

LARGE SCALE PROJECTS

Eastern Porirua Precinct



PROGRAMME BUSINESS CASE

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Kāinga Ora
Board and Cabinet

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Glossary

Affordable housing	Non-market housing typologies, including KiwiBuild, progressive home ownership and build-to-rent	MSD	Ministry of Social Development
AHP	Auckland Housing Programme	NPC	Net present cost
ALR	Auckland Light Rail	NPS-UD	National Policy Statement on Urban Development 2020
AT?	Auckland Transport	NZBIF	New Zealand Building Industry Federation
AUP	Auckland Unitary Plan	NZIER	NZ Institute of Economic Research
BMP	Benefits Management Plan	P&G	Preliminaries and general
CCO	Council Controlled Organisation	Pā Harakeke	Kāinga Ora's Social and Sustainable Procurement Strategy
CIG	Kāinga Ora's Construction and Innovation Group	PAB	Project Alliance Board
CPAP	Construction Programme Advisory Panel	Pae Tātaki	Urban Development, Land and Housing Supply Pae Tātaki
CPI	Consumer Price Index	Panuku	Eke Panuku Development Auckland
CSFs	Critical Success Factors	PBC	Programme Business Case
DA	Development Agreement	PCG	Project Control Group
DC	Development Contribution	PGB	Programme Governance Board
DD	Due Diligence	PHP	Public Housing Plan
DIA	Department of Internal Affairs	PPI	Producer's Price Index
FTE	Full-time equivalent	Public housing	Housing provided to tenants through the income related rent regime
GPS-HUD	Government Policy Statement on Housing and Urban Development	REINZ	Real Estate Institute of New Zealand Inc
HAF	Housing Acceleration Fund	RBNZ	Reserve Bank of New Zealand
HLC	Hobsonville Land Company (a former entity that is now part of Kāinga Ora)	RMA	Resource Management Act
HNZC	Housing New Zealand Corporation	QRA	Quantitative Risk Analysis
Housing Supply Bill	Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill	UDA	Urban Development Act 2020
HUD	Ministry of Housing and Urban Development	SDP	Specified Development Project (under the Urban Development Act 2020)
IDC	Kāinga Ora's Investment and Delivery Committee	SHZ	Single House Zone
IFF	Infrastructure Funding and Financing Act 2020	SOP	Standard Operating Procedure
IM	Information Memorandum	State housing	Public housing operated by Kāinga Ora
IMF	Kāinga Ora's Investment Management Framework	Starting rents	The capitalised value of net lost revenue from public housing that needs to be removed to facilitate the LSPs
Isthmus	An urban design consultancy	THAB	Terrace Housing & Apartment Building Zone
ITP	Invitation to Participate	TOC	Target Outturn Cost
Kāinga Ora	Kāinga Ora – Homes and Communities	Treasury	The Treasury New Zealand
KiwiBuild	A New Zealand affordable housing scheme	TRC	Tāmaki Regeneration Company
LSF	Living Standards Framework	UDA	Urban Development Act
LSP	Large Scale Project	UDD	Urban Development and Delivery (a team within Kāinga Ora)
MDRS	Medium Density Residential Standards	the Unit	ALR Establishment Unit
MHS	Mixed Housing Suburban Zone	Watercare	Watercare Services Limited
MHU	Mixed Housing Urban Zone		

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Purpose and Context

The purpose of this precinct business case is to assess and agree the optimal approach for the allocation of the Housing Acceleration Fund (HAF) to the eastern Porirua Large Scale Project (LSP). Eastern Porirua is one of six LSPs that are currently being delivered by Kāinga Ora:

- Roskill
- Oranga
- Mangere
- Tāmaki
- Northcote
- Eastern Porirua

The LSPs are a 20+ year portfolio of land development and infrastructure activities that will enable development of new homes to meet critical and growing housing shortages. The LSPs will prepare large tranches of land so that new housing can be built that is healthy, increases housing supply across tenure, better utilises land holdings and in locations that have significant housing demand.

Delivery of the LSPs is well underway. Recent technical assessments, however, have uncovered significant additional water, transport infrastructure, and land development costs constraining progress of the LSPs and which are beyond the ability of Kāinga Ora or the Councils to pay. Without further funding the LSPs would stall or need to be significantly re-scoped beyond June 2021. In response, in April 2021 Cabinet agreed to hold \$2.3 billion of the HAF for the LSPs.

The Minister of Housing asked Kāinga Ora to produce four business cases to inform the final decisions on the allocation of HAF funding to the portfolio of LSPs.

- Roskill and Oranga business case
- Mangere business case
- Tāmaki business case
- Eastern Porirua business case

Eastern Porirua is of a different scale and nature to the Auckland LSPs. A long-term regeneration vision exists for the area and this business case is seeking investment approval for the early stages of development. It will not have neighbourhood or infrastructure business cases underneath it, but it is expected there will be future business cases to seek approval to proceed with future stages of land development, housing supply, town centre upgrades, transport initiatives, and public realm outcomes. This will enable Kāinga Ora and the Crown to choose on-ramps for investments relative to future needs and funding availability.

This business case is structured around five cases:

- The Strategic Case establishes why the eastern Porirua LSP is needed and the benefits that the LSP programme aims to achieve. It concludes with a set of investment objectives that underpin the remainder of the business case.
- The Economic Case assesses the optimal solution for achieving the investment objectives and concludes with a preferred way forward. The potential options explored in this business case were agreed with HUD and the Treasury and have incorporated the previous work on the Development Plan.
- The Commercial Case establishes the optimal approach to delivering the preferred way forward, taking into account the current state of the market and the commercial arrangements already in place for delivery.
- The Financial Case sets out the costs and revenues of the preferred way forward and assesses its affordability.
- The Management Case details the governance and programme management structures that will be used to ensure effective and efficient delivery.

Executive Summary

This Precinct Business Case seeks investment in the eastern Porirua Large Scale Project (LSP), which is part of a portfolio of LSPs led by Kāinga Ora.

Eastern Porirua LSP will plan and develop large tracts of urban land to be ready for new, thriving communities to be built. The new housing will be delivered by Kāinga Ora (state housing) and Ngāti Toa or private developers (affordable and market housing). The delivery of housing, along with any ongoing costs, are outside the scope of this business case.

In 2018, Cabinet agreed to invest in a regeneration project for eastern Porirua, on the understanding that the project would deliver significant long-term wellbeing benefits to the Porirua community.

In December 2019, the Kāinga Ora – Homes and Communities Board agreed that the regeneration of eastern Porirua should be approached as an urban development project rather than a housing renewal project. In contrast to a public housing renewal project, an urban development approach:

- Optimises land use, enabling increased supply of both public and market / affordable housing;
- Enables wider wellbeing outcomes by allowing optimised location and configuration of housing and other key services and amenities; and
- Includes investment to achieve wider wellbeing outcomes as opposed to solely housing focused outcomes.

To achieve significant improvement in wellbeing, a range of substantive changes are required to eastern Porirua. These range from investments in infrastructure to improve public health and environmental outcomes, to reshaping urban form through changes in transport, town centre and parks, through to new housing solutions and social investments for the community.

A decision was made through Budget 2021 that the Crown would contribute funding to the development over the next five years through the Housing Acceleration Fund (HAF). This business case builds on the previous decisions and considers the optimal approach to delivering the intended regeneration outcomes from the eastern Porirua LSP while achieving value for money.

Kāinga Ora cannot deliver this on its own, and is partnering with Ngāti Toa, Porirua City Council, market developers, design and construction partners, and other agencies to ensure a successful outcome. Kāinga Ora is committed to leading the delivery of physical redevelopment, including masterplanning, land development and sales, community infrastructure projects and the rebuild and retrofit of state homes. As lead agency for the project, Kāinga Ora will also play a 'wider wellbeing outcomes' role across the Crown and will work in partnership with Ngāti Toa and Porirua City Council to deliver the regeneration.

Over the past few years, Kāinga Ora has concentrated on ensuring that the Tiriti Partnership with Ngāti Toa is strengthened to enable the Iwi to access the opportunities which are involved in the eastern Porirua regeneration project. Negotiations with Ngāti Toa are now complete for the leasing of the western Porirua state house portfolio in exchange for a waiver of rights of first refusal and development opportunities in eastern Porirua.

Porirua City Council has both a strategic role in setting the future direction of urban development in Porirua, and a regulatory role. When planning the LSP, Kāinga Ora has worked closely with Porirua City Council to ensure that any new infrastructure that needs to be delivered will integrate into the existing network, align with existing capital asset management plans for upgrades and growth, and meet design requirements.

Kāinga Ora formed the Te Aranga Alliance as the design and delivery partner for civil works to enable land development. Te Aranga translated means: arising, restoration, regeneration, revitalisation, rising up, coming about,

resurrecting, and emerging. This partnership with industry design and construction experts will be responsible for upgrading and delivering key pieces of infrastructure and preparing land for new homes.

Kāinga Ora, in collaboration with Te Tuāpapa Kura Kāinga the Ministry of Housing and Urban Development (HUD) and the Treasury, established a set of investment objectives to guide the decisions on this business case:

- Develop places, amenity value, and a sense of community.
- Improve opportunities and access to jobs, education, and amenities.
- Provide opportunity to partner with iwi to realise aspirations.
- Address climate change and improve the environmental impact of the local water and transport infrastructure.
- Enable an appropriate mix of housing for the needs of the community and future generations.

Based on these investment objectives, this business case concludes that:

- The portion of the HAF ring-fenced for the eastern Porirua LSP should prioritise an urban development approach that remains close to the original long-term vision for the precinct. This will provide a strong foundation to firmly establish and progress the project over its first five year in line with community and stakeholder expectations. The initial investment will deliver:
 - 100 renewed state homes
 - 182 new market and affordable homes, of which 30% will be market homes and 70% will be affordable homes
 - \$19.74m towards community and transport amenities that provide improvements to two local parks, allowance for medium town centre initiatives, and improvements to transport networks
- The majority of capital works will be delivered through Kāinga Ora by way of Te Aranga alliance or other contracting methods. Kāinga Ora will continue to evaluate the public value of the commercial arrangements over the long development period and look for opportunities for innovation and efficiency.
- The below table 'Summary of escalated net costs for the eastern Porirua LSP' outlines the financial information for the neighbourhoods within the scope of this Business Case. The Preferred Option will deliver 282 new homes including 100 renewed public houses and 182 market and affordable homes. The total estimated cost is \$372.1 million, with an economic shortfall of \$307.2 million.
- The programme will be delivered in line with Kāinga Ora's Investment Management Framework and good practice programme management principles. This includes:
 - A clear delegation framework and change control mechanisms at the programme team, Kāinga Ora Governance, and Crown Governance level, with major changes referred to Ministers.
 - A framework and process that identifies strategic partners and stakeholders, and outlines the impact and influence of these groups.
 - A series of stage-funding memos that will sit under this Precinct Business Case that will act as the trigger to release funding.
- The preferred option maintains momentum and delivers a significant foundation for the long-term regeneration aspirations for eastern Porirua. Whilst it does not meet the Cabinet's original commitments to achieve regeneration outcomes over the long term, it provides enabling works for the entire precinct that solves critical environmental issues and supports further housing development that won't require the same level of investment. The housing yield and proportion of market and affordable housing, alongside the provision for community and transport amenities, prioritises urban regeneration that focuses on a whole-of-community approach.

Summary of escalated net costs for the eastern Porirua LSP

Escalated Cash Flows (\$m)	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	Total
Total Revenue	s 9(2)(j)									64.9
Total Costs										372.1
Net Costs										307.2

1 | Strategic Case



1 Strategic Case

The eastern Porirua community has some of the highest levels of social and economic deprivation in the country. This has contributed to social and economic disadvantage with people having poor access to employment, education, and social services. This deprivation is intensified by many community facilities and amenities being in a poor state and the existing state housing portfolio no longer being fit for purpose.

Concurrently, the Wellington region is currently facing a housing shortage, with insufficient houses being built to meet the demand from strong population growth. This has led to high land prices and unaffordable housing. Access to housing is even more problematic in eastern Porirua; it is a vibrant community and people that live there really want to stay, but the shortage of affordable housing, unsuitability of current housing, and poor access to services are making that less likely for the current population and future generations. Ngāti Toa Rangatira are a key strategic partner in this project and have a significant role in the community including the provision of public housing, health services, trades training and other social and economic initiatives.

There are also significant infrastructure issues. In addition to insufficient capacity for future housing, aging horizontal infrastructure (principally wastewater, stormwater and water supply) is having pressing negative environmental and health impacts and is not sustainable to withstand climate change.

In May 2021, Cabinet agreed to set aside \$307m from the HAF budget for the eastern Porirua LSP to provide a solid foundation to firmly establish and progress the project over its first five years. In July 2021, Tranche 1 funding of \$136m (of the wider \$307m) was released for high priority infrastructure projects that are necessary to enable the wider development to progress and resolve existing capacity and environmental issues. This strategic case presents a compelling case for change to assess and agree the best use of the remaining \$171m of the uncommitted HAF project funding.

The case for change will be presented through the following three parts:

Part A: Strategic context The purpose of Part A is to introduce the context of urban development in New Zealand by outlining:

- the local, regional, and national Government policies and targets setting the direction for regeneration, wellbeing, and housing supply in New Zealand;
- an overview of Kāinga Ora and other stakeholders that have key roles in delivery of regeneration and housing in New Zealand and eastern Porirua; and
- the background of the LSP, including the progress to date and the need for additional funding.

Part B: The case for change Part B sets out the problems existing in the eastern Porirua community. Part B then identifies the opportunities presented by the LSP to further the Government's regeneration and housing policies and enable improved wellbeing outcomes through horizontal infrastructure investment.

Part C: Investment objectives, risks, constraints and dependencies Part C builds on the problems and opportunities identified in the previous section by focusing on the outcomes of the LSP. This includes:

- the specific investment objectives;
- the specific benefits that can be realised from an investment in the eastern Porirua precinct; and

- the strategic risks associated with the potential investment, including the assumptions, constraints, and dependencies.

Part A: Strategic context

1.1 Links to Wider Government Strategies and Policies

In recent years, the Government has established policies and documents that promote the increased supply of housing and the intergenerational wellbeing of people across New Zealand. A detailed (non-exhaustive) list of documents and policies that influence the Government’s progress and direction of urban development is set out in Appendix A.

In particular, the following four documents demonstrate a clear policy to actively address housing supply with a focus on sustainable, inclusive, and thriving communities.

Document or Policy Name	Relevance
Eastern Porirua Community Regeneration - Treasury Business Case (2018)	<p>Treasury prepared a Single Stage Business Case for regeneration of eastern Porirua, including investments in housing, community infrastructure, schooling and social services.</p> <p>The establishment of the eastern Porirua LSP was on the basis of a regeneration project with the intention of delivering long-term wellbeing benefits to the Porirua community in line with the aspirations set in the Treasury Business Case.</p> <p>The focus on regeneration and community wellbeing set the direction of this Precinct Business Case. In particular, an approach as an urban development project rather than a housing renewal project.</p>
Living Standards Framework	<p>The Living Standards Framework (LSF) was developed to support the Treasury to consider, measure and analyse intergenerational wellbeing.</p> <p>The LSF aims to deliver better policy advice to Ministers targeted at improving living standards and which takes into account the impact on New Zealand’s current and future stocks and flows of wellbeing. The LSF also allows comparisons of wellbeing across population groups and internationally to identify where New Zealand’s living standards may fall short.</p> <p>The LSF includes three levels to assist in measuring and analysing effects on wellbeing:</p> <ul style="list-style-type: none"> Individual and Collective Wellbeing: This level captures the resources and aspects of people’s lives that have been identified by research or public engagement as important for wellbeing as individuals, families, whanau, and communities. Institutions and Governance: This level captures the role institutions and organisations play in facilitating the wellbeing of individuals and collectives, as well as safeguarding and building national wealth. The Wealth of Aotearoa New Zealand: This captures how wealthy the nation is overall, including aspects of wealth not fully captured in

the system of national accounts such as human capability and the natural environment.

Government Policy Statement on Housing and Urban Development (GPS-HUD)

The GPS-HUD outlines the Government’s direction for housing and urban development in New Zealand over the next 30 years. The core vision set out in the GPS-HUD is that housing should be stable, affordable, healthy and of a high quality, accessible, environmentally sustainable and energy efficient.

This vision informs the following four desired Government outcomes to be achieved through future policy and legislative settings:

- **Thriving and resilient communities:** Everyone is living in communities that meet their needs. The places where people live are accessible and connected to employment, education, social and cultural opportunities. They grow and change well within environmental limits, support culture and heritage, are resilient to natural hazards, and help reduce emissions and adapt to the impacts of a changing climate.
- **Wellbeing through housing:** Everyone lives in a home, whether rented or owned, that is stable and affordable. The quality, accessibility, size, and features of homes support people and families to live healthy, successful lives.
- **Māori housing through partnership:** Māori and the Crown are working together in partnership to ensure all whānau have safe, healthy affordable homes with secure tenure. Māori housing solutions are led by Māori and are delivered locally. Māori are able to use their own assets and whenua Māori to invest in and support housing solutions.
- **An adaptive and responsive system:** The system is integrated, self-adjusting and delivers in response to emerging challenges and opportunities. Land-use change, infrastructure and housing supply is responsive to demand, well-planned and well-regulated.

National Policy Statement on Urban Development 2020 (NPS-UD)

The NPS-UD contains objectives and policies that councils must give effect to in their resource management decisions in order to enable greater housing supply and to ensure a well-functioning urban environment for all people, communities and future generations.

This includes:

- **Up-zoning:** ensuring that plans make room for growth both ‘up’ and ‘out’, and that rules are not unnecessarily restrictive or constraining growth;
- **Demand driven:** ensuring that housing supply is of a form and in locations that meet the diverse needs of communities; and
- **Te Tiriti o Waitangi:** ensuring urban development occurs in a way that takes into account the principles of the Treaty of Waitangi (te Tiriti o Waitangi)

The most rigorous objectives and policies of the NPS-UD are targeted at the largest and fastest growing urban centres to ensure the greatest housing impact.

1.2 Organisational Overview

The eastern Porirua LSP is a significant programme, not only for eastern Porirua, but for the wider Wellington region. While Kāinga Ora is the lead delivery agency, it must work closely with communities, Ngāti Toa, and Porirua City Council to ensure the programme successfully delivers the social, cultural, environmental, and economic outcomes.

1.2.1 Kāinga Ora – Homes and Communities

Kāinga Ora was established by the Kāinga Ora – Homes and Communities Act 2019. Under this legislation, Kāinga Ora assumed the roles of: Housing New Zealand Corporation, HLC (2017) Limited (HLC) and the KiwiBuild Unit which was part of HUD. As the Government’s primary housing and urban development delivery arm, Kāinga Ora is mandated to create urban environments in a way that is socially, economically, and environmentally sustainable for the people who will make those communities their home, both today and in the future.

Kāinga Ora’s objectives and operating principles are expressly set out in the Kāinga Ora – Homes and Communities Act 2019, and include to:

- provide people with good quality, affordable housing choices that meet diverse needs;
- support good access to jobs, amenities, and services; and
- otherwise sustain or enhance the overall economic, social, environmental, and cultural well-being of current and future generations.

In giving effect to these principles, Kāinga Ora is required to:

- partner and have early and meaningful engagement with Māori and offer Māori opportunities to participate in urban development; and
- mitigate and adapt to the effects of climate change.

The legislative functions and powers given to Kāinga Ora mean that it is uniquely positioned to address housing issues in a way that could not have been achieved by its predecessors. In particular:

Development at scale Kāinga Ora holds large areas of strategically located land across New Zealand that can help fuel housing sector growth and be leveraged to create more sustainable and affordable urban and community outcomes.

The scale of the Kāinga Ora developments provides an opportunity to look at both hard infrastructure to enable homes, as well as community infrastructure to support families in areas which have traditionally seen under-investment. These upgrades have wider halo benefits than just the Kāinga Ora land, such as enabling private market infill housing and therefore an even greater increase in housing supply.

New powers Two statutory initiatives enacted in 2020 have increased the ability of Kāinga Ora and stakeholders to deliver housing outcomes:

- **Infrastructure Funding and Financing Act 2020:** this legislation provides opportunities for local councils, Māori and iwi, and developers to partner and deliver infrastructure, free of the council’s debt limits or from charging high upfront costs to developers.
- **Urban Development Act 2020:** this legislation gives Kāinga Ora the ability to fast track urban development for large-scale and complex projects, called “specified development projects” (“SDPs”). SDPs are projects in a defined area or areas with stated development objectives and a defined governance.

The value of the SDP process is that it brings together multiple and otherwise separate processes required for urban development and enables them to be accessed through a

single, integrated process – without losing important checks and balances. This results in the planning, infrastructure and funding for a project being agreed up front, providing greater certainty and coordination for project implementation and delivery.

To achieve the delivery of SDPs, Kāinga Ora has been given access to a wide range of powers, including the power to: (i) act as a consent authority (for consents under district plans) under the Resource Management Act, (ii) use funding tools for infrastructure and development activities, (iii) levy targeted rates and development contributions, (iv) build and change infrastructure, and (v) reconfigure reserves.

Whole of community approach Kāinga Ora’s broad mandate enables a whole-of-community approach, where it can better facilitate collaborative infrastructure planning that considers future growth needs and supports the inclusion of amenities and public spaces that bring non-financial benefits.

1.2.2 Ngāti Toa Rangatira

Ngāti Toa Rangatira is the local iwi and a strategic partner for the project. Kāinga Ora has a strong working partnership with Ngāti Toa which has meant the aspirations of local Māori are reflected in the LSP development process. This provides:

- The social needs of the community are understood, as well as the type of housing, affordable products and community amenities that are needed.
- Local Māori design is engaged, to bring cultural features into the design of buildings and places.
- Opportunities for Māori enterprises to be involved in the delivery of the LSP are created.

Ngāti Toa is of particular strategic importance to the LSP both as a ‘kaitiaki of the whenua’, as well as ensuring that their interests under their Te Tiriti o Waitangi settlement with the Crown are well represented, particularly in respect of their legal rights of first refusal over land in the project area. Negotiations are now complete with Ngāti Toa for the transfer of the western Porirua portfolio in exchange for a waiver of rights of first refusal and development opportunities in eastern Porirua. This is discussed further in Appendix B.

It is critical to acknowledge the difference between the Kāinga Ora Tiriti Partnership with Ngāti Toa and engagement with Māori more broadly. This context is complex and has multiple layers. Over the past few years Kāinga Ora has concentrated on ensuring that the Tiriti Partnership with Ngāti Toa is strengthened to enable the Iwi to access the opportunities which are involved in the eastern Porirua regeneration project. Ngāti Toa contribute significantly to the project including at a governance level of the Te Aranga alliance and Le Fale jobs and skills initiative. This approach will continue to develop and progress across the areas of significance for Ngāti Toa and has added another layer of intensive engagement with Māori.

1.2.3 Māori

The Kāinga Ora – Homes and Communities Act 2019 provides in Section 4 that Kāinga Ora must maintain systems and processes to ensure that, for the purposes of carrying out its urban development functions, Kāinga Ora has the capability and capacity to uphold the Treaty of Waitangi (Te Tiriti o Waitangi) and its principles, to understand and apply Te Ture Whenua Māori Act 1993, and to engage with Māori and to understand Māori perspectives.

To enable this, the operating principles of Kāinga Ora include:

- Identifying and protecting Māori interests in land and recognising and providing for the relationship of Māori and their culture and traditions with their ancestral lands, water, sites, wāhi tapu, and other taonga.
- Partnering and having early and meaningful engagement with Māori and offering Māori opportunities to participate in urban development.

Outside legislative obligations, Kāinga Ora understands the strategic role that Māori play in urban development and engages with Māori governance, executive management, and kaitiaki on that basis with a lens that Te Tiriti o Waitangi envisaged.

Kāinga Ora is currently engaging with Māori in four ways through the LSP development process and continues to look for opportunities to grow the partnership:

- Engaging with Māori governance/leadership to understand aspirations and incorporate these into the LSP programme
- Including mana whenua kaitiaki in the planning, design, and consenting process to ensure the protection of taonga Māori
- Engaging Māori to bring cultural features and narratives into the design of buildings and places
- Creating opportunities for Māori enterprises to be involved in the delivery of the LSPs.

The LSPs provide an opportunity to lead Kāinga Ora's response to the requirements of the obligations to Māori as set out in the Kāinga Ora – Homes and Communities Act 2019. A coordinated precinct approach means that Kāinga Ora engages with mana whenua who have interests in the area. This requires significant coordination and understanding by the development teams of Te Ao Māori frameworks and approaches to urban development. Furthermore, the scale of LSPs and the associated intensification planned brings mana whenua iwi to the table earlier, enabling Kāinga Ora to understand their strategic intent and aspirations for the whenua and wai within and beyond the precinct boundaries.

The opportunities arising from brownfield development in terms of affordability and availability enables Kāinga Ora to focus on the needs of Māori whānau and creating the ability for them to consider home ownership. In addition, the LSPs are creating safer and healthier homes, which directly affects the health and wellbeing of Māori residents.

A whole-of-community approach inclusive of amenities and public spaces provides the opportunity for Māori cultural values, design and narrative to be literally brought to life within the urban design and housing options developed. Furthermore, the expansion of narratives around maunga, awa, and sites of significance for Māori amplifies and enhances the mana of Te Tiriti partners.

The facilitation of collaborative infrastructure planning also links into the importance of whenua, awa and moana that is currently impacted by dated infrastructure. Additional capacity being delivered through the LSPs that future proofs growth through intensification, automatically brings mana whenua to the table to impart their mātauranga, local knowledge and technical expertise to design and delivery.

Capacity and capability-building for Māori is a key focus as both human and enterprise resources are procured throughout the delivery of the LSPs. The inclusion of early and meaningful engagement with mana whenua in relation to the development also recognises the value of Māori input through contracts for service as part of internal processes. Engaging Māori experts in the areas of planning, design, cultural induction and monitoring, and risk management to complement planning and delivery teams embeds Te Ao Māori into the urban development programme.

Investment opportunities through superlot sales are another avenue for Māori opportunity and the LSPs have contracted Māori entities directly or within partnered arrangements with contracted build partners. These engagements are usually with the governance or commercial divisions of Iwi partners and there is growing interest in this space. Kāinga Ora has recently seen significant development projects eventuate with Māori investment and ownership, such as build-to-rent opportunities, which subsequently managed to provide housing opportunities for Māori.

The Kāinga Ora Urban Development Māori Outcomes Principles is the operational framework articulating the key focus areas for Māori outcomes in urban development and provide opportunities across cultural, social, economic, environmental, and commercial opportunities within a regeneration project. It recognises and provides for the relationship of Māori and their cultural traditions with ancestral lands, water, sites, wāhi tapu and other taonga. Within Te Ao Māori - the Māori world - everything has a place and space, which is interconnected supporting the state of both tangata - people and the whenua - land. The outcome principles are:

- Mahi Tahī - Strategic Partnerships
- Te Aranga - Cultural Design Guidelines

- Te Taiao - Environmental Sustainability
- Manaakitanga - Social and Economic Development
- Tuku Iho - Heritage
- Whai Hua - Commercial Opportunities

1.2.4 Porirua City Council

Porirua City Council has both a strategic role in setting the future direction of urban development in Porirua, and a regulatory role. It also owns the infrastructure assets related to transport, parks, and other community facilities. Porirua City Council is one of six equal owners of the three waters infrastructure, (along with Hutt, Upper Hutt and Wellington City councils, South Wairarapa District Council and Greater Wellington Regional Council). Wellington Water manages the three waters services.

Regeneration aligns with four of Porirua City Council’s strategic priorities:¹

- Children and young people at the heart of the city by ensuring they are well educated, healthy, engaged in decisions affecting their future and are connected to their families, culture, and community.
- A healthy and protected harbour and catchment (te Awarua-O-Porirua) that is the centrepiece of the community culturally, recreationally, and environmentally. This includes being supported by infrastructure that has minimal negative effects on the harbour and catchment.
- A growing, prosperous, and regionally connected city by leveraging the Transmission Gully opportunity to accelerate residential and business growth and create more employment in the city.
- A great village and city experience by creating communities that are more liveable, infrastructure that is sound and resilient and supports the city’s aspirations, and services that are more efficient and accessible.

This has contributed to Kāinga Ora identifying eastern Porirua as a priority area for development and its ambitions for the area. Porirua City Council also has responsibility for planning, investing in and operating key infrastructure across the region.

When planning the LSP, Kāinga Ora has worked closely with Porirua City Council to ensure that any new infrastructure that needs to be delivered will integrate into the existing network, align with existing capital asset management plans for upgrades and growth, and meet design requirements. The infrastructure delivered through the LSP will eventually be handed to Porirua City Council to maintain and operate so it is important that Kāinga Ora and Porirua City Council work together closely.

The cost of delivering the infrastructure associated with urban development is usually shared between Porirua City Council and the developer. Porirua City Council has informed Kāinga Ora and HUD that it cannot afford its share of the infrastructure costs in the time period that Kāinga Ora requires the development and therefore the Crown is co-investing in the infrastructure and unique funding and oversight arrangements are in place for the LSP. These arrangements are being developed by the HUD and Porirua City Council and further information is contained in the Management Case.

1.3 Community Engagement to Date

Engagement on the wider regeneration project to date has taken a number of forms and channels including community engagement sessions, public surveys, and hui with mana whenua and other key partners. Te Pae Whakahou Hapori (I Porirua Ki Rawhiti) – Eastern Porirua Regeneration Independent Advisory Panel (Te Pae) has been set up to hold the vision and aspirations of the project and will hold the partners accountable. Listening, sharing and

¹ Adapted by Porirua City Council Strategic Priorities, 2021.

developing ideas about the future redevelopment of the area is an ongoing engagement process and is named ‘He Ara: pathways to better homes, great neighbourhoods and resilience communities’².

The objectives of He Ara are to:

- Understand community views about what people value about eastern Porirua and their future aspirations
- Achieve a broad engagement with people of diverse cultural and social backgrounds and encourage a dialogue between the community and Kāinga Ora
- Encourage residents, young people, and community groups to contribute to the development of a vision for the eastern Porirua Development
- Ensure that Kāinga Ora is responsive and listens to the diverse communities that make up eastern Porirua
- Foster collaboration with key partners: Ngāti Toa Rangatira, and Porirua City Council

In 2019 Kāinga Ora ran a series of community engagements to find out what the people of eastern Porirua value about their community, what could be improved, and what they would like to see in the future. Community engagement events have sought to ensure that attendees fairly represent the local population. More than 2,300 people participated in the engagements and contributed over 5,000 ideas. Participants included residents, community and church leaders, primary school and college students, representatives from community groups, social services, and business owners. The Kāinga Ora Eastern Porirua Community Engagement Report presents findings of the first phase of the engagement process conducted between March and December 2019. These findings are summarised below.

1.3.1 Share Your Voice

During June and July 2019, Kāinga Ora ran the first of the community-wide engagements called Share Your Voice.

This provided an opportunity for residents and community leaders and stakeholders to drop in and have a direct conversation about what they value about their neighbourhoods, what improvements they would like to see happen, and their hopes and dreams for the future. It also provided an opportunity for people to express their concerns about the project and how it might impact them. More than 1,100 individual comments on the six topics were received.

The six themes explored during these engagements and the most prominent issues that people said were most important to them are as follows:

Theme	Most prominent issues
Community facilities	<ul style="list-style-type: none"> — Dedicated spaces for groups, e.g. youth, seniors, cultural groups — Multipurpose community venues — Improve access to services, e.g. health centres and libraries — Better and more sports facilities
Environment	<ul style="list-style-type: none"> — Fixing stormwater and wastewater systems, pipes, and flooding — Planting more native trees and fruit trees — Clean and safer waterways and water quality — Improve the green spaces, e.g. Bothamley Park, Cannons Creek lakes — Better recycling, waste minimisation and improved access to waste facilities, e.g. landfill
Parks and open spaces	<ul style="list-style-type: none"> — Improve access to and safety in walkways and parks and open spaces — Better access to parks from homes, schools and other suburbs — Improved recreation, BBQ areas, green spaces, seating, exercise and play equipment

² Eastern Porirua Spatial Plan Report, April 2021.

	<ul style="list-style-type: none"> — Whānau/child friendly parks
Getting around	<ul style="list-style-type: none"> — Safer walkways with better lighting and accessibility — Better and more frequent public transport — Address safety concerns about particular roads, roundabouts and intersections — Wheelchair access for shopping centres and public transport
Town centres	<ul style="list-style-type: none"> — More variety of shops and businesses, including markets and supermarkets — More gathering spaces and places to meet — Safety issues, such as lighting, beggars and antisocial behaviour — Accessibility of shopping centres and parking
Housing	<ul style="list-style-type: none"> — Housing types – design, density, use of cultural and alternative models, multigenerational living, and accessibility — Concerns about the impact of the development of residents — Affordability – rising rents and prices of new homes — Warm, dry, and healthy homes

Table 1 Share Your Voice community consultation feedback

The Share Your Voice feedback provided the foundation for a more in-depth discussion with the community about the impact and potential of the change to their community and how they see themselves and their community in a new vision for the future. It was also a forum to discuss specific aspects of the project. This next round of engagements was called Change is Coming. Key concerns expressed by people included the following:

- Worries about displacement or losing their home
- Maintaining deep connections to place and their home – for some this was their family home
- Affordability and impacts of gentrification in general
- Wanting clear expectations of the plan

1.4 Large Scale Projects (LSPs)

Kāinga Ora is currently delivering six LSPs throughout New Zealand; five across Auckland (in Roskill, Mangere, Tāmaki, Northcote and Oranga), and one in eastern Porirua. Broadly speaking, the LSPs are a portfolio of land development and infrastructure delivery projects. They each utilise large urban areas with old state housing stock and aggregate these areas into master planned precincts. Each precinct is made up of several neighbourhoods that have been master planned to enable thriving communities with appropriate amenities, transport connections and the necessary water and stormwater provision. Existing properties will be redeveloped (removed or demolished) or refurbished, and the land will be remediated and upgraded with appropriate infrastructure to support new homes.

The homes that the land unlocks are deliberately targeted at providing a mix of public, affordable, and market housing with:

- a significant portion being retained by Kāinga Ora to develop public housing; and
- parcels of land which will then be marketed and sold in superlots to developers to deliver homes. Superlots will typically have encumbrances to ensure the LSP objectives are met.

Across all six LSPs, the precincts will support approximately 37,000 new homes in total on Kāinga Ora land and a further 20,000 market infill homes on surrounding land over a 20-year period.³

³ Paper 2.1 'Large Scale Projects – Tranche 1' presented to the Kāinga Ora Investment and Delivery Committee on 8 June 2021.

1.4.1 Eastern Porirua LSP as a regeneration project

The eastern Porirua LSP builds on a previous business case prepared by Treasury and approved by Cabinet in 2018, with the intention of delivering significant long-term wellbeing benefits to the Porirua community over a 20-year timeframe⁴. The 2018 business case identified specific regeneration opportunities in eastern Porirua that:

- enabled wider wellbeing outcomes by optimising location and configuration of housing and other key services and amenities; and
- included investment to achieve wider wellbeing outcomes as opposed to solely housing focused outcomes.

An explanation of regeneration principles in the context of the eastern Porirua precinct, including the differences to other intensification and renewal developments, is set out in Appendix C.

The whole-of-community approach underpinning LSPs recognises regeneration objectives and provides further opportunity through broader urban development to engage entire communities, re-ignite cultural belonging, and improve social and wellbeing outcomes.

The eastern Porirua precinct has been substantially planned, Kāinga Ora is working with asset owners to identify and design infrastructure needs, and land development and house construction has begun.

