

[In Confidence]

Office of the Minister of Finance

Office of the Minister of Housing

Chair, Cabinet Economic Development Committee

Advancing Large Scale Projects: allocation of funding for the Eastern Porirua Large Scale Project

Proposal

- 1 This paper seeks agreement to allocate funding for the Eastern Porirua Large Scale Project (LSP) programme from the Housing Acceleration Fund (HAF).

Relation to government priorities

- 2 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].
- 3 The outcomes sought through the proposed HAF investment in the Eastern Porirua LSP align with the government's priority to address wellbeing by ensuring that everyone can access healthy, secure and affordable housing within thriving, sustainable communities.
- 4 Investing in Eastern Porirua presents an opportunity to address inequities and improve wellbeing in an area of high deprivation and with poor access to public amenities.¹
- 5 The proposed investment in the Eastern Porirua LSP directly supports climate change outcomes and transition to a net carbon neutral economy by facilitating the creation of higher density housing in and around centres and public transport nodes. It will also encourage a mode shift away from cars by improving connections to centres and public transport for walking, cycling and other forms of micro mobility.

Executive Summary

- 6 In March 2021, Cabinet set aside up to \$2.3 billion of funding from the \$3.8 billion HAF for the Auckland (\$1.996 billion) and Eastern Porirua (\$307 million) LSPs.
- 7 In July 2021, the first tranche of funding (\$136 million) was announced for Eastern Porirua to resolve immediate network infrastructure issues, noting that further decisions would be subject to a Programme Business Case (PBC) being prepared by Kāinga Ora.

¹ Cabinet Social Wellbeing Committee, 2019, "More and better housing in Porirua"

- 8 The Eastern Porirua PBC sets out a range of options for the \$307 million funding envelope (which includes Tranche One), with options exceeding that envelope long listed.
- 9 However, we consider the option of an extra \$33 million investment (Option 6 in the Programme Business Case) in Eastern Porirua is justified. This additional investment:
- 9.1 takes advantage of increased density enabled by Porirua City Council's application of the Medium Density Residential Standards
 - 9.2 better aligns with expectations for the 300 market lots required for the Porirua Pacific Housing Initiative (which remain subject to Ministerial approval)
 - 9.3 maximises the housing yield from the infrastructure investment, almost doubling the number of new homes, from 395 (282 additional) to 744 (558 additional)
 - 9.4 represents a significant increase in benefit from the infrastructure investment already made
 - 9.5 increases operational contingency from P50 to at least P75², increasing provision for planned and unplanned risks in delivering the project.
- 10 The \$340 million investment in Eastern Porirua:
- 10.1 **Enables much-needed housing**, including 744 new homes on Kāinga Ora land (558 additional and 186 replacement) and provides the capacity for 2,000 additional homes in Eastern Porirua
 - 10.2 **Enhances transport modes**, supporting a shift to more active and public transport
 - 10.3 **Improves amenity** through parks and town centre upgrades to support intensification in the right places
 - 10.4 **Provides for critical infrastructure** to enable housing growth and improve the health and wellbeing of residents and reduce detrimental impacts on the environment.
- 11 We recommend that the \$33 million additional investment is made available from the \$280 million held by the joint Ministers of Finance and Housing to provide a buffer against cost escalation in the Auckland LSPs [CAB-22-MIN-0141 refers]. This leaves \$246m available for the Auckland LSPs (noting we anticipate there are likely to be cost pressures against this amount which we intend to actively monitor and manage).
- 12 While five-year HAF funding enables delivery of the Eastern Porirua LSP in the short-term, this is a 20-year programme with further funding requirements. There is therefore a need to consider our approach to funding the project beyond the HAF period. The Minister of Housing has asked officials to work collaboratively with

² Provides additional funding in contingency to reduce the likelihood of an overspend by 25 percent.

stakeholders in Porirua and will report back to the Minister of Housing with options in late 2023.

