



Aide-memoire

Wellington City Council: Ministers' Meeting on City Housing (31 May 2021)			
Date:	27 May 2021	Security level:	In Confidence
Priority:	Low	Report number:	AMI20/21050527

Information for Minister(s)	
Hon Dr Megan Woods Minister of Housing	

Contact for discussion				
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Naomi Stephen-Smith	Manager, Market and Supply Responses	04 832 2433	s 9(2)(a)	✓
Daniel Lawrey	Principal Policy Advisor	04 830 6932		
Jo Murray	Principal Advisor	04 832 2513	s 9(2)(a)	

Other agencies consulted

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) <hr/>
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Comments

Date returned to HUD:



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For: Hon Dr Megan Woods, Minister of Housing

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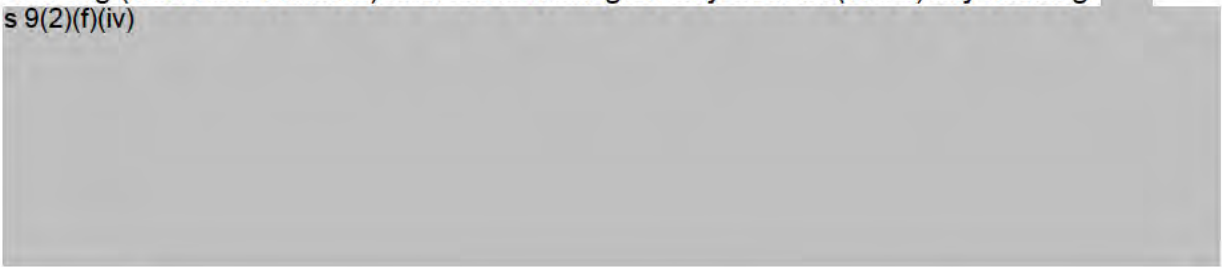
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Purpose

1. On 31 May 2021, you are meeting with the Minister of Finance and Associate Minister of Housing (Hon Poto Williams) to discuss Wellington City Council (WCC) city housing.

s 9(2)(f)(iv)



Background

WCC's Social, Cultural and Economic Committee will consider city housing financial sustainability on 2 June 2021

2. On 4 May 2021, Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) provided the Minister of Housing with a briefing on WCC's city housing [BRF20/21040927]. The briefing explained WCC's financial challenges and detailed the engagement between WCC and Crown Infrastructure Partners on the potential establishment of a Special Purpose Vehicle for city housing.
3. Subsequently, WCC officers informed HUD that WCC councillors' consideration of city housing financial sustainability was postponed from 13 May 2021 to 2 June 2021. Following WCC councillors' consideration of options, WCC may request support from the Crown.

WCC faces financial challenges for its city housing

4. WCC projects its city housing portfolio will run at a \$7m per annum operating deficit in the 2021/22 financial year, increasing to a \$49m per annum operating deficit by 2031/32.
5. WCC is also facing a significant shortfall in the funding required to deliver the agreed upgrade programme under the Deed of Grant. In 2008, through a Deed of Grant, the Crown provided a \$220m grant to assist with the upgrade of WCC's housing portfolio. This was subject to a series of conditions including that WCC would maintain approximately the same level of social housing. The Crown's funds were exhausted on Phase One of the Housing Upgrade Programme.
6. Under the Deed of Grant, WCC is required to contribute its own funds (generated from the housing portfolio) to meet its commitment to upgrade its housing stock to a good standard for modern living, in general accordance with the work programme. Phase Two of the Housing

Upgrade Programme, which is scheduled to run from 2021 to 2028 is expected to cost ~\$285m based on 2020 revised estimates.

7. WCC states that the cost of the full capital upgrade and maintenance needs for city housing over the next 10 years is \$446m.

WCC options and links to upcoming HUD advice on council housing

WCC has identified options to address financial challenges for its city housing

8. WCC officers have prepared a paper on city housing financial sustainability. The paper recommends that WCC establishes a Community Housing Provider (CHP) and requests immediate access to Income-Related Rent Subsidies for all existing, eligible tenants.

9. s 9(2)(f)(iv)

[Redacted]

10. Annex A sets out the options identified by WCC officers. The options are:

- a. Option 1: Establish a CHP;
- b. Option 2: Rates and borrowing; and
- c. Option 3: Divestment.

s 9(2)(f)(iv)

[Redacted]

12. In response to HUD's 4 May 2021 briefing on WCC city housing, the Minister of Housing sought more information on WCC's projected rates increases and debt headroom. The projections are:

- a. WCC's rates will increase 15.99 percent for the 2021/22 financial year; and
- b. WCC's debt will peak at 239 percent of annual income in the 2022/23 financial year and fall to 134 percent of annual income in 2030/31.

13. Annex C provides further information on WCC's projected rates increases and debt track.

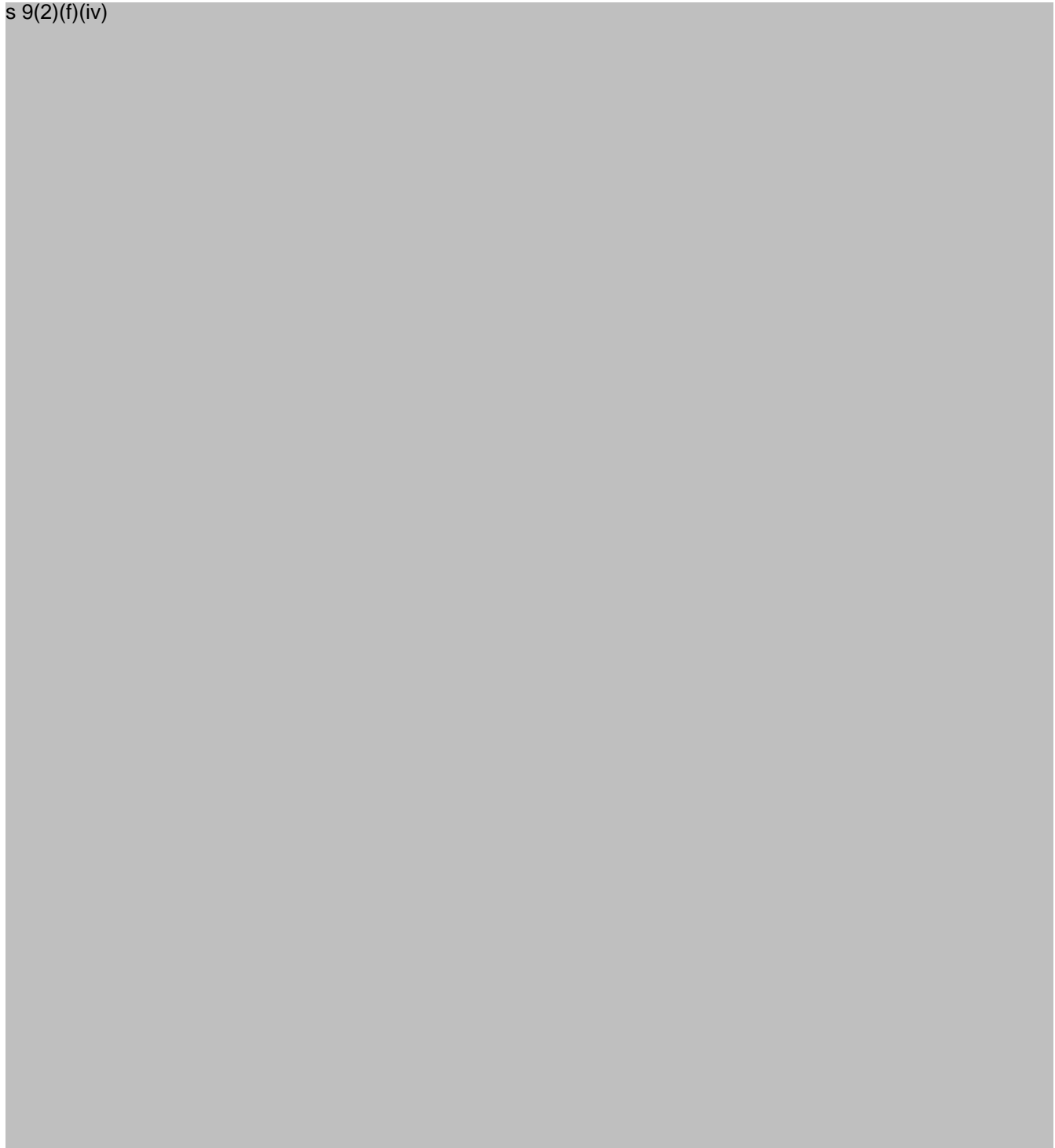
14. WCC council officers have assessed the option of using rates and borrowing to fund city housing. If WCC funded the full city housing operating deficit through rates on top of the rates path in the proposed Long-Term Plan, WCC projects an average annual rates increase of 10.75 percent every year for the 10 years of the Long-Term Plan. WCC estimates that the housing capital programme could be included within WCC's 225 per cent debt-to-revenue limit (based on the Long-Term Plan programme currently being considered). However, WCC officers' view is that fully funding the capital programme through debt is not the preferable

¹ s 9(2)(f)(iv)

[Redacted]

solution. Instead, officers recommend exploring an off-balance sheet solution (e.g. a Special Purpose Vehicle).

s 9(2)(f)(iv)



Annexes

20. Annex A: Options identified by WCC officers

21. s 9(2)(f)(iv)

22.

Annex A: Options identified by WCC officers

Options identified by WCC officers	WCC officers' description of the option
Option 1: Establish a CHP (WCC officers' recommendation)	<ul style="list-style-type: none"> • Establish a CHP (new entity) to enable tenants to access the IRRS and substantially address the operating deficit (subject to public consultation) • Negotiate with the government for the CHP to receive immediate access to the IRRS for all current, eligible tenants, rather than only for new tenants as properties turn over (current government policy settings) • Establish a sustainable financing model to fund the CHP's housing upgrade and asset maintenance requirements which may be another new entity (e.g. an SPV), or other arrangement, depending on subsequent decisions about the CHP structure (subject to public consultation) • If required, commit to provide a one-off capital injection to set the CHP (or SPV) up on a sustainable long-term footing, the size of which will depend on the terms of access to the IRRS and the financing terms available to the CHP or SPV (subject to public consultation) • Fund city housing's operating deficit and capital shortfall through debt and City Housing cash reserves until the CHP is operational (up to three years).
Option 2: Rates and borrowing	Removal of the ring-fencing of city housing operations by fully rates funding the operating deficit and debt funding the full capital programme – on the basis that the rates and debt impact would be unsustainable given other Council funding pressures
Option 3: Divestment	Full or partial divestment of the city housing portfolio – based on the Council's commitment to social and affordable housing provision, the Deed commitment with the Crown, and the lack of a buyer of sufficient scale to purchase the entire portfolio