A summary of the history of LSPs is set out in Appendix D. Approvals received and progress to date in respect of the eastern Porirua LSP are detailed in Appendix B.

1.4.2 The need for additional funding

Since the approval of the 2018 eastern Porirua business case, there have been several key changes that have resulted in a significant increase to the cost of the project over its original 20 years horizon, including

- Infrastructure issues and costs have increased, especially for three-waters infrastructure which will be subject to three-water reforms.
- A large spike in house prices with related urgent demand for supply of housing across all range of tenures and typologies.
- Demand for public housing has increased significantly, resulting in the majority of motels in Porirua being utilised for emergency housing. The increasingly acute housing shortage and lack of affordable accommodation in Porirua also raises questions about the priority of housing outcomes against wider social and economic regeneration activities such as renewing town centres, improving public spaces, job skills activities, parks and walking and cycling facilities.

Ngāti Toa has also increased its capacity and desire to participate and partner in a significant way with the regeneration project.

In respect of LSPs generally, a number of assumptions that informed the original large-scale programme business cases have now been tested in projects and significant funding shortfalls have been identified. For the six LSPs, these shortfalls are estimated to be around \$4.5 billion (unescalated) over 20 years and \$2.3 billion for works commencing in the next five years. Of this, Kāinga Ora estimates that approximately \$1.3 billion are costs that would normally sit with local authorities and \$1 billion that would normally sit with Kāinga Ora (excluding capitalised overhead).

As with most brownfield projects, the LSPs face significant challenges overcoming legacy infrastructure and land remediation issues. Kāinga Ora is mandated to deliver non-financial social, cultural, and environmental outcomes, such as meeting higher Homestar requirements, minimising climate change impacts, and supporting affordable housing. Kāinga Ora's primary revenue streams is currently not aligned with the increase in non-financial outcomes it is expected to deliver.

These costs are beyond the ability of Porirua Council and Kāinga Ora to pay within the timescales needed, and Crown funding is required to support the ongoing delivery of the LSPs.

⁴ CAB-18-MIN-0515.01 refers

1.4.3 The shortfall in funding cannot be met by Porirua City Council

The vast majority of expenditure in Porirua City Council's 2021-2051 Long Term Plan⁵ is allocated to infrastructure over the next 30 years, most notably in the areas of water and roading infrastructure (57 percent and 17 percent of all capital expenditure respectively). However, it is still well beyond Porirua City Council's ability to finance the funding shortfall for the LTP in the short-medium term for the following reasons:

- **Limited capacity:** The Long Term Plan allocates \$1.063 billion investment over the next 30 years in three waters infrastructure across Porirua to improve the pipe network, protect the harbour, beaches and waterways, address flooding hotspots, ensure the integrity of the wastewater system and continue to provide quality drinking water. During deliberations, that investment was bolstered to include an additional \$10m for stormwater investment. However, this only represents half of the renewal's investment recommended by Wellington Water and would mean replacing the assets at a slower pace than what is recommended, which could lead to an increased likelihood of failures and would not support growth or prepare for climate change. The Long Term Plan also includes a \$310m investment in roading, to improve resilience and safety of the roading network. Furthermore, the majority of this investment is earmarked beyond the five-year scope of this LSP and is allocated to wider Porirua⁶.
- **Unexpected costs:** This significant capital investment will be funded by debt, capital subsidies and rating for depreciation and interest expense. However, unforeseen events reduce financial certainty for Porirua City Council. The financial impact of COVID-19 is still unknown and climate change and unexpected weather-related events could require unplanned expenditure.

1.4.4 The shortfall in funding cannot be met by Kāinga Ora

Like Porirua City Council, Kāinga Ora is unable to meet the shortfall in funding. This is primarily due to the following factors:

- **Debt servicing:** Revenue from the sale of super lots would be insufficient to cover additional financing costs and debt repayment if the initial investment is financed privately.
- **Funding tools unsuitable:** The new funding tools in the Infrastructure Funding and Financing Act 2020 and the Specified Development Projects within the Urban Development Act 2020 provide Kāinga Ora the ability to fund projects through increased levies and rates. As LSPs primarily occur in lower income areas, an increase in rates or levies may be unachievable and detract from Kāinga Ora's non-financial incentives of providing accessible housing.
- **Lack of separate revenue stream:** Kāinga Ora is undertaking its new urban development functions under the large-scale projects (and as mandated through its legislation) but does not have a separate revenue stream to support this function.

1.4.5 Funding that has been committed to the LSPs to date

In March 2021 the Government announced the \$3.8 billion Housing Acceleration Fund (HAF) across all six LSPs (refer to Appendix D for further details). Approximately \$307m from the HAF has been ring-fenced for the eastern Porirua precinct, and \$136m of that has already been allocated for Tranche 1 projects which are underway, broadly:

- \$20m Reservoir
- \$44m Wastewater upgrades
- \$11m Wetlands/flooding
- \$50m Land Development

⁵ Porirua City Council Long Term Plan 2021-2051.

⁶ Porirua City Council Long Term Plan 2021-2051, Summary of Capital Expenditure, Page 150.

— \$11m Wider Wellbeing/Overhead

This business case now seeks decisions on the optimal way to use of the remaining \$171m of the uncommitted HAF project funding over the next five years whilst maintaining choices for onramps via future funding bids. The optimal use of the remaining funding considers a trade-off between delivering regeneration versus housing outcomes over the short term. Decisions regarding the future of the project beyond this investment, including reviewing the long-term approach to deliver regeneration and housing outcomes for eastern Porirua, are not within the scope of this business case (outlined in section 1.5.7).

1.5 Scope

In the context of the Housing Acceleration Fund (HAF) funding and the Government’s priorities for urban development in eastern Porirua, this business case now assesses the optimal approach to developing the Porirua Precinct. The scope for this assessment is set out below.

1.5.1 Committed HAF funding

Of the \$307m of HAF funding ring-fenced for eastern Porirua, \$136m has already been allocated to priority infrastructure projects and is outside the scope of this business case. A summary of the purpose and status of these projects is set out in Appendix B.

1.5.2 On-ramping future Crown investment

The scope, complexity and long timeframe of the Porirua LSP requires that the project be structured to progressively evolve and meet future community, economic and regional housing supply requirements.

Accordingly, this programme business case is largely focused on enabling infrastructure and housing supply. It is expected there will be future business cases to seek approval to proceed with future stages of land development, housing supply, town centre upgrades, transport initiatives, and public realm outcomes. This will enable Kāinga Ora and the Crown to choose on-ramps for investments relative to future needs and funding availability.

1.5.3 Number of neighbourhoods in scope

Porirua Precinct contains eight neighbourhoods, with the following four being the subject of this business case: Cannons Creek North-east, Cannons Creek South-east, Waitangirua South, and Waitangirua North.



1.5.4 Timeframes and activities of the investment

This business case seeks funding for the in-scope neighbourhood in relation to:

- actual expenditure prior to 1 February 2022; and
- forecast expenditure from 1 February 2022 to 1 May 2028 to conclude the development with scope.

The funding sought by this business case will enable land development and infrastructure activities including:

- Planning, design and consenting
- Identification of Māori priorities and aspirations within the LSP
- Community engagement
- Removal of existing public houses
- Remediation of contaminated materials and soils
- Land acquisitions, where required
- Construction of 3-waters infrastructure
- Community amenities including parks and transport improvements
- Marketing and selling of superlots
- Project management and overhead
- Funding to cover lost rental income from removed public houses to support redevelopment

The LSP investment is for land enablement only and does not cover the cost of constructing the homes. Kāinga Ora is funded separately for state house construction.

1.5.5 Options considered

This business case will test whether public value is optimised through the consideration of choices related to:

- Housing yield and the proportion of market and affordable housing
- Community regeneration outcomes, such as amenity and town centre improvements

This business case will not re-visit options already discounted through earlier approval processes, such as the options considered in previous business cases or ahead of initial HAF decisions in 2021 (see Appendix B for further details).

1.5.6 Specific neighbourhood stage-funding memos

Separate neighbourhood stage-funding memos will be prepared for packages of infrastructure and land development works that are required to give effect to this precinct business case and will be approved by the Kāinga Ora Project Control Group (PCG).

The key purpose is to incorporate update and more accurate costs and outputs, and demonstrate that the precinct development, once it is delivered in full, will still be within the approval parameters from the LSP business case.

Once this precinct business case is approved, Kāinga Ora can deliver within the scope of the business case without further Crown approvals required, but within review and monitoring controls.

1.5.7 Long-term programme considerations

The \$307 million of HAF funding already agreed by Cabinet provides an important basis for regeneration and the project overall, but only provides funding certainty for up to five years and momentum for current expected regeneration outcomes over the next two to three years. Further consideration is needed outside of the scope of this business case to determine what is required to maintain momentum beyond this period and achieve all wellbeing outcomes originally intended for the eastern Porirua LSP.

Within this regeneration context and the subsequent changes since the establishment of the LSP, agreement will need to be sought to the review of the existing eastern Porirua LSP scope (Development Plan) against current community needs and aspirations, including a consideration of:

- different development options for the area;
- Ngāti Toa aspirations;
- density against allowances provided by new legislation;
- options for future investment, including contributions from all of the key stakeholders;
- stakeholders' evolving priorities, such as potential Pacific community housing models;
- the broader context for development; and
- alignment with other central agency investments.

Following the approval of this Programme Business Case, a review will be undertaken to determine the long-term plan and subsequent on-ramps with the expectation that the result of the review will be submitted to the Minister in 2023.

Part B: The case for change

This part will first provide an overview of the social and economic deprivation, housing problems, and transport and connection situation within the wider Wellington region. It will then identify these issues within the eastern Porirua precinct more specifically, as well as the infrastructure and environmental problems specific to eastern Porirua. This will be followed by the opportunities raised by the LSP, including how an LSP is an effective way to address deprivation, infrastructure and housing problems and aligning the LSP to the established strategies and policies for urban development.

1.6 Regional Context

1.6.1 Social and Economic Deprivation

There are inequalities in social and economic deprivation in areas throughout New Zealand. The New Zealand Index of Deprivation uses census data based on income, family status, employment status, qualifications, accommodation, communications and transport to create a scale of socio-economic status applied to areas. Decile one is the least deprived and decile 10 the most deprived. Higher levels of socioeconomic deprivation are associated with worse health. There are also connections between socioeconomic deprivation and environmental risk.

The Wellington region is home to around ten percent of New Zealand's population. Whilst much of the Wellington Region scores 1-2 or 3-4 on the deprivation scale (which correlates with least deprived), there are areas within the region that score on the highest end of the scale and experience high deprivation; one of the most prominent of these areas is eastern Porirua (shown in Figure 1 and discussed further in section 1.7.2.1). People who identify as Māori or Pasifika are over-represented in areas of highest deprivation and overall, more children and young people live in areas of highest deprivation than other age groups⁷.

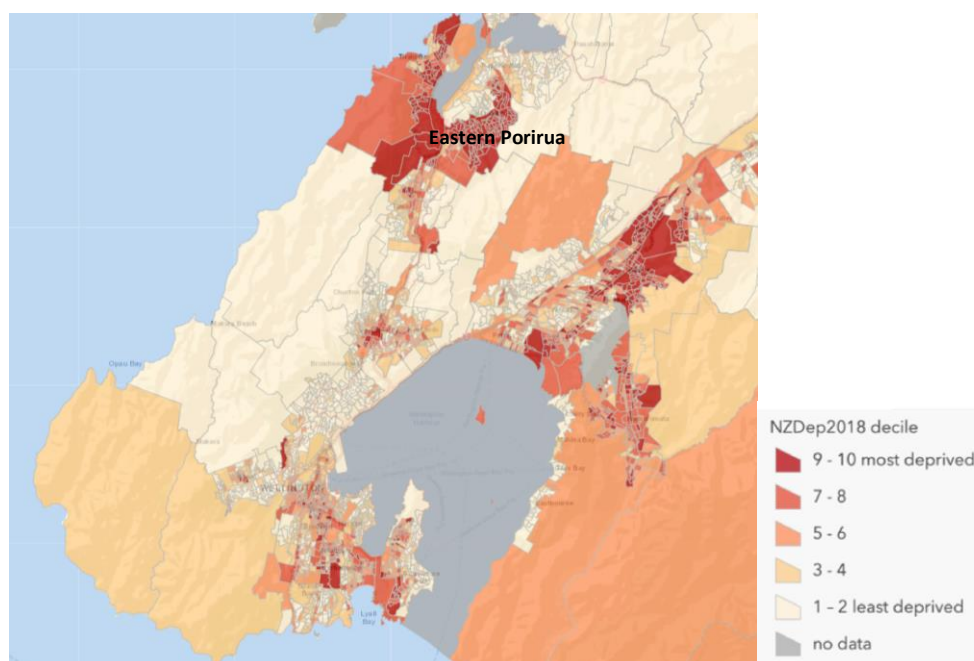


Figure 1 Areas of deprivation within the Wellington Region

⁷ Wellington Regional Community Profile, 2020.

1.6.2 Housing Challenges

1.6.2.1 Housing Supply

New Zealand is currently facing a housing shortage, with insufficient houses being built to meet the demand from strong population growth. This has led to escalating house prices and unaffordable rental rates. Of the public housing that is available, a large number is ageing, in poor quality and/or does not meet the demands of the residents. In September 2021, there were 2241 applications for state housing in the Wellington region.⁸ Whilst Auckland is often most associated with housing supply and affordability issues, Wellington experiences similar challenges.

Between 2006 and 2018, the population of the wider Wellington region grew by 12 percent, and based on projections from the 2018 Census, is forecast to grow by a further 11 percent by 2038. This has resulted in a Wellington-wide housing shortage, which is projected to worsen even with the development of all feasible land. It has resulted in rapidly escalating rents and house prices with median house price at \$995k (as at October 2021), an average increase of 10 percent each year over the past 10 years⁹.

A number of factors which limit the ability to increase the supply and quality of the housing stock, including:

- existing infrastructure is ageing and unable to support substantial growth; and
- insufficient land to increase the supply of housing within central areas.

Overall, this results in challenges for people (particularly low-income households) to access affordable, high-quality, and stable housing.

1.6.2.2 Housing Affordability

The increase in house prices has outstripped the increase in wages over the past five years, with the median house sales price across Wellington approximately \$700,000 as at mid-2020, which is approximately 9 times the median household income of \$73,000.¹⁰ As a consequence, Wellington is one of the most unaffordable regions in New Zealand.

In 2020, the Wellington region was also identified as the second most expensive place to rent in New Zealand after Auckland, with the median weekly rent at \$600 (an increase of 5.5 percent in one year).

At the same time, household sizes are expected to change. This means that there will be demand for different kinds of houses in the future and smaller, denser, and more affordable developments forming an increasing proportion of demand. Analysis by CBRE indicates that there is already existing demand for affordable terraced dwellings from households across Wellington, which could be met specifically by housing in eastern Porirua.

1.6.3 Accessibility and connectedness

Wellington has experienced a number of shortcomings in relation to accessibility, transport safety, and connectedness. The Transmission Gully Motorway is a major transport project that that has now been completed; and will address these problems. The 27-kilometre-long, four-lane motorway will provide another route between Wellington and the lower North Island. It will provide a more reliable, less congested, and safer journey for motorists with significantly fewer fatal and serious injury crashes.

⁸ Ministry of Social Development.

⁹ Core Logic, October 2021.

¹⁰ Real Estate Institute of New Zealand, Statistics.

1.7 Local Context

1.7.1 Eastern Porirua Precinct Overview

Eastern Porirua is a collection of inland suburbs located 15km north of Wellington within the suburban edge of Porirua's urban metropolitan area. The site has no coastal boundaries however is within 2-3km of Porirua Harbour. The population of eastern Porirua is approximately 19,600 residents (compared to 56,560 for all of Porirua).¹¹ The main nearby centre is the Porirua City, followed by Lower Hutt and Wellington. Eastern Porirua is notably situated within a network of large open spaces, with Bothamley Park at its heart, the Belmont Regional Park to the south and the Western Hills and the city centre to the west.

1.7.2 Challenges in eastern Porirua

In the 1950s and 1960s Porirua City experienced a surge in government-led residential development activity with the objective of meeting the increased demand for affordable housing in the wider Wellington Region. Houses were built quickly, but with little recognition of the need for community infrastructure, social cohesion or good neighbourhood design. Initially, the area was constructed to house workers and their families employed in the manufacturing plants in Porirua City and since the 1960s, housing assistance has been increasingly targeted at low-income families. As a result, disadvantage was concentrated in some areas including eastern Porirua, and the area became increasingly associated with deprivation, which has been perpetuated by an ongoing lack of investment.

For its 19,600 residents, eastern Porirua has strong and vibrant communities, but the area is in critical need of investment and regeneration and to address the underlying problems for its residents. This section provides an overview of the key challenges experienced in eastern Porirua.

1.7.2.1 High levels of social and economic deprivation

As identified in Figure 1 above, eastern Porirua experiences the highest levels of social and economic deprivation in New Zealand. In general, people who live in more deprived areas are more susceptible to environmental risks with eastern Porirua residents being amongst the country's worst health, education, employment, and crime statistics¹².

Families in high deprivation areas may also have less capacity to cope with the effects of environmental risks, and fewer resources to protect themselves from environmental hazards. A whole of community approach is required to promote individual and collective wellbeing from the ground up.

A number of specific problems or challenges in the urban form of eastern Porirua have been identified. Many of these overlap with issues related to environmental and infrastructure issues (discussed further in section 1.7.2.2) and are consistent with many of the issues raised during community consultation, discussed in section 1.3.1.

These include:

- Flooding/overland flow paths which impact transport networks, recreational spaces, and housing
- Several open spaces that have poor or no actual access
- Areas not within a short distance of a playground or park
- Green spaces with poor or no ecological benefits
- Limited spread of sports and community facilities
- Limited identification of place/history
- A number of cul-de-sac streets, which inhibits links to public transport routes and facilitates anti-social behaviour

¹¹ Statistics New Zealand Census, 2018.

¹² Eastern Porirua has a score of 10 (most deprived) on the NZ Deprivation Index.

- Areas not within five minutes-walk of public transport
- Significant number of poor quality or unsafe pedestrian links
- Many schools that have poor quality access
- Significant number and areas of vehicle crashes with pedestrians
- A challenging topography generally

1.7.2.2 **Critical environmental issues related to infrastructure and infrastructure insufficient for future growth and climate change**

To compound social and economic deprivation issues, there are a number of infrastructure constraints that are of immediate and acute priority to Kāinga Ora and necessitate urgent investment in the eastern Porirua precinct to improve the health and wellbeing of residents and reduce detrimental impacts on the environment. These issues also need to be solved to enable wider development to progress and to better-prepare for the impacts of climate change, including flooding and earthquake events.

To determine the extent of the infrastructure constraints, Kāinga Ora commissioned detailed technical due diligence of the condition and adequacy of the infrastructure network within the precinct development areas. A summary of the findings is set out in Appendix E. In summary, the assessments confirmed significant age and capacity-related issues within the existing infrastructure system, including:¹³

- **Wastewater network condition** – the lower trunk main in Bothamley Park requires replacement. The trunk is at capacity and is currently causing significant environmental and operational risks.
- **Potable water supply** – the existing network has a current deficit of emergency storage. This means the existing reservoirs, while sufficient to supply the daily demands, are not big enough to store the extra amount of water required to cover for fire flows and the two days usage required in the event of a disruption to the reservoirs feed, e.g. if an earthquake damaged the water feed from Upper Hutt. Any further development will worsen this non-compliance.
- **Flooding** – there are significant flooding issues across eastern Porirua that affect homes, schools, roads, and public areas. These will require a series of interventions to resolve this, including detention areas, bigger pipes, new pipes, and diversions of over-land flow paths.
- **Water quality** – there are significant water quality issues across the area that will need to be addressed, including removal of contaminants, attenuation, and velocity controls.
- **Electrical high voltage capacity** – the existing network is estimated to have capacity for a maximum of 341 new units. Significant upgrades to the network are required (including a new electrical substation) to cater for growth.

Infrastructure and land development works required over the course of the project include three-water pipe replacements and upgrades, water quality initiatives, roading upgrades, pedestrian and cycling infrastructure (including an improved pedestrian and cycling connection to Porirua City Centre), upgrades to parks and new parks, utility alterations and connection fees, removal and demolition of old state houses, remediation of contaminated land, development site earthworks and service reticulation, and landscaping.

¹³ Source: Eastern Porirua Regeneration Project Development Plan, February 2020.

1.7.2.3 State housing that is not fit for purpose

As with the wider Wellington region, eastern Porirua is experiencing a housing shortage with 607 applicants¹⁴ on the Housing Register wait list in May 2022¹⁵. The level of social and economic deprivation in eastern Porirua is greater than Wellington, and despite comparatively lower house prices¹⁶, home ownership remains out of reach for many.

Kāinga Ora currently owns 39 percent of properties in eastern Porirua, with the predominant clusters of public housing in eastern Porirua centred in in-scope neighbourhoods. Consistent with state housing in the wider Wellington region, these houses are not fit for purpose, with significant investment required to meet minimum health standards. The state housing portfolio is one of the oldest in the country, with an average age of over 50 years (approximately 85 percent of the portfolio was built in the 1950s and 1960s). Due to the poor condition, houses are often cold, damp, and difficult to heat.

Although much of the portfolio has been retrofitted with ceiling and floor insulation where possible, retrofitted insulation does not bring houses anywhere near modern design standards. Table 2 illustrates the severity and persistence of issues associated with typical older housing stock, despite having retrofitted insulation.

Table 2 Typical housing performance issues in older houses with retrofitted insulation.

Issue	% of houses
Mould	38%
House cold always or most of the time	17%
Condensation	59%
Other dampness	30%
Heating ineffective	16%

This issue is made worse by the low socioeconomic status of the community, who may not be able to afford the heating or clothing necessary to keep warm. This can lead to health risks, such as respiratory issues from mould or prolonged exposure to the cold.

Furthermore, the typology and configuration of houses is not well matched to tenant's needs, both current and future. As shown on the table below, 32 percent of the current housing stock is two-storey multi or double unit flats, which is the property type that is most resisted by occupiers due to concerns about privacy, safety and the practicality of the configuration including stairs in a small space. As a result, this type of property is often used as temporary accommodation until a more desirable property is available either through Kāinga Ora or the private sector.

¹⁴ An applicant is someone not currently in public housing who has been assessed as eligible, and who is ready to be matched to a suitable property.

¹⁵ Ministry of Social Development, Housing Register.

¹⁶ In December 2021, the median house price in eastern Porirua was \$835k (compared to \$970k in the wider Wellington region). REINZ Statistics, December 2021.

Table 3 Typology composition of eastern Porirua state housing portfolio.

Property type	Number of units	% total of units
Two storey flat, three or more units joined together	250	13%
Two storey unit, two units joined together	369	19%
Single storey flat, three or more units joined together	14	1%
Single storey unit, two units joined together	203	10%
Standalone house	1,128	57%
Total	1,964	100%

1.8 Problem statements

Informed by the eastern Porirua-specific challenges identified in section 1.7.2, and reflecting issues identified in the community consultation, as well as issues in the wider Wellington region, the following four problem statements have been identified:

- High levels of social and economic deprivation exacerbated by poor community facilities and amenities.
- Horizontal infrastructure that is causing negative environmental impacts and has insufficient capacity for future housing.
- A state housing portfolio that is not fit for purpose and is highly concentrated in areas of the precinct.
- Overall housing shortage in the Wellington region and limited land supply to develop new housing.

These problem statements are not exhaustive but represent the key motivations for this business case. Problem statements will be used in the development and framing of the programme Investment Objectives (discussed in section 1.11.2).

1.9 Opportunity to address problems

The following section provides an overview of the key opportunities created by the LSP to address the needs identified by the problem statements in section 1.8. The strategies and policies outlined in section 1.1 are also considered to ensure the strategic alignment of the proposed investment in the eastern Porirua precinct.

Table 4 Opportunities presented by the LSP to address issues.

Problem	Opportunity	Alignment to strategies and policies
High levels of social and economic deprivation, exacerbated by poor community facilities and amenities.	Through Kāinga Ora’s whole-community approach and good design, there is a unique opportunity to facilitate collaborative infrastructure planning that considers future growth needs and optimises land intensification, value, configuration and use around key transport nodes, amenities, and open spaces. Enabling multi-unit sites with well-designed and well-located indoor and outdoor communal spaces allow residents to experience, share, and build collective social and cultural capital. They also complement and build on the amenities available in the public domain such as	Aligned with: — GPS-HUD: Thriving and resilient communities — Living Standards Framework: individual and collective wellbeing — Living Standards Framework: The Wealth of Aotearoa New Zealand

<p>Horizontal infrastructure that is causing negative environmental impacts and has insufficient capacity for future housing.</p>	<p>Horizontal infrastructure in eastern Porirua is ageing and insufficient which is having serious health and environmental impacts.</p> <p>Drawing out the life of the existing depleted infrastructure is not an option, and the LSP provides an opportunity to extensively redesign and redevelop land that will set the foundations for thriving communities, today and in the future. Alongside the increase in quality of horizontal infrastructure, the use of modern materials and design will reduce the ongoing maintenance costs compared to the existing infrastructure.</p> <p>This approach has the additional benefit of remediating contaminated land which has harmful impacts on the environment. Sustainable planning and construction methods can then be used to create infrastructure with less impact to the natural environment.</p> <p>Master planning to maximise the accessibility to public transport, paths and cycleways will promote alternative forms of transport which have a lower carbon footprint compared with conventional road usage.</p> <p>Additionally, Transmission Gully provides a new route and new opportunities to better connect Wellington to the Porirua suburbs, Whitby, Waitangirua, and Cannons Creek. This proximity to this key transportation corridor makes eastern Porirua an attractive place for future growth and development. Improved access to Wellington opens up opportunities for employment outside of eastern Porirua and makes eastern Porirua a more accessible and viable place to live, alleviating some of Wellington’s housing pressures. It also makes it a more attractive and accessible place to visit and do business, which has positive economic benefits for eastern Porirua and the wider Wellington region.</p>	<p>Aligned with:</p> <ul style="list-style-type: none"> — GPS-HUD: Thriving and resilient communities — Living Standards Framework: The Wealth of Aotearoa New Zealand
<p>A state housing portfolio that is not fit for purpose</p>	<p>As noted in section 1.7.2.3, the current state housing portfolio is poor (much of the existing stock does not comply with Healthy Homes Standards or typology requirements for eastern Porirua) and there are areas of</p>	<p>Aligned with:</p> <ul style="list-style-type: none"> — GPS-HUD: Wellbeing through housing

<p>and is highly concentrated in areas of the precinct.</p>	<p>high concentration, which exacerbates social and economic disadvantage for residents.</p> <p>With one of the highest concentrations of public housing in New Zealand¹⁷ there are excellent pre-conditions (including land supply) to set up for a successful regeneration programme and help address some of the housing shortage issues in the Wellington region.</p> <p>By removing the existing ageing houses and enabling the development of new, high-quality homes, the LSP reduces the physical and mental health risks to residents (such as respiratory illness or psychosocial issues caused by overcrowding).</p> <p>The LSP will enable a mix of public, affordable, and market houses that reflects the needs of the particular precinct and neighbourhoods and deconcentrates state housing.</p> <p>The LSP creates opportunities to ease pressures on public housing by:</p> <ul style="list-style-type: none"> — providing public and affordable housing to cater for the low socioeconomic environment and enable homeownership not otherwise available; and — setting the framework for the typology of new housing to reflect the specific needs of the community, for example by optimising the size and number of rooms in dwellings to adequately accommodate the most residents. 	<ul style="list-style-type: none"> — GPS-HUD: An adaptive and responsive system — Living Standards Framework: Individual and collective wellbeing
<p>Overall housing shortage in the Wellington region and limited land supply to develop new housing.</p>	<p>Eastern Porirua presents a significant opportunity to intensify the dwellings to support a greater number of houses in the wider Wellington region and better meets demand.</p> <p>The Transmission Gully motorway will help accelerate residential and business growth and create more employment opportunities, making eastern Porirua a more attractive and viable place of residence.</p> <p>Overseas studies have shown that renting in high-density environments is more affordable than medium-low density developments due to the smaller lot sizes¹⁸. This is particularly beneficial where many households currently struggle to afford the escalating cost of living.</p>	<p>Enabled by:</p> <ul style="list-style-type: none"> — NPS-UD: direction for up-zoning. <p>Aligned with:</p> <ul style="list-style-type: none"> — GPS-HUD: Wellbeing through housing — Living Standards Framework: Individual and collective wellbeing

¹⁷ There are nearly 2000 public housing units across the suburbs of Ascot Park, Waitangirua, Cannons Creek and Porirua East.

¹⁸ Research New Zealand. "Construction Sector Accord Supply Chain Research". September 2021, pg 3 and 7.

1.10 Other opportunities

In addition to the opportunities specifically addressing the existing problems within the eastern Porirua precinct, there are two wider opportunities presented by the LSP programme. These are discussed in Table 5 below.

Table 5 Other opportunities presented by the eastern Porirua LSP.

Opportunity	Discussion	Alignment to strategies and policies
Cohesion	<p>A precinct wide approach to land development creates an opportunity to better align the priorities and strategies of Porirua City Council and stakeholders. The delivery of an integrated project ensures the effort and cost are more efficient, and therefore the true maximum benefit will be realised.</p> <p>It also allows an integrated approach to infrastructure investment and avoids the need to undertake separate planning and development processes which have the potential to be misaligned in timing and outcomes.</p>	<p>Aligned with:</p> <ul style="list-style-type: none"> — GPS-HUD: An adaptive and responsive system
Māori partnership	<p>The development timeline for the eastern Porirua precinct provides a true opportunity for Kāinga Ora and stakeholders to engage with Māori to develop the long-term productive partnerships which allow Kāinga Ora to learn, adapt and become more cohesive in engagement with Mana Whenua.</p> <p>In addition, the interests of Māori will be reflected in the governance, procurement, commercial, cultural, economic, and environmental outcomes of the project.</p>	<p>Aligned with:</p> <ul style="list-style-type: none"> — GPS-HUD: Māori housing through partnership — NPS-UD: Te Tiriti o Waitangi

Part C: Investment objectives, risks, constraints, and dependencies

1.11 Investment objectives, community needs, and benefits

1.11.1 Introduction

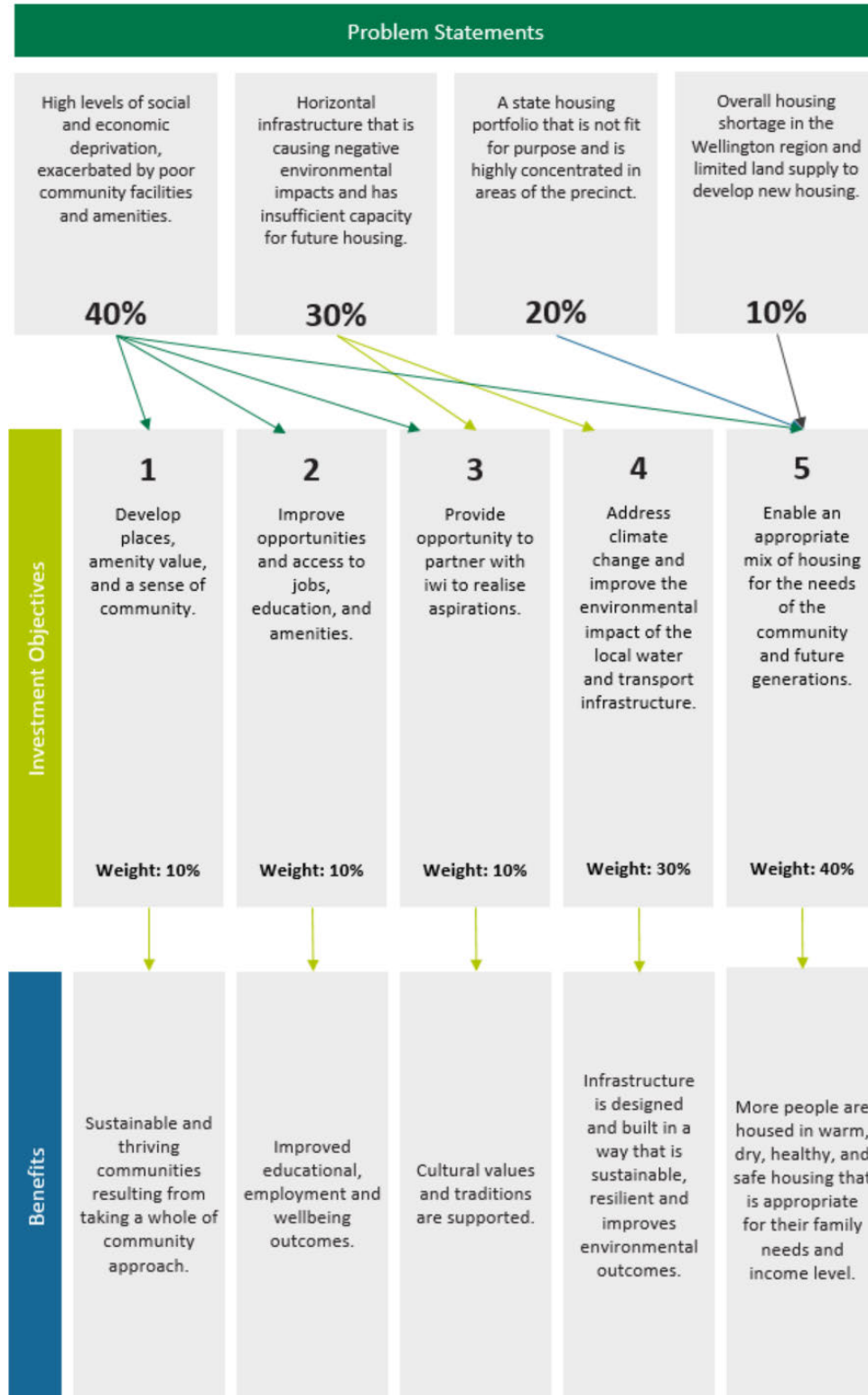
Investment objectives define the desired outcomes of a LSP investment in the eastern Porirua precinct. The investment objectives are based off the problems identified in section 1.8, and informed by the opportunities identified in section 1.9 and 1.10.

Investment benefits represent the tangible benefits that the programme will deliver if it meets the investment objectives.

illustrates the links between the identified problems, the investment objectives, and the investment benefits.

Figure 2 The eastern Porirua precinct problem statements linked to the investment objectives and benefits.

Eastern Porirua Precinct LSP



1.11.2 Investment Objectives

An investment logic map was developed, and the investment objectives have been workshopped and agreed by HUD, Treasury and Kāinga Ora as the following:

1. Develop places, amenity value, and a sense of community.
2. Improve opportunities and access to jobs, education, and amenities.
3. Provide opportunity to partner with iwi to realise aspirations.
4. Address climate change and improve the environmental impact of the local water and transport infrastructure.
5. Enable an appropriate mix of housing for the needs of the community and future generations.

The following table provides further information on the existing arrangements and the business needs for each of the investment objectives.

Table 6: The investment objectives, existing arrangements, and business needs for the eastern Porirua LSP.