Background

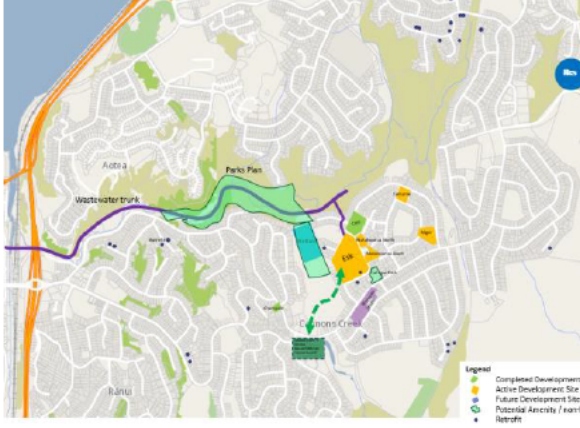
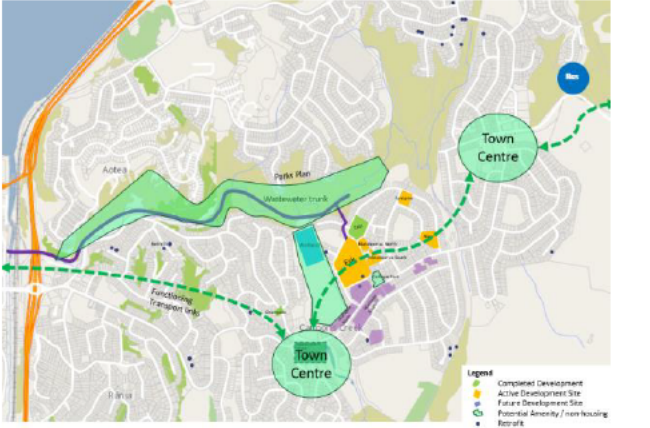
- 13 Eastern Porirua has some of the highest levels of social and economic deprivation in New Zealand. This is intensified by a public housing portfolio that is no longer fit for purpose and significant infrastructure issues which both constrain supply and perpetuate negative environmental and health impacts.
- 14 In October 2018, Cabinet established the Eastern Porirua LSP as a regeneration project with the intention of delivering significant long-term wellbeing benefits to the Porirua community over 20 years [CAB-18-MIN-0515.01 refers].
- 15 In March 2021, Cabinet established the \$3.8 billion Housing Acceleration Fund. In May 2021, Cabinet agreed to hold \$307 million of the HAF for the Eastern Porirua LSP (\$136 million of which has since been committed to resolving key network infrastructure issues facing the project), and that further allocation would be subject to the development and approval of a programme business case.

Preferred option for investment from the Housing Acceleration Fund

Additional Crown funding to maximise density and increase supply

- 16 Kāinga Ora has developed the attached draft PBC (Annex B) to support the \$307 million in HAF funding set aside by Cabinet in March 2021 for the Eastern Porirua LSP [CAB-21-MIN-0190 refers]. An enhanced investment option that provides for greater supply and density (Option 6) was identified in the PBC.
- 17 The enhanced \$340 million option (‘*enhanced investment*’) would have been preferred in the business case if funding were available (as set out in Annex A). It provides a significant increase in market and affordable homes compared to the original \$307 million option at a marginal increase in cost (in relation to the initial investment). The \$340 million option was not shortlisted in the PBC because it exceeds the \$307 million envelope set by Cabinet.
- 18 We prefer the enhanced investment option because it better aligns with other government initiatives (the Medium Density Residential Standards and the Porirua Pacific Housing Initiative), significantly increases housing density and supply, and ultimately provides for better housing outcomes and value for money in Eastern Porirua.
- 19 We therefore recommend that Cabinet approve \$340 million for Eastern Porirua (including an additional \$33 million to the envelope agreed in March 2021) to:
 - 19.1 **enable 744 new homes (558 additional)** – on Kāinga Ora land and provide capacity for 2,000 additional homes on private land
 - 19.2 **enable better public housing** – 286 warm, dry fit for purpose public homes, including 100 additional public homes for new families on the waiting list (186 replacement homes)

- 19.3 **enable additional affordable housing** – 401 affordable houses, this includes 300 market houses made affordable through the Porirua Pacific Housing Initiative, a separately funded programme
 - 19.4 **enhance transport mode choice** – provides for pedestrian links and cycleways to support mode shift to more active and public transport, thereby contributing to climate change objectives
 - 19.5 **improves amenity in parks and town centres** – upgrades to parks and town centre to support well-executed intensification in the right places
 - 19.6 **provides for critical infrastructure** – enabling housing growth, improving the health and wellbeing of residents, and reducing detrimental impacts on the environment.
- 20 Annex A provides further detail and breakdown of funding for the preferred enhanced investment option.
- 21 The below table provides a summary of the option delivered within the original \$307 million allocation compared to the enhanced investment option which provides additional density, supply, and greater alignment with the Porirua Pacific Housing Initiative.

Option	Original allocation - \$307 million	Enhanced investment option (preferred) - \$340 million
Map		
Scope	<ul style="list-style-type: none"> • Scope of land redevelopment works more limited, with density and new supply focused on a small area 	<ul style="list-style-type: none"> • Geographic scope of land redevelopment works expanded to enable significant uplift in density and supply around town centre
Housing delivered	<ul style="list-style-type: none"> • Delivers up to 282 additional homes (100 additional public homes, 127 additional affordable homes, 55 additional market) • Insufficient supply to meet the 300 lots required for the Porirua Pacific Housing Initiative 	<ul style="list-style-type: none"> • Delivers up to 558 additional homes (100 additional public homes, 401 additional affordable homes (300 of which are made affordable instead of market through the Porirua Pacific Housing Initiative), 57 additional market homes) • Sufficient supply to meet the 300 lots required for the Porirua Pacific Housing Initiative

Option	Original allocation - \$307 million	Enhanced investment option (preferred) - \$340 million
Regeneration	<ul style="list-style-type: none"> Some investment to repair and improve the amenity of Bothamley Park and Calliope Park Small allowance for town centre improvements Small allowance for improvements to transport networks with ped-links and cycleways, pedestrian refuge 	<ul style="list-style-type: none"> Greater allowance to repair and improve the amenity of the Bothamley and Calliope parks, and some smaller "pocket parks" Allowance of \$5m for town centre initiatives Wider improvements to transport networks with ped-links and cycleways, pedestrian refuge.

Aligning with the Porirua Pacific Housing Initiative

- 22 As Part of Budget 2022, the Minister for Pacific Peoples secured \$49 million in funding over 10 years to build up to 300 affordable homes for Pacific families in Eastern Porirua under a shared equity arrangement on leasehold land.
- 23 Funding as part of this programme is being held in contingency subject to the Minister for Pacific Peoples and Minister of Finance's joint approval of a business case (which is currently in development) within the next year.
- 24 There are some interdependencies between the two initiatives. HAF funding enables Kāinga Ora to make the necessary land available for purchase and development, and the Porirua Pacific Housing Initiative § 9(2)(j)
[REDACTED]
[REDACTED]
[REDACTED].
- 25 § 9(2)(j)
[REDACTED]
[REDACTED]
[REDACTED] § 9(2)(f)(iv)
[REDACTED]
[REDACTED]
- 26 Given the delivery of affordable housing on the land is funded separately through the Porirua Pacific Housing Initiative, we have asked that the 300 lots be costed at market rates (i.e., no affordable subsidisation has been applied) within this bid. § 9(2)(f)(iv)
[REDACTED]
[REDACTED]
- 27 The two initiatives will need to be closely aligned to optimise timing of land release for development; the partnering arrangements with Ngāti Toa; the preferred tenure mix of housing in particular neighbourhoods; and the underlying development economics.
- 28 In light of the interdependencies between these bids, we have asked our officials to work closely with officials from the Ministry for Pacific Peoples to provide regular updates on alignment to the responsible Ministers.

Funding the additional \$33 million

- 29 In April 2022, Cabinet agreed that the joint Ministers of Finance and Housing should retain \$280 million from the \$1.996 billion Auckland allocation to provide a buffer

against cost escalation and consider allocating additional funding to the LSPs on a case-by-case basis [CAB-22-MIN-0141 refers].

- 30 We consider that the additional \$33 million investment required to enable significantly more density and supply in Eastern Porirua should be made from the \$280 million held by joint Ministers. This reduces the remaining amount held by joint Ministers for allocation to the LSPs to \$247 million.
- 31 We anticipate the amount held by joint Ministers could come under pressure in the future through cost escalation and other increases in scope requiring Minister decisions.
- 32 Recent changes to KiwiBuild settings are projected to increase Kāinga Ora LSP revenue. Modelling suggests an across-the-board increase in KiwiBuild price caps of \$150,000 to \$200,000 would likely increase Kāinga Ora revenues in the Auckland LSPs by \$127 million to \$169 million. However, in current market conditions this is not expected to fully offset the demand on the amount held by joint Ministers.³
- 33 Despite this, we believe the case for the additional \$33 million investment in Porirua is strong.
- 34 We will closely monitor the forecast financial information across the LSPs to understand the impact of potential future drawdowns and consider trade-offs. Officials are currently completing the Auckland monitoring and reporting framework, in consultation with Kāinga Ora, that will detail change control thresholds to access the amount held by joint Ministers by September.

Managing fiscal risk

- 35 There is significant risk of cost and revenue variability in large-scale brownfields urban development projects of this nature.
- 36 Furthermore, 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, and declining house price expectations. This places extra uncertainty on costings and pressure on the large-scale projects.
- 37 The figures presented in the Eastern Porirua PBC have been escalated and tested against long-term historical escalation scenarios, however, at present there is a high level of uncertainty in relation to short-term fluctuations that may occur, and the impact of these market headwinds is expected to worsen in the next 6-12 months. This may increase programme costs.

Contingency

- 38 Kāinga Ora has sought to allocate a P50 level of contingency (allowing for underspend and cost overrun to be equally as likely) as an allowance for the planned

³ The Minister of Housing recently announced an increase of \$50k for 1 bedroom/studios, \$160k for 2 bedrooms and \$210k for 3 bedroom KiwiBuild homes in Auckland.

and unplanned risks faced in delivering the scope of works required to achieve the outcomes sought through this business case.

- 39 Kāinga Ora consider this level of contingency is adequate as a significant proportion of works are already underway with contracts in place or at a stage of developed design.
- 40 However, New Zealand has experienced high inflation in late 2021 and in 2022, including since business case costings were developed. Treasury forecasts used for the Auckland LSPs forecast 14% and 6% for FY22 and FY23 before settling at 3% in the medium term. This suggests that construction costs are likely to increase in the short term, which has not been considered or included in the cost forecasts for Eastern Porirua.
- 41 Consequently, our preferred enhanced investment option includes an additional \$13 million to increase the operational contingency available to Kāinga Ora from P50 to at least P75 (\$42.5 million), reducing the likelihood of overspend to less than 25%.

Approach to monitoring and reporting

Ministerial input into subsequent decision-making

- 42 The Eastern Porirua LSP differs from Auckland LSPs in having a single stage precinct-level business case. This Cabinet paper confirms the scope of the project, within which Kāinga Ora will be delegated to undertake works.
- 43 Further changes to the Eastern Porirua LSP may be considered by Ministers if a change control tolerance is met.
- 44 We will also require that Kāinga Ora report back to joint Ministers of Finance and Housing before making any decisions that may have an impact on the implementation of the Porirua Pacific Housing Initiative.

Approach to monitoring and reporting

- 45 The monitoring and reporting approach for Eastern Porirua will be the same as for Auckland, with both the reporting framework and change control thresholds structured around the following criteria:
- 45.1 **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
- 45.2 **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
- 45.3 **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

45.4 **revenue and third-party contributions:** the revenue generated from all activities related to the programme, including super lot sales and funding from non-Crown parties such as Porirua City Council or Waka Kotahi

45.5 **schedule:** the delivery schedule covering the entirety of the scope, highlighting key milestones by phase, critical pathways and risks.

46 We seek delegation from Cabinet to the Ministers of Finance and Housing to:

46.1 agree final parameters of the monitoring and reporting framework for the Porirua LSP, including any additional metrics and key performance indicators, thresholds, and change controls

46.2 review reporting and make subsequent decisions, as required, to ensure alignment with the Porirua Pacific Housing initiative.

47 We note that under this approach, detailed reporting of scope, benefits, cost, revenue, schedule, and other key aspects will be regularly provided to joint Ministers, Te Tūāpapa Kura Kāinga, and the Treasury to enable co-ordination, monitoring, risk management and development of advice.

Considering the medium to long term approach in Eastern Porirua

48 This investment enables the Eastern Porirua Regeneration Programme to be firmly established and delivery momentum maintained for five years of a twenty-year programme. By 2024, Cabinet will need to consider its approach to the project as further funding will likely be required to deliver the regeneration outcomes sought by the programme.

49 Alongside funding considerations, changes in the development context (e.g., housing demand, three waters reform) and dependencies with multiple stakeholders in and around the Eastern Porirua LSP suggest that there may be shared benefits and efficiencies to be gained from a more coordinated approach to strategic partnership in Porirua going forward.

50 s 9(2)(f)(iv) [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

51 s 9(2)(f)(iv) [REDACTED]

52 The project is also supported by the community advisory panel Te Pae Whakahou Hapori (I Porirua Ki Rawhiti) Eastern Porirua Regeneration Advisory Group ('Te Pae'). Te Pae was established in August 2019 as the "kaitiaki" of the vision and objectives of the Eastern Porirua LSP, to provide independent advice to the Minister of Housing. The Minister of Housing will also be considering how to best use their expertise going forward.

53 s 9(2)(f)(iv)

Financial implications

54 As part of Budget 2021, Cabinet agreed to hold \$307 million for the Eastern Porirua LSP from the Housing Acceleration Fund. \$136 million of this has been released through Tranche One and is committed to projects that are now underway.

55 This paper seeks agreement to our preferred option for investment from the remaining \$171 million Eastern Porirua HAF allocation, in addition to \$33 million in further investment from the \$280 million held by joint Ministers as part of the Auckland allocation.

56 This will maintain momentum for five years in a 20-year project.

Legislative implications

57 This paper does not have any direct legislative implications.

Regulatory Impact Statement

58 The regulatory impact analysis requirements do not apply.

Climate Implications of Policy Assessment

59 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:

59.1 creating higher density housing and improved amenity in and around town centres and public transport nodes

59.2 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

59.3 increasing social connection and improving access to employment and recreation opportunities.

Population Implications

- 60 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.
- 61 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:
- 61.1 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, the Pacific Housing Initiative, and our public housing build programme.
 - 61.2 Younger people where declining home ownership rates have been sharper.
 - 61.3 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 accessible and affordable housing for ownership and rent.

Human Rights

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

Consultation

- 63 Te Tūāpapa Kura Kāinga has worked closely with the Treasury and Kāinga Ora on the development of this paper.
- 64 The Ministry for Pacific Peoples was consulted on this paper.
- 65 The Department of the Prime Minister and Cabinet has been informed.

Communications

- 66 The Minister of Housing intends to announce this drawdown of funding from the HAF to support Eastern Porirua LSP shortly after Cabinet decisions.

Proactive Release

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

Recommendations

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

Previous decisions

1. **Note** that, Cabinet agreed to set aside \$307 million from the Housing Acceleration Fund (HAF) for the Eastern Porirua Large Scale Project (LSP);
2. **Note** that \$136 million was released as Tranche One HAF funding for the Eastern Porirua LSP, which is now fully committed to several projects, with work already underway;

Preferred investment option

3. **Note** the attached Eastern Porirua Programme Business Case (Annex B) prepared by Kāinga Ora is based on the \$307 million set aside for Porirua in Budget 2021;
4. **Endorse** the preferred enhanced investment option outlined in Annex A which is informed by the Eastern Porirua Programme Business Case, but includes provision for increased density, housing supply, amenity, and alignment with the Porirua Pacific Housing Initiative;
5. **Agree** to invest \$340 million in Eastern Porirua to achieve a significant uplift in supply and density, and to better accommodate market lots required for the Porirua Pacific Housing Initiative;
6. **Agree** that the funding seeks to enable around 744 homes (558 additional), including 286 public homes (100 additional), 401 affordable homes (300 of which are market homes intended to be made affordable through the Porirua Pacific Housing Initiative), and 57 market homes;
7. **Note** that given the interdependency between the Eastern Porirua LSP and the Porirua Pacific Housing Initiative, officials have been asked to ensure alignment and provide joint reporting to the Minister for Pacific Peoples, the Minister of Finance, and the Minister of Housing;
8. **Note** that joint Ministers of Finance and Housing hold \$280 million to consider allocating to the Auckland LSPs on a case-by-case basis;
9. **Agree** to allocate \$33 million from the \$280 million held by joint Ministers to help address the funding shortfall in Eastern Porirua, noting this leaves \$247 million held by joint Ministers;

Fiscal risks and contingency

10. **Note** that costs are escalated in the business case, and that our preferred investment option includes at least a P75 (\$42.5 million) contingency;

Framework for monitoring and reporting

11. **Agree** to delegate to the joint Ministers of Finance and Housing approval of the monitoring approach for the Eastern Porirua LSP, giving effect to the agreed parameters, including any additional metrics and key performance indicators, thresholds, and change controls;
12. **Note** that detailed reporting of scope, benefits, cost, revenue, schedule, and other key aspects will be provided to joint Ministers of Finance and Housing, Te Tūāpapa Kura Kāinga-Ministry of Housing and Urban Development, and the Treasury on a regular basis to enable co-ordination, monitoring, risk management and development of advice;
13. **Note** that the first drawdown of funding (subsequent to Tranche One) will not occur until joint Ministers are satisfied that an appropriate baseline has been established against which the investment can be monitored;
14. **Agree** that, that Kāinga Ora be required to report back to joint Ministers of Finance and Housing before making any decisions that may have an impact on the implementation of the Porirua Pacific Housing initiative; and

s 9(2)(f)(iv)

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

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Hon Dr Megan Woods

Minister of Housing

Annex A: Overview of \$340 million preferred enhanced investment option

Annex B: Eastern Porirua Precinct Programme Business Case