5 accept vested infrastructure assets as part of the LSP programme and
 - 74.6 prioritise and resource the LSPs, including working in new and innovative funding tools, and ways to progress the projects.
- 75 As part of the discussions with Auckland Council, we would also seek additional terms in the MoU that would support the delivery of the LSPs, including that Auckland Council be responsible for any operational expenditure incurred from infrastructure projects vested to Auckland Council, and cap development contributions in the LSP areas for the five years of the HAF proposal.
- 76 We propose that Cabinet delegate authority to the joint Ministers of Finance and Housing to negotiate the terms of the MoU, with a final draft to be provided to Cabinet for endorsement.

Establishing an enduring relationship through an LSP Strategic Partnership

- 77 As complex brownfield redevelopments, the LSPs have significant dependencies with asset owners, who are needed to align their funding and delivery to meet the milestones and scheduling of the LSP programme. For Auckland, this includes Auckland Council and their asset-based council-controlled organisations (Auckland Transport and Watercare), which are referred to as the Auckland Council Group.

- 78 The Auckland Council Group has been involved in the build-up of costs that have informed the business cases. Kāinga Ora has worked with the Auckland Council and their council controlled organisations (Auckland Transport and Watercare) to size and cost the individual projects required to deliver the LSPs. However, the Auckland Council Group was not formally consulted on the full programme business cases as they are subject to Budget confidentiality.
- 79 Auckland Council has expressed concerns that need to be worked through, for example, around project scope (what is to be funded) and cost share expectations. Auckland Council's interest in the LSPs extends beyond the Kāinga Ora-owned land, including both the wider network infrastructure requirements and outcomes for the wider community.
- 80 Given these interdependencies, we propose that a Strategic Partnership be established to support an enduring relationship between key parties to set joint goals for the long-term success of the LSPs.
- 81 The Strategic Partnership will be comprised of the Crown (represented by the Ministers of Finance, Housing, and Transport) and Auckland Council (represented by the Mayor and one or two councillors to be nominated by the Auckland Council),
s 9(2)(j) [REDACTED].
- 82 The Strategic Partnership's goals will be aligned with the programme business cases, but take both a wider and longer-term view.
- 83 This HAF proposal seeks funding for the first five years, but further funding is required to complete the balance of the programme. The Strategic Partnership is a forum where these issues (including those related to neighbourhood business cases with significant interdependencies) can be raised.
- 84 s 9(2)(j) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 85 s 9(2)(j) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 86 The key role of the Strategic Partnership is therefore to:
- 86.1 enhance collaboration and consider strategic alignment with wider Crown and Council priorities and investments
 - 86.2 align funding and financing for both Council and Government over the short and long term
 - 86.3 consider issues of significant change to the LSP programme

- 86.4 support resolution of significant issues and risks and
- 86.5 compare progress against joint strategic objectives, including respective contributions.
- 87 The Strategic Partnership will provide non-binding strategic decisions, with each party retaining their own decision-making rights. Cabinet and Ministers therefore retain ultimate decision-making for the HAF investment.
- 88 The Strategic Partners will agree their key roles and responsibilities through a Terms of Reference, to be jointly developed by the partners. HUD will provide a secretariat to the Strategic Partnership to link across government agencies, provide ongoing policy support, and co-ordinate any delivery matters.
- 89 A proposed executive group, comprised of members from the Auckland Council Group, central government agencies (including HUD), s 9(2)(j), would align the interests of the different asset groups, resolve significant delivery issues and prepare for LSP Strategic Partnership meetings.
- 90 Crown representation on the Auckland Light Rail Sponsors is the same as the proposed LSP Strategic Partnership. s 9(2)(j). As noted previously in this paper, there are further linkages between the projects, as two LSPs are proposing redevelopments along the ALR corridor.
- 91 We seek agreement that officials engaged in the LSPs and the Auckland Light Rail Project work together (and with Kāinga Ora, where applicable) to align the approach to s 9(2)(j), governance processes and decision-making, wherever practicable.

Linkages with Transport funding

- 92 The Government and Auckland Council have prioritised the LSPs through the Auckland Transport Alignment Project (ATAP)⁴. However, the resulting funding allocations included in the Auckland Regional Land Transport Plan do not meet the pace and scale of redevelopment planned by Kāinga Ora. This will leave the Crown to fund the majority share in the coming five years. Houses are needed now to respond to the current housing shortage, and in particular affordable housing.
- 93 Auckland Council has allocated up to \$921 million for the LSPs over the next ten years, with \$288 million available within the next five. The \$921 million includes \$440 million transport funding (usually evenly split between Waka Kotahi and Auckland Transport), but almost all transport funding (\$400 million) is allocated after 2026.
- 94 The funding in later years is indicative as both the Auckland Council and Waka Kotahi revise their funding allocations every three years, ahead of the next Long Term

⁴ The Auckland Transport Alignment Project is a cross agency partnership between Crown and Council organisations that develops an indicative package of transport investment to inform the statutory Auckland Regional Land Transport Plan.

Plan or Regional Land Transport Plan. Even with identified commitments in the next five years, funding is not guaranteed.

Table 1: funding allocations from Auckland Council and Waka Kotahi

	Years 1-5	Years 6-10	Total	Notes
Auckland Council	\$247	\$232	\$479	Auckland Council Long Term Plan, and separate letters and agreements
Regional Land Transport Plan	\$41	\$401	\$442	Total transport allocation - funding usually shared 50/50 between Council and Waka Kotahi
	\$288	\$633	\$921	

- 95 Transport funding of \$400 million allocated in later years cannot be brought forward to provide the certainty needed for the LSP projects. In addition, the \$400 million is required to remain in later years to fund other transport projects in the LSP areas.
- 96 There will be an ongoing need to maintain linkages with the transport portfolio, particularly future decisions on funding allocation from the Regional Land Transport Plan, and linkages to the Auckland Light Rail, which are described in more detail in the Mt Roskill/Oranga and Mangere Precinct Cabinet Papers.
- 97 To provide certainty, the LSP proposal covers the majority of costs for the next five years. However, Auckland Council is expected to be in a different financial position in 2024, when preparing their new Long Term Plan (and following Three Waters reforms), when additional debt can be taken on.

COVID-19 impacts and opportunities to align programmes over the longer term

- 98 The delivery programme for infrastructure, transport in particular, will likely require adjustment as a result of COVID-19 impacts.
- 99 COVID-19 has resulted in uncertainty over delivery of the planned transport programme for Auckland as impacts are playing out in supply of materials, the reduction in labour (due to the border closure), escalation of costs of materials and lockdowns resulting in projects placed on hold. This may cause a flow-on delay to the start of new projects in the LSPs.
- 100 While COVID-19 may result in a short-term reset of the transport programme for Auckland, longer-term Government direction (including the upcoming Emissions Reduction Plan, the development of the 2024 Government Policy Statement on Land Transport and the development of outcomes for transport in Auckland) will provide an opportunity to support housing intensification as a method of meeting New Zealand and Auckland's emissions reduction targets. LSPs are particularly relevant to achieving wider Government direction on these matters as they are located along major transport development corridors and will enable transit development to occur.

Linkage with Three Waters reform

- 101 A significant component of the infrastructure costs for LSPs relates to three waters infrastructure, with over \$200 million of the \$288 committed to LSPs by Auckland Council relating to three waters infrastructure. Some of the infrastructure costs (which have a wider benefit) would normally be expected to be funded by Councils, however the growth component would normally fall on the developer, which in this case is Kāinga Ora. The proposed MOU will be the starting point for affirming Council and Crown commitment for the period of HAF funding.
- 102 Over the longer term (under the Three Waters Reforms), the proposed Water Service Entities (WSEs) would take over responsibility for delivering the Auckland Council share of three waters investment for LSPs. This investment is estimated to be between \$200 and \$400 million beyond 2024. However, the actual apportionment of these costs will depend on detailed design and planning for individual infrastructure projects, as well as negotiation of cost share with the new WSEs.
- 103 As the HAF funding period spans before and beyond the proposed establishment of the new Water Service Entities, there is also likely to be a role for the Three Waters National Transition Unit in determining priorities for growth versus other priorities. In principle, we would expect existing commitments for LSPs to be adhered to, and possibly enhanced. One reason for establishing the WSEs is to create the financial capacity to undertake growth investment in water services, where Council funding and financing is a constraint (particularly in high growth areas). This should reduce the demands for government to step in with investment.
- 104 Further opportunities to leverage water infrastructure investment in a way that aligns with the Government's Urban Growth Agenda (including LSPs) will also occur through spatial planning processes, currently subject to the current Resource Management Act 1991 reforms. As a major infrastructure provider, the new WSEs will be expected to play an important role in informing spatial planning processes, which should help to leverage urban growth partnerships and draw from aligned investment initiatives.

KiwiBuild settings impacts funding costs

- 105 All redevelopments within the LSPs include a component of affordable housing. The affordable housing includes non-market products, such as KiwiBuild, progressive home ownership and build-to-rent. These products provide a range of affordable ownership or secure tenure rental housing options.
- 106 In the programme business cases attached to the companion Cabinet papers, Kainga Ora has made costing assumptions based on the KiwiBuild fund settings. These affordability thresholds have a significant impact on the revenue of the LSPs. Future potential decisions on KiwiBuild settings will have flow on impacts on the LSP programme.

Financial Implications

- 107 As part of Budget 2021, Cabinet agreed to hold \$1.996 billion⁵ of the Housing Acceleration Fund for Auckland Large Scale Projects.
- 108 Auckland Council has indicated it will contribute at least \$288 million towards the projects contained the Business Cases.
- 109 This paper seeks agreement to overarching settings across the LSP programme, retention of \$280 million by joint Ministers, and allocation of \$45.5 million for the Northcote precinct, noting that the Kāinga Ora business cases are \$137 million above the Budget funding and are unescalated for inflationary pressures.
- 110 The remaining allocation decisions are being sought through the companion cabinet papers *Advancing Large Scale Projects: Mt Roskill (including Oranga), Mangere and Tāmaki*.
- 111 A portfolio-level summary of the \$1.996 billion (inclusive of previously approved Tranche 1) set aside for the LSPs is outlined below:
- 111.1 Mt Roskill (including Oranga) - \$639.4 million
 - 111.2 Mangere - \$814.3 million
 - 111.3 Tāmaki – \$496.5 million
 - 111.4 Northcote - \$45.5 million.
- 112 As this paper does not seek changes to appropriations, the decisions requested do not breach the Budget Moratorium.

Next steps

- 113 Following Cabinet decisions, the immediate next steps are for the joint Ministers of Finance and Housing to:
- 113.1 seek to establish a Memorandum of Understanding with Auckland Council.
 - 113.2 seek to establish a Strategic Partnership group with Auckland Council [REDACTED].
 - 113.3 approve the monitoring approach and assurance plan.

Legislative Implications

- 114 This paper does not have any direct legislative implications.

⁵ CAB-21-MIN-0116.15 confirmed \$2.3 billion would be held for Auckland and Porirua Large Scale Projects (rounded from \$2,303 million). CAB-21-MIN-0190 confirmed \$307 million of this funding would be held of Porirua, leaving \$1,996 million for Auckland Large Scale Projects.

Regulatory Impact Statement

- 115 The regulatory impact analysis requirements do not apply.

Climate Implications of Policy Assessment

- 116 The Climate Implications Policy Assessment falls within the overall assessment for the wider Housing Acceleration Fund and supports higher density housing and greater public and active transport use. Proposed investment in LSPs through the HAF will directly support transition to a net carbon neutral economy by:
- 116.1 creating higher density housing and improved amenity in and around town centres and public transport nodes.
 - 116.2 encouraging mode shift (away from cars) and ensuring connections between renewed housing areas and town centres and public transport nodes are safe, connected and attractive for walking, cycling and micro-mobility.
 - 116.3 increasing social connection and improving access to employment and recreation opportunities.

Population Implications

- 117 The LSPs are 20-year programmes to renew neglected suburbs and accelerate the pace and scale of housing delivery – with more public housing, more homes for first home buyers, and a greater supply of homes on the market to house a growing and changing population.
- 118 By increasing housing supply in areas of most need, these proposals are likely to positively impact groups that are currently renting and/or unable to buy a home. In particular it should benefit:
- 118.1 Māori and Pacific people who are less likely to own their own home. In 2018, the proportion of Māori and Pacific people living in owner-occupied homes were 47.2 per cent and 35.1 per cent respectively, compared to the total population figure of 64.3 per cent. Government is also taking other measures to improve housing for Māori and Pacific, including through Progressive Home Ownership, MAIHI partnerships and our public housing build programme.
 - 118.2 Younger people where declining home ownership rates have been sharper.
 - 118.3 Disabled people, particularly those with accessibility needs, who often experience more difficulty finding a home. The actions should positively impact on disabled people through increasing the supply of affordable housing for ownership and rent.

Human Rights

- 119 This paper is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 120 Te Tūāpapa Kura Kāinga has worked closely with the Treasury and Kāinga Ora on the development of this paper.
- 121 The Department of Internal Affairs, and the Ministry of Transport were consulted on key sections of the paper where there is significant overlap with their portfolios.
- 122 The Department of the Prime Minister and Cabinet were informed.

Communications

- 123 Following Cabinet decisions on the Housing Acceleration Fund, the Minister of Housing intends to make the LSP announcement ahead of Budget 2022 announcements.
- 124 The Auckland Partnership identifies the Auckland LSPs as a joint spatial growth priority for both Crown and Auckland Council. Redevelopment of the LSP areas, and the LSP investment is of significant interest Council. The Minister of Housing intends to liaise with the Mayor of Auckland on a potential joint announcement.

Proactive Release

- 125 It is our intention to proactively release this Cabinet paper, alongside announcements on the project.

Recommendations

The Minister of Finance and the Minister of Housing recommend that the Committee:

- 1 **Note** that in May 2021, Cabinet agreed to hold up to \$2.3 billion from the Housing Acceleration Fund (HAF) for LSPs, with \$307 million for Eastern Porirua, and remaining \$1.996 billion for the Auckland LSPs [CAB-21-MIN-0190 refers].
- 2 **Note** that most funding decisions for the LSPs are being sought through the companion Cabinet papers *Advancing Large Scale Projects: Mt Roskill (including Oranga), Tāmaki and Mangere* which will enable up to 17,800 homes across 16 neighbourhoods in Mt Roskill (including Oranga) Mangere, Tāmaki, and Northcote.
- 3 **Note** that the business cases include funding (\$136 million in Eastern Porirua and \$295 million in Auckland) for the period April 2021 to July 2022, which has been approved under delegated authority by the Ministers of Finance and Housing.
- 4 **Note** that policy decisions around affordable housing, the public housing plan and Auckland Light Rail will impact this investment.

Financial recommendations

- 5 **Note** that since the \$1.996 billion was set aside for the Auckland LSPs, Auckland Council has indicated a funding contribution of \$288 million.

- 6 **Note** that Cabinet agreed that any remaining funding following the completion of work on Large Scale Projects the project costs be redirected to the infrastructure fund component of HAF [CAB-21-MIN-0116.15].
- 7 **Note** that since funding was appropriated through Budget 2021, cost estimates for the Auckland LSPs have risen by \$137 million above the \$1.996 billion initially set aside.
- 8 **Agree** to retain \$280 million for the Ministers of Finance and Housing to hold and consider allocating to the business cases, on a case-by-case basis, which supersedes the decision in the Cabinet Minute above.
- 9 **Approve** the allocation of \$45.5 million for the Northcote precinct, which enables 1,600 houses, from the \$1.996 billion of initial Auckland LSP funding.
- 10 **Note** that the above decisions do not require changes to appropriations and as such would not breach the Budget Moratorium.

Subsequent decision-making

- 11 **Note** that the drawdown of funding from the precinct allocation is subject to subsequent neighbourhood and infrastructure business cases.
- 12 **Agree** to delegate authority to the joint Ministers of Finance and Housing to approve subsequent neighbourhood and infrastructure business cases.
- 13 **Note** that Ministers intend to retain decision-making rights for those neighbourhood and infrastructure business cases of significant value, high strategic dependency, or business cases accessing the \$280 million that is recommended to be held by the joint Ministers of Finance and Housing.
- 14 **Note** that the joint Ministers of Finance and Housing will consider further delegation to the Kāinga Ora Board for approval of business cases that are of low risk, on the condition of Ministerial consultation.
- 15 **Agree** Cabinet expects that subsequent business cases will require:
- 15.1 Early consultation with Ministers, to assess parameters and options to be considered through the business case, assess risks of delivery and decide level of Ministerial oversight
 - 15.2 Agreement on robust escalation assumptions between Te Tūāpapa Kura Kāinga-Ministry of Housing and Urban Development (HUD), the Treasury, and Kāinga Ora
 - 15.3 Reasonable options analysis and assessment of the financial impact across the programme will be included.

Principles to inform monitoring and reporting

- 16 **Note** that further work is required to develop the monitoring framework and its components, with certain aspects reliant on additional information (such as the

outputs of neighbourhood and infrastructure business cases, which are yet to be developed).

- 17 **Agree** to high-level parameters for the investment (including outputs and outcomes for each precinct, the level of investment, number of neighbourhoods delivered, the range of outcomes expected to be delivered in each precinct, a schedule of delivery, and how revenues are treated).
- 18 **Note** that detailed reporting scope, benefits, cost, revenue, schedule and other key aspects will be provided to joint Ministers, HUD, and the Treasury on a regular basis to enable co-ordination, monitoring, risk management and the development of advice.
- 19 **Agree** to delegate to the joint Ministers of Finance and Housing approval of the monitoring approach giving effect to the agreed parameters in recommendation 17 above, including any additional metrics and key performance indicators, thresholds, and change controls
- 20 **Agree** to delegate to the joint Ministers of Finance and Housing approval of the assurance plan, comprising of Kāinga Ora internal assurance process, Gateway reviews, and other independent assurance, as required
- 21 **Invite** the Minister of Housing to report back to Cabinet with an oral item on the monitoring approach and assurance once agreed
- 22 **Agree** that the monitoring approach and assurance plan must be in place before drawdown of any funds can occur.
- 23 **Note** significant change to any of the components of the monitoring and reporting frameworks will require Joint Ministerial approval at that time.

Relationship agreement (Memorandum of Understanding) with Auckland Council

- 24 **Agree** that a non-binding agreement, such as a memorandum of understanding, be sought with Auckland Council to set out joint contributions to the LSP programme.
- 25 **Agree** to delegate authority to the joint Ministers of Finance and Housing to negotiate a relationship agreement with Auckland Council, seeking a confirmation of Auckland Council's intention to:
 - 25.1 Retain at least \$288 million in the next five years, and \$633 million in years 6 - 10 as a minimum funding contribution (as signalled in their Long Term Plan and communications)
 - 25.2 Work towards negotiating a binding agreement in 2024, with increased funding in the 2024 Long Term Plan, following additional borrowing capacity enabled by the Three Waters Reform
 - 25.3 Accept infrastructure assets vested by Kāinga Ora
 - 25.4 Commit to the Strategic Partnership, and the underlying work programme

IN CONFIDENCE

- 25.5 Prioritise and resource the LSPs and associated work in partnership with Kāinga Ora and Te Tūāpapa Kura Kāinga.
- 26 **Note** that the Ministers of Finance and Housing will report back to Cabinet for endorsement when a draft agreement is reached.
- 27 **Note** that additional terms may also be sought through the MoU for Auckland Council for the LSPs, to help support the successful delivery of the LSPs.

Establish a LSP Strategic Partnership with Auckland Council s 9(2)(j)

- 28 **Agree** that a Strategic Partnership of the Crown, Auckland Council s 9(2)(j) be established to set up an enduring relationship for the long-term success of the LSPs, supported by agreed goals.
- 29 **Note** that the role of the Strategic Partnership is to make non-binding decisions for the LSP areas.
- 30 **Agree** that the Minister of Housing, Minister of Transport and the Minister of Finance form the Crown representatives on the Strategic Partnership (in common with the Auckland Light Rail project), alongside representatives from Auckland Council s 9(2)(j).
- 31 **Agree** that following Cabinet decisions, officials engaged on the Auckland Light Rail Project and LSPs work together, in liaison with Kāinga Ora staff as appropriate, to align and create efficiencies between the two Ministerial fora s 9(2)(j), wherever practicable.
- 32 **Agree** to delegate authority to the Minister of Finance and the Minister of Housing to agree the final membership, secretariat arrangements, and the terms of reference of the Strategic Partnership group.

Authorised for lodgement

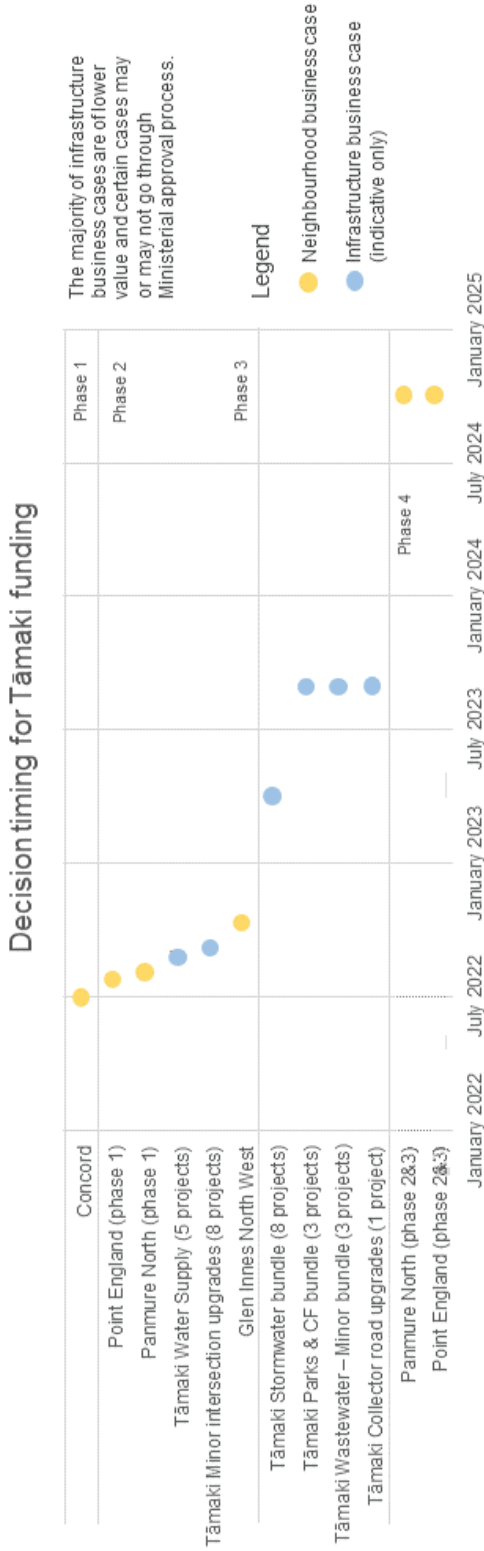
Hon Grant Robertson

Minister of Finance

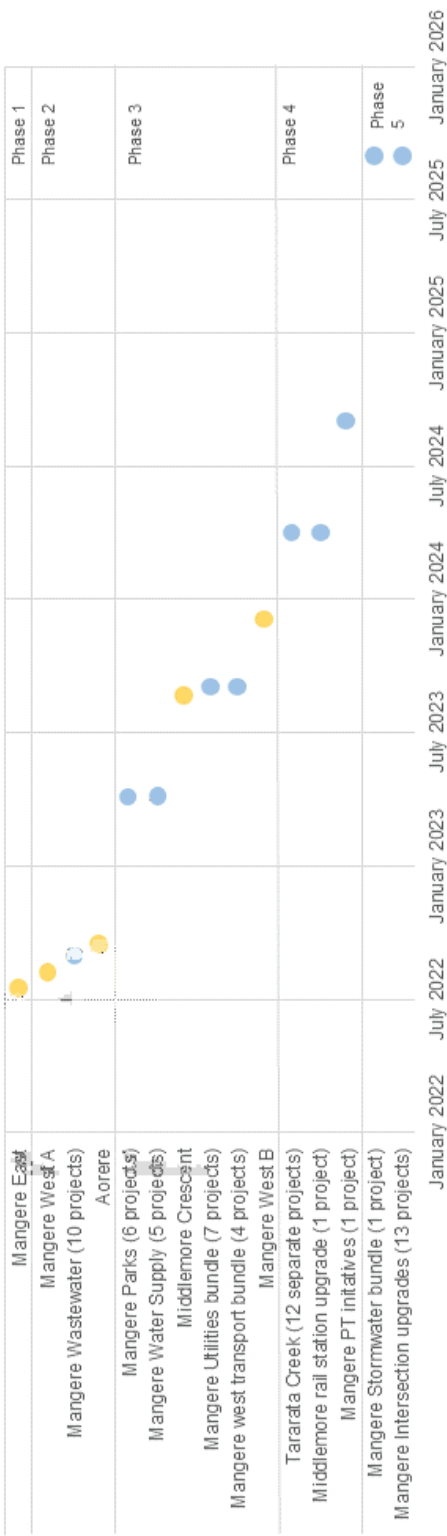
Hon Dr Megan Woods

Minister of Housing

Appendix A: Decision timing for funding



Decision timing for Mangere funding



Decision timing for Roskill & Oranga funding