Investment Objective One	Develop places, amenity value, and a sense of community.
Existing Arrangements	Technical due diligence of the current condition and adequacy of the local facilities and amenities has identified that they are not fit for purpose and do not meet the needs of current residents or future generations. This is having a negative impact on social and economic wellbeing at an individual and community level.
Community Needs	To invest in places that improve and restore a sense identity and belonging for individuals and family and promote a sense of resilience in the community.
Investment Objective Two	Improve opportunities and access to jobs, education, and amenities.
Existing Arrangements	Technical due diligence of the current transport network has identified constraints for residents around accessing and connecting to key services which are imperative for social and economic success.
Community Needs	To improve access and connectivity to key services and provide employment, education and recreation opportunities for local residents.
Investment Objective Three	Provide opportunity to partner with iwi to realise aspirations.
Existing Arrangements	Kāinga Ora is mandated by the Kāinga Ora – Homes and Communities Act 2019 to consider and provide for Māori interests. He Toa Takitini, the Partnership and Engagement Framework, is the first step to Kāinga Ora’s approach for how best to meet the mandate. Wider Government policies also promote urban development in a way that takes into account the principles of the Treaty of Waitangi (te Tiriti o Waitangi).
Community Needs	To ensure that Kāinga Ora has the capability and capacity when undertaking urban development to uphold the treaty and its principles, understand and apply Te Ture Whenua Māori Act 1993, and engage with Māori to understand their perspectives.

	<p>To partner Mana Whenua Iwi early in the planning process, enabling Kāinga Ora to understand their strategic intent and aspirations for the whenua and wai within and beyond the precinct boundaries</p> <p>To engage with Māori experts in the areas of planning, design, cultural induction and monitoring, and risk management to complement planning and delivery teams in order to embed Te Ao Māori into the urban development programme.</p>
Investment Objective Four	Address climate change and improve the environmental impact of the local water and transport infrastructure.
Existing Arrangements	Technical due diligence of the current condition and adequacy of the local water and transport infrastructure network has identified negative environmental and health impacts and is not sufficient for the current population or for future intensification. The horizontal infrastructure is not adequate to service the impact of climate change and requires significant immediate upgrades.
Community Needs	To upgrade horizontal infrastructure to address impact of climate change, health and environmental impacts and sufficiently provide for the land enabled by the LSP, as well as for the wider precinct.
Investment Objective Five	Enable an appropriate mix of housing for the needs of the community and future generations.
Existing Arrangements	<p>Existing housing and the concentration of state housing does not currently align to Kāinga Ora or the wider Governments' policies and objectives as identified in section 1.1.</p> <p>The condition and type of housing does not currently meet the needs of residents. Houses are unaffordable for a large portion of the local population, making stable living arrangements difficult. Moreover, the quality, size, and features of houses do not appropriately support people and families to live healthy, successful lives with many people living in houses below modern health standards and with the wrong number of rooms to meet their needs.</p> <p>High concentration of state housing intensifies social and economic deprivation. The lower socioeconomic environment in eastern Porirua, together with constraints limiting new housing supply, have resulted in demand for public housing in the precinct growing significantly. Without intervention to create more public and affordable homes, the housing waitlist (and number of displaced residents) will continue to grow.</p>
Community Needs	<p>To enable housing that aligns with Crown objectives, including:</p> <ul style="list-style-type: none"> — Partnering with Māori — Minimising environmental impact — Improving the quality of housing to improve physical, mental and social wellbeing — Enabling affordable housing options

To enable housing where the quality, accessibility, size, and features of homes that support people and families to live healthy, successful lives.

In the case of eastern Porirua, which has a large number of people in deprivation and requiring housing assistance, public, and affordable housing options are important to enable quality accommodation to residents who may not otherwise have access to it. Kāinga Ora can prioritise these outcomes and deliver a more diverse mix of housing compared to a traditional housing development.

Given the multi-decade nature of the LSP, the programme must be flexible enough to move any a change in policy direction. The horizontal and community infrastructure is designed to be resilient to future changes both in the political landscape but also the environmental landscape.

1.12 Benefits

Investment benefits represent the tangible benefits that the programme will deliver if it meets the investment objectives.

While the LSP is designed to deliver wellbeing outcomes for the people and place of eastern Porirua, it is not possible to achieve all wellbeing outcomes originally intended for the eastern Porirua LSP within the scope of the investment sought by this business case. These benefits represent aspirations for a number of social, health, and economic benefits for current and future generations.

Informed by the opportunities in section 1.9, the following five key benefits have been identified:

1. Sustainable and thriving communities resulting from taking a whole of community approach.
2. Improved educational, employment and wellbeing outcomes.
3. Cultural values and traditions are supported.
4. Infrastructure is designed and built in a way that is sustainable, resilient and improves environmental outcomes.
5. More people are housed in warm, dry, healthy, and safe housing that is appropriate for their family needs and income level.

These benefits are not exhaustive but instead help to inform decisions on the optimal way forward, set a framework for the future neighbourhood and infrastructure business cases within this precinct and serve as the base for the Benefits Realisation Plan (described in the Management Case).

Note for the purpose of the LSP programme affordable housing includes agreed non-market products, for example, KiwiBuild, progressive home ownership, and build-to-rent. These products provide a range of affordable ownership or secure-tenure rental housing options.

The following table further describes each benefit and identifies the manner in which the benefits can be measured.

Table 7: The benefits and the measures for the scope of work outlined in this precinct business case.

Benefit	Description	Potential Measures
Sustainable and thriving communities resulting from taking a whole of community approach.	<p>Better access to jobs, amenities, and services is achieved through a coordinated, precinct-level approach to urban development and transport planning.</p> <p>More community amenities, such as recreational spaces, can be provided in a precinct when there is a larger population due to higher density housing.</p>	<ul style="list-style-type: none"> — Number of employment opportunities provided to local community — Number of new/upgraded infrastructure — Number of new/upgraded social spaces and community facilities — Walking and cycling enabled through street safety features, footpath feature, shared paths and bike lanes, slow traffic zone — Minutes walking distance to public transport, retail, open spaces (connectivity of the neighbourhood)
Improved educational, employment and wellbeing outcomes.	<p>Better access to schools and tertiary training providers and participation in education is enhanced.</p> <p>Employment and more opportunities for higher-paying employment are easier to access.</p> <p>Wellbeing support is more accessible.</p>	<ul style="list-style-type: none"> — Attendance at school annually — Number of local residents participating in tertiary study — Proportion of local residents in employment — Proportion of people aged 15+ who feel they have opportunities to do training or study to further their career — Māori and Pasifika employed in senior positions — Proportion of local residents who feel positive about their physical and mental wellbeing — Number of residents who self-report their overall health status as good or better — Number of residents that can access medical care in a timely fashion — Eastern Porirua social deprivation index
Cultural values and traditions are supported.	<p>Local solutions are developed that meet the diverse needs of different cultures and the existing community to support their traditions and relationships with families, land, water, and sites.</p>	<ul style="list-style-type: none"> — Number of community engagements on key infrastructure and amenities — Number of Māori and Pasifika community enterprises supported as a proportion of the 5%-7% of the contract sum spent with targeted organisations in the community — Number of community interests identified — Number of heritage and archaeological sites acknowledged during development — Proportion of community amenities that involve local groups and/or local culture in the design
Infrastructure is designed and built in a way that is sustainable, resilient and improves environmental outcomes.	<p>Homes and community infrastructure are environmentally efficient and sustainable, resilient to environmental shocks, and empower tenants to live in an environmentally sustainable way.</p>	<ul style="list-style-type: none"> — Sqm/Ha of land remediated — Number of projects meeting Nga Pou Tikanga principle outcomes (evaluation with Te Kurutao Group) — Measure water quality, fish numbers, evidence of scouring (reduced impact) — Biodiversity — Number of (native) Trees planted, tree canopy coverage — Increase in planting to stop erosion

		<ul style="list-style-type: none"> — Amount of waste reduced, reused, recycled and/or diverted from landfill (tonnes) - Demolition Waste — Amount of waste reduced, reused, recycled and/or diverted from landfill (tonnes) - Construction Waste — Number of house relocations — Proportion of homes exposed to flood risk
More people are housed in warm, dry, healthy, and safe housing that is appropriate for their family needs and income level.	This will reduce homelessness and assist in improving the public housing waitlist. Families will have security of housing that is fit for purpose and will be less disrupted. The load on the public health system will be reduced.	<ul style="list-style-type: none"> — Actual number of new public housing dwellings enabled under the development — Percentage of new public homes built to a 6 Homestar standard — Housing type (standalone, apartment, terrace, walk up) enabled — Average dwelling size, number of bedrooms

1.13 Strategic Risks

A number of precinct-level strategic risks have been identified that could impact delivery of the LSP benefits. These align with the detailed programme and project risk registers that are managed across the LSPs (refer to the Management Case for the approach to risk identification and management).

The top risks for the eastern Porirua precinct with a current risk level of extreme, high, or moderate are shown in

Table 8: The top risks identified for the eastern Porirua precinct.

Risk Title	Cause	Effect
Kāinga Ora unable to bind stakeholders to align strategic investment decisions to the Kāinga Ora LSP delivery programme	<p>Porirua City Council's inability to fund infrastructure upgrades required for Kāinga Ora developments</p> <p>Cost share arrangements are not fully agreed with utility companies</p> <p>Utility companies wanting to renegotiate established agreements</p> <p>Stakeholders, Porirua City Council and utility providers have their own objectives which do not align with that of Kāinga Ora</p>	<p>Additional costs imposed on Kāinga Ora neighbourhoods due to cost share agreements being renegotiated or utility companies not paying their agreed share</p> <p>Delays due to prolonged negotiations with stakeholders, Porirua City Council and utility providers</p> <p>Delays to third party infrastructure works causes delays to LSP programme schedule</p>
Council consenting	<p>Council inability to consent additional housing supply until infrastructure works are completed</p> <p>Inability for local authority to process concurrent consents to enable the delivery of just-in-time infrastructure to service newly constructed state, market and affordable homes</p>	<p>Delays incurred to the commencement of consent reliant works</p> <p>Additional development cost to install local stormwater and wastewater detention</p> <p>Delays to the handover of superlots in neighbourhoods for house construction to occur</p>
Kāinga Ora and Te Tūāpapa Kura Kāinga (HUD) do not develop an agreement to articulate their	No clear delineation of roles and responsibilities between HUD and Kāinga Ora as it relates to the establishment and implementation of the proposed enhanced strategic	Reputational damage and delays due to inefficient decision-making processes

respective roles and responsibilities within the LSP delivery environment	governance function comprising central and local government and their agencies	
Escalation impacts exceeding planned allowances and historical averages used for estimating	Excessive escalation due to: <ul style="list-style-type: none"> — Impact on supply chains for materials both from international and local sources — Covid-19 restrictions and availability of materials and labour resources 	Increases in the cost of completing LSP scope due to actual escalation being above that allowed for in the LSP budgets
New Zealand's climate change strategy adversely influences LSP delivery programme	Commitments made by the New Zealand Government require Kāinga Ora to alter its LSP delivery programme strategies causing increases in cost and time	Potential for alterations being made to LSP precinct delivery strategies, scope, design criteria and sequencing resulting in increases in cost and likely delays
Community displacement as a result of gentrification	Inadequate supply of affordable housing options and wages not keeping up.	Private renters and Kāinga Ora customers who become ineligible for state housing are forced out of eastern Porirua away from family, support networks, schools, local GP etc. Community opposition bad press could reduce regeneration outcomes e.g. social, economic and cultural
Delays and increased costs of rehousing existing tenants into suitable dwellings	Lack of state housing capacity, particularly accessible housing, in eastern Porirua.	Delay to programme

1.14 Assumptions, Constraints, and Dependencies

This section sets out the assumptions, constraints and dependencies that may affect the delivery of future options and benefits.

1.14.1 Assumptions

Assumptions are things that are accepted as true or as certain to happen, without proof. If they are not certain to happen, they may be a risk.

Table 9: The assumptions on which this precinct business case has been developed.

Assumption	Notes
Decisions that have already been made will hold	The approvals made to date with respect to the LSP portfolio and the eastern Porirua precinct have enabled the current progress and prevented progress from slowing. The scope of this business case builds on the approvals that have already been made in order to sustain the momentum of the programme.
Contract agreements with Ngati Toa	It is assumed that the existing contractual agreements with Ngati Toa will remain in place and not be modified for the purpose of the PBC
Sustained demand for affordable housing in the wider Wellington region	Housing demand in Wellington is continuing to grow, with house prices rising to match the demand. Kāinga Ora has an objective to support the provision of affordable housing to enable people from all backgrounds to own their own home.

The LSP assumes that demand for affordable housing will maintain or continue to grow, requiring Kāinga Ora to maximise opportunities to support the provision of affordable housing to meet the demand.

1.14.2 Constraints

Constraints are limitations imposed on the programme proposal from the outset. The constraints will be considered when developing the options in the Economic Case.

Table 10: The constraints the LSP programme is subject to.

Constraints	Notes
Public policy requirements	As outlined in the Strategic Alignment section of this business case, Kāinga Ora is required to meet higher standards and provide greater non-monetary benefits than a private developer would be subject to. This constrains the ability of Kāinga Ora to maximise revenue and increases the cost of development.
Funding cap of \$307m	Approximately \$307m from the HAF has been ring-fenced for the eastern Porirua precinct ¹⁹ . The investment must fall below this funding cap.

1.14.3 Dependencies

Dependencies are the external influences on the success of the programme, where success is contingent on the future actions of others. The dependencies will need to be carefully managed at the programme level.

Table 11: The dependencies the LSP programme is subject to.

Dependencies	Notes
Certainty of Crown funding	The 2021 Budget bid sought approximately \$307m for the Porirua LSP. Delivery of these projects requires certainty that this funding is available irrespective of broader Crown and Council negotiations.
Contribution from Porirua City Council	<p>Porirua City Council has committed to \$20 million in funding towards the Bulk Infrastructure Projects (Reservoir and Trunk Sewer). The funding has been allocated as part of PCC's Long Term Plan as a contribution towards PCC's share of the infrastructure costs.</p> <p>An Infrastructure Funding Agreement is being drafted to manage the commercial, delivery and funding terms for the infrastructure, and the agreement is expected to be finalised in June 2022. The contribution is required to ensure the development falls below the funding cap.</p>
Partnership with Ngati Toa and PCC	The commitment to the partnership between Crown, Kāinga Ora, Ngati Toa and Porirua City Council is critical to the success of this project.
Public Housing Plan (PHP)	The PHP sets out the funding available for public housing supply and where this supply is required. The current PHP is for the period 2021-24 whereas the investment proposed in this business case would result in the delivery of public housing out to 2032/33. Kāinga Ora will work with HUD to ensure that appropriate funding is allocated to Porirua in the outyears.

¹⁹ CAB-21-MIN-0190 refers

	It is important to note that public housing is not a driver of cost or income for this appropriation, as this is about the land development costs and the extent of sub-market sales i.e. affordable.
Relocation of tenants to enable development	For demolitions to occur, tenants from the public housing dwellings will need to be relocated to another suitable home. Without proper management, incorrect timing of the relocations could delay the demolitions and subsequently affect the timing of the programme.

1.14.4 Interdependencies

Kāinga Ora and other government agencies have identified other programmes, projects, and initiatives that are external to Kāinga Ora and the eastern Porirua LSP but could impact the successful delivery of the LSP. These are set out below, including considerations to date and any potential future implications.

1.14.4.1 Three Waters Reform

In October 2021 the Government confirmed that it will create four publicly-owned water entities that will own and operate the three waters systems: drinking water, waste water, and stormwater. The details of the entities and the transition plan are still being developed, however it is likely that assets that are currently owned and operated by Porirua City Council will be controlled by one of the new water entities from 1 July 2024.

The LSP is planning and delivering assets across the three waters, covering both renewals and growth, and delivery is intended to ramp up over coming years. The precinct team is staying abreast of the potential reforms to understand whether there will be changes that could affect the LSP. In particular, whether there are changes to:

- The ultimate owner of the water assets being delivered by the LSP
- The capital asset planning approaches and infrastructure design requirements
- Investment decision processes
- Water pricing and funding approaches
- Regulation

Any risks from the potential changes will become clearer as the Department of Internal Affairs (DIA) develops the transition plan. These risks will be actively managed at both a portfolio level and a precinct level. There may also be opportunities that arise from the reforms; for example, the new water entities are expected to have a greater debt capacity than is currently available from Wellington Water and therefore may be able to support the LSP to a greater extent and reduce the draw on Crown funding. Kāinga Ora is investigating this opportunity, with a focus on which parties should ultimately pay for the assets (e.g. Wellington and Porirua ratepayers, landowners in and around the precinct, and general taxpayers).

1.14.4.2 Recent housing density policy and Porirua City Council Proposed District Plan

Porirua City Council has recently released a variation to their Proposed District Plan. This variation reflects the objectives of the National Policy Statement- Urban Development (NPS-UD) and the Medium Density Residential Standards contained in the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021.

This variation has resulted in a significant increase in the permitted densities within eastern Porirua, and will result in a higher potential yield from Kāinga Ora land. Modelling has indicated that an additional 550 homes (27% increase) can be enabled by this zoning amendment, increasing from 2000 to 2550 net new homes.

The infrastructure that is currently being designed and constructed has the capacity to service this higher potential housing yield.

1.14.4.3 Infrastructure Acceleration Fund

In May 2022 it was confirmed that Porirua City Council and Ngāti Toa were unsuccessful in their applications for funding from IAF for western Porirua and the northern growth corridor including Plimmerton Farms. The planned infrastructure works in eastern Porirua are separate and not dependant on these IAF funding approvals.

1.14.4.4 Funding agreements with Waka Kotahi

There is currently a draft infrastructure funding agreement in progress between Kāinga Ora and Waka Kotahi for \$115m towards local roads, walking and cycling improvements. These projects are a priority for the regeneration of eastern Porirua. A separate business case application to Waka Kotahi for this funding is being prepared. Any funding required from either Porirua City Council or Kāinga Ora will be subject to separate investment cases and funding applications.

2 | Economic Case



2 Economic Case

The purpose of the economic case is to identify the preferred programme that optimises value for government and New Zealand. Following from the strategic case, which established the strategic context for the investment and a robust case for change, this part of the precinct business case identifies:

- Critical success factors for the investment
- Programme options identification
- Assessment of the long list against the critical success factors, investment objectives, and benefits
- Assessment of the short list against the net cost, investment objectives, and benefits
- Consideration of each short-list option against the fit with the long term vision for the precinct
- A preferred way forward

2.1 Critical Success Factors (CSFs)

The following critical success factors were agreed by stakeholders to form part of the assessment of options.

Table 12: Critical Success Factors.

CSF	Description
Strategic fit and business needs	How well the option: <ul style="list-style-type: none"> — meets the agreed investment objectives, related business needs, and requirements for public housing — allows the investment to align with and deliver on Government policy for housing supply
Potential value for money	How well the option: <ul style="list-style-type: none"> — optimises potential value for money (i.e. the optimal mix of potential benefits, costs, and risks)
Supplier capacity and capability	How well the option: <ul style="list-style-type: none"> — matches the ability and capacity of the market to deliver the required services — is likely to result in a sustainable arrangement that optimises value for money over the term of the contract without flooding the market — is likely to match the market appetite for the sale of superlots
Potential affordability	How well the option: <ul style="list-style-type: none"> — can be met from likely available funding — matches other funding constraints Note: the assessment is against the \$307m funding cap
Potential achievability	How well the option: <ul style="list-style-type: none"> — is likely to be within Kāinga Ora, Porirua City Council, and Te Aranga’s ability to respond to the changes required — can be delivered under current infrastructure assessments to prevent cost and delays associated with rework

2.2 Programme Options Identification

The purpose of this section is to identify and assess as wide a range as possible of programme options that reflect key trade-offs for value for money, achieve the investment objectives and service requirements, and lie within the boundaries of the scope parameters and critical success factors identified previously.

In December 2019, the Kāinga Ora – Homes and Communities Board provided direction of travel approval that the regeneration of eastern Porirua should be approached as an urban development project rather than a housing renewal project. In contrast to a public housing renewal project, an urban development approach:

- optimises land use, enabling increased supply of both public and market / affordable housing
- enables wider wellbeing outcomes by allowing optimised location and configuration of housing and other key services and amenities
- includes investment to achieve wider wellbeing outcomes as opposed to solely housing focused outcomes.

To achieve significant improvement in wellbeing, a range of substantive changes are required. These range from investments in infrastructure to improve public health and environmental outcomes, to reshaping urban form through changes in transport, town centre and parks, through to new housing solutions and social investments for the community.

Kāinga Ora then generated a Development Plan for each LSP precinct to optimise the land development, based on the needs of each area, the market conditions, and the network plans of the asset owners.

Kāinga Ora modelled the potential costs and revenues of each precinct development plan and identified that the revenues would not be sufficient to cover the costs, either at a precinct or a portfolio level. Following a recommendation from the Minister of Housing in April 2021, Cabinet supported the decision to hold \$2.3 billion of the Housing Acceleration Fund for the Auckland and Porirua LSPs on the basis of full funding (or the development plan option) for Auckland LSPs and scaled back funding for the Porirua LSP to enable higher density housing and thriving communities.

On 31 May 2021, Cabinet confirmed a revised medium level of investment for the eastern Porirua LSP and agreed to set aside \$307 million from the HAF for the project, noting that further decisions beyond Tranche One of this funding would be subject to this programme business case. Tranche One funding of \$136 million was announced on 13 July 2021 and is fully committed to projects now underway. The medium level of investment was intended to maintain momentum and enable housing development to proceed over the short term, however it does not meet Cabinet's original commitments to achieve regeneration outcomes over the long term.

As noted in section 1.5.7 a key change to the context since the establishment of the regeneration project in eastern Porirua is the urgent demand for supply of housing across all range of tenures, including Public Housing.

In this context, the agencies agreed that this precinct business case would consider a long list of options to test how the remaining \$172 million committed from the HAF to eastern Porirua can be spent.

This business case will test whether value is optimised through the consideration of choices related to:

- Net additional houses and the proportion of market and affordable housing
- Community-based development, such as amenity and town centre improvements

It is noted that Kāinga Ora has plans to retrofit or renew all existing public houses in eastern Porirua as part of their business as usual investment planning. The options being considered as part of this business case enable the existing land development to support additional housing supply and wider regeneration outcomes.

2.2.1 Development Plan and Medium Investment Option

The Development Plan for the eastern Porirua precinct was generated in 2020 by Kāinga Ora, in consultation with Porirua City Council and Ngāti Toa. It covers the full scope of the precinct, not just the development within this

business case. The Development Plan articulated the strategic approach that Kāinga Ora proposed to take in delivering the Eastern Porirua Regeneration Project, as outlined in the 2018 Treasury Business Case.

The Eastern Porirua Development Plan proposed to deliver a mix of 80% redevelopment and 20% retrofit for state home renewal (to grow the state home portfolio by approximately 300 homes), approximately 1,500 new market/affordable homes created, renewal of eastern Porirua's parks and greenways network, and investment of \$3m per annum over 25 years to support wider wellbeing outcomes.

As outlined above, subsequent decisions by Cabinet in May 2021 confirmed a revised medium level of investment for the eastern Porirua LSP. The medium level of investment was intended to maintain momentum and enable housing development to proceed over the short term.

The medium investment represents a scaled-down version of the 2020 Development Plan that:

- Invests in the bulk of the trunk water infrastructure;
- Enables housing redevelopment to proceed over the short term in selected areas within the precinct with the highest yield and highest existing state housing concentration; and
- Provides infrastructure upgrades to enable housing growth and address immediate environmental issues.

2.2.2 Tranche 1 and the Options Baseline

The Government has set a \$307 million funding cap for an initial investment in eastern Porirua development. Of this, some commitments have already been made.

Under Tranche 1, \$136m has already been committed to maintain momentum in the precinct. This covers the neighbourhood infrastructure, land development, civil engineering, and removal works to progress the Cannons Creek neighbourhood.

This early investment in enabling infrastructure supports development across the entire precinct and means that additional housing supply can be added to the other seven neighbourhoods in the future at lower marginal costs.

The direct outcomes of the Tranche 1 works are:

- Significantly improved water quality outcomes through markedly reducing discharge of raw sewage to open waterways (estimated at up to 3,000L in a single rain event)
- Reduction of flooding risk to several sites including schools, public places, and roads
- Increased water storage and improved resilience of the water supply network in eastern Porirua, improving the service levels for the majority of the 19,000 existing residents and providing additional capacity for an additional 2,000 houses
- Improved environmental outcomes with removal of contaminants (such as asbestos, arsenic, and lead) from the land

The baseline from which the options have been developed comprises the works within Tranche 1 commitments and further land development works resulting from Tranche 1. This limits the portion of funding that is available to change between options to \$36m, shown in Figure 3.

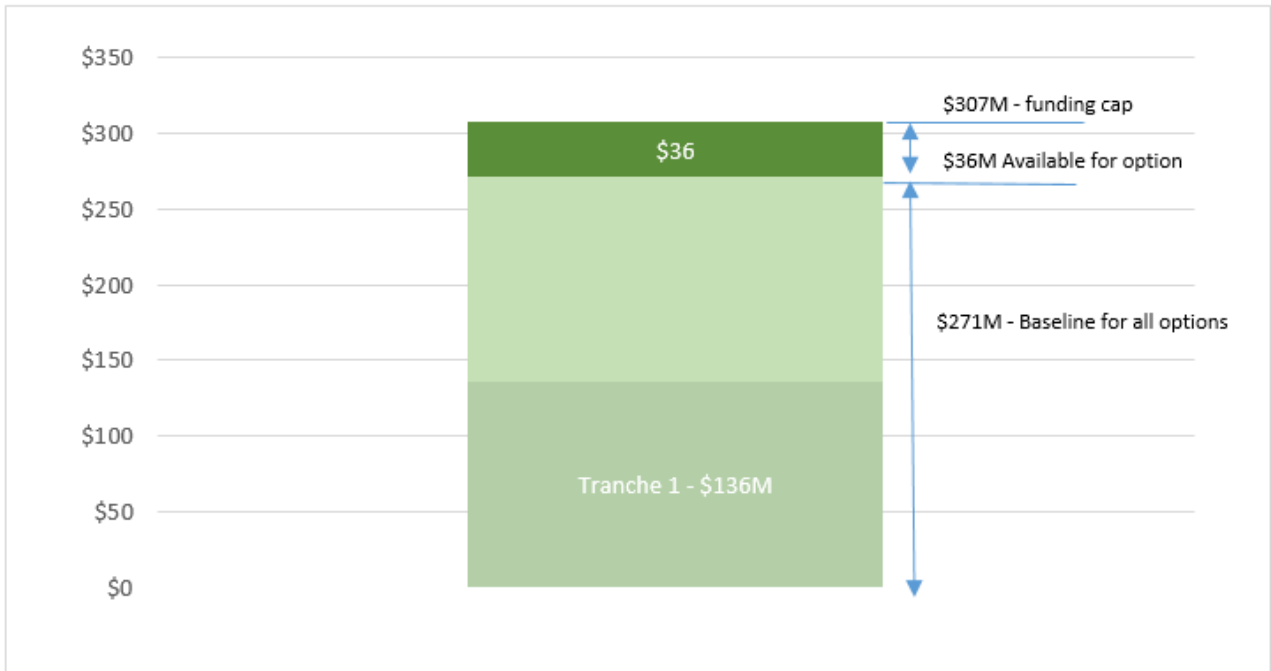


Figure 3 The portion of the allocated \$307m funding available to change between options.

The baseline from which the options have been developed consists of:

- \$136m that was committed under Tranche 1 to maintain momentum to June 2022
- Additional investment is required to complete the agreed Tranche 1 works past June 2022. These include:
 - Completing land development of superlots (Tranche 1 covered removal of existing homes only)
 - Reforecast of costs from 2019 to 2022 rates
 - Increase in capitalised rent of the removed homes from 2019 to 2022 rates
 - Overhead costs for both Kāinga Ora and Te Aranga alliance to complete the agreed Tranche 1 works beyond June 2022
 - Land development for new homes

The baseline from which each option has been developed therefore consists of the committed Tranche 1 costs, and the balance required to complete the development started in Tranche 1 past June 2022. It also updates the Tranche 1 costings to 2022 rates.

2.2.3 Long-list Options

The table below presents the long-list options. These were workshopped with HUD and the Treasury to check they reflected a sufficient challenge to the “medium” investment option and were aligned with government priorities.

Table 13: A summary of the long list of options.

	Description	Nett new homes	Nett cost (\$m)	Amenities spend (\$m)
Option 1	Tranche 1 commitments and activities required to complete development to a reasonable level	197	271.14	10.04
Option 2	Maximum housing delivery with no affordable housing and minimal amenity	497	307.21	16.18
Option 3	Less housing delivery than Option 2, increase focus on affordable homes (40%) and amenity	317	307.21	20.79
Option 4	Less housing delivery than Option 2 or 3, greater focus on affordable homes (70%), amenity and town centre improvements	282	307.21	19.74
Option 5	Lowest housing yield based on current commitments, with a focus on transport (the spine project)	197	325.87	42.24
Option 6	Maximum housing yield with greater focus on affordable homes (87%) and the Pacific housing initiative	558	340.63	26.96
Option 7	Budget Bid Updated with Today' numbers	413	340.47	23.45

The table below provides further detail of the extent of community-based development, such as amenity and town centre improvement.

Table 14: Extent of development focused on increasing amenities²⁰.

Options	Amenities (Parks and Town Centres and Open Space)		Transport		Total Amenity + Transport costs (\$m)
	Cost (\$m)	Commentary	Cost (\$m)	Commentary	
Option 1	\$-	Zero investment	\$10.04	The allowance here is effectively a "make good" fee to repair the impacts of land development	\$10.04
Option 2	\$ -	Zero investment	\$16.18	The allowance here is effectively a "make good" fee to repair the impacts of land development however this is the option with the most Land development it is the largest total \$ value	\$16.18
Option 3	\$6.12	Allowance to repair and improve the amenity of Bothamley Park and Calliope Park (these are the 2 parks in proximity to land dev projects) and allowance for modest town centre initiatives.	\$14.67	This allows for some improvements to transport networks with ped-links and cycleways, pedestrian refuge. This will assist with climate change via enhancing mode choice and reducing car dependency	\$20.79
Option 4	\$6.91	Greater allowance to repair and improve the amenity of Bothamley Park and Calliope Park and allowance of medium town centre initiatives.	\$12.83	This allows for improvements to transport networks with ped-links and cycleways, pedestrian refuge. This will assist with climate change via enhancing mode choice and reducing car dependency	\$19.74
Option 5	\$ -	Zero investment	\$42.24	Significant improvements to transport networks with ped-links and cycleways, pedestrian refuge and a spine road upgrade. This will assist with climate change via enhancing mode choice and reducing car dependency	\$42.24
Option 6	\$12.20	Greater allowance to repair and improve the amenity of Bothamley Park and Calliope Park, some smaller "pocket parks" and allowance of \$4m for town centre medium town centre initiatives.	\$14.76	This allows for some improvements to transport networks with ped-links and cycleways, pedestrian refuge. This will assist with climate change via enhancing mode choice and reducing car dependency	\$26.96
Option 7	\$6.99	Greater allowance to repair and improve the amenity of Bothamley Park and Calliope Park and allowance of medium town centre initiatives.	\$16.45	This allows for improvements to transport networks with ped-links and cycleways, pedestrian refuge. This will assist with climate change via enhancing mode choice and reducing car dependency	\$23.45

²⁰ Whilst transport amenity spend goes down between options 2-4, this is due to less homes delivered and therefore a smaller area of development. There is increased quality of transport amenity across a smaller geographical area between options 2-4.

The table below outlines the number of homes that would be delivered under each of the options.

Table 15: Number of homes delivered under each of the options.

	State homes (removed)	State homes	Affordable homes	Market homes	Total new homes	Nett new homes	Affordable homes percentage
Option 1	-96	183	-	110	293	197	0%
Option 2	-170	183	-	484	667	497	0%
Option 3	-130	130	125	192	447	317	40%
Option 4	-113	213	127	55	395	282	70%
Option 5	-96	183	-	110	293	197	0%
Option 6	-186	286	401	57	744	558	88%
Option 7	-155	231	-	337	568	413	0%

2.3 Long List Assessment

The majority of the benefits, or risks, associated with each option are not financially quantifiable and therefore are assessed qualitatively through evaluation against the Investment Objectives, CSFs, and benefits to reach a short list for financial analysis and further assessment.

2.3.1 Advantages and Disadvantages

The main advantages and disadvantages of each long list option are provided in Appendix F. For each option the outcome of the full long list assessment is highlighted.

For each dimension there are key benefits and risks impacted when changing options; these are listed below:

- Fit for current community needs
- Extent of investment into amenities
- Extent of investment into transport amenities
- Number of new/upgraded social spaces and community facilities
- Level of access to facilities, amenities, employment, education, and transport
- Extent of intensification versus regeneration approach
- Whole of community approach
- Improving access to home ownership (proportion of affordable homes enabled)
- Job creation
- Māori cultural impacts
- Impact on stakeholder and community relationships
- Diversity of the community
- Capability and capacity to uphold Te Tiriti and its principles
- Working in partnership with Ngāti Toa
- Infrastructure upgraded
- Area of land remediated

- Proportion of affordable and market housing
- Number of state homes enabled for renewal
- Number of homes enabled

2.3.2 Qualitative Assessment

The qualitative assessment of the long list was against the Investment Objectives and CSFs to assess the feasibility of the options.

The long list was assessed against the benefits, which is provided in Appendix G.

Each option was assessed against the five Investment Objectives and scored as follows:

— Fully meets the criteria	3
— Partially meets the criteria	2
— Does not meet the criteria	0

The weighting of each Investment Objective determined by the problem statements in was applied to the score and summed to give the total score for each option against the Investment Objectives.

The CSFs were assessed on a pass or fail basis against the details provided in Table 12.

Table 16 below shows the qualitative assessment of the long list options against the Investment Objectives and CSFs.

Table 16: The assessment of the long list options against the weighted Investment Objectives and the CSFs.

		Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
21								
State (demolished)		-96	-170	-130	-113	-96	-186	-155
State (total built)		183	183	130	213	183	286	231
Market		110	484	192	55	110	57	337
Affordable		0	0	125	127	0	401	0
Total new homes		293	667	447	395	293	744	568
Net new homes		197	497	317	282	197	558	413
Net Cost		-\$271m	-\$307m	-\$307m	-\$307m	-\$325m	-\$340m *	-\$340m *
Investment Objectives								
	Weighting							
Develop places, amenity value, and a sense of community.	0.1	0	2	3	3	3	3	3
Improve opportunities and access to jobs, education, and amenities.	0.1	2	3	3	3	3	3	3
Provide opportunity to partner with iwi to realise aspirations.	0.1	2	3	3	3	2	3	3
Improve the environmental impact of the local water and transport infrastructure.	0.3	3	3	3	3	3	3	3
Enable an appropriate mix of housing for the needs of the community and future generations.	0.4	0	2	2	3	0	3	3
Critical Success Factors								
Strategic fit and business needs		Fail	Pass	Pass	Pass	Fail	Pass	Pass
Potential value for money		Fail	Pass	Pass	Pass	Pass	Pass	Pass
Supplier capacity and capability		Pass	Pass	Pass	Pass	Pass	Pass	Pass
Potential affordability		Pass	Pass	Pass	Pass	Pass *	Pass *	Pass *
Potential achievability		Pass	Pass	Pass	Pass	Pass	Pass	Pass
Overall Assessment								
Investment Objectives		1.3	2.5	2.6	3	1.7	3	3
Critical Success Factors		Fail	Pass	Pass	Pass	Fail	Pass	Pass
Outcome from Assessment		Discounted	Possible	Possible	Possible	Discounted	Possible	Possible
Assessment Key								
Fully meets the criteria		3						
Partially meets the criteria		2						
Does not meet the criteria		0						

²¹ *Option 6 and Option 7 exceed the \$307m HAF funding cap, but achieve higher housing supply outcomes

2.3.3 Long List Assessment Outcomes

In the assessment of the long list, the CSFs were a key metric for determining the options to be carried forward, as options that did not pass all the CSFs were discounted. This was typically because it was determined that the option did not meet the strategic fit that aligned with government housing policy or was not below the funding cap and therefore was not affordable.

Option 1 failed when rated against strategic fit and business needs, as it delivers minimal housing and provides minimal to no investment into amenity improvements. It also was determined to fail to provide value for money, as the option has not been optimised to utilise the investment available up to the funding cap.

Option 5 provides the same number of homes as Option 1, and therefore does not align with Government policy for housing supply. It also does not meet the potential affordability CSF as it does not come under the \$307m funding cap.

Options 2, 3, and 4 all pass the CSFs and scored well against the investment objectives to be progressed to the short list. Option 2 provides no affordable homes and minimal amenity, which resulted in the option scoring lower in two of the investment objectives. Option 3 also scored lower for providing an appropriate mix of housing, as it predominantly provides market homes.

Whilst Option 6 scores well against the investment objectives, it does not come under the \$307m funding cap and therefore cannot be progressed as part of this PBC evaluation.

It is noted that joint Ministers of Finance and Housing have recently requested this PBC consider a modest increase in investment up to \$33 million to enable a wider range of benefits, including accommodating a Pacific affordable housing initiative being funded by the Ministry for Pacific Peoples. Further detail and evaluation of Option 6 is included in Appendix O of this PBC, if additional investment is sought.

2.4 Short List Options

In summary, the outcome of the assessment of the long list of options is described in the table below:

<p>Option 2:</p> <p>Maximum housing delivery with no affordable housing and minimal amenity</p>	<ul style="list-style-type: none"> — 497 net new homes (0% affordable) — 183 renewed state homes — No Investment in Parks, Town centres and Open spaces — Provision to “make good” the transport networks affected by the land development
<p>Option 3:</p> <p>Less housing delivery than option 2, increase focus on affordable homes (40%) and amenity</p>	<ul style="list-style-type: none"> — 317 net new homes (40% affordable) — 130 renewed state homes — Allowance to repair and improve the amenity of Bothamley Park and Calliope Park and modest town centre initiatives — Some improvements to transport networks with pedestrian links and cycleways, pedestrian refuge
<p>Option 4:</p> <p>Less housing delivery than option 2 or 3, greater focus on affordable homes (70%), amenity and town centre improvements</p>	<ul style="list-style-type: none"> — 282 net new homes (70% affordable) — 213 renewed state homes — Greater allowance to repair and improve the amenity of Bothamley Park and Calliope Park and medium town centre initiatives — Improvements to transport networks with pedestrian links and cycleways, pedestrian refuge

2.4.1 Short List Assessment

The table below assesses each of the short-listed options against the investment objectives and benefits set out in the Strategic Case, alongside a summary of the financial analysis to show net costs. [The net present costs (NPCs) show the discounted net cashflows forecast for the scope of this business case. These have been calculated from 1 July 2021 onwards and use the Kāinga Ora discount rate of 5.89%.]

	Option 2	Option 3	Option 4
NPC	\$280 million	\$278 million	\$277 million
Revenue	\$103 million	\$75 million	\$65 million
Costs	\$410 million	\$382 million	\$372 million
Net Costs (excl. CCO)	\$307 million	\$307 million	\$307 million
CSFs	Pass	Pass	Pass
Investment Objectives			
Develop places, amenity value, and a sense of community.	2	3	3
Improve opportunities and access to jobs, education, and amenities.	3	3	3
Provide opportunity to partner with iwi to realise aspirations.	3	3	3
Improve the environmental impact of the local water and transport infrastructure.	3	3	3
Enable an appropriate mix of housing for the needs of the community and future generations.	2	2	3
Investment Objectives Score	2.50	2.60	3.00
Benefits			
Sustainable and thriving communities resulting from taking a whole of community approach.	2	3	3
Improved educational, employment, and wellbeing outcomes.	2	3	3
Cultural values and traditions are supported.	2	3	3
Infrastructure is designed and built in a way that is sustainable, resilient and improves environmental outcomes.	3	3	3
More people are housed in warm, dry, healthy, and safe housing that is appropriate for their family needs and income level.	2	2	3
Benefits Score	2.20	2.80	3.00

2.4.1.1 **Qualitative Assessment Summary**

In the qualitative analysis of the short list, Option 2 scored the lowest of the three options against the investment objectives and benefits.

Option 2 prioritises housing delivery, which sacrifices the ability to have a whole of community approach through provision of transport and community amenities. The housing provided in Option 2 is 100% market, which does not meet the family needs and income level of the community.

Option 3 provides greater investment into community and transport amenity than Option 2, and therefore scored higher against the benefits. Option 3 provides 40% affordable housing but was determined to only partially meet the criteria for enabling an appropriate mix of housing, as it was not considered to be the right balance suitable for the eastern Porirua community.

Option 4 has scored the maximum against the investment objectives and benefits, as it provides the greatest amount of community and transport amenity, with a 70% proportion of affordable housing that best suits the needs of the community.

Option 4 delivers an additional 100 public homes which will make a significant impact on the existing public housing waitlist and the re-housing requirement for the development. Whilst the 100 additional public homes will initially compound the high concentration of public housing in this first neighbourhood being developed, it is anticipated that future neighbourhood development will enable public housing to be more widely distributed and concentrations reduced.

2.4.1.2 **Fit with long-term vision and relationships**

An important consideration when evaluating the short list options is the alignment with the long-term vision and the impact on relationships with stakeholders. Both aspects are important to consider to ensure the future success of the development.

The eastern Porirua LSP was established as a regeneration project with the intention of delivering significant long-term wellbeing benefits to the Porirua community over a 20-year timeframe. The purpose of the \$307m investment set aside in the HAF is to firmly establish and progress the project over its first five years. It is not possible to achieve all wellbeing outcomes originally intended for the eastern Porirua LSP without subsequent on-ramps of funding from other sources over time.

The difference in development approach between Options 2, 3, and 4 closely relates to the difference between urban intensification and urban regeneration shown on the urban development continuum in Figure 4.

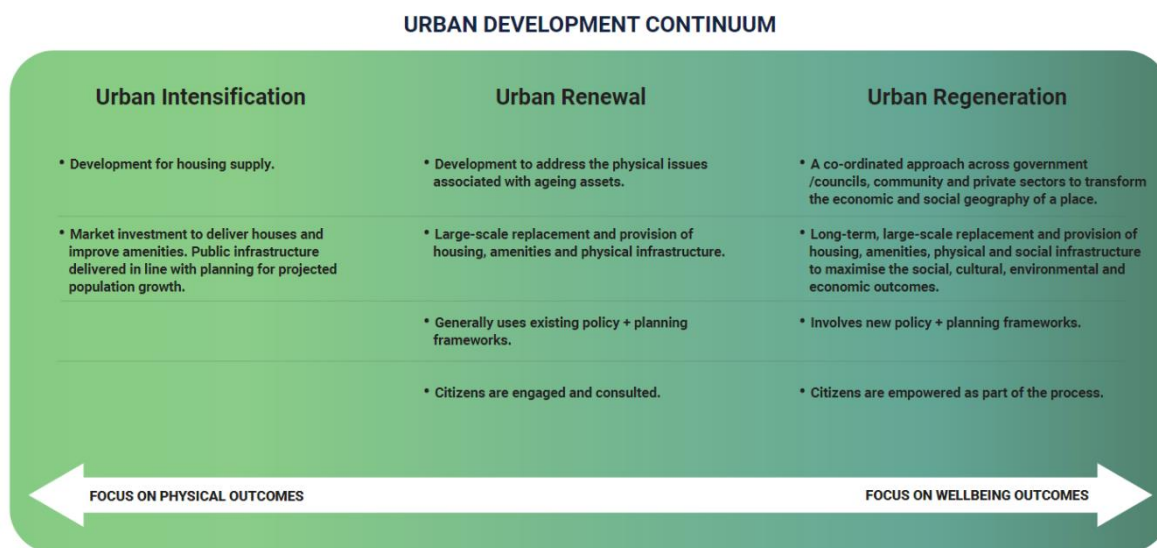


FIGURE 1. URBAN DEVELOPMENT CONTINUUM

Figure 4 The urban development continuum outlined in the Regeneration Framework.

Option 2 is closely aligned to an urban intensification approach, where development is focused on housing delivery and maximises housing supply. Additional aspects of development such as surrounding parks and transport connections are not prioritised to be delivered at the same time as housing supply.

At the other end of the spectrum, Option 4 is closely aligned to an urban regeneration approach, where a coordinated approach is taken to develop the entire neighbourhood including housing, parks, streetscape, and transport linkages.

Option 4 fits closest with the original intention of the long-term vision as an urban regeneration project, with a whole of neighbourhood approach taken. This results in a community that is more vibrant, better connected, and with cohesion between the built and natural environments which enables sustainable and thriving communities.

To return to the original vision for eastern Porirua, Options 2 and 3 would require onramping in later stages that revisit the development area to further develop the areas surrounding the housing to deliver regeneration outcomes. Returning to undertake neighbourhood development after the housing component has been completed may result in a less cohesive design and would likely disrupt the community for a longer period of time.

Option 4 also has the closest percentage of affordable housing delivered (within 20% of the Development Plan), whereas Option 2 has no provision for affordable housing and Option 3 provides roughly half the affordable housing proposed in the Development Plan.

Additional to the ability to return to the long-term vision, maintaining relationships with key stakeholders such as the community, Ngāti toa, and Porirua City Council is paramount for this programme of work, following extensive consultation and political commitments.

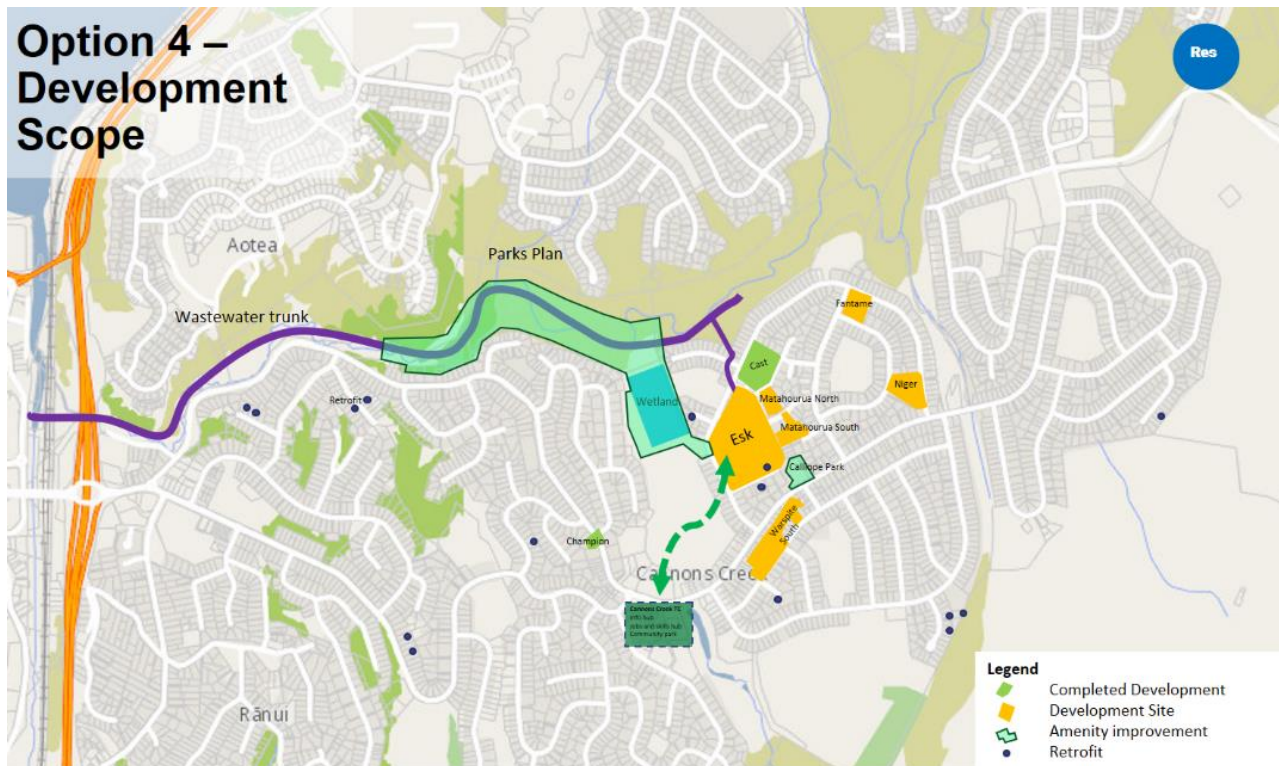
Outlined in section 1.3, the eastern Porirua community is concerned about the rising rents and prices of new homes, and worried about the impacts of gentrification in general.

Option 2 provides 100% market housing, which is unaffordable for most residents currently living in eastern Porirua and may heightening the community’s concerns about gentrification occurring. Option 4, which is most closely aligned with the original vision, is most likely to maintain expectations on affordable housing supply and regeneration proceeding as intended. Option 4 evidences to the community the regeneration focus of the project is being delivered in the short-term, which assists in retaining the social license that the project requires and reducing the perception of gentrification occurring.

2.5 Preferred Way Forward

The preferred way forward for the HAF investment in the eastern Porirua LSP is to proceed with Option 4. This has been selected over Options 2 and 3 as it best delivers on the investment objectives. It also closely aligns to the long-term vision of the regeneration project that the eastern Porirua LSP was established to deliver.

This schematic illustrates the scope of Option 4. This option focuses on enabling bulk infrastructure works (trunk sewer, wetland and reservoir) and land development within a single neighbourhood.



Under preferred Option 4, 113 existing state homes would be removed to enable 282 net new homes, of which 70% will be affordable housing, as seen in Table 17.

Table 17: Outputs achieved in eastern Porirua by the investment under Option 4.

Area decontaminated & remediated (sqm)		53,671m ²
Existing state homes set to be removed		113
Number of potential homes to be enabled:	Public	213
	Affordable	127
	Market	55
	Total new homes	395
	Net new homes	282
	Affordable homes percentage	70%
	Extent of development focused on increasing amenities	Amenities (parks, town centres, open space)
Transport		\$12.83m
Total		\$19.74m

It is noted that Option 6 will deliver significantly more houses for a modest increase in investment of up to \$33 million to enable a wider range of benefits, including accommodating a Pacific Affordable Housing scheme being funded by the Ministry for Pacific Peoples. Further detail and evaluation of Option 6 is included in Appendix O of this PBC if additional investment is sought.

2.5.1 Cost Benefit Analysis

Kāinga Ora has engaged Morrison Low, in partnership with NZIER, to provide an update of the economic valuation or cost benefit analysis (“CBA”) for the preferred Option 4. Morrison Low reviewed and updated the previous modelling that was undertaken by NZIER and Principal Economics to ensure that benefits and benefit attribution were sufficiently robust and adequately grounded in evidence or empirical studies. The results of the CBA are shown in the table below and evaluates the net benefits of the LSPs in comparison to the Status Quo. In Morrison Low’s view, these findings are consistent with Treasury’s CBAX framework and Better Business Case guidance. Risk Management and Scope Stability.

Results	Eastern Porirua (Option 4)
BCR	2.1
NPV (net present value per \$ invested)	\$354.8 million

The costs used in the CBA are consistent with the HAF 5-year view and the values presented in the Financial Case, and those used in the Auckland LSPs. Morrison Low has used a 30-year period to evaluate the benefits as per Treasury Guidelines. The following benefits in the CBA were identified and monetised for existing tenants:

- Education
- Employment
- Affordability
- Good neighbourhood design
- Accessibility
- Public transport
- Safety
- Sense of cohesiveness
- Amenities
- Warm house
- Less crowding
- Economic activity in town centre

Due to the high proportion of infrastructure works that are required to enable this LSP, the following additional economic benefits have been evaluated:

- Employment Social benefit of improved water quality
- An additional 154 full-time equivalent (FTE) jobs per annum across the Wellington region
- Social value for wetland regeneration
- Social value of increasing access to green space
- Economic value of more resilient infrastructure.

The assessment of the benefits is based on estimates of the size of the impacts provided by the project team, combined with conventional economic appraisal methodologies for cost-benefit analysis and peer-reviewed academic literature.

3 | Commercial Case



3 Commercial Case

The purpose of the commercial case is to establish the optimal approach for delivering the preferred way forward (established in the economic case). It sets the commercial principles that will be used through delivery and covers:

- The scope of works being procured
- Roles of parties in delivering works
- Commercial arrangements that are already in place, including the Te Aranga Alliance
- Commercial risks and how they are allocated
- Intentions for future procurements
- An assessment of the current market

3.1 Introduction

This commercial case focuses on the commercial approach for the development within the scope of this programme business case. Development has already started in the Cannons Creek North-east neighbourhood.

This commercial case sets out commercial arrangements that are already in place and identifies commercial decisions still to be made. The majority of works will be delivered through commercial arrangements established by Kāinga Ora, however some works may be delivered directly by asset owners (e.g. Wellington Water) and therefore would use the asset owners' delivery models. This will depend on the type of work and would be agreed between Kāinga Ora and the relevant asset owner. Given the extent of commercial arrangements that are already in place, this commercial case documents the procurement processes that have been run in the past, the terms that have been agreed, and how Kāinga Ora will optimise the use of these arrangements to ensure value for money through the delivery.

Future procurement decisions will incorporate a commercial procurement approach as well as a social procurement approach, in line with Kāinga Ora's social and sustainable procurement strategy, Pā Harakeke (Appendix H for more detail). The strategy is inclusive of government procurement rules and brings a people and environment centred focus to cultivate positive social, cultural, economic, and development outcomes for the communities.

3.1.1 Commercial principles

Kāinga Ora seeks value for money in all its investments. This is achieved through analysis of the investment characteristics and the context of the local market to ensure the preferred procurement approach is the best suited to deliver competitive pricing and quality outcomes. Kāinga Ora incorporates the following frameworks when designing its commercial and procurement approaches:

- The Government Procurement Rules and Regulations (see Appendix I for more detail)
- Kāinga Ora's Investment Management Framework
- Kāinga Ora's Social and Sustainable Procurement Strategy, Pā Harakeke

The most recent Government Procurement Rules were published in October 2019. They are designed to support good market engagement, with a focus on the importance of open competition. The updates are designed to achieve wider public outcomes for New Zealand, including improving the performance and resilience of the construction industry. In particular, the procurement rules require public organisations to consider broader outcomes (social, environmental, cultural, or economic) that arise as a result of procurement and delivery of a project.

3.1.2 Relationships with Ngāti Toa Rangatira

Kāinga Ora's obligations to mana whenua are set out in the Kāinga Ora – Homes and Communities Act 2019 and its requirement to treat mana whenua as true partners through the lens of Te Tiriti o Waitangi.

There is a significant opportunity for Ngāti Toa Rangatira to play a central role as the local iwi and strategic partner for the eastern Porirua precinct.

In 2019 three contracts were agreed between Housing New Zealand and Ngāti Toa Rangatira which have enabled the eastern Porirua development to proceed, and are summarised:

1. Ngāti Toa relinquishes 1300 right-of-first refusals in eastern Porirua, to enable the sale of land for affordable and market housing
2. Option agreement in favour of Ngāti Toa to purchase up to 400 development lots in eastern Porirua
3. Leasing and operating by Ngāti Toa of 900 existing homes from Kāinga Ora in western Porirua

Ngāti Toa are making an important contribution to the design and delivery of the project works including community engagement, design review, management of a social procurement programme with the Te Aranga alliance, and governance roles on the Te Aranga alliance and the Le Fale jobs and skills initiative.

3.2 Scope of works being procured

This section sets out the scope of activities that will be procured to deliver the eastern Porirua neighbourhood developments in scope, how works will be packaged up, and the forecast schedule of when each package will be procured and delivered.

The neighbourhood within the scope of this programme business case will deliver around 450 new homes. The scope of activities to be procured cover design, consenting, demolition, site remediation, civil works, and then a commercial process for the sale of superlots. These activities will take place over a long period and therefore this commercial case sets out a framework that must remain flexible for Kāinga Ora to be able to respond to changing market conditions.

3.2.1 High-level schedule of works

The Eastern Porirua Precinct Development Plan 2020 outlines the high-level schedule of works that needs to be delivered as part of the eastern Porirua development. The following services need to be procured for the neighbourhoods within scope to deliver these works:

- Place-based community engagement
- Urban design and master planning consultants
- Infrastructure & Civil design and delivery:
 - Infrastructure Modelling
 - Civil design and consenting
 - Geotechnical engineering
 - Project management and cost management
 - Site clearance and remediation of land
 - Civil infrastructure construction
- Other consultant services (market and economics reporting, legal support, etc.)

3.2.2 Development progress and timing of procurement

The eastern Porirua development as part of this programme business case comprises one neighbourhood development being Cannons Creek North-east²². This neighbourhood is located to the north of Warspite Avenue and includes Castor Crescent.

²² Neighbourhoods within the eastern Porirua development that are outside the scope of this programme business case are Rānui, Cannons Creek North-west, Cannons Creek South-east, Cannons Creek South-west, Waitangirua South, Waitangirua North, and Ascot Park.

Masterplanning is well underway, with almost all masterplanning complete across the precinct (including an infrastructure plan complete). Removal of existing homes has started across around one third of the superlots in scope with around 80 homes already removed or demolished, all within the Cannons Creek North-east neighbourhood. A total of 53 new homes have been built in this neighbourhood and 14 units in other neighbourhoods.

3.3 Roles of parties in delivering works

There are a number of parties involved in delivering the works within scope and the relationship needs to be collaborative so that planning and delivery can happen in a coordinated way. The parties/asset owners comprise:

- Kāinga Ora (UDD - Urban Development and Delivery):
 - Responsible for land development with regard to master planning, place-making, community building and land sales and overall project management and coordinating delivery via its civils alliance partners and contractors
- Kāinga Ora (CIG - Construction Innovation Group):
 - Responsible for construction of the public housing on redeveloped land
- Te Aranga Civils Alliance
 - Responsible for design and construction of the infrastructure and land development
- Ngāti Toa Rangitira:
 - Anticipated to be the developer of up to 400 lots that Kāinga Ora will sell to them under the options agreement.
- Market builder partners:
 - Responsible for the delivery of open market and any affordable housing Porirua City Council/Council
- Controlled organisations (CCOs):
 - As owner of the infrastructure, they establish the requirements for renewal of the assets and vesting upon completion.

3.3.1 Delivering neighbourhood infrastructure

Physical works within a neighbourhood generally comprise transport, water, wastewater, stormwater, and parks. The overlapping nature of the works generally dictates that they be delivered together. Coordination is key to drive project efficiencies, reduce costs, achieve economies of scale, and ultimately deliver best outcomes for the respective asset owner/operator. As Kāinga Ora is leading the wider eastern Porirua LSP programme and already has a presence in the neighbourhoods, Kāinga Ora is best placed to deliver works within the neighbourhoods.

3.3.2 Delivering precinct infrastructure

Precinct-wide infrastructure works support multiple neighbourhoods and often a wider regional catchment. For this reason, delivering precinct-wide infrastructure is generally achieved through much larger projects than is the case when delivering local infrastructure within a neighbourhood.

The delivery agent for precinct-wide works is best-agreed on a project-by-project basis to ensure that the infrastructure is delivered by the agency that is best placed to deliver and manage the associated risks (and has agreed to do so).

There are two ways that precinct infrastructure will be delivered:

- Delivery by Kāinga Ora, with the majority of works delivered by a contracted partner, i.e. Te Aranga.
- Delivery by an asset owner (e.g. Wellington Water) through their own procurement and delivery models.

If Crown funding is involved but Kāinga Ora is not delivering the infrastructure (and it is delivered by one of the CCOs for example), Kāinga Ora would have a monitoring role over the procurement and delivery, but not a role in the procurement evaluation panel.

3.4 Commercial arrangements in place

Development is already underway and therefore commercial arrangements are already in place for master planning, infrastructure and land development works. As the neighbourhoods within the scope of this business case are a long-term development programme, Kāinga Ora will continue to review its commercial arrangements to ensure they continue to meet the needs of the programme and deliver value for money.

The most significant existing commercial arrangement is the Te Aranga Alliance that has been established for the delivery of civil works across the eastern Porirua LSP. Te Aranga is a programme alliance that at any one time is managing [50-80 projects] at various stages. More detail is provided below on the scope of activities Te Aranga delivers, how it was originally procured, how Kāinga Ora engages with Te Aranga through delivery, and how risks are allocated.

While some procurement decisions have already taken place, there are procurement decisions that still need to be made. Going forward, Kāinga Ora will continue to use the Te Aranga Alliance model, though Kāinga Ora has also maintained the flexibility to use alternative procurement routes should they be required, including traditional, design and construct, or Early Contractor Involvement.

Kāinga Ora will make decisions about when to use Te Aranga and when to use a different approach at the appropriate stages and, where appropriate, after consulting with the relevant asset owners. Ultimately it will determine the preferred procurement route which best serves to deliver the strategic objectives, drive collaboration, value for money, and economies of scale. Decisions will be made in line with commercial procurement objectives, the Pā Harakeke social procurement strategy, and the Government Procurement Rules and Regulations.

3.4.1 Te Aranga Alliance

An alliance is a delivery model that brings together the client (Kāinga Ora) and multiple parties to work together to deliver a project, sharing project risks and rewards. Alliances are used for highly complex or large infrastructure projects that would be difficult to effectively scope, price and deliver under a more traditional method. The model has been used in New Zealand, for example City Rail Link Limited has an alliance and Auckland Transport is using an alliance for the Eastern Busway.

In 2019 Kāinga Ora undertook a thorough process to assess the procurement approaches against strategic objectives. An alliance agreement was selected as the preferred option for the design and construction requirements for eastern Porirua.

Te Aranga was the successful alliance selected and formed through the procurement process. It comprises the following delivery partners:

- Higgins
- Goodmans
- Beca
- Harrison Grierson
- Fletcher
- Brian Perry Civil
- Orogen
- Kāinga Ora
- Porirua City Council

— Ngāti Toa Rangatira

The alliance model increases the opportunity for collaboration, innovation, and value for money. At a high level, the scope of Te Aranga is to prepare land for development and manage the delivery of new and upgraded infrastructure and amenity on behalf of Kāinga Ora.

Te Aranga’s responsibilities include the removal of old houses, site remediation, consent applications related to earthworks and infrastructure, detailed design for civil works and landscaping, construction of roads, parks, and utilities. Te Aranga will also engage with the community as it relates to their construction activity where it impacts local roads, reserves, and infrastructure. Aggregating the infrastructure work into one alliance gives advantages such as procurement leverage and consistency of design and construction across the whole programme. Using an alliance model also increases the opportunity for collaboration and innovation, either during scoping, design, consenting or construction, as all parties are incentivised to solve problems together as all parties share in both risk and opportunity. Sections 3.4.1.3 and 3.4.1.4 contain more information about Kāinga Ora’s relationship with Te Aranga and allocation of risk.

Te Aranga was selected as the preferred procurement approach on the following basis:

- Value for money
- Managing the complexity and scale of delivery
- Mitigating scale of the delivery risk
- Funding availability and maximising advantage of existing organisational structures both within HLC and within external supplier organisations to ensure delivery
- At the time, the cost to set up the services or even the management roles within HLC was unrealistic and cost prohibitive

Kāinga Ora entered into a seven-year contract in March 2021 which is due to expire in March 2028. The Contract allows for further extensions beyond this. In the event that Te Aranga is discontinued as Kāinga Ora’s alliance partner, the Eastern Porirua Delivery Team would procure relevant consultants and contractors in accordance with Kāinga Ora’s Pā Harakeke procurement strategy.

3.4.1.1 Process for turning a brief into physical works

The overall Development Plan for eastern Porirua identified eight neighbourhoods for the purpose of prioritising and sequencing the works. A neighbourhood plan has been developed for each neighbourhood and comprises two parts:

- Neighbourhood masterplan (urban design)
- Neighbourhood infrastructure plan (civil engineering and physical works)

These two plans are inherently linked and developed concurrently.

The neighbourhood infrastructure plan is ‘briefed’ to the civil designers. The civil designers are either part of one of Kāinga Ora’s alliances or procured separately. This brief has a set of minimum requirements which set out the deliverables, and expectations for those deliverables. It includes technical items such as a concept design plan, stormwater management plan, and water servicing plan. It also includes an order of magnitude estimate, which is a high-level, risk-inclusive estimate to complete the work, along with a programme and staging plan.

The neighbourhood infrastructure plan then forms part of the neighbourhood business case, along with all the other documentation required. On approval of the business case, a stage is then ‘briefed’ to the civil designers. The civil designers proceed with developing a detailed design and pricing package. This is a collaborative process with Kāinga Ora to ensure the outcomes align with Kāinga Ora’s outcomes. At the end of this process, a contract pack is produced, which in the case of Te Aranga, would include the cost and risk schedule and form the contract between the parties which is a Targeted Outturn Cost (TOC).

3.4.1.2 Targeted outturn cost (TOC) process

Targeted outturn costs (TOCs) are set by joint development of project pricing between the alliance participants (including Kāinga Ora). There is a set process for how TOCs in Te Aranga are developed and then approved through governance. At a high level, this process consists of five key steps:

- Kāinga Ora brief and TOC development proposal
- Pricing pack design
- TOC budget development
- Project Alliance Board (PAB) approval

There is an independent TOC assurance process to provide additional information into the PABs approval process. The TOC is concurrently priced by the independent estimator to provide assurance and an independent comparator. This is then compared and reviewed in collaboration with Kāinga Ora to ensure that the price is competitive, risks are considered and weighted appropriately, and programme durations are robust. Following the review, Te Aranga obtains a letter from Kāinga Ora advising Kāinga Ora's view of the contracting amount. Te Aranga then provides a submission to the PAB which includes Kāinga Ora's letter. The PAB is made up of members from all companies within Te Aranga, including Kāinga Ora. Provided a unanimous decision is made, the PAB agrees the TOC value and the contractual commitment is then made for Te Aranga to commence with physical works on site.

3.4.1.3 Kāinga Ora relationship with Te Aranga

To understand the risks to Kāinga Ora, it is important to understand the Kāinga Ora relationship with Te Aranga.

While Kāinga Ora plans and manages large suburban re/developments on behalf of the government, the role of Te Aranga is to design and deliver the infrastructure, civils and amenity to the redevelopments on behalf of Kāinga Ora. Te Aranga is responsible for the following:

- Site investigations
- Consents related to earthworks and infrastructure
- Detailed design for civil works and landscaping
- Removal or demolition of housing including asbestos management
- Site remediation
- Infrastructure and Civil construction

The benefits of an alliance allow Kāinga Ora to focus on value creation with regards to master planning, scope refinement, place-making, community building, and land sales. Specifically, it allows Kāinga Ora to:

- Streamline land development
- Bring greater cost-effectiveness
- Harness industry expertise
- Provide certainty of delivery
- Allocate and manage risk
- Innovate and develop industry capability
- Procurement efficiencies
- Collaborate for effectiveness
- Provide flexibility
- Learn and continuously improve
- Ability to commit capital investment

3.4.1.4 Te Aranga as a shared-risk model

The Te Aranga Alliance contract is a collaborative design and build contract. This requires Te Aranga, once the TOC is in place, to own and manage risks associated with civil design, consenting, and delivery, noting, as above, that Kāinga Ora is a member of Te Aranga and therefore shares this responsibility.

However, the commercial framework is complex, and although Te Aranga is a shared-risk model, Kāinga Ora still keeps an element of contingency. One of the main principles is that Te Aranga will always be reimbursed for costs on works that have been agreed by Kāinga Ora. This means that should a TOC, which is the agreed contract price, be exceeded, Kāinga Ora is required to pay for these costs²³. Kāinga Ora therefore still needs to retain some contingency (risk costs) to account for this. In principle, this should be a considerably reduced contingency compared to a traditional model.

Prior to a TOC being set, all risk sits with Kāinga Ora, hence the contingencies are higher during this phase of works. Agreements with CCOs and asset owners, regarding scope of works are managed by Kāinga Ora to align expectations with outcomes (and therefore budgets), despite works being designed by Te Aranga.

3.4.2 Land disposal and commercial terms with developers

A strategy is in place which describes how Kāinga Ora sells the land once existing homes have been demolished or relocated, the land is remediated, and infrastructure is in place.

3.4.2.1 Background

UDD undertakes a standard procedure for land disposal of HNZ or Crown Land in a manner that accords with Kāinga Ora approval processes and governance requirements. This standard procedure is being described and formalised into a Standard Operating Procedure (SOP) (currently in draft form) that will replace the 2017 HLC SOP for land disposals.

A contract titled 'Agreement relating to eastern Porirua Superlots' between HNZ and Ngāti Toa provides for Ngāti Toa to have a first option to be the developer of a specified number of eastern Porirua market superlots. The agreement provides for Ngāti Toa to elect up to two market superlots in any neighbourhood, which would provide Ngāti Toa the option to develop up to 400 new dwellings across the eight neighbourhoods.

3.4.2.2 Allocation and sale of superlots as stages

During the neighbourhood planning stage, a masterplan is divided up into public and market superlots. This is done in collaboration with the Kāinga Ora Regional Place Based Team and in such a way to pepper pot state and market sites throughout the development. Ngāti Toa are consulted on the planning of superlots at this early stage, in accordance with the terms of the contract. Ngāti Toa elect which superlots they wish to be subject to the option agreement.

The land is then developed including demolition, decontamination, civil and relevant infrastructure capable of delivering the masterplan yield provided up to the boundary of the superlot. This work is undertaken by the Te Aranga Alliance (managed by UDD). The release of superlots is divided into stages, with each stage programmed to allow for a suitable duration that takes into account community impact, land supply, and any agreements in place.

Superlots for public housing development are delivered to the state house construction arm of Kāinga Ora's Construction and Innovation Group (CIG) and to the market.

When a stage is ready to go to market, a land sales strategy for that stage is drafted and approved via the Programme Control Group. This determines how the superlots will be marketed, sets the affordable housing target in line with the neighbourhood business case, sets the land price target (and how this compares to the approved business case), and sets how the proposal will be evaluated and seeks approval for any other parameters to be followed. This land sales strategy also provides for all contractual obligations to offer market superlots to Ngāti Toa in accordance with the option agreement.

²³ The target outturn cost (TOC) is the estimated total cost of undertaking a project, which includes direct costs (for example, investigations, consents, land purchase, design, construction, and commissioning), overheads, and profit margins. See Section 3.4.2.2 for detail about how TOCs are developed and agreed.

The process for offering market superlots to Ngāti Toa is as follows:

1. Engagement with Ngāti Toa begins during preparation of the masterplan to enable Ngāti Toa to elect which of the market superlots they want to have option over (maximum of two superlots per neighbourhood).

Kāinga Ora then formally offer the superlots to Ngāti Toa including:

- a. Description of the superlots
- b. Timing that development must occur
- c. Yield required to be achieved
- d. Typology mix required
- e. Required affordable price point

Ngāti Toa must respond with offer for the superlots within 20 days. Kāinga Ora can either accept the offer or negotiate.

If Kāinga Ora doesn't accept their offer, it must provide reasons and a price guide. Ngāti Toa then has 10 days to submit its best and final offer.

If the best and final offer from Ngāti Toa is not within the acceptable price guide Kāinga Ora can offer the superlots to private market.

If the superlots have not sold to the private market within 6 months, the process with Ngāti Toa is started again.

3.4.2.3 Developer selection process

An Information Memorandum (IM) is then drafted setting out the objectives of the masterplan for that LSP, as well as details on the superlot, location, typology, timing, yield, and affordability requirements.

The IM is then issued to Ngāti Toa as per the process outlined above. If the superlots are being offered to the open market following this process, the requirements for bids (sometimes including a minimum price), and the relevant assessment criteria for each application from developers is prepared. Each assessment criteria carries a different weighting. This varies depending on the LSP, but has recently included the following for eastern Porirua, which reflects the increased emphasis on obtaining affordable housing outcomes in eastern Porirua:

- Project Examples – Ability to deliver quality developments of similar typologies in the proposed timeframe – 10%
- Proposed development demonstrates quality design and how it responds to the vision, masterplan, and guidelines – 15%
- Working with Mana Whenua, recognition of Maori perspectives & Te Tiriti O Waitangi – 15%
- Delivering the Affordable Housing outcomes sought – 20%
- Price and commercial terms – 40%

Once approved, the IM is sent out to UDD's Invitation to Participate (ITP) developer list. This list consists of developers who have made an application via an online form and have been assessed as meeting a set of criteria that aligns with the outcomes Kāinga Ora is responsible for delivering. The current UDD ITP developer list is Auckland centric. It is intended to develop a Wellington focused ITP developer list for this and future projects. The general process is then:

- Developers on the list that wish to purchase any of the superlots in the IM must submit an application containing information to satisfy the criteria identified above.
- An assessment process is undertaken by a panel to mark each application against the criteria and create a short list of preferred developers for each superlot.
- A negotiation strategy is agreed, and each developer is approached to determine who will be the preferred developer to work with on that superlot.

- Should a developer be selected from the list that has not previously entered into an agreement with UDD, then a detailed due diligence (DD) process is undertaken to confirm that the developer is financially sound and to identify any risk factors.
- A term sheet and Development Agreement (DA) are entered into. The term sheet determines the commercial parameters of the deal and formalises the responsibilities of Kāinga Ora and the developer, including meeting environmental outcomes, density and typology outcomes, and social procurement objectives.
- There are no criteria that multiple lots must be purchased (unless specified in the sales strategy), so multiple developers can be successful as part of each IM process.
- UDD stays involved until the houses are sold to the end purchaser to ensure that the DA and masterplan are adhered to. Timing of settlement depends on the terms of the agreement, but sometimes occurs when the houses are sold. The developer is required to update Kāinga Ora on its sales data so that it is known how many dwellings are ultimately delivered as affordable homes and market homes.

3.4.2.4 Term sheet process

Once agreed by both parties, the commercial parameters are fed into the DA. The commercial parameters are (but not limited to):

- Price and settlement details
- Yield
- Percentage of affordable (including KiwiBuild)
- Purchaser conditions and obligations
- Kāinga Ora conditions and obligations
- Marketing contributions
- Milestones to be met

The terms agreed are usually subject to board (or internal governance) approval of both parties. The ideal timeframe between term sheet agreement and DA is 30 days, however this period is often extended. The term sheet mirrors the specific terms that are included in the front end of the DA, which also includes the general terms of the different facets agreed to.

3.4.2.5 Review of Development Agreement process

The DA process has been reviewed and updated to ensure consistency across projects and introduce a form of automation and efficiency. The idea being that what is agreed in the term sheet will result in a DA that cannot be negotiated further, focusing the negotiation on the commercial terms only. The term sheet has undergone changes to reflect the final form of the DA.

3.4.3 Porirua City Council Agreements

A Project Agreement (PA) is currently being negotiated with PCC which describes the expectations and objective of the project, specific to PCC and Kāinga Ora. This agreement describes how the working relationship of the partnership is to function, scope of the infrastructure and civil works, administration of the Crown infrastructure funding, rebate of development contributions in lieu of Crown investment and how the works will be delivered.

A series of Infrastructure Funding Agreements (IFA) are also currently being agreed with PCC. These agreements relate to specific packages of civils and infrastructure works that have been funded by the Crown. These agreements detail the delivery and administration of specific parcels of works including cost sharing, risk apportionment, roles and responsibilities of parties, insurances, consenting obligations and the process for vesting the assets back to PCC after completion.

3.5 Commercial risks

3.5.1 Risk allocation

As with any large-scale and long-term project, there are risks associated with the civil design, consenting, and delivery of the project. There are also non-construction community risks such as creating and maintaining the social licence to redevelop a community.

This section sets out the key delivery risks and non-construction risks that have been identified for the LSPs and are allocated through the commercial arrangements. The principle followed, is that a risk is allocated to the party best able to manage the risk. That is, the party has the expertise, resources, and information to manage the risks efficiently and effectively.

Kāinga Ora considered the optimal risk allocation for the LSPs when it made the decision to use an alliance. This is the key commercial arrangement for allocating (and in this case, sharing) the commercial risks. The section above describes the risk sharing model of Te Aranga.

3.5.2 Potential delivery risks

There are a broad range of risks associated with any long-term land development and infrastructure projects. The likelihood and impact of these risks varies widely and include (but are not limited to):

- Cost risks resulting from industry volatility and inflation
- Delays and increased costs of rehousing existing tenants
- decreased demand and revenue for superlots
- Funding availability and timing
- Urban development risks
- Changes to government policy around affordable housing
- Issues with securing consents
- Unexpected events (e.g. environmental events, lockdowns, etc)
- Supply chain capacity constraints

3.5.3 Non-construction risk

The delivery of the LSPs also involves risks outside standard construction risks. These are owned and managed by Kāinga Ora and include:

- Managing the impact on existing Kāinga Ora tenants
- Managing community engagement and ensuring there is social licence to proceed with the neighbourhood development as intended
- Managing the interface with asset owners
- Managing the overall delivery of benefits

3.6 Intentions for future procurements

Kāinga Ora is continually looking to improve value for money and seek efficient and effective delivery. The works covered by this programme business case is a long-term programme and changes to the procurement approach are therefore expected over that timeframe. If making changes to the procurement approach, Kāinga Ora will take into account fit-for-purpose, capacity, risk, and CCO delivery partners. This section discusses areas of commercial innovation that Kāinga Ora is exploring for future procurement considerations.

3.6.1 Opportunities for long-term funding

The LSPs, with the funding term proposed under this business case provide a significant opportunity to investigate innovation in planning, design and delivery of infrastructure and civil construction.

Kāinga Ora has the lead role in the management, funding, and programme of the LSP and therefore can influence collaboration, planning, and design across agencies that wouldn't otherwise contribute. This allows short-term outcomes to continue to be achieved whilst also focussing on long-term opportunities.

The scale and programme of the construction activity also presents the opportunity to investigate delivery efficiencies, increased sector productivity and innovation in the physical delivery of works.

3.6.2 Land supply agreements

Kāinga Ora is also currently exploring land supply agreements as a more coordinated approach to selling superlots than the current land disposal strategy. These types of agreement will provide the development market surety of pipeline, enable private investment decisions to be made, thereby increasing market capacity, and will result in a more stable land value for future business cases. It should be noted however these types of agreements are subject to Kāinga Ora securing long term funding to deliver build ready land.

3.6.2.1 Managing yield and typology

Land supply agreements exist in other areas of Kāinga Ora, mainly in the Construction and Innovation Group (CIG), who deliver state houses. These are typically builder-only deals, where CIG contract to provide a developer with a certain number of house-builds for the term of the agreement. Within UDD this would differ, because a supply agreement would be for land only, and the developer would have to then develop and build the houses in accordance with its own designs (that are acceptable to the Design and Review Panel).

This creates complications around managing yield and typology to fit within the masterplan and available infrastructure, as this level of detail can currently be controlled via individual negotiations. Any land supply agreement would have to retain the right to determine yield and design on each superlot, and Kāinga Ora would have to be able to determine which superlots would go to the developer under the supply agreement.

3.6.2.2 Achieving market fairness

Other concerns stem around market fairness and providing too much benefit to one developer at the expense of others in the market. These concerns will be managed through a procurement process. Any land supply agreements would not be for all available superlots coming onto market, but pre-allocating a number of suitable sites to certain developers would create system efficiencies that would free up resource to allow the remaining superlots to be awarded to alternative (or smaller) providers. This would achieve the following:

- Encourage new models and entities that provide affordable housing.
- Provide an opportunity for smaller developers to scale up without having to compete with larger developers (likely to be the beneficiaries of a land supply agreement).
- Provide greater scope for partnering with iwi and Pasifika communities to deliver fit for purpose housing.

The success of any land supply agreement rests on a visible and accurate pipeline of developable land coming onto market. If this can be achieved (and the procurement process managed), vast benefits from the use of land supply agreements could be realised.

3.7 Assessment of current market

This section provides an update on the current eastern Porirua housing market, specifically recent trends in the land sales market and the current level of uncertainty within the New Zealand construction sector. These trends provide insight into some of the risks and considerations for Kāinga Ora over the short to medium term. The scale and pace necessary for new infrastructure design and construction for all the LSPs is significant. The neighbourhood

development within the scope of this programme business case is long term and market conditions will change over the next five years, reinforcing the need for Kāinga Ora to embrace a flexible commercial approach with its partners.

3.7.1 Land sales market

3.7.1.1 Overview

Bayley's were commissioned to provide valuation advice and evidence on recent land sales, new homes sales and market commentary. The results indicate a land price of between $\$9(2)(j)$ depending on methodology used. Kāinga Ora has cross checked their valuations results with internally developed calculator and confirmed similar results with only a minor variances (within 5%).

Bayley's made the following observation of the market in relation to land sales in eastern Porirua "The property market has been on an upward trajectory for the past five years, fuelled by low interest rates, pent-up demand, limited supply of stock presented to the market, and changes in Government policy regarding residential investment tax deductibility. Many of these drivers are now facing "headwinds" and some easing in the property cycle is likely as Central Government implement steps to curb rising inflation. We are already starting to witness signs that a market shift is occurring, evidenced by banks imposing tighter lending restrictions and a slight elevation in buyer caution. As history has taught us, the property market traverses high and low cycles, and the latest underlying indicators suggest that a change may well be imminent. The valuation has been completed during a time where the market is in a period of uncertainty. The main drivers being a significant shift in interest rates, tightening lending criteria and changing Government policy. While current sales data does not suggest any discernible decrease in value, we have witnessed a fall in sales volume and sentiment, which may well translate to value reduction across a number of property sectors (including the subject)"

The Kāinga Ora Land Sales Team has reviewed the valuation and is satisfied the valuations have factored in multiple methodologies and the calculated values are in line with internal calculations. Valuation ResultsDirect sales comparisons of various land have indicated a median price of $\$9(2)(j)$ Residual Land Value calculations have indicated a price of $\$9(2)(j)$. They also confirmed that the proposed $\$9(2)(j)$ of land value for affordable housing lots is appropriate to achieve developed units that can be sold in the lower quartile of eastern Porirua values and align with amended KiwiBuild price caps currently being considered by Cabinet.

3.7.2 Construction sector uncertainty

3.7.2.1 Overview

The construction industry in New Zealand and in the Wellington region is experiencing rising building material costs, longer lead times to get imported building products, increased labour costs, and congestion in transport and global freight logistics. These issues are exacerbated by COVID-19, with the full impact of the pandemic on the industry yet to be realised.

The situation is complex, and the industry has not previously experienced issues to this extent. This uncertainty makes it extremely challenging to forecast construction costs.

3.7.2.2 Increased demand for building supplies

Forecast demand for building supplies has been difficult. The building industry forecast 'tight times' after the March 2020 lockdown. As an example of flexibility, Fletcher Building slowed inventory (including insulation, plasterboard, steel products, laminate surfaces, piping, aluminium joinery, roofing, and flooring), as the company prepared to 'weather a very difficult storm'. However, instead there was an unexpected sharp increase in demand for supplies as New Zealanders confined to their homes during lockdown and working from home in the months following, decided to renovate, extend, and landscape. This compounded with the housing shortage, builders and developers building new homes, and a record number of building consents, is placing considerable pressure on the industry (2). Demand for supplies is not isolated to 2020; suppliers and construction partners had been finding it difficult to access materials

prior the 2021 lockdown. Restricted global supply chains meant they had comparatively little buffer stock, if any, prior to the 2021 lockdown and the situation has amplified.

3.7.2.3 Supply chain constraints

COVID-19 has highlighted the fragility of the New Zealand construction supply chain. According to NZBIF, New Zealand has 'dropped off' the global construction material supply chain. As an example, many global shipping and building supply companies have reviewed their business models post-pandemic. This has meant that New Zealand is no longer included in some supply routes, with supplies 'only getting as far as Australia' (3). NZBIF estimates that some projects are now facing delays as long as eight months.

Further supply chain issues include low global availability of shipping containers, and delays in unloading, inspecting, and clearing containers. This has meant an increase in shipping costs that flows into construction costs (4).

With a decrease in local manufacturing of supplies, increase in demand and changes in global supply routes, the industry has witnessed an increased cost of materials due to supply shortages and greater uncertainty in the forward work pipeline (5). Inevitably, these uncertainties have increased the difficulty to forecast expected overall costs.

3.7.2.4 Labour supply constraints

Shortage of skilled workers in the construction industry is a significant and longstanding issue. While there has been an increased effort to recruit, train, and retain workers in New Zealand, the industry is heavily reliant on immigration to fill demand and provide a buffer to assist with managing the cyclical nature of the industry. Having the border closed to new workers has contributed significantly to labour shortages. This issue is made more complex by the fact that labour productivity has grown slowly in the construction industry. This is likely due to lower average skill levels and lower capital intensity, relative to other industries (6). There are also predictions that the industry will lose experienced leadership as the workforce ages, adding to the view that current labour supply issues will persist, if not intensify, into the future.

3.7.2.5 Mitigating risks

The future of the construction sector remains uncertain (4). Nevertheless, the industry is navigating these uncertainties by having mitigation strategies in place.

The supply chain risks are being mitigated in several ways. This involves tracking individual shipping movements to know where materials are, increasing communication across the supply chain, and identifying alternative suppliers in case a longstanding historical supplier cannot deliver. Another strategy that is being widely accepted within the industry is purchasing componentry earlier; materials are being ordered and stored well before they are needed.

The labour supply risks can be mitigated by better managing the current workforce talent and keeping those in the sector highly motivated to stay working within it. Long-term retention is more likely to occur if building companies start creating a culture that recognises the need for a younger workforce (7).

Fletcher Building has adopted various risk mitigation strategies, including pricing disciplines, consolidation and automation of manufacturing and supply chains, and tracking and improving employee engagement (8).

By using these mitigation strategies, the sector is better equipped to manoeuvre the current uncertainties and more safely forecast costs.

3.7.3 Summary

The New Zealand building industry is in a period of extreme uncertainty. The COVID-19 pandemic continues to evolve as a major global economic event, and it is difficult at the present time to take a view on the long-term impact of this issue on the wider economy. Whilst the residential (and residential land development) industry has shown strong resilience, supply and labour constraints are problematic.

The uncertain market conditions make it difficult to provide development certainty and impact Kāinga Ora's ability to forecast cost escalation. For not only the eastern Porirua development, but all LSPs, this means Kāinga Ora must

carefully manage risks and embrace innovation, flexibility, and collaboration in future commercial arrangements with its commercial partners.

4 | Financial Case



4 Financial Case

The financial case assesses the affordability of the preferred way forward (established in the economic case). It first defines the scope of activities covered by the investment and provides an overview of the costs and revenues. It then:

- Sets out the methodology and key assumptions for the revenue estimates
- Sets out the methodology and key assumptions for the cost estimates
- Outlines the approach to quantitative risk analysis and contingency
- Provides an assessment of the fiscal implications and escalation scenarios

4.1 Scope of investment

This business case covers the costs incurred and revenue recognised for the in-scope neighbourhoods and precinct works in the eastern Porirua LSP:

- Prior to 1 February 2022 (actuals)
- From 1 February 2022 to 30 June 2029 (forecasts).

Delivering large-scale urban developments is an evolving process and a number of factors, including external to Kāinga Ora, could change over the course of the LSP developments. As such, no revenues/costs are provided beyond the above time horizon and these will be forecast through future business case processes.

The LSPs have a mix of revenues and costs and this financial case presents a net cost position that requires Crown funding to bridge. LSP revenue includes the sale proceeds from land that is sold to developers or to the Kāinga Ora Construction and Innovation group. Costs cover a range of activities that relate to the delivery of infrastructure and the preparation of land, for example, removal of existing buildings, site remediation, land acquisitions and marketing of superlots to developers.

As mentioned previously in this precinct business case, the costs associated with delivering housing on the land is outside the scope of the analysis.

4.2 Cashflow summary

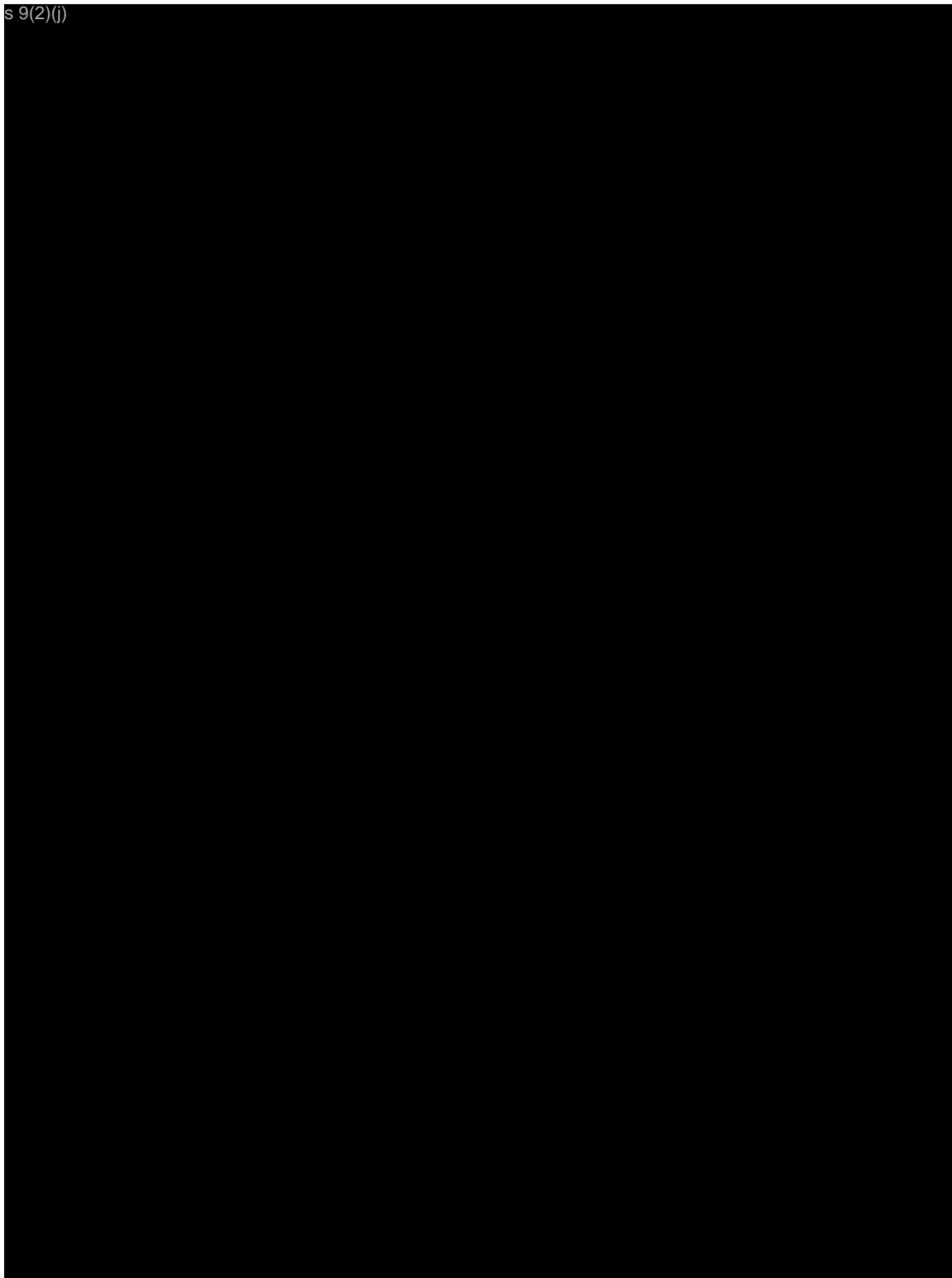
A financial model has been developed which calculates the revenues and costs associated with the eastern Porirua LSP's preferred way forward. Based on current forecasts and estimates, the anticipated cash flows for the eastern Porirua development up to FY28 is presented in the table below. All values shown in the table are in New Zealand dollars, are not escalated, and exclude GST.

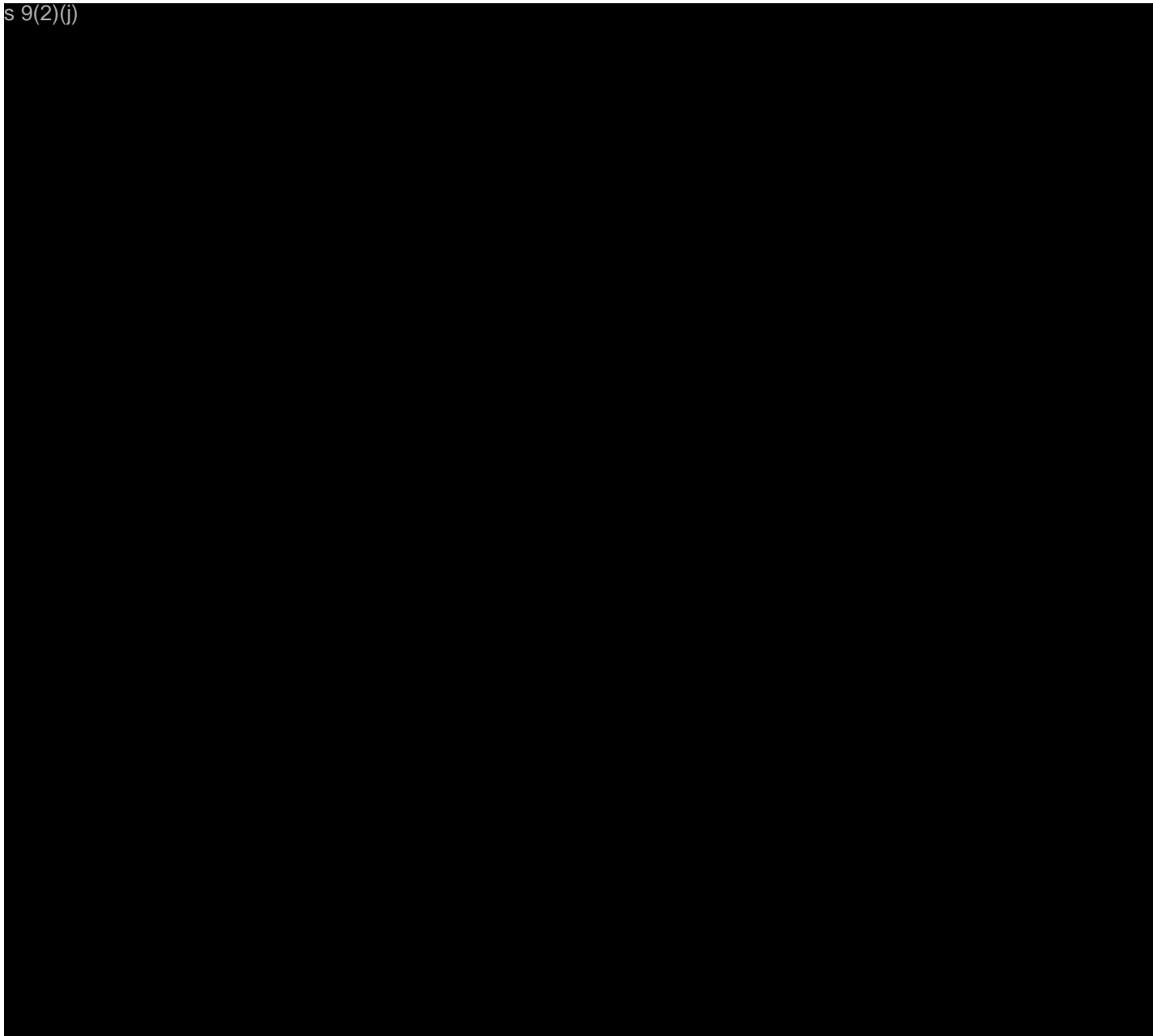
Table 18: Anticipated escalated cash flows – Option 4

Escalated Cash Flows (\$m)	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	Total	
Revenue											
Market superlot sales	-	-	s 9(2)(j)								
Affordable superlot sales	-	-	s 9(2)(j)								
State superlot sales	-	-	s 9(2)(j)								
Porirua City Council Contribution	-	-	s 9(2)(j)								
Total Revenue	-	-	s 9(2)(j)								
Costs											
Land development	s 9(2)(j)		s 9(2)(j)								
Precinct infrastructure	s 9(2)(j)		s 9(2)(j)								
Other precinct costs	s 9(2)(j)		s 9(2)(j)								
Starting rents	s 9(2)(j)		s 9(2)(j)								
Contingency	s 9(2)(j)		s 9(2)(j)								
Total Costs	s 9(2)(j)		s 9(2)(j)								372.1
Net Costs	s 9(2)(j)		s 9(2)(j)								307.2

s 9(2)(j)

s 9(2)(j)





4.3.4 Porirua City Council contribution

Porirua City Council has committed to \$20 million in funding towards the Bulk Infrastructure Projects (Reservoir and Trunk Sewer). The funding has been allocated as part of PCC's Long Term Plan as a contribution towards PCC's share of the infrastructure costs. An Infrastructure Funding Agreement is being drafted to manage the commercial, delivery and funding terms for the infrastructure, and the agreement is expected to be finalised in June 2022.

The \$307 million net cost of this business case includes this \$20 million contribution from PCC.

4.4 Cost methodology

The detailed breakdown for all costs and revenues for the short-listed Options 2, 3 and 4 are included in Appendix O. Summary of these costs is as follows:

4.4.1 Land development costs

Land development costs includes removal of existing dwellings, remediation, and civil and infrastructure works that are within neighbourhood boundaries. The largest component of land development cost is from civils and

infrastructure works. A detailed breakdown of the land development costs and assumptions are shown in the table below.

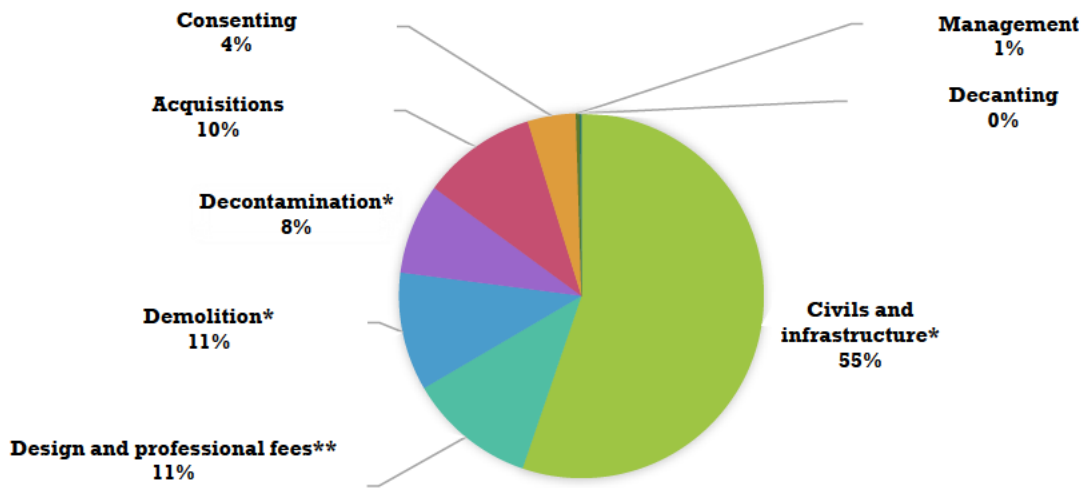


Figure 5 Breakdown of land development costs.

Table 20: Land development cost and assumptions.

Land Development Category	Cost (\$m)	Assumption
Civils and infrastructure*	s 9(2)(j)	
Design and professional fees**		
Demolition*		
Decontamination*		
Acquisitions		
Consenting		
Management		
Decanting		
Total		

*Includes Limb 2 of 12.3%.

**Includes Limb 2 of 30.0%

In addition to the costs listed above, an additional allowance is included for “Limb 2”. Limb 2 consists of a markup on direct costs and is payable to Kāinga Ora's alliance partners based on a percentage of the net actual cost (Limb 1). A s 9(2)(j) Limb 2 is applied to all design and professional fees and a s 9(2)(j) Limb 2 is applied to civils and infrastructure, demolition and decontamination.

4.4.2 Precinct infrastructure costs

Precinct infrastructure costs includes infrastructure projects which service multiple neighbourhoods, cross neighbourhood boundaries, and/or are defined as trunk/bulk/reticulation/arterial by Council. The total precinct infrastructure cost for eastern Porirua is divided into the asset classes shown in the figure below.

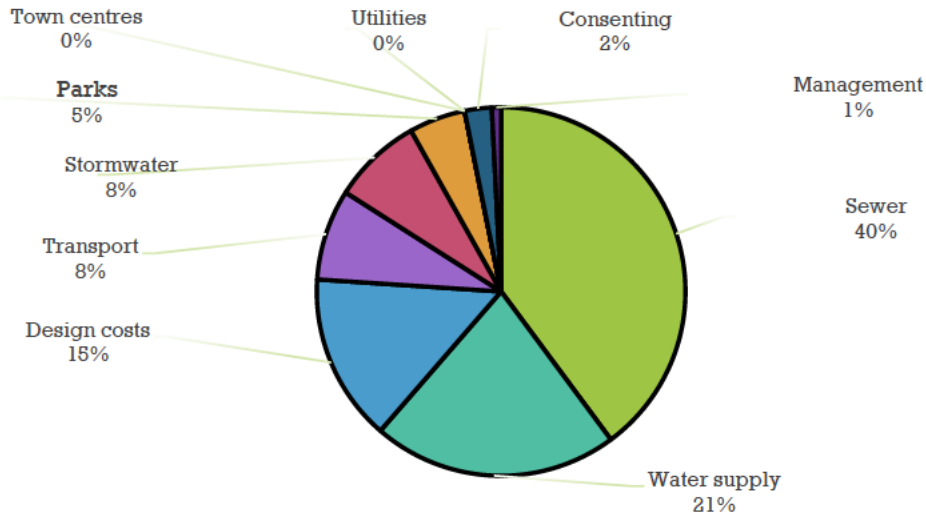


Figure 6 Breakdown of precinct infrastructure costs.

Table 21: Precinct infrastructure costs by asset class.

Land Development Category	Cost (\$m)
Sewer	s 9(2)(j)
Water supply	
Design costs	
Transport	
Stormwater	
Parks	
Town centres	
Utilities	
Consenting	
Management	
Total	

The precinct infrastructure costs used in Kāinga Ora’s financial model were based on Beca’s Infrastructure Masterplan. These costs were provided directly by asset owners or have been adjusted in collaboration with Te Aranga. A summary of precinct project costings is shown in the table below. The complete list of individual infrastructure projects is shown in [Appendix L].

Table 22: Source of precinct project costs.

Asset Class	Source
Stormwater	The cost of stormwater projects has been developed by Kāinga Ora, its consultants, and Porirua City Council.
Wastewater and water supply	Wellington Water has provided the costings for wastewater and water supply projects, based on a review of Beca/Piritahi’s initial costing.
Transport	The cost of transport projects has been developed by specialist transport consultants Commute New Zealand.
Parks	Spatial Delivery Strategy projects have been priced by Kāinga Ora and all other projects have been priced by the Parks unit within Porirua City Council.
Utilities	Utility upgrades are needed to the Waitangirua sub-station. The value of these projects has been estimated based on the professional experience of the Porirua project team (If included in the Option).
Town centres	There is a minimum investment required to support the masterplanning for Cannons Creek Town Centre. This has been determined based on the professional experience of the Porirua project team (If included in the Option).

4.4.3 Other precinct costs

Other precinct costs include general overall precinct costs which are not directly associated with land development and infrastructure works. The largest components of other precinct costs consist of UDD alliance and overhead allocations.

UDD alliance costs cover the overall management and running costs of Te Aranga preliminaries and general (P&G). This excludes the roles that have been provided by Kāinga Ora, such as the Alliance General Manager and the Head of Pre-Construction. The total alliance P&G TOC has been allocated to each precinct based on the size of works that will be undertaken within each precinct.

UDD overheads refer to costs which are shared across the LSPs and cannot be directly attributed to a specific precinct. Examples of these shared costs include:

- General Manager of Urban Development & Delivery
- Director of Large-Scale Developments
- Consultants and contractors
- Office accommodation costs
- Computer costs

Kāinga Ora has determined a standard method for distributing these overhead costs between each precinct. This approach involves allocating the total overhead cost to each precinct based on the proportion of FTEs within each precinct. Other precinct costs can be divided into the following cost categories shown in the figure below.

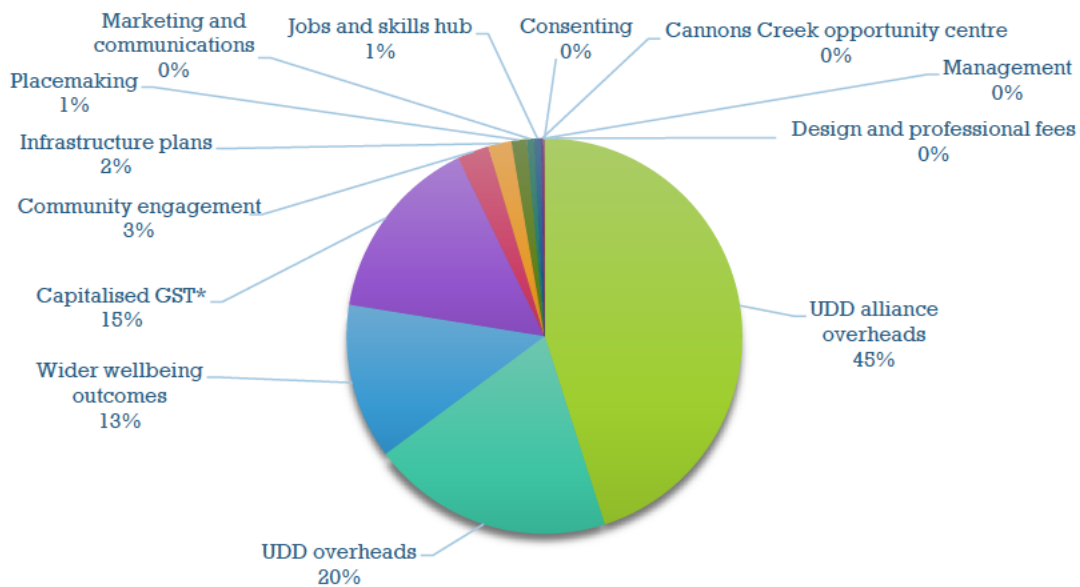


Figure 7 Breakdown of other precinct costs.

Table 23: Other precinct costs by cost category.

Other Precinct Costs	Cost (\$m)
UDD alliance overheads	s 9(2)(j)
UDD overheads	
Wider wellbeing outcomes	
Capitalised GST*	
Community engagement	
Infrastructure plans	
Placemaking	
Marketing and communications	
Jobs and skills hub	
Cannons Creek opportunity centre	
Design and professional fees	
Consenting	
Management	
Total	

*Relates to Kāinga Ora retained land

4.4.4 Starting rents

Starting rents is the capitalised value of net lost revenue from public housing that is removed to facilitate the LSPs. The purpose of the starting rents is to compensate the public housing arm of Kāinga Ora for the decrease in dwellings (and therefore the decrease in net revenue) during the redevelopment process. The net funding shortfall has been established based on the lost income stream rather than the book value of homes used for land development.

The calculation for starting rents is based on actual and planned removals using the average bedroom and associated average market rental value for eastern Porirua. The calculation is as follows:

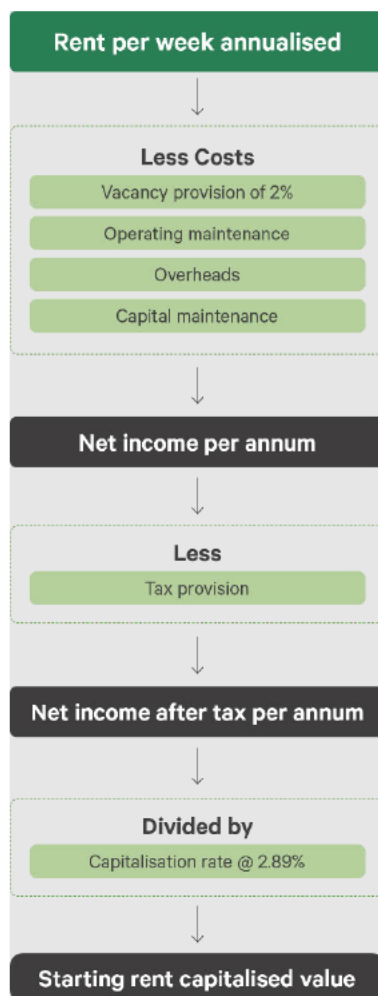


Figure 8 Calculation for starting rents.

The capitalised value of the starting rent is assumed to be a one-off cost that is incurred at the time of removal on a unit-by-unit basis.

Kāinga Ora establishes the market rent for its properties through a two-stage process:

- Stage One: Rent benchmarks are regularly reviewed. The benchmark is an indicative rent based on location, property type, housing standard, and number of bedrooms.
- Stage Two: Benchmarks are converted into individual property market rents using the process outlined in Kāinga Ora’s P-108 Property Management Procedure – Manage Benchmarks for Standard Properties. The benchmarks are adjusted based on the property’s rent set features as well as any discretionary adjustments.

4.5 Quantitative risk analysis

A Quantitative Risk Analysis (QRA) has been completed for this LSP Precinct Business Case to inform the levels of contingency provision to be held at the various governance levels within Kāinga Ora. This analysis can also be utilised by funders to inform the level of funding contingency to be retained by Kāinga Ora’s funding streams.

The QRA has been used to inform the total combined contingency for all the costs in the financial model. This process applies a probabilistic contingency calculation methodology to estimate the most likely contingency provision, based on the probability of occurrence and the uncertainty of outcomes. The analysis undertaken considered both the inherent risk in rates and quantities used in the deterministic estimate and the discrete risk events that may hinder or enhance each precinct’s final desired outcomes. The outputs of the QRA are shown in Appendix N.

The QRA applied the following methodology:

- **Step 1:** Identify the programme's inherent risk profile. This profile was established by assessing the uncertainty in the rates and quantities used for the base estimate/forecast. A 3-point estimate was developed, which determines the 'best', 'most likely', and 'worst case' scenarios.
- **Step 2:** Identify the programme's discrete risk profile. This process involved identifying all risks, determining the probability of the risks occurring, and quantifying the impact of the risks. A full review and quantitative assessment of each precinct's risk register and their neighbourhood risk registers has been undertaken by the precinct and neighbourhood teams led by Integr8ted Projects NZ Limited (IPNZ) to ensure alignment with each precinct's estimating assumptions and delivery constraints. Of all the risks that have been identified, the top 10 risks for each precinct are shown in Appendix N.
- **Step 3:** Combine the inherent and discrete risk profile in ARM (Kāinga Ora's QRA software) and develop the QRA using a Monte Carlo simulation. Kāinga Ora has identified a P5, P50, P70, P80, P85, P90 and P95 level of confidence to inform the contingency provision.

Kāinga Ora's LSP portfolio will allocate a P50 level of contingency to each precinct as an allowance for the planned (inherent) and unplanned (discrete) risks that they face in delivering the scope of works required to successfully achieve the required outcomes agreed.

This P50 level of contingency is considered adequate due to the following context:

- \$136m of the total \$307m (44%) total costs have been committed and are underway
- A further \$135m of costs are in a developed design stage where the scope of works is quantified
- The Te Aranga alliance framework is expert and highly effective at managing risk.

The approach utilised for this QRA aligns with the Kāinga Ora Risk Management and Contingency Management Processes. These processes were developed in early 2021 and follow industry best practice guidelines. Other local and International organisations that use a similar approach to that used by Kāinga Ora are:

- Waka Kotahi (NZ Transport Agency): Advanced approach as detailed in the NZTA "Z10 - Risk Management Manual" and "SMO14 Cost Estimation Guideline"
- Auckland Transport: Risk Management and Contingency Management Procedures developed for their Strategic Programmes Portfolio
- Kiwirail: Risk Management and Contingency Management Procedures developed for their CPAD Projects Directorate
- Risk Engineering Society (Engineers Australia): Contingency Guideline (2nd Edition)

4.6 Review of revenue and costs

Advisors supported the development of the financial information in this business case. KPMG was involved in the development of the core business case model that underpins that financial case and a risk specialist developed the QRA.

The following process was used to develop the business case model:

1. Kāinga Ora presented walk-throughs of existing workbooks and software over Teams. The structure behind the numbers and the key drivers of revenues and costs were questioned.
2. Kāinga Ora provided the materials and sources for the assumptions that were then reviewed.
3. Summaries of the inputs, assumptions and links to sources were produced and validated by Kāinga Ora.
4. Workbooks were developed to test if the same outputs could be achieved.
5. The revenues and costs were broken down and graphed to see trends and for Kāinga Ora to sense-check.
6. A period of iteration was undertaken with Kāinga Ora. This included updating inputs and checking if there was a clear rationale for any Porirua assumptions that differed to Auckland assumptions.

7. The workbooks were reviewed and finalised.

4.7 Funding gap/affordability

The LSPs generate a net cost and therefore requires funding from the Crown. A portion of the Housing Acceleration Fund has been ring-fenced to support the LSPs and this PBC is detailing the extent of funding needed.

The costs of this LSP covers Kāinga Ora's core land development costs and costs that would normally be met by Porirua City Council. As outlined in the Strategic Case, Porirua City Council does not have the funds to fully support the LSPs within the timeframes that the Government wants the housing delivered and therefore the Government intends to contribute towards the Porirua City Council costs. As set out in the revenue section above, PCC has formally committed \$20 million towards the infrastructure costs.

4.7.1 Crown contribution to PCC costs

Typically, a developer would deliver the local infrastructure associated with their development. The Council would deliver the larger assets (referred to as Precinct Infrastructure in the LSPs) and then recoup a portion of these costs through developer contributions.

However, there are aspects to the LSPs that makes them unique in comparison to standard developments. The LSPs are located in a brownfield environment where existing assets are near their end of life. In many instances, these assets are no longer compliant with the asset owner's Code of Practice. Porirua City Council is asking Kāinga Ora to deliver assets above what is required for their own development by planning and future proofing these existing assets. This means surrounding private houses will also receive the benefits associated with any infrastructure works Kāinga Ora carries out.

The LSPs are not typical developments given the location, existing asset conditions, and the complexity of mixed ownership and therefore beneficiaries of the assets. The neighbourhood and precinct infrastructure costs should therefore be split between the developer entity and Porirua City Council as follow:

- Maintenance, renewal, increase in level of service and opex costs would be funded city wide through general rates
- Neighbourhood transport, stormwater and community facilities infrastructure capex cost would be funded through a combination of a) development contributions determined predominantly over a local catchment, and b) developer agreements to share costs for particular projects
- Neighbourhood wastewater and water supply infrastructure capex costs would be funded predominantly through developer agreements with Wellington Water
- Precinct transport, stormwater and community facilities infrastructure capex costs would be funded through development contributions over a regional catchment or city-wide catchment
- Precinct wastewater and water supply infrastructure capex costs would be funded through infrastructure growth charges on a city-wide basis

There is limited ability for PCC and utility providers to provide funding to Kāinga Ora without prior allocation through their Long-term Plan and asset management plan. These entities all have different ownership, debt, and funding models. As such, no commitment has yet been made by these entities to fund the infrastructure that Kāinga Ora will deliver as part of its LSPs. s 9(2)(i)

4.8 Fiscal implications

Budget 2021 allocated \$2.3 billion (ring-fenced in the Housing Acceleration Fund) to support housing supply and land development. This was based on the costs and revenues of the LSPs as estimated in the 2020 Development Plans through the HAF 5-year view. \$307 million of the \$2.3 billion was allocated to the eastern Porirua LSP. Through the

analysis in this precinct business case, Kāinga Ora has refined its assumptions and scope of works to enable the net cost to remain within the \$307 million envelope.

The portfolio of LSPs has a net cost profile, shown in the figure below, which requires funding to support the delivery of the programme. The funding provided by the Crown is expected to be in the form of an equity injection into Kāinga Ora and therefore would be non-departmental capital expenditure.

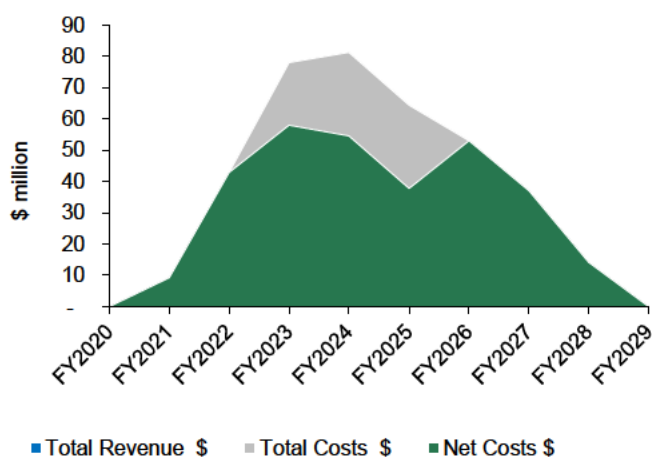


Figure 9 Net Cost Profile

Kāinga Ora’s Long-Term Investment Plan has assumed a cash profile of when it will receive funding from the Housing Acceleration Fund. This has not been allocated to each LSP and is instead managed at a portfolio level. It is important that Kāinga Ora receives a level of certainty around the timing of the funding to minimise the risk of any short-term shocks on Kāinga Ora’s balance sheet.

Table 24: Fiscal projections.

\$M	Pre-FY21	FY22	FY23	FY24	FY25	FY26 – FY39	Total
Net Cost (excl. CCO contribution) – Mangere, Roskill, Oranga, Tāmaki, eastern Porirua	(501)	(339)	(374)	(404)	(429)	(347)	(2,394)
Crown Equity from HAF	-	921	506	473	404	-	2,305
Remaining Funding²⁴	(501)	582	132	69	(25)	(347)	(90)

²⁴ Available to fund the Northcote LSPs.

4.9 Escalation

The figures presented in the Financial Case are escalated.

Over the period of delivery, there will be escalation of costs and potential growth in revenue due to the increase in land sales rates. There is a high uncertainty in the changes to revenues and costs over coming years due to:

- Inflationary pressures across New Zealand’s economy
- Specific upward cost pressure in the construction sector
- Uncertainty in the housing market due to recent policy changes and increasing interest rates.

If the increase in revenue does not offset the increase in cost, then the scope of development will need to decrease or further funding will need to be secured, either from Council or the Crown. A series of escalation scenarios have been tested to assess this risk.

The following escalation percentages have applied to each cost category:

- 2.2% Consumer Price Index (CPI) escalation (RBNZ)
- 3.1% Producer’s Price Index (PPI) escalation for the construction sector (Statistics New Zealand)
- 3.8% 10-year annual average forecast (NZIER and Statistics New Zealand)

The following escalation percentages have been applied to revenues:

- 2.2% Consumer Price Index (CPI) escalation (RBNZ)
- 7.9% annual medium Porirua house price increase (REINZ)

These are long-term historical averages and do not account for short-term fluctuations that might occur.

For the detailed escalation assumptions please refer to Appendix P

The impacts of various escalation rates are shown in the table below. This highlights the range of potential funding requirements for Porirua ranging from [\$16.6 million to \$30.5 million].

Table 25: Escalation Scenarios.

Escalation – eastern Porirua (\$M)	Costs	Revenues	Net / Funding required
Un-escalated (Baseline)	s 9(2)(j)		288.1
Scenario 1 (2.2% cost, 2.2% revenue)			304.7
<i>Variance to baseline</i>			16.6
Scenario 2 (3% cost, 7.9% revenue)			307.1
<i>Variance to baseline</i>			19.0
Scenario 3 (3% cost, 2.2% revenue)			311.6
<i>Variance to baseline</i>			23.5
Scenario 4 (3.8% cost, 2.2% revenue)			318.5
<i>Variance to baseline</i>			30.5

Covid-19 has resulted in labour shortages in the construction sector and continues to cause uncertainty in local market conditions. NZIER forecasts a peak non-residential building cost escalation of 10.0% in 2022. It is unclear how long or if building escalation costs will remain at these levels, particularly for forecasts beyond the next five years. Therefore, a long-term historical average was considered more appropriate in escalating costs and revenues associated the Kāinga Ora's LSP's.

These short-term fluctuations could result in cashflow issues for Kāinga Ora. Options to offset the potential increase in costs include trade-offs such as:

- Reducing the scope of the LSPs
- Compromises to quality
- A reallocation to reduce the yield of affordable houses
- Delaying the LSPs

4.10 Dealing with the effect of escalation

Escalation in a large, long-term programme is a normal and expected factor to consider. In the context of the LSPs, this will impact both revenue and costs with different rates and timings. There will be opportunities to partially mitigate the effect, particularly in respect of costs. However, escalation remains a key feature that will need to be assessed when considering funding risk to the programme.

Kāinga Ora will need to take a proactive approach to managing the real-time impact of escalation as they seek additional stage approvals and deliver a programme of work out past 2030. Each stage approval will be required to mitigate cost increases resulting from escalation to the best of their abilities. Noting that in certain scenarios, additional investment may be required to make up the shortfall.

Any mitigations proposed at the stage approval (excluding additional investment to that proposed in this precinct business) will need to be traded against the security of delivery, pace of delivery, quality of product delivered, cost of delivery and the scope of works delivered. It is highly likely a combination of all five trade-offs will be required.

The range of mitigations may include:

- Value engineering (including reviewing the level of urban amenity provided), challenging infrastructure levels of service and investigating possible land remediation savings through stockpiling/level of remediation undertaken.
- Changes to current code of practise for infrastructure delivery to enable more sustainable and cost-effective infrastructure solutions.
- Continued programme governance, monitoring of change variations and appropriate use of contingency. As the LSPs progress, Kāinga Ora will be in a stronger position to assess the real impact of escalation. The current LSP funding shortfall will need to be covered by reallocating funds at a portfolio level or from future budget bids.
- Improved delivery efficiencies via a controlled and consistent approach to tasks, such as the development of a 'Kāinga Ora' way. This, combined with the security of delivery of multi-year funding approvals, enables clarity of roles and removes all competing priorities from within the business. Within the Construction and Innovation business, Project Velocity is one example of this.
- Leveraging the LSP programme's size and scale to further maximise supply chain efficiencies.
- Investigating whether there are opportunities for Porirua City Council contributions to be used to first bridge any funding gaps (including escalation) prior to releasing funds back into the HAF (currently the Porirua PBC only includes \$20 million of funding from Porirua City Council i.e. the vast majority of Council infrastructure costs are funded by the HAF).

- HUD holding additional contingency for the HAF outside of the LSP programme of work to be drawn down on an as required basis by all applicants.

The above mitigations should not be treated in isolation but seen as a suite of tools to be used as appropriate.

In light of the constraints in the construction materials supply market and the escalating costs, the Supply Chain and Materials Team at Kāinga Ora continually monitor the supply chain and provide advice to the business. At a strategic level, papers have been supplied to IDC this year on product pricing and the supply chain. Kāinga Ora is currently working on mapping the full supply chain of 15 core materials, including steel and concrete, to understand where supply risks exist and potential mitigations. Kāinga Ora is also seeking inputs from a variety of sources including industry federations, suppliers, industry advisory groups such as CPAP and internal stakeholders to understand what is needed to be done to ensure certainty of supply of materials, equipment, and workforce over the short, medium, and long-term. This will result in a paper which will be presented to IDC in the early part of 2022.

This business case indicates that additional funding is needed. The quantum of the additional funding required will include the net impact of escalations as cost mitigation strategies take effect, alongside the impacts of change controlled variations, and revenue forecast updates through the life of the programme.

Kāinga Ora will keep Ministers informed via the established governance channels with structured regular monitoring and reporting of costs and revenues for the LSPs. In addition to the structured programme governance, the HUD Monitoring function plays a role in ensuring an objective perspective over the programme delivery. This will provide transparency to all parties around the ongoing risk for additional funding.

5 | Management Case



5 Management Case

The purpose of the management case is to outline the governance and management arrangements that are, or will be, in place to ensure the successful delivery of the LSP portfolio, including that:

- decision-making (including change control) is made at the appropriate level;
- appropriate engagement is made with strategic partners and stakeholders;
- effective monitoring and assurance is in place;
- the benefits of the investment are realised; and
- the risks are appropriately managed.

5.1 Governance and management arrangements

Programme governance directs and controls the delivery of the eastern Porirua LSP. Its purpose is to ensure confidence, accountability, and transparency to the public of the application of public funds, and the conversion of investment objectives into the delivery of the intended outcomes and benefits.

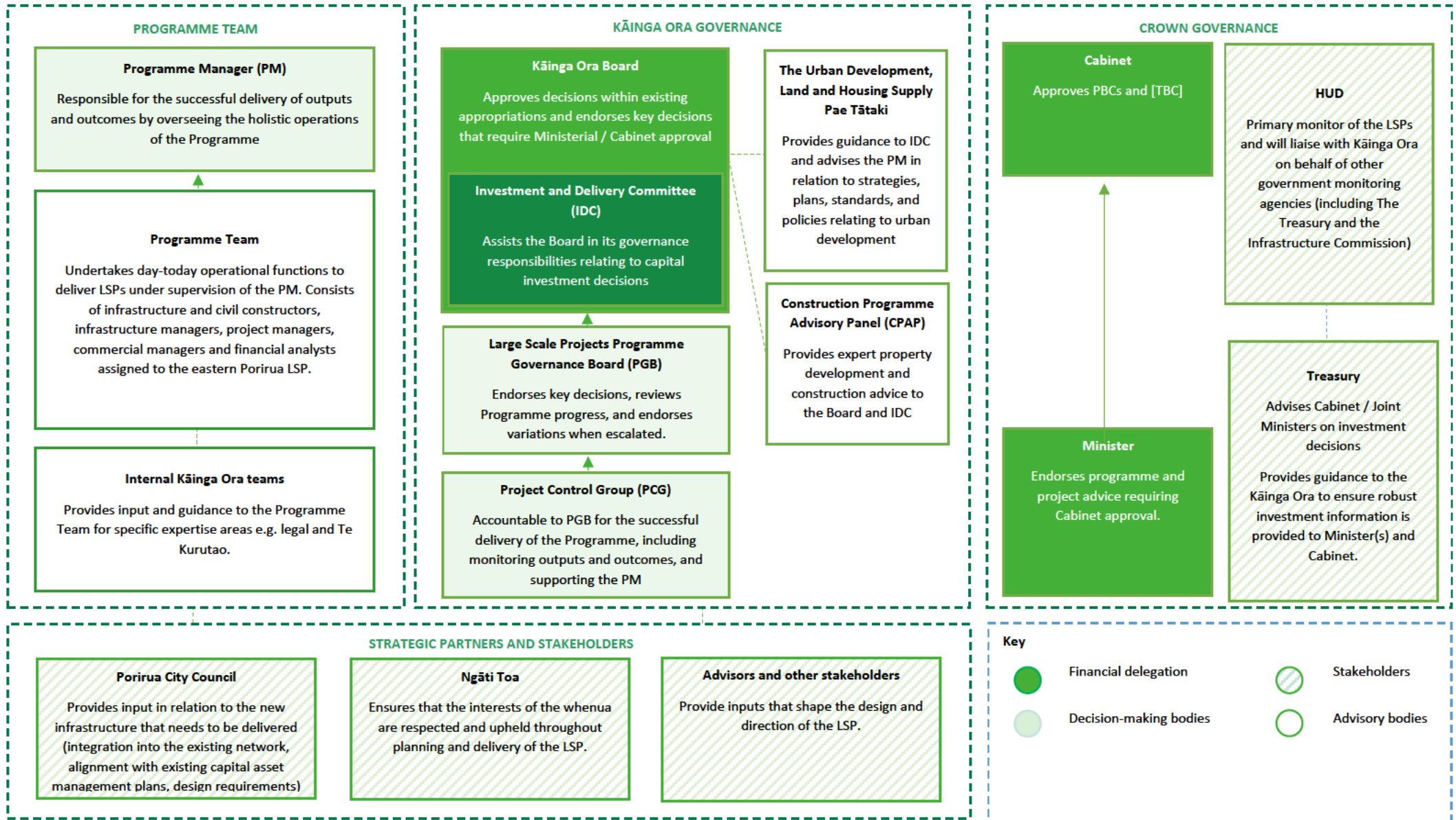
The programme governance and management arrangements for the eastern Porirua LSP comprise of three components:

Management	The Programme Team is responsible for the day-to-day management throughout the course of the programme, including developing advice on a range of delivery, commercial, and administrative matters for the Project Control Group (PCG) and Programme Governance Board (PGB). The Programme Team is led by the Project Director.
Kāinga Ora Governance	<p>Governance of the eastern Porirua LSP is dictated by the Kāinga Ora Investment Management Framework (IMF), which sets out a comprehensive, structured, and consistent approach to investment management. The IMF is comprised of six Board-approved policies; a five-phase, gated investment lifecycle; and a range of templates and processes. A general summary of Kāinga Ora's IMF is set out in Appendix J.</p> <p>Kāinga Ora Governance provides oversight of the Programme Team and approval authority at significant decision points during the programme. Kāinga Ora Governance is made up of groups with specific expertise and delegations, and incorporates the existing structures, systems and processes within the organisation that enable the monitoring and challenging of the effective use of resources allocated to the programme.</p>
Crown Governance	Ministers and Cabinet exercise approval rights at the most significant decision points in the programme and are ultimately accountable to the public for the success of the programme.

In addition to the management and governance framework, strategic partners, and stakeholder groups play an important role in setting the direction of the LSP and enabling successful delivery. These groups sit outside the governance framework but are considered alongside the decision-making bodies due to their influence on the LSP outcomes.

Figure 10 below summarises the key roles within each component of the governance framework. Each role has been shaded to indicate its relative function within the framework.

Figure 10: Management and governance framework



5.2 Key roles and responsibilities

Table 26 provides a more detailed summary of the roles identified above. The key decision-making responsibilities and tolerances of each role (in the form of a RACI matrix) are set out in Table 27 below.

Table 26: Summary of key roles and responsibilities.

Body	Purpose and membership
Cabinet	Cabinet has investment decision rights on all investment proposals where the investment requires new Crown funding, unless authority has been delegated to the responsible Minister(s) or the Kāinga Ora Board. Cabinet level decisions include the approval of the programme business case and the confirmation of the programme budget (and any subsequent budget increases).
Joint Ministers	Joint Ministers (Minister of Finance and Minister of Housing) will be responsible for significant project-level decisions delegated from Cabinet.
Kāinga Ora governance	
Kāinga Ora Board	The Kāinga Ora Board is accountable for Kāinga Ora investments and is ultimately responsible for their governance.
Investment and Delivery Committee (IDC)	<p>The IDC assists the Board in its governance responsibilities with respect to significant capital investment decisions made by Kāinga Ora.</p> <p>As a sub-committee of the Board, IDC is comprised of Board members, but also has standing attendees from the Kāinga Ora leadership team. Both the Board members on IDC and the Kāinga Ora attendees reflect a diversity of views and experience. For example, to ensure that investments are not considered solely through a traditional commercial lens and that Māori interests are integrated into decision-making, several Māori Board members sit on IDC as well as Te Ringa Raupa (Deputy Chief Executive Māori).</p> <p>IDC has delegated authority to approve significant investments up to \$50 million, following endorsement by the LSP PGB. Any decisions above this threshold are endorsed by the PGB, then considered by IDC, before being approved by the Board by the Board.</p> <p>A summary of the current IDC members is set out in Appendix K.</p>
The Urban Development, Land and Housing Supply Pae Tātaki	<p>The Urban Development, Land and Housing Supply Pae Tātaki is responsible for setting strategies, plans, standards, and policies relating to urban development. It governs the Housing Supply portfolio and the Urban Development and Regeneration portfolio (which includes the LSPs).</p> <p>While Pae Tātaki has no financial delegations or specific decision-making authority in relation to LSPs, it provides an important role as an advisory body by:</p> <ul style="list-style-type: none"> — Reviewing, providing guidance, or endorsing any Development Plans going to the Board’s Urban Development and Planning Committee, including the strategic outcomes for LSPs and design guidelines.

Body	Purpose and membership
	<ul style="list-style-type: none"> — Monitoring the effectiveness of LSPs in achieving the Development Plans and their strategic outcomes, and providing guidance or endorsement to the development of any precinct level spatial and strategic plans and neighbourhood masterplans with respect to ensuring overall alignment to the Development Plan. — Setting the strategic outcomes for any large scale or complex urban development project through the approval of opportunity memos at Gate One of the IMF. — Providing oversight, reviewing, and monitoring of community engagement processes and plans, including partnership arrangements with Māori/iwi, local government, private sector, Ministries or other Crown entities and the Community Housing Sector. — Understanding and ensuring a Te Ao Māori view is taken to deliver broad and wide-ranging delivery for Māori, including partnership arrangements. <p>The current membership of the Pae Tātaki is shown in Appendix K.</p>
<p>Construction Programme Advisory Panel (CPAP)</p>	<p>CPAP is an independent expert panel with four members, selected for their depth and breadth of experience in the property development and construction sectors. CPAP is an advisory body that has no financial delegations or specific decision-making responsibilities in respect of the LSP.</p>
<p>Large Scale Projects Programme Governance Board (PGB)</p>	<p>The PGB has been set up to take a portfolio approach to governing the LSPs, reflecting the shared investment objectives, benefits, and strategic-level risks across LSPs. The PGB is chaired by the Wellington Regional Director and is accountable to the Kāinga Ora Board for overall delivery of the LSPs.</p> <p>A key role of the PGB is to govern the LSPs in line with the approved business cases. To do this, the PGB receives reporting on each precinct on financial status, benefits management, Māori aspirations, phase gate milestones, risks, and programme schedule (Pipeline).</p> <p>The members of the PGB are appointed by the Urban Development, Land and Housing Supply Pae Tātaki and consist of members from across Kāinga Ora. The composition of the PGB reflects the PGB’s Terms of Reference to have regard to the following matters:</p> <ul style="list-style-type: none"> — The desirability of collaboration and effective partnerships with communities, relevant territorial authorities, and Māori; — The capability needed to effectively govern the programmes; — The capability needed to engage with and understand the perspectives of Māori in the area where the project is being, or is proposed to be, carried out; — The specialist knowledge that is required to support the Programmes to meet their objectives, for example, in relation to Te Tiriti o Waitangi and its principles, Te Ture Whenua Māori Act 1993, or an understanding of Māori perspectives, aspirations, culture and traditions; — The desirability of representation on the PGB from across Kāinga Ora, including delivery teams and centres of expertise; — The need to ensure diversity of membership; and — The ability of members to represent the outcomes that the Programmes are seeking to achieve and to ask the critical questions, or represent the perspectives, related to those outcomes. <p>The names and titles of the members currently on the PGB are set out in Appendix K.</p>

Body	Purpose and membership
<p>Project Control Group (PCG)</p>	<p>The PGB is an endorsing body and has no financial delegations.</p> <p>The PCG is established by the PGB and is responsible for managing and reporting on programme delivery. The PCG has a Terms of References that sets out the decisions that can be made by the PCG and those that need to be escalated to the PGB.</p> <p>One of the key roles of the LSP PCG is to approve neighbourhood stage-funding memos (discussed further in section 5.3).</p> <p>The current composition of the PCG is set out in Appendix K.</p>
<p>Programme Team</p>	
<p>Programme Team</p>	<p>The Programme Team is responsible for the day-to-day operations to deliver the LSP and is managed by a Project Director, who reports to the Director of LSPs (a member of the IDC).</p> <p>The Programme Team structure and key personnel are shown in Appendix L, with additional support and expertise being drawn on from across Kāinga Ora as required.</p>
<p>Strategic partnership and other stakeholders</p>	
<p>Strategic partners</p>	<p>Strategic partners consist of Ngāti Toa Rangatira and Porirua City Council. The role of these partners is detailed in section 5.5.1. While strategic partners are not decision-making body within the governance framework, they are instrumental in the design of the LSPs and will remain informed throughout the delivery cycle.</p>
<p>Stakeholder groups</p>	<p>The role of stakeholder groups is to provide the Programme Team with input into key aspects of the design and delivery. Stakeholders are individuals or groups who have an active interest or investment in the programme. Programme level stakeholders are considered in further detail in section 5.5.1.</p>
<p>External advisors</p>	<p>External advisors supplement the Programme Team and PCG with specific advisory assistance throughout the planning and implementation of the programme (for example, legal, commercial and technical advice). Advisors provide inputs for the decision-making process but are not themselves decision-makers.</p> <p>While most advisors will generally report to the Programme Director (and in practice, be effectively integrated into the Project Delivery Team), the PGB and/or PCG may choose to receive separate independent advice.</p>

5.3 Programme roles and responsibilities

This section details the roles and responsibilities of key roles within the programme in the form of a RACI diagram. In developing the RACI diagram:

- advisory bodies without financial delegations or decision-making capacity have been excluded from the tables to avoid confusion;
- the separation of decision-making responsibilities is intended to ensure that decisions are made by the most appropriate group, according to the value of the decision, the level of risk and complexity, and the extent to which the decision is consistent with, or gives effect to, the overarching Cabinet decisions and the eastern Porirua PBC;
- the approvals listed in the RACI diagrams are not intended to be exhaustive but represent the two most significant decision points within the programme – namely:

Precinct business case The approval of this business case, which sets the overall parameters of the available funding envelope.

Stage-funding memos The approval of stage-funding memos, which act as the trigger to release funding approved by this PBC.

Stage- funding memos describe the outputs expected from each respective stage, the overall projections for the precinct once all stages are completed, external stakeholder feedback, and delivery plans.

The key purpose is to incorporate more accurate costs and outputs, and demonstrate that the precinct development, once it is delivered in full, will still be within the approval parameters from this PBC.

- The RACI diagram will be periodically reviewed and updated to provide clear guidance to the Programme Team.

In the RACI matrix, decision makers/project stakeholders are assigned to be:

A	Accountable for ultimately achieving the successful delivery of the LSP and approving the decisions recommended by those Responsible
R	Responsible for undertaking the work and recommending decisions
C	Consulted in developing the recommendation

- I Informed of decisions and kept up to date on project progress

Table 27: RACI decision-making matrix

	Kāinga Ora					Crown		Strategic Partners		Stakeholders
Approvals	Project Director	PCG	PGB	IDC	Board	Minister	Cabinet	Ngāti Toa	Council	HUD
Approval of PBC	R	R	R	R	R	R	A	C	C	C
Approval of stage funding memo that aligns with PBC	R	A	I	I	I	I		I	I	I
Approval of stage funding memo with PBC variations of <\$50m within existing appropriations	R	R	R	A	I	I		I	I	I
Approval of stage funding memo with PBC variations of >= \$50m within existing appropriations	R	R	R	R	A	I		I	I	I
Approval of stage funding memo with PBC variations outside of existing appropriations	R	R	R	R	R	R	A	C	C	C

5.4 Programme management strategy and framework

Kāinga Ora currently adopts a programme management methodology broadly consistent with industry programme management practices, which includes:

Table 28: Programme management methodology summary.

Programme management activity	Related strategy
Benefits Realisation Strategy Plan and Framework	The benefits of the scope of works for the precinct business case will be managed in accordance with Kāinga Ora’s benefits management guidance ²⁵ . Specific benefits arising from this programme will be integrated into the Benefits Management Plan before programme implementation begins. This is discussed further in section 985.4.15.4.1.
RAID management	Existing Kāinga Ora strategies to manage risks, assumptions, issues, and dependencies identified in the Strategic Case will be utilised for this programme.

5.4.1 Benefits realisation management

The eastern Porirua precinct development will benefit the eastern Porirua community and contribute to wider Kāinga Ora outcomes, as set out in the Strategic Case. The benefits for eastern Porirua will be enduring, and some may not be realised until after the closure of the LSP programme.

A Benefits Management Plan (BMP) has been developed to track and manage benefits (refer Appendix M). This includes appropriate baseline, target, and indicator information and specifies benefit owners and data sources that will be used. The BMP will be reviewed annually for its ongoing accuracy and relevance.

To ensure benefit realisation is tracked and managed, the Urban Development and Delivery Project Management Office will monitor and collate benefit information, at both precinct and neighbourhood levels, to ensure the precinct is on-track to deliver its intended benefits and outcomes. Benefit reporting will be provided to the PGB and can be reported further as required. See section 5.6.4 for further details.

5.4.2 Risk management

Kāinga Ora and the infrastructure asset owners will work together to manage risks at each level of the LSPs. While each party may maintain its own risk registers according to its needs, reporting and consolidation of these will be categorised according to the Kāinga Ora Risk Management Framework outlined in the Kāinga Ora Risk Management Reference Guide.

Ministers will be informed of any significant risks with potential to impact on overall precinct outcomes with decisions sought from them as required.

The risk owner and managers for each level are outlined in

Table 29. The Steering Group will maintain precinct level risk registers and will ensure there is a consolidated approach to management of the neighbourhood level risks. Relevant stage-level risks and issues are to be owned and managed by the PGB with support from PCG. The PGB will maintain stage-level risk and issue registers.

²⁵ Guideline: Benefits Management for the Investment Management Framework

Table 29: Risk Owners and Managers for Each Level of the LSP Structure.

Level	Risk Owner	Risk Manager
Precinct	Board	Steering Group with input obtained from PGB
Neighbourhood stage	PGB	PGB with input from PCG

5.5 Change management

Change management is essential throughout all aspects of the LSP, which will significantly impact the precinct during development and will enable change that will permanently affect the livelihoods of current and future residents.

5.5.1 Strategic partner and stakeholder analysis

Fifteen key stakeholders have been identified as being impacted by the LSP. A high-level stakeholder mapping assessment of impact and influence of these groups is set out below:



Figure 11 Stakeholder mapping.

Strategic partners

- 1 Ngāti Toa
- 2 Porirua City Council

Multi-agency stakeholders

- 3 HUD
- 4 The Treasury
- 5 Waka Kotahi NZ Transport Agency
- 6 Wellington Water
- 7 Wellington Electricity
- 8 Chorus

- 9 Other government agencies providing important public infrastructure and services (e.g. Ministry of Education, Ministry of Health, DHBs etc).

Other stakeholders

- 10 Local residents
- 11 Maori
- 12 Advisors (legal, technical, commercial)
- 13 Contractors & subcontractors
- 14 Other suppliers

5.5.1.1 Strategic partners

As identified in section 1.2 of the Strategic Case, Ngāti Toa and Porirua City Council have been identified as long-term strategic partners to work alongside Kāinga Ora to ensure the successful delivery of the LSP. The strategic partners play a significant role in planning the eastern Porirua LSP within the broader Porirua context for housing, infrastructure, and regeneration – both within the HAF funding period and over the longer term. It is expected this will open up potential to leverage wider opportunities in the area associated with both committed and potential future projects (such as for stormwater, roading, cycleways, public transport and increased density).

This partnership has been formalised in the Memorandum of Understanding dated [April] 2022 which sets the broad principles of alignment and collaboration between the parties and deals with issues of fundamental change. Its scope is wider than the Kāinga Ora land in the LSP precinct.

In delivering the LSP Kāinga Ora will have regard to this relationship, with the high-level engagement requirements set out in the following table.

Table 30: Strategic partner relationship & engagement requirements

Infrastructure Owner	Interest in and influence on LSP	Engagement requirements
Ngāti Toa	<ul style="list-style-type: none"> — To act as kaitiaki of the whenua — To ensure that interests under their Te Tiriti o Waitangi settlement with the Crown are well represented, particularly in respect of their legal rights of first refusal over land in the project area. 	<ul style="list-style-type: none"> — Negotiations are now complete with Ngāti Toa for the transfer of the western Porirua portfolio in exchange for a waiver of rights of first refusal and development opportunities in eastern Porirua. This is discussed further in Appendix B. — Will need to maintain an open dialogue with regard to plans and timeframes to ensure that the interests of the whenua are respected.
Porirua City Council	<ul style="list-style-type: none"> — Owns the infrastructure assets related to transport, parks, and other community facilities. — One of six equal owners of the three waters infrastructure. — Infrastructure delivered through the LSP will eventually be handed to Porirua City Council to maintain and operate. 	<ul style="list-style-type: none"> — Will need to maintain an open dialogue to ensure that any new infrastructure that needs to be delivered will integrate into the existing network, align with existing capital asset management plans for upgrades and growth, and meet design requirements.

5.5.1.2 Multi-agency stakeholders

While Kāinga Ora is accountable for the delivery of the LSP, developing a precinct or neighbourhood requires collaboration with other agencies and has impacts beyond the precinct / neighbourhood boundary. For example:

- Increased housing density and urban design may impact on roading and public transport needs.
- Improved education and schooling outcomes may require collaboration with Kāinga Ora and its masterplanning, infrastructure works, and regeneration works.
- A major infrastructure project, or other Council initiative, may impact neighbourhoods outside the scope of the LSP.

A summary of the roles of each key agency stakeholder and the required level of engagement is set out in the table below.

Table 31: Agency stakeholders & engagement requirements.

Infrastructure Owner	Interest in and influence on LSPs	Engagement requirements
Waka Kotahi NZ Transport Agency	<ul style="list-style-type: none"> — Responsible for building and managing major transport infrastructure — Expected to contribute to funding of new transport infrastructure, alongside the Infrastructure Fund 	<ul style="list-style-type: none"> — Will need a clear view of plans and timeframes associated with the LSP to plan transport infrastructure effectively — Will need to be involved in the masterplanning process — Will need to maintain an open dialogue regarding proposed funding arrangements for any new infrastructure

Wellington Water	<ul style="list-style-type: none"> — Provide advice, management, operation and guidance to Porirua City Council for water assets 	<ul style="list-style-type: none"> — Involved in the masterplanning and delivery process — Open dialogue regarding proposed funding arrangements for new infrastructure
Utility Providers: Wellington Electricity & Chorus	<ul style="list-style-type: none"> — Responsible for building and managing electrical, communications and other energy networks — Expected to contribute to utilise programme of work in a “dig once” opportunity. 	<ul style="list-style-type: none"> — Will need a clear view of plans and timeframes associated with the LSP to plan infrastructure effectively — Will need to be involved in the masterplanning process — Will need to maintain an open dialogue regarding proposed funding arrangements for any new infrastructure
Other government agencies providing important public infrastructure and services e.g. Ministry of Education, Ministry of Health, DHBs etc.	<ul style="list-style-type: none"> — Responsible for building and managing major public infrastructure and services e.g. schools and healthcare services/hospitals — Expected to fund new public infrastructure and services 	<ul style="list-style-type: none"> — Will need a clear view of plans and timeframes associated with the LSP to plan public infrastructure and services effectively — Will need to be involved in the masterplanning process — Will need to maintain an open dialogue regarding proposed funding arrangements for any new infrastructure

5.5.1.3 Other stakeholders

Kāinga Ora will engage with each other stakeholder identified in a manner that appropriately reflects the degree of impact and influence relating to that stakeholder.

5.5.2 Communications and change management

Kāinga Ora has existing change management and communications capability responsible for coordinating communication activities across this and other programmes and projects. In the context of the eastern Porirua LSP, communications activities will cover:

- Detailed stakeholder analysis, including who information will be shared with and how these groups will be impacted;
- Development of key messages to ensure consistency across all programme and projects communications;
- Selection of communication channels that best suit the stakeholder groups; and
- Establishing the timing for communications.

Kāinga Ora intends to use these existing resources, with assistance from the Project Team, to support each stage of implementation and provide stakeholders with appropriate visibility of progress.

5.6 Programme and business assurance arrangements

Kāinga Ora is committed to working with Ministers and monitors on an open and transparent (no surprises) basis. Kāinga Ora considers that effective monitoring and assurance will help the LSPs to achieve their objectives.

5.6.1 Programme Assurance

Programme assurance provides independent and impartial assessment that the programme's investment objectives can be delivered successfully and improves the prospects of achieving intended outcomes and benefits. Set out below are the key components of the assurance plan, specific to the eastern Porirua LSP.

- **Gateway:** The LSP portfolio has been rated as high risk by The Treasury's Risk Profile Assessment tool and is subject to Gateway reviews. A Gate Zero review was completed in June 2021, which found that Kāinga Ora is well placed to successfully manage the LSP portfolio. The LSP portfolio will be subject to an annual Gateway review.
- **Treasury review:** The programme will go through the review by the Treasury to confirm that the Programme Business Case meets the required standards ahead of Cabinet approval.

5.6.2 Self-assessment

Alongside ongoing assurance activities, Kāinga Ora will conduct internal assurance reviews of the LSPs, which will be set out in the annual assurance plan agreed with the Finance, Risk and Assurance Committee of the Kāinga Ora Board. The Board will be responsible for acting on the results of these reviews, and any findings that significantly impact on overall precinct outcomes will be discussed with HUD.

5.6.3 Construction Programme Advisory Panel

In addition to internal assurance activities, the CPAP (described in section 5.2) provides expert advice to IDC. It has visibility across all LSPs, including the operation of the LSP PGB.

CPAP reviews the activities of the LSP PGB on a regular basis and is also available to meet with programme teams to advise on specific issues or risks where needed. Part of CPAP's remit is to visit sites to ensure it fully understands the context of Kāinga Ora programmes (including infrastructure components) and enable CPAP to proactively identify issues or to propose different approaches to achieve programme outcomes. It is also recommended that programme teams engage CPAP before seeking significant approvals (e.g. neighbourhood stage-funding memos). CPAP reports issues to IDC, as appropriate.

5.6.4 Monitoring

HUD is the primary monitor of the LSPs and will liaise with Kāinga Ora on behalf of other monitoring agencies, The Treasury and the Infrastructure Commission. HUD will provide updates to Ministers and Cabinet as required.

As a part of its quarterly report to HUD, Kāinga Ora will provide information on its progress and performance against the approved precinct business case. This reporting will also provide a clear and accurate forecast view of performance against precinct approval, including forecast against precinct tolerances and precinct performance requirements.

In addition to the above, Kāinga Ora has an internal reporting structure that feeds up through the PCGs to the PGB and the Board. Each month Kāinga Ora will provide HUD with its full LSP PGB and PCG reporting packs for that month. The content of these packs is summarised below:

Table 32: Summary of LSP PGB reporting (to be shared with HUD).

Requirement	Purpose	Requirement Summary
Financial	To provide information on revenue and expenditure, and expected financial performance relevant to each neighbourhood or major infrastructure investment. For each, actuals and budget/forecast figures are compared with the approved baseline and any variances are narrated.	<ul style="list-style-type: none"> — Show costs, revenue and net cash position at neighbourhood, major infrastructure, and combined precinct level: <ul style="list-style-type: none"> – current approved revenue budget (after any change control) and forecast revenue at completion – current approved expenditure budget (after any change control) and forecast expenditure at completion – net cash position <ul style="list-style-type: none"> – original net cash budget – current approved net cash budget (after any change control) – inception (life)-to-date, forecast at completion – variance from currently approved budget – indication that variance is within financial tolerances – narrative around any net cash variance. — Forecast performance against precinct financial tolerances taking into account contingency and works yet to be approved.
Benefits Management	To show whether the precinct, neighbourhood and major infrastructure Benefits Management Plan is up to date (compliance) and whether they are on track to deliver on intended benefits and outcomes (performance).	<ul style="list-style-type: none"> — Indication of the status of approved Benefits Management Plan against progress, including an owner and measure for all identified benefits. Indicate the outcome themes that are met from the intended benefits. — Reporting of progress tracking for benefits included within the Benefits Management Plan, including whether the programme is on track to deliver on its intended investment benefits and outcomes. Provide a narrative for any variance and a plan for reporting on benefits once closed.
Health and Safety	Provide Programme Governance Board assurance that a health and safety management plans are in place and being actively managed with implementation such as safe processes and toolbox talks. Risks, issues and incidents needing PGB attention are highlighted.	<ul style="list-style-type: none"> — Indication of an appropriate and up to date health and safety management plan for all precincts, with confirmation that Kāinga Ora and partners have the capability to deliver the plan. — Reporting of overarching health and safety status of the LSP programme, with details of any significant issues, risks or incidents.

Māori Aspirations	Demonstrate how we support and enable the aspirations of Māori, how we identify and protect Māori interests and their taonga, partner early, and offer Māori opportunities to participate in relation to urban development.	<ul style="list-style-type: none"> — Confirmation that the precincts are working with Māori to deliver outputs as specified in the Māori Outputs Statement, including the number of opportunities offered and number of opportunities accepted. Provide details of any current relationship issues with Māori interested in the precincts, including a full description of any severe relationship issues.
Phase Gate Milestones	Demonstrate where neighbourhoods (including stages) and major infrastructure investments are in the IMF Lifecycle phases and gives notice of any upcoming gateway documents requiring attention by the PGB.	<ul style="list-style-type: none"> — Show progress of gateway documents through the Investment Management Framework for the precincts, with a narrative for any variance from planned dates.
Risk	Informs the PGB how the precincts are managing threats and opportunities, including the possible impact on cost, time, public relations, legal and other criteria using the Risk Management Framework.	<ul style="list-style-type: none"> — Confirmation that the precincts are actively and effectively managing risk within their risk tolerance levels, highlighting any risk moving up in accountability towards Executive or Pae level. — Provide reporting on all risks and opportunities falling into the high impact/high likelihood category.
Programme Schedule (pipeline)	Demonstrate the volume of land enabled delivery over time, with information on any variance from approved baseline metrics, including precinct performance requirements in this charter document.	<ul style="list-style-type: none"> — Show current approved actual deliveries to-date and forecast deliveries at completion (including forecast deliveries for yet to be approved neighbourhoods), with a narrative around any variance or issues.

5.7 Milestones

As outlined in the Strategic and Commercial cases, the LSPs have commenced and internal Kāinga Ora governance (as outlined in this Management Case) has been established. Design and delivery is underway for some neighbourhoods within the precincts.

Additional LSP milestones for standing up the wider portfolio governance structure and relationships are outlined in the table below.

Table 33: LSP milestones for developing governance.

Action	Timeline
Agree process for drawdown of LSP funds with HUD	TBD
Infrastructure Funding Agreement and Project Agreement with Porirua City Council	Mid-2022
Memorandum of Understanding between Kāinga Ora, Ngāti Toa and Porirua City Council	Mid-2022

Appendices



Appendix A Influencing documents and policies

Outlined in the table is a non-exhaustive list of documents and policies that have influenced the progress and direction of the LSPs to date and will influence decision making about the investment.

Table 34: Documents and policies that influence the direction of the LSPs.

Document or Policy Name	Relevance
Eastern Porirua Community Regeneration - Treasury Business Case (2018)	Treasury prepared a Single Stage Business Case for regeneration of eastern Porirua, including investments in housing, community infrastructure, schooling and social services. The focus on regeneration and community wellbeing set the direction of this Precinct Business Case.
Te Tiriti o Waitangi	Te Tiriti o Waitangi is New Zealand's founding document. The Kāinga Ora – Homes and Communities Act 2019 requires Kāinga Ora to uphold Te Tiriti o Waitangi and its principles.
Kāinga Ora – Homes and Communities Act 2019	<p>Outlines the objective of Kāinga Ora to contribute to sustainable, inclusive, and thriving communities and the operating principles it is mandated to provide, such as providing good quality rental housing.</p> <p>Kāinga Ora is mandated to operate in a way that mitigates and adapts to the effects of climate change and offers opportunities to Māori.</p>
Healthy Homes Guarantee Act 2017	Outlines specific and minimum standards to ensure rental homes are warm and dry. Kāinga Ora homes are required to comply with the standards by 1 July 2023.
Urban Development Act 2020	Provides additional powers for the purpose of Kāinga Ora performing its urban development functions, including the acquisition, development, and disposal of land used. It also provides a mechanism to streamline and consolidate process for selected urban development projects initiated.
Public Housing Plan (PHP) 2021-2024	Sets out the Government's public house supply intentions. The Auckland public housing supply target is 35,223 homes in 2022 and 37,623 homes in 2024. These targets will affect the ability to remove existing dwellings and influence the percentage of public housing homes targeted for the LSP investment.
Government Policy Statement of Housing and Urban Development (GPS-HUD)	Kāinga Ora is expected to give effect to the GPS, which sets out the Government's overall direction and priorities for the housing and urban development sector.

Resource Management Act 1991	Forms the basis of further documents and policies produced by HUD and Auckland Council which determine the direction and management of Kāinga Ora activities.
National Policy Statement on Urban Development (NPS-UD) 2020	<p>Sets out the objectives and policies for planning for well-functioning urban environments under the Resource Management Act 1991.</p> <p>Auckland Council is required to set regional policy statements and district plans that reflect demand for housing for Auckland as a tier 1 urban environment (within the policies outlined in the NPS-UD).</p>
Auckland Unitary Plan – updated September 2021	<p>Includes the regional policy statement for Auckland that gives effect to the NPS-UD, recognising increased demand for housing in Auckland.</p> <p>Outlines the policies that enable higher residential intensification in and around centres, along identified corridors, and close to public transport, social facilities, and employment.</p>
Kāinga Ora Statement of Intent (SOI) 2019-2023	<p>Sets out Kāinga Ora’s strategic direction for the period 2019 to 2023, the roles and responsibilities of Kāinga Ora as a newly established agency, and their Outcomes Framework that guides their decision making.</p> <p>Kāinga Ora’s commitment to supporting Māori interests and act on climate change are outlined in their SOI.</p>
Kāinga Ora Statement of Expectations (SPE) 2021/22	Sets out Kāinga Ora’s plans for 2021-2022 and how success will be measured through financial and non-financial measures to provide an annual view of performance expectations against the medium-term intentions in the SOI.
Minister’s Letter of Expectations	Embeds a focus of wellbeing, taking a whole of government approach, looking at intergenerational outcomes and moving beyond narrow measures when responding to New Zealand’s housing and urban development priorities.
Infrastructure Funding and Financing Act 2020	Provides opportunities for local councils, Māori and iwi, and developers to partner and deliver infrastructure, free of the council’s debt limits or from charging high upfront costs to developers.

Appendix B Eastern Porirua LSP Progress to date

Part A: Key approvals received to date

Approval	Description	Date	Approver
Cabinet approval of the Treasury Single Stage Business case	Treasury-led business case that identified specific regeneration opportunities in eastern Porirua focusing on wellbeing outcomes.	October 2018	Cabinet Social Wellbeing Committee
Rights of first refusal waiver and superlot agreements with Ngāti Toa	<p>As 'kaitiaki of the whenua', Ngāti Toa had legal rights of first refusal regarding land in eastern Porirua.</p> <p>In 2019 Kāinga Ora (then Housing New Zealand) and Ngāti Toa reached agreement for a waiver of rights of first refusal and development opportunities in eastern Porirua in exchange for the rights over the western Porirua portfolio (including management of state housing and options to purchase Kāinga Ora land).</p>	November 2019	HNZC Chief Executive
Project Development Plan	Delivery of full regeneration outcomes as identified in Treasury-led business case.	March 2020	HNZC Board
Maintain Large Scale Projects Momentum Approvals Package paper of \$67m	Funding to enable the design and construction of early stage superlot land development, and the design and consent only of Bothamley trunk sewer, reservoir and wetland.	September 2020	HNZC Board
Tranche 1 HAF funding of \$136m	Release of \$136m of HAF funding for priority infrastructure projects in eastern Porirua.	July 2021	IDC / Minister for Housing
Point of Entry endorsement for transport related funding	Provided background and agreement in respect of a \$115m investment Waka Kotahi (discussed in Part C below).	September 2021	Waka Kotahi

Part B: Anticipated additional infrastructure investment

Investment	Description	Status
Porirua City Council infrastructure investment	<p>\$20m investment from Porirua City Council relating to the following three infrastructure works packages across 20 years:</p> <ul style="list-style-type: none"> — Bothamley Park Sewer Main – undertake the Bothamley Park wastewater trunk main replacement and supporting network connections. — New/upgraded reservoir – construct the Porirua high level #2 reservoir and supporting network connections. — Wetland – construct the Cannons Creek wetland detention pond. 	<p>Funding agreement currently in draft. Expect to be signed around June 2022.</p>
Waka Kotahi transport investment	<p>\$115m investment from Waka Kotahi (which includes \$23m for the first three years from 2021 to 2024), subject to an approved business case for:</p> <ul style="list-style-type: none"> — Local road improvements; and — Walking and cycling improvements. 	<ul style="list-style-type: none"> – A sub-regional transport steering group is currently being established to manage the business case and includes representatives from Kāinga Ora, Waka Kotahi, Porirua City Council and Greater Wellington Regional Council. A memorandum of understanding between Kāinga Ora and Waka Kotahi has been approved to guide the relationship and the role of each partner.

Part C: Project works progress to date

Description of works	Status
Spatial plan	Substantially complete
Development plan	Complete
Infrastructure masterplanning	Complete
Alliance	Established and operational
Asset owner requirements for three bulk projects	Agreed
Design of Tranche 1 priority infrastructure projects funded through \$136m initial HAF funding - Bothamley Park trunk sewer (\$44m), New/upgraded reservoir (\$20m), Wetland water quality solutions (\$11m).	Design of all three projects is underway with construction due to start in 2022/2023.
Removal or demolition of existing houses/units that are not being remediated	81 old houses/units removed or demolished (all within the Cannons Creek North-east neighbourhood).
Land development and infrastructure	<p>\$50m of land development is underway in Stage 1 of the Precinct (funded under Tranche 1 of HAF):</p> <ul style="list-style-type: none"> — Niger Street – currently under construction and due for completion in 2022/2023 — Esk Place – currently under construction and due for completion in 2023/2024 — Remainder of Stage 1 (\$14m) is currently in design until 2023 and construction due to start in 2022 and 2023 (and will take around two years to complete).
Construction of new homes	67 new homes built (53 in Cannons Creek North-east neighbourhood, 14 in other neighbourhoods)

Appendix C Regeneration and wellbeing

Urban regeneration

The development in eastern Porirua is classified as an urban regeneration programme. Urban regeneration is not the same as urban intensification or urban renewal. It is important to understand and recognise the differences between these approaches and the outcomes they deliver on the ground. The key differences are outlined in the urban development continuum below. In the current New Zealand context, the purpose of regeneration is to deliver ‘wellbeing’, which is explained below.

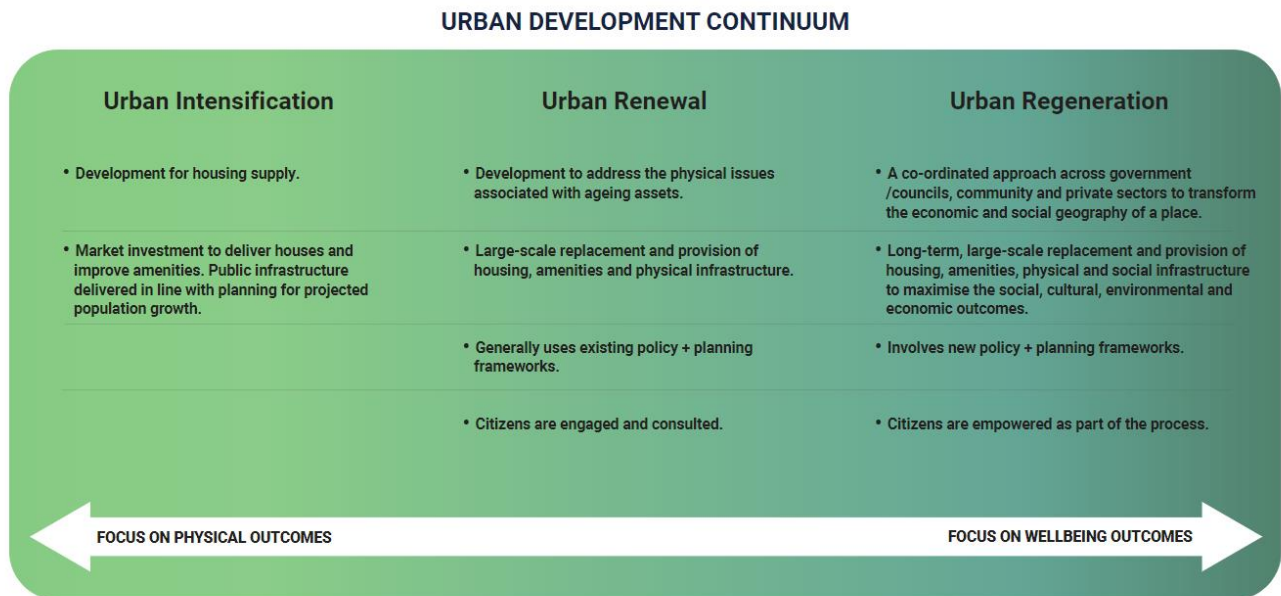


FIGURE 1 URBAN DEVELOPMENT CONTINUUM

Figure 12 Urban redevelopment continuum.

Focus on wellbeing in eastern Porirua

Wellbeing is an umbrella term that has been defined by Treasury as ‘when people are able to lead fulfilling lives with purpose, balance and meaning to them’²⁶. It also means ‘improving the state of our environment, the strength of our communities and the performance of our economy’. Wellbeing in the context of the built environment has been defined as physiological wellbeing, psychological wellbeing or social wellbeing and has implications both at city, neighbourhood, and dwelling scales²⁷. The two central dimensions of wellbeing and the environment are people and places²⁸. It is well-evidenced that it is not possible to separate health from where you live, and that housing can help to foster greater social equity and promote overall wellbeing. However, significant investment in an area can also have adverse effects, including displacement of existing residents, increased living costs, and social upheaval. In the context of a regeneration programme, it is critical to understand how an individual’s personal wellbeing is affected by the social fabric or overall wellbeing of a community.

²⁶ Government of New Zealand. (2019). Wellbeing Budget 2019. Wellington. Retrieved from <https://treasury.govt.nz/publications/wellbeing-budget/wellbeing-budget-2019>

²⁷ Janahi, H., Raman, S., and Zapata-Lancaster, G. (2018). Understanding the impact of the residential built environment design on inhabitants’ wellbeing. ARCC Conference Repository. <https://doi.org/10.17831/rep:arcc%y534>

²⁸ Cooper, R. (2014). Wellbeing and the Environment: An Overview. In Cooper, R., Burton, E. and Cooper, C. (Eds.), Wellbeing and the Environment: Wellbeing: A Complete Reference Guide, Volume II (p1). Chichester: John Wiley and Sons, Inc.

Wellbeing outcomes

The broader eastern Porirua LSP is designed to deliver wellbeing outcomes for the people and place of eastern Porirua. While the focus of this LSP is on infrastructure to enable housing and improvements to facilities and amenities, this must be viewed in the context of providing for broader regeneration objectives, such as the aspirations for improved health, education, and employment opportunities.

Kāinga Ora has developed an Outcomes Monitoring and Evaluation Framework as a way to quantify a range of wellbeing outcomes and justify the government's investment in the programme²⁹. The framework consists of 12 wellbeing categories. These have been informed by the Treasury Living Standards Framework and adapted to provide for the views of the strategic partners, community, and stakeholders in the eastern Porirua urban regeneration context so that all have a shared picture of long-term success. The 12 wellbeing categories include social connections, subjective wellbeing, cultural identity, health, natural environment, built environment, housing, access and mobility, leisure and wellbeing education and skills, inclusive community wealth and safety and security.

²⁹ Kāinga Ora Outcomes Monitoring and Evaluation Framework, October 2021.

Appendix D

Background of the Auckland LSPs and eastern Porirua LSP

2016

Development of Treasury-led business case for additional housing across Auckland

History of the Large Scale Projects (LSPs)

In 2016, a Treasury-led business case was completed to identify how additional housing could be delivered on Housing New Zealand (HNZ) owned land in areas of Auckland. These areas were assessed on the basis of scale, market readiness, social outcomes and infrastructure. Auckland Council provided infrastructure assessments.

Reflecting these assessments, the Auckland Housing Programme (AHP) was approved by the Housing New Zealand Board in 2016. The AHP sought to accelerate housing supply from HNZ owned land and grow the volume of new supply through development of its land holdings. It was identified that HNZ's land holdings in the Auckland region had significant development potential under the Auckland Unitary Plan.

Following this, a Phase One AHP Better Business case was developed which was approved by Cabinet in March 2017. This established two key streams of work:

- Workstream A: a mixed housing supply programme managed by Hobsonville Land Company (HLC) on HNZ land. The aim of this workstream was to accelerate housing supply to the market and the large scale redevelopment of HNZ land, with the overall purpose of increasing market supply at lower price points.
- Workstream B: An Auckland focussed supply initiative managed by HNZ using HNZ land and other land. The aim of which was to generate more houses to meet HNZs share of public housing growth, and provision of housing to the market.

The AHP identified a number of key areas in Auckland where HNZ held significant land holdings for comprehensive master planning as part of Workstream A. These included Northcote, Mt Roskill, Mangere, and Oranga. It should be noted at this time Tāmaki was not included as it was no longer owned by HNZ.

It was anticipated that Workstream A would:

- Deliver a mix of market, affordable, and public housing.
- Determine the housing mix by development profit achievable. Sites with higher development profit (and higher end values) would have a greater proportion of non-HNZ housing.
- Over the entire programme the number of state houses will be retained or increased.
- Projects generate positive value outcome (NPC).

History of the eastern Porirua LSP

When the AHP was already underway, a request was made to look at the housing portfolio across the rest of the country for areas of large, contiguous land holdings that could be considered for investment/transfer. Two areas come to the fore in that review, being Porirua and Christchurch. Christchurch had recently gone through extensive renewal due to the earthquake rebuild whereas Porirua had seen little renewal or development for decades. A direction was given to investigate the options for Porirua and given the well documented deprivation and social issues this quickly took a renewal and revitalisation focus over a stock transfer.

In December 2017, the Cabinet Business Committee directed officials to investigate options for redevelopment in Porirua and opportunities for partnership with Ngāti Toa. In response,

2017

Direction to investigative housing opportunities in Porirua

2018

Cabinet approval of single stage business case for regeneration in Porirua

Treasury prepared a Single Stage Business Case for regeneration of eastern Porirua, including investments in housing, community infrastructure, schooling and social services.

In October 2018, the Cabinet Social Wellbeing Committee agreed to implement the regeneration proposal outlined in the Single Stage Business Case. In doing so, Cabinet:

- noted that the proposed investment is expected to deliver significant long-term wellbeing benefits to the Porirua community and aligns with two of the Budget 2018 priorities: lifting Māori and Pacific incomes, skills and opportunities; and reducing child poverty and improving child wellbeing, including addressing family violence.
- noted that Housing New Zealand (HNZ) agreed in principle, subject to an independent Programme Business Case process, to finance the master development and public housing components using their existing external borrowing capacity to implement the decision.
- agreed to implement the partnership with Ngāti Toa, including management and renewal of western Porirua public housing, development options and waiving their rights of first refusal option to purchase or lease the Crown-owned land in eastern Porirua and instead accepting land to the west of Porirua's town centre, closer to Takapūwāhia, one of their four marae.
- noted that together these two proposals (eastern Porirua and western Porirua) deliver the renewal of around 2,900 public housing properties and an increase in housing stock of at least 2,000 homes. The project was announced by the Prime Minister in November 2018, following which the HNZ Board commissioned HLC and HNZ to prepare a Development Plan for the regeneration of eastern Porirua, in consultation with the community and project partners³⁰.

The Treasury's business case, and subsequent decisions, was premised on taking a whole-of-government and wellbeing approach to the regeneration of eastern Porirua. This approach has been further detailed, including working with Kāinga Ora's partners Ngāti Toa and through community engagement. This has helped to identify the interventions required to lead to better wellbeing outcomes, as defined by the Government Living Standards Framework.

In December 2019, the Kāinga Ora – Homes and Communities Board provided clear direction of travel approval that the regeneration of eastern Porirua should be approached as an urban development project, as opposed to simply being a public housing renewal project.

Progress to date

Kāinga Ora is currently delivering six LSPs. Five across Auckland in Roskill, Mangere, Tāmaki, Northcote and Oranga, and one in Porirua. The LSPs are a portfolio of land development and infrastructure delivery projects that will support approximately 37,000 new homes on Kāinga Ora land and a further 20,000 market infill homes on surrounding land over a 20-year period (21).

All six precincts have been planned, Kāinga Ora is working with asset owners to identify and design infrastructure needs, and development has begun on a number of neighbourhoods. Some neighbourhoods are nearing completion, with superlots sold to developers and housing beginning to be delivered.

2019

Direction that regeneration should be approached as an urban development project

³⁰ Source: Eastern Porirua Development Plan, February 2020, page 10.

2020

Short-list of LSP options developed in light of growing funding challenges

In light of increasing funding challenges, Kāinga Ora worked with HUD, Auckland Council and Porirua City Council to provide the Minister with a short-list of four options per LSP in August 2020 for consideration. These included a Do Minimum, Low Investment, Medium Investment and Full Investment – Development Plan. All options took a whole-of-programme view being 20 years. These options were then further refined to demonstrate activity commencing within a five-year window.

2021

Announcement of \$3.8b funding available to LSPs under Housing Acceleration Fund

In March 2021 the Government announced the \$3.8 billion Housing Acceleration Fund (HAF), a series of initiatives that seeks to increase the housing supply and improve affordability for first home buyers and renters by:

- unlocking more land for housing development, particularly in locations close to jobs, public transport, and amenities;
- supporting the provision of critical infrastructure needed for that development; and
- supporting delivery of a wider mix of housing (for ownership and rental) that is affordable for low-to-moderate income households³¹.

Cabinet noted that up to \$2.3 billion of the HAF will be set aside for the Kāinga Ora LSPs³². The intent of this funding is that it would cover the shortfall associated with delivery of the LSPs in line with the Development Plans at full investment for the Auckland LSPs over the next five years (including costs incurred to date) and a scaled-back version of the eastern Porirua LSP over the next five years.

Cabinet also delegated the release of up to \$440 million to the Ministers of Finance and Housing to maintain momentum of the LSPs in the interim whilst the draw-down process of the funds is worked through.

2022

Development of eastern Porirua Precinct Business Case

In the context of the Housing Acceleration Fund (HAF) funding and the Government's priorities for urban development in Porirua, this business case now assesses the optimal approach to developing the eastern Porirua Precinct.

³¹ Auckland Council Annual Report 2020/2021.

³² CAB-21-Min-0116.15 refers. CAB-21-Min-0116.15 refers.

Appendix E Independent Assessments of eastern Porirua

This section provides a summary of findings from third party assessments (that have either been completed or are underway) on the current infrastructure and facilities and amenities in eastern Porirua.

Aurecon assessment of the current state of infrastructure

In 2019 Aurecon undertook an assessment of the current state of infrastructure in eastern Porirua.³³ The assessment identified significant issues including the impact that the poor condition of the infrastructure is having on the environment and health, as well as considerable capacity issues. These issues are summarised below:

- Wastewater – existing lack of capacity means frequent raw sewage overflows when it rains, particularly on the trunk sewer through Bothamley Park, but also at locations within the wider network. This results in sewage running across the tracks in Bothamley Park and into Kenepuru Stream. Children swim in Kenepuru Stream, and the park is well-used. There have been reports from runners of a ‘lake’ of sewage in the carpark, and complaints that the park frequently smells of sewage. The existing pipeline also crosses Kenepuru Stream 36 times, and the poor condition of these pipes means that sewage leaks into the stream at these locations. Kenepuru Stream discharges into Porirua Harbour, so as well as having a detrimental impact on the park and users of the park, the overflows also contribute to poor water quality in the harbour, which can no longer be used to gather mahinga kai.
- Water supply – pipes are non-resilient and could fail resulting in loss of access to water for the community (which is major health issue) and currently there is a 25 percent leakage rate due to aged pipes, which is a sustainability and environmental issue. There is also insufficient capacity in the reservoir network to meet storage requirements. This means there is a risk of disruption to water supply to the community if there is disruption on the incoming bulk water main. It also means there may not be enough water for the community if there is an earthquake.
- Stormwater – there are areas of eastern Porirua that flood so badly they are considered a threat to life because the flows are fast and deep and there is a flooding risk to houses and other buildings. There is no water quality treatment, hence oils, heavy metals and sediment from road run off and enter the waterways, impacting fish and other aquatic life. Kenepuru Stream already suffers significant erosion and increased runoff from development risks, creating further erosion in Kenepuru Stream, and subsequent discharge of sediment to Porirua Harbour. Paths through private property are common, including Kāinga Ora properties (23 percent of the pipe network is located within Kāinga Ora properties). Many locations are damp, which is a health risk to occupants. There are also capacity issues; the majority of networks do not have the capacity for a ten-year flooding event.
- Contamination – the built environment of eastern Porirua (houses and infrastructure) has high concentrations of contaminants³⁴ on the existing buildings and near surface soils that can impact human health.
- Transport – areas of high crash data (see ITA) and car/pedestrian issues, poor accessibility of street form (wheelchair access issues), poor service of public transport coverage. Deficient cycling and pedestrian network.

³³ HLC Eastern Porirua Infrastructure Masterplanning Existing State Outcomes, July 2019.

³⁴ Contaminants include asbestos, lead, arsenic, cadmium, copper, nickel, and zinc.

Aurecon Integrated Transport Assessment (transport and connectivity issues)

In February 2020 Aurecon completed an Integrated Transport Assessment of Eastern Porirua.³⁵ The assessment identified a number of issues related to transport and connectivity. In summary these are:

- Eastern Porirua is not well-served by public transport and some households do not have an alternative to private vehicles. This is particularly problematic for workers in lower paid jobs that either are not in city centres (Porirua or Wellington) and those that work non-peak hours, such as night shifts.
- There are limitations to the existing active mode networks, with limited safe cycling in eastern Porirua. Some walking paths also present significant public safety issues along with being unattractive and poorly connected.
- There is poor access to and from core bus and rail services. The rail station is not well integrated with eastern Porirua and Wellington City and some neighbourhoods are not in walking distance to a public transport stop.
- These factors are multiplied by the deprivation experienced in eastern Porirua. As eastern Porirua changes and increases in population and density, further investment will be needed to ensure the transport network is attractive and sustainable.

Part of the proposed investment involves improving connections within suburbs such as creating and improving pedestrian laneways, creating new streets, and providing safe pathways through public open spaces and parks.

Note that a Point of Entry endorsement for transport related funding from Waka Kotahi was approved in September 2021 and is discussed further in Appendix B.

Wellington Electricity Power Supply Assessment

In October 2019 Wellington Electricity conducted an assessment of the electricity network capacity in eastern Porirua³⁶. The assessment concluded that there is insufficient capacity within the existing electrical high voltage network to cater for growth. Modelling has shown that the network only has capacity for an additional 341 new units (across the entire precinct). Growth beyond this would necessitate an extensive upgrade to the network including a new electrical substation estimated at \$35m.

³⁵ Eastern Porirua Integrated Transport Assessment, Aurecon, 2020.

³⁶ Eastern Porirua Power Supply Assessment, Wellington Electricity, 2019.

Appendix F Long-list Advantages and Disadvantages

Option 1

Outcome from Assessment: **Discounted**

Tranche 1 commitments and activities required to complete development to a reasonable level

Main Advantages	<ul style="list-style-type: none"> — More people will be able to live in warm, dry, healthy, and safe state housing, contributing to community wellbeing — State homes are renewed with configurations that better suit the needs of the community — Provides high-performing infrastructure that is sustainable, environmentally responsible, and resilient
Main Disadvantages	<ul style="list-style-type: none"> — Does not utilise the maximum funding available — Minimal homes provided to help address the housing shortage in Porirua — No affordable housing delivered to match the needs of the community with high deprivation and low-income earners — No investment in community amenities (parks, town centres, open space) — Creates risks to stakeholders and community relationships as approach does not align with long-term vision previously communicated

Option 2

Outcome from Assessment: **Possible**

Maximum housing delivery with no affordable housing and minimal amenity

Main Advantages	<ul style="list-style-type: none"> — Provides the most homes, further contributing to addressing the housing shortage in Porirua (and Wellington) — State homes are renewed, enabling tenants to live in warm, dry, healthy, and safe state housing, contributing to community wellbeing — State homes are renewed with configurations that better suit the needs of the community — Provides high-performing infrastructure that is sustainable, environmentally responsible, and resilient
Main Disadvantages	<ul style="list-style-type: none"> — Housing typology does not match the needs of the community or improve access to housing in a community with high deprivation and low-income earners — Creates risks to stakeholders and community relationships as approach does not align with long-term vision previously communicated. This could impact Kāinga Ora's social licence to operate in the community. — No investment in community amenities (parks, town centres, open space)

Option 3

Outcome from Assessment: **Possible**

Less housing delivery than option 2, increase focus on affordable homes (40%) and amenity

Main Advantages	<ul style="list-style-type: none"> — Provides more homes to help address the housing shortage in Porirua (and Wellington) — Provides a mix of market and affordable homes, increasing access to housing in a community with high deprivation and low-income earners — State homes are renewed, enabling tenants to live in warm, dry, healthy, and safe state housing, contributing to community wellbeing
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	<ul style="list-style-type: none"> — State homes are renewed with configurations that better suit the needs of the community — Increases ‘liveability’ in the area with opportunities to provide higher levels of access to facilities, amenities, employment, education, and transport — Provides high-performing infrastructure that is sustainable, environmentally responsible, and resilient — Some improvement to Bothamley, Calliope and Cannons Creek Park
Main Disadvantages	<ul style="list-style-type: none"> — Lower number of new homes delivered — Creates risks to stakeholders and community relationships as approach does not align with long-term vision previously communicated. This could impact Kāinga Ora’s social licence to operate in the community.

Option 4

Outcome from Assessment: Possible

Less housing delivery than option 2 or 3, greater focus on affordable homes (70%), amenity and town centre improvements

Main Advantages	<ul style="list-style-type: none"> — Provides more homes to help address the housing shortage in Porirua (and Wellington) — Provides a mix of market and affordable homes, increasing access to housing in a community with high deprivation and low-income earners — State homes are renewed, enabling tenants to live in warm, dry, healthy, and safe state housing, contributing to community wellbeing — State homes are renewed with configurations that better suit the needs of the community — Creates sustainable, inclusive, and thriving communities through planning that is socially, economically, and environmentally resilient and culturally supportive – including through increased liveability of the area, more support for local businesses and increased access to public transport — Increases ‘liveability’ in the area with opportunities to provide higher levels of access to facilities, amenities, employment, education, and transport — Provides high-performing infrastructure that is sustainable, environmentally responsible, and resilient — Some improvement to Bothamley, Calliope and Cannons Creek Park
Main Disadvantages	<ul style="list-style-type: none"> — Further reduces number of new homes delivered

Option 5

Outcome from Assessment: Discounted

Lowest housing yield based on current commitments, with a focus on transport (the spine project)

Main Advantages	<ul style="list-style-type: none"> — More people will be able to live in warm, dry, healthy, and safe state housing, contributing to community wellbeing — State homes are renewed with configurations that better suit the needs of the community — Maximum investment into transport amenity, increasing access to public transport and community amenities — Provides high-performing infrastructure that is sustainable, environmentally responsible, and resilient
Main Disadvantages	<ul style="list-style-type: none"> — Minimal homes provided to help address the housing shortage in Porirua — No affordable housing delivered to match the needs of the community with high deprivation and low-income earners

- Housing not developed in conjunction with improved transport amenity through a coordinated approach
- No investment in community amenities (parks, town centres, open space)

Option 6

Outcome from Assessment: Possible

Maximum housing yield with greater focus on affordable homes (87%) and the Pacific housing initiative

Main Advantages

- Provides more homes to help address the housing shortage in Porirua (and Wellington)
- Provides a mix of state, market, and affordable homes, increasing access to housing in a community with high deprivation and low-income earners
- More people will be able to live in warm, dry, healthy, and safe state housing, contributing to community wellbeing
- State homes are renewed with configurations that better suit the needs of the community
- Creates sustainable, inclusive, and thriving communities through planning that is socially, economically, and environmentally resilient and culturally supportive – including through increased liveability of the area, more support for local businesses and increased access to public transport
- Increases ‘liveability’ in the area with opportunities to provide higher levels of access to facilities, amenities, employment, education, and transport
- Provides high-performing infrastructure that is sustainable, environmentally responsible, and resilient

Main Disadvantages

- Reduces the opportunity to extract maximum financial value/revenue from the land

Appendix G Long-list assessment against the benefits

		Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
State (demolished)		-96	-170	-130	-113	-96	-186	-155
State (total built)		183	183	130	213	183	286	231
Market		110	484	192	55	110	57	337
Affordable		0	0	125	127	0	401	0
Total new homes		293	667	447	395	293	744	568
Net new homes		197	497	317	282	197	558	413
Net Cost		-\$271m	-\$307m	-\$307m	-\$307m	-\$325m	-\$340m *	-\$340m *
Investment Objectives		Weighting						
Develop places, amenity value, and a sense of community.	0.1	0	2	3	3	3	3	3
Improve opportunities and access to jobs, education, and amenities.	0.1	2	3	3	3	3	3	3
Provide opportunity to partner with iwi to realise aspirations.	0.1	2	3	3	3	2	3	3
Improve the environmental impact of the local water and transport infrastructure.	0.3	3	3	3	3	3	3	3
Enable an appropriate mix of housing for the needs of the community and future generations.	0.4	0	2	2	3	0	3	3
Critical Success Factors								
Strategic fit and business needs		Fail	Pass	Pass	Pass	Fail	Pass	Pass
Potential value for money		Fail	Pass	Pass	Pass	Pass	Pass	Pass
Supplier capacity and capability		Pass	Pass	Pass	Pass	Pass	Pass	Pass
Potential affordability		Pass	Pass	Pass	Pass	Pass *	Pass *	Pass *
Potential achievability		Pass	Pass	Pass	Pass	Pass	Pass	Pass
Overall Assessment								
Investment Objectives		1.3	2.5	2.6	3	1.7	3	3
Critical Success Factors		Fail	Pass	Pass	Pass	Fail	Pass	Pass
Outcome from Assessment		Discounted	Possible	Possible	Possible	Discounted	Possible	Possible
Assessment Key								
Fully meets the criteria		3						
Partially meets the criteria		2						
Does not meet the criteria		0						

³⁷ *Option 6 and Option 7 exceed the \$307m HAF funding cap, but achieve higher housing supply outcome

Appendix H Pā Harakeke – Social and sustainable procurement strategy

Social and sustainable procurement

In 2020 Kāinga Ora developed Pā Harakeke, its social and sustainable procurement strategy. Kāinga Ora adopted Harakeke (flax) as a symbol of Pā Harakeke to represent the cultivation of sustainable outcomes and aligning of initiatives most appropriate to the communities that Kāinga Ora supports.

The strategy was developed by applying Kāinga Ora’s broader outcomes framework to government procurement rules and introducing an approach that demonstrates Manaakitanga (showing respect, generosity and care for others).³⁸ This represents a move away from a predominantly commercial focus, towards a people and environment centred focus and utilises Kāinga Ora’s procurement capacity to positively impact broader social cultural, economic and development outcomes. Figure 13 shows Kāinga Ora’s broader outcomes framework.



Figure 13 Broader outcomes framework.

Principles of supplier engagement

Pā Harakeke interweaves the broader outcomes with commercial value. The principles of supplier engagement: delivering value; community-oriented; future-focused; commitment and sustainability are interwoven with the broader outcomes, as shown in Figure 14.

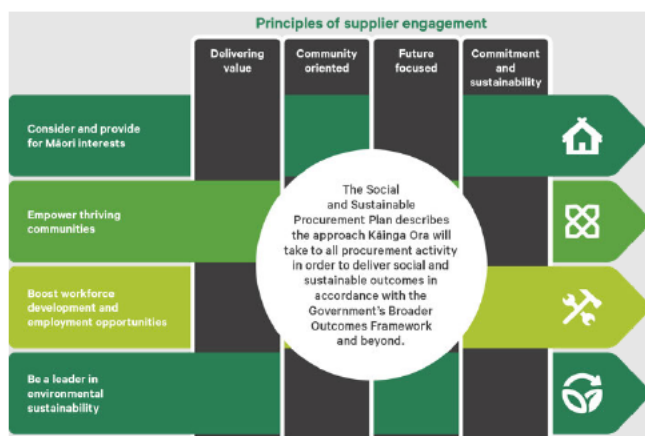
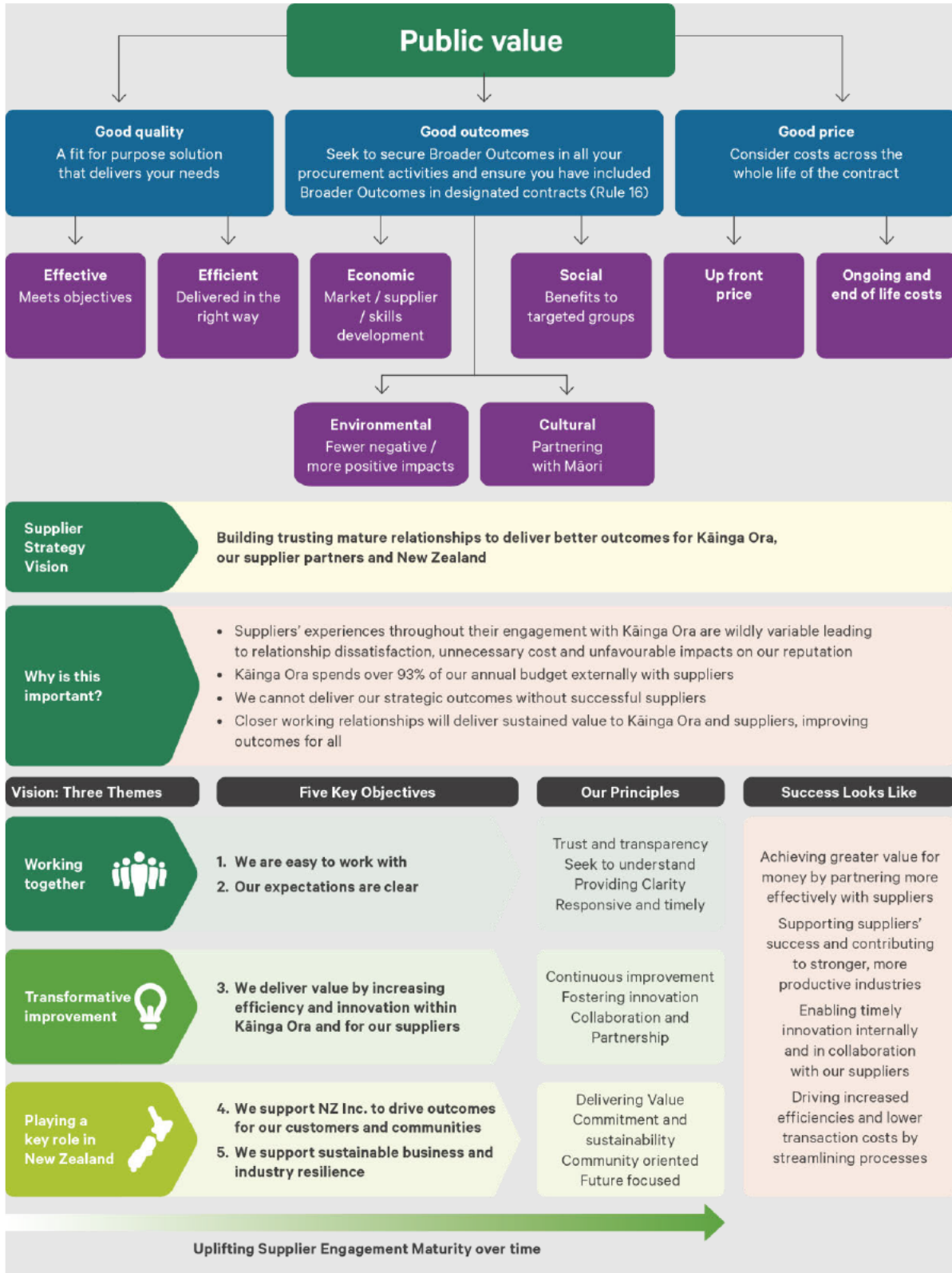


Figure 14 Broader outcomes framework interwoven with principles of supplier engagement.

³⁸ Pā Harakeke is consistent with the Kāinga Ora Homes and Communities Act 2019 and responds to the Progressive Procurement Cabinet Directive of five percent target for Public Service Contracts, December 2020.

Appendix I Kāinga Ora commercial procurement frameworks

Commercial procurement frameworks



Appendix J Kāinga Ora Investment Management Framework (IMF)

The Kāinga Ora Investment Management Framework (IMF) is comprised of six Board-approved policies; a five-phase, gated investment lifecycle; and a range of templates and processes.

The P3 Governance Policy sets out how all Kāinga Ora investments are to be governed. Amongst other things, it provides that:

- The Kāinga Ora Board remains accountable for Kāinga Ora investments and is ultimately responsible for their governance.
- To assist the Board, each programme must be governed by a Programme Governance Board (PGB). The PGB's role includes helping the programme to achieve its outcomes and manage risks.
- The PGB should be aligned to investment portfolios or sub-portfolios.
- The PGB roles and functions will be set out in a more detailed Terms of Reference, including the ability to approve stage funding memos within the scope of this business case (refer to section X).

The P3 Governance Policy also provides for independent advisory panels (like the Construction Programme Advisory Panel (CPAP)) to be established to provide expert advice to programmes and assurance to the Board (IDC) and Chief Executive.

The Investment Approvals Policy sets out the requirements for investments to follow the gated investment lifecycle (i.e. the requirements for approval at each gate), as well as requirements for change control in relation to approved investments. The intent of this policy is that investment approval processes are fit-for-purpose and reflect the scale, complexity, cost, and risk of the investment. To achieve this, the Investment Approvals Policy defines three different investment profiles for the investment approval process: simple, standard, and significant.

The three profiles generally reflect the different levels of scale, complexity, and risk inherent in Kāinga Ora investments. Investments going through the simple track are typically small scale, low complexity, and/or low risk. Those going through the significant track are typically large scale, high complexity, and/or high risk. The standard track covers everything in between. All LSP business cases – including stage funding memos - fall within the significant track.

The profiles refer to the approval processes that investments are required to follow, and in this respect the IMF is closely aligned to the Kāinga Ora Delegations Policy, which is also approved by the Board. The IMF sets out the process requirements for investment approvals, including requirements relating to the approval documentation that must be used and the governance group that must approve the investment. As neither PGBs nor PCGs have delegated financial authority, investment decisions require a two-step approval process: first endorsement by the PGB or PCG under the IMF, and secondly financial approval by the relevant body under the Delegations Policy. In the case of significant track investments, IDC is authorised to approve investments up to \$50 million. Above that threshold, IDC considers the investment, but it is the Kāinga Ora Board that decides whether or not to approve it.

Applying the IMF to the LSPs means that:

- A single PGB governs all LSPs. The LSP PGB manages risks and benefits, and tracks progress, across the portfolio of LSPs, and reports up to the Kāinga Ora Board of Directors.
- A PCG is established for each individual LSP. The PCG manages risks and benefits at a programme level.
- Decision-making processes are aligned to the governance and management structure as well as to the Kāinga Ora Delegations Framework and Cabinet's expectations. This means that PBC require enforcement from the Board, with each stage funding memo being capable of approval by the LSP PGB (assuming that it aligns with the PBC).
- Independent advice and assurance is applied to the LSPs by the CPAP (refer section 5.2 for more detail).

As the LSP has already commenced, the above processes and measures are already in place and have been operating successfully for over a year.

Appendix K Kāinga Ora Governance Group membership

Part A: The members of the IDC and standing attendees from Kāinga Ora

IDC Members	
Name	Role
John Duncan	Chair of IDC, Director on Kāinga Ora Board
Philippa Howden-Chapman	Director on Kāinga Ora Board
Ngarimu Blair	Director on Kāinga Ora Board
Victoria Kingi	Director on Kāinga Ora Board
John Bridgman	Director on Kāinga Ora Board
Vui Mark Gosche	Ex officio member of IDC, Chair of Kāinga Ora Board
Lale Ieremia	Special advisor
Kāinga Ora Attendees	
Name	Role
Andrew McKenzie	Chief Executive
Mark Fraser	General Manager Urban Development and Delivery
Katja Lietz	General Manager Urban Planning and Design
Te Ariki Pihama	Ringa Raupa, Deputy Chief Executive Māori
Gareth Stiven	General Manager Strategy, Finance and Policy
Caroline McDowall	General Manager Commercial
Patrick Dougherty	General Manager Construction and Innovation
Rowan McCrae	General Manager People Governance and Capability
Al Witcomb	Director Governance
Bruce Riden	General Counsel
Nick Maling	General Manager National Services
Sharon Girvan	Manager Governance Systems
Sarah Butler	Manager Office of the Chief Executive

Part B The membership of Urban Development, Land and Housing Supply Pae Tātaki and their role

Name	Role
Katja Lietz	General Manager Urban Planning and Design
Mark Fraser	General Manager Urban Development and Delivery
Gareth Stiven	General Manager Strategy, Finance and Policy
Caroline McDowall	General Manager Commercial
Ingrid Arnestedt	Principal Advisor
Neil Mayo	Chief Commercial Officer
Geoff Mills	Director Market Delivery
Tia Wylie	Senior Marketing Manager Place and Sales
Tupara Morrison	Te Kurutao Regional Manager – Auckland and Northland
Garry Looker	Manager Development Partnerships and Investment
Daniel Soughtton	Deputy Chief Executive Central
Lauren James	Principal Partnership Advisor

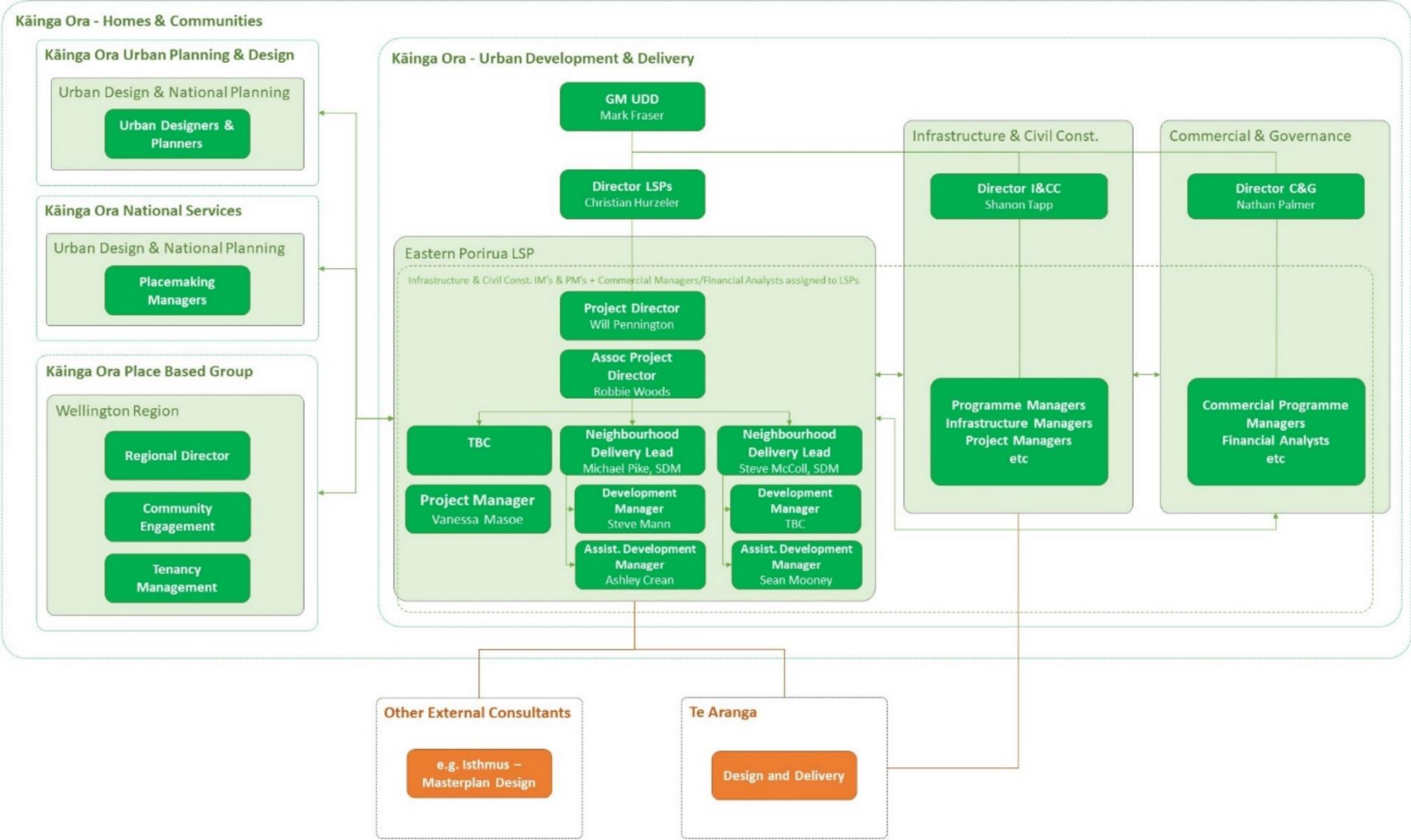
Part C: Positions, Names and Titles of the members currently in the PGB

Position	Name	Title/role in Kāinga Ora
Chair	Greg Groufsky	Regional Director Wellington Region
Members	Andrew Barker	Senior Development Manager – Urban Planning and Design
	Janna Campbell	Chief Advisor – Strategy, Finance & Policy Group
	Patrick Dougherty	General Manager Construction and Innovation
	Mark Fraser	General Manager Urban Development and Delivery
	Amos Kamo	Director Policy and Performance – Te Kurutao
	Angela Pearce	Regional Director Counties-Manukau
	Sam Price	Director Investment Management Office

Part D: Positions, Names and Titles of the members currently in the eastern Porirua PCG

Position	Name	Title/role in Kāinga Ora
Chair	William Pennington	Project Director Porirua
Members	Shanon Tapp	Director Infrastructure and Civil Construction
	Shay Desai	Manager Commercial Urban Development and Delivery
	Lucy Ashby	Communication Manager Central
	Kathy Furfie	Operations Manager
	Jonathan Scholes	Programme Director Delivery
	Paul Clearwater	Manager Community Engagement and Partnerships

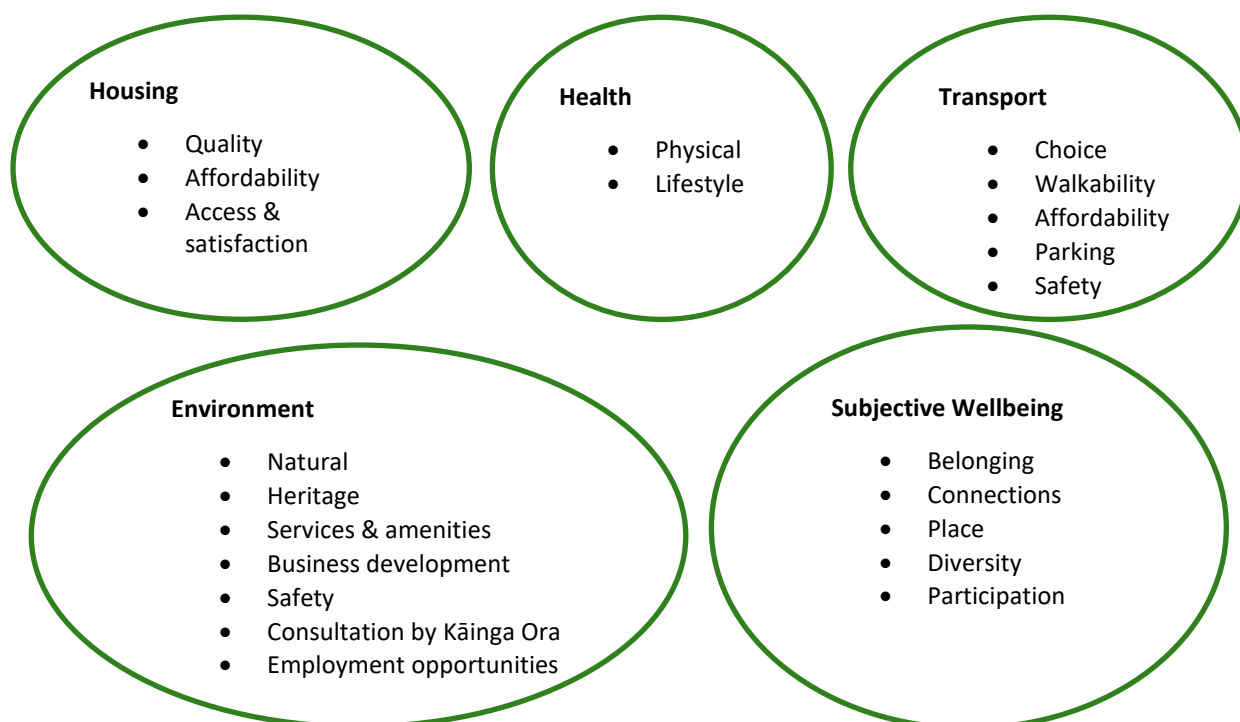
Appendix L The eastern Porirua LSP delivery team structure.



Appendix M Benefits Management Plan – eastern Porirua

Kāinga Ora plans to carry out a comprehensive longitudinal evaluation of the redevelopment of Eastern Porirua. This will be the first evaluation of this nature delivered by the organisation’s newly-established Evaluation and Research team, and will function as a prototype for tracking the outcomes of other large urban development and redevelopment interventions.

We propose a 3-tiered methodology to track outcomes for the Eastern Porirua community’s ongoing redevelopment. The evaluation will centre on 5 key outcome domains.



While these 5 domains will take precedence in shaping the evaluation, they will intersect with other key domains from the Living Standards Framework, including cultural identity, leisure & recreation, education & skills, inclusive community wealth, safety & security, and social connections.

The evaluation will track Eastern Porirua’s redevelopment, illustrating how issues of construction, relocation, infrastructure enhancement, community development and other interventions affect residential wellbeing. This will highlight both developmental successes and potential unintended consequences, enabling organizational learning.

A mixed-method approach will take advantage of existing data sources including Kāinga Ora internal data, data held by collaboration partners and the Integrated Data Infrastructure, while the team also conducts primary research with the community.

Qualitative interviews with diverse stakeholders will capture in-depth perspectives on community development from both community leaders and everyday residents, but with a limited number of participants.

A survey of the Eastern Porirua community will capture data across a wide range of domains with a significantly larger sample size. Collectively, the three research approaches will offer a holistic picture of how redevelopment influences Eastern Porirua’s people, natural environment, and economy.

Data collection and reporting will begin in late 2022, and will be repeated periodically over time

Appendix N Quantitative Risk Analysis (QRA)

Top 10 Precinct Risks

The table below identifies the top 10 risks within the Porirua LSP and assigns a risk category and level to each risk.

QRA P50 Output Table

The table below shows the outputs of the QRA. The final P50 contingency value consists of an inherent risk component and a discrete risk component.



Porirua Precinct
Business Case Risk Analysis - 25 May 2022



INHERENT RISK ANALYSIS (RATE & QUANTITY UNCERTAINTY)									
	Revised Forecast	P5	P50	P70	P80	P85	P90	P95	
Land Development Cost Estimate	\$ 60,975,243.00	-\$ 612,751.00	\$ 3,659,772.00	\$ 5,961,090.00	\$ 7,491,576.00	\$ 8,339,027.00	\$ 9,352,037.00	\$ 10,724,380.00	
Precinct Infrastructure	\$ 147,838,845.00	-\$ 1,765,298.00	\$ 4,351,137.00	\$ 6,311,587.00	\$ 7,509,305.00	\$ 8,270,707.00	\$ 9,252,930.00	\$ 10,645,613.00	
Other Precinct Costs	\$ 104,690,638.00	-\$ 1,675,935.00	\$ 646,187.00	\$ 1,544,047.00	\$ 2,148,330.00	\$ 2,514,142.00	\$ 2,938,653.00	\$ 3,538,849.00	
TOTAL COST	\$ 313,504,726.00	-\$ 4,053,984.00	\$ 8,657,096.00	\$ 13,816,724.00	\$ 17,149,211.00	\$ 19,123,876.00	\$ 21,543,620.00	\$ 24,908,842.00	
INHERENT CONTINGENCY (Cost Only)	-\$ 4,053,984.00	\$ 8,657,096.00	\$ 13,816,724.00	\$ 17,149,211.00	\$ 19,123,876.00	\$ 21,543,620.00	\$ 24,908,842.00		

DISCRETE RISK ANALYSIS (THREATS & OPPORTUNITIES)									
	P5	P50	P70	P80	P85	P90	P95		
Porirua Risk Register Analysis (Threats & Opportunities)	\$ 9,405,381.00	\$ 15,745,138.00	\$ 17,789,762.00	\$ 19,031,535.00	\$ 19,759,426.00	\$ 20,726,762.00	\$ 22,121,213.00		
TOTAL - PRECINCT	\$ 9,405,381.00	\$ 15,745,138.00	\$ 17,789,762.00	\$ 19,031,535.00	\$ 19,759,426.00	\$ 20,726,762.00	\$ 22,121,213.00		

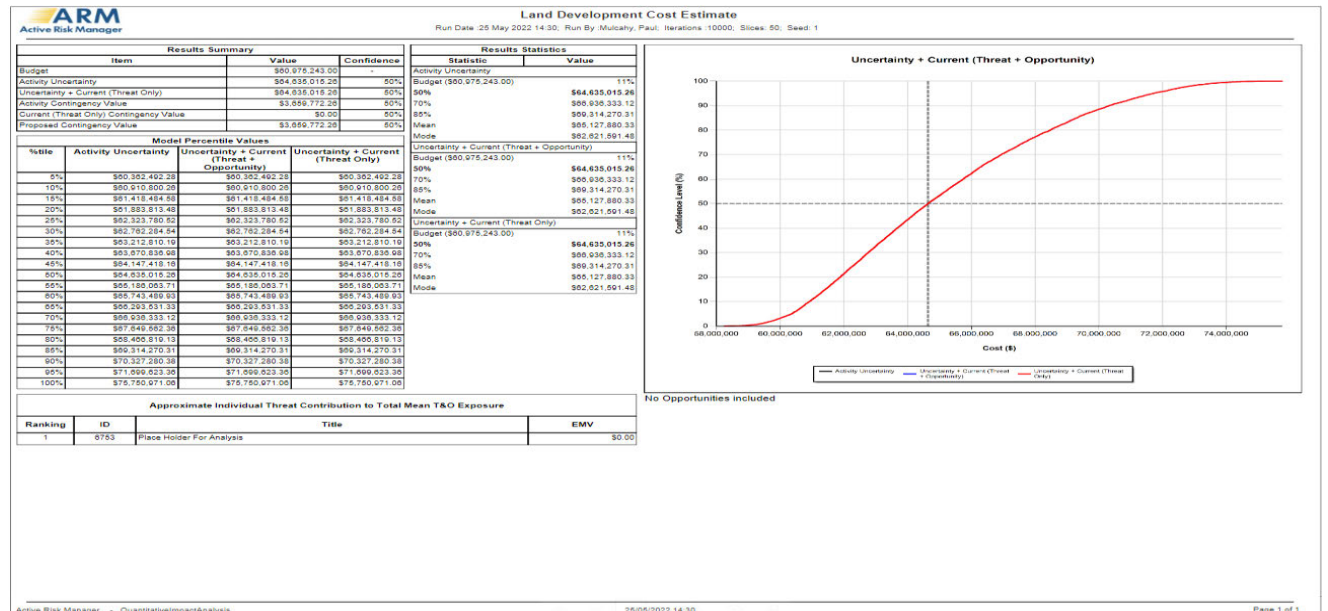
COMBINED							
	P50	P70	P80	P85	P90	P95	
Contingency Allocation (Inherent Assessment - Cost Only)	\$ 8,657,096.00	\$ 13,816,724.00	\$ 17,149,211.00	\$ 19,123,876.00	\$ 21,543,620.00	\$ 24,908,842.00	
Contingency Allocation (Threats & Opportunities)	\$ 15,745,138.00	\$ 17,789,762.00	\$ 19,031,535.00	\$ 19,759,426.00	\$ 20,726,762.00	\$ 22,121,213.00	
TOTAL CONTINGENCY (INHERENT + DISCRETE)	\$ 24,402,234.00	\$ 31,606,486.00	\$ 36,180,746.00	\$ 38,883,302.00	\$ 42,270,382.00	\$ 47,030,055.00	
PERCENTAGE OF BASE COST (Excludes Revenue)	7.8%	10.1%	11.5%	12.4%	13.5%	15.0%	

CURRENT FORECAST CONTINGENCY	
	\$25,330,623.00

UNPROVISIONED EXPOSURE	P50	P70	P80	P85	P90	P95
	\$928,389	(\$6,275,863)	(\$10,850,123)	(\$13,552,679)	(\$16,939,759)	(\$21,699,432)

Cost Risk Analysis

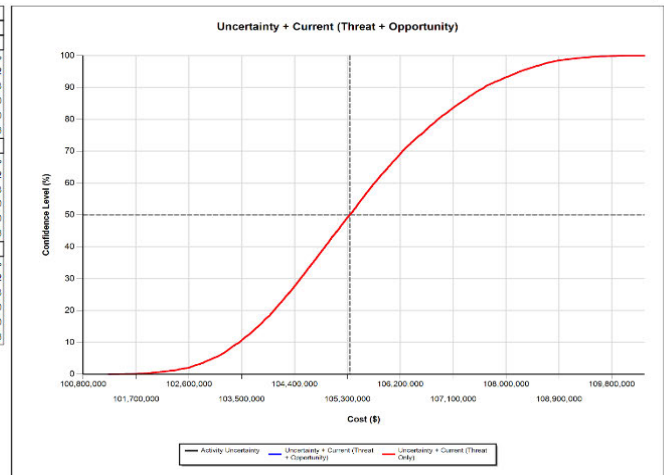
The tables and figures below show the results of the inherent risk analysis of the different cost components.



Results Summary		
Item	Value	Confidence
Budget	\$104,690,838.00	-
Activity Uncertainty	\$105,336,824.72	50%
Uncertainty + Current (Threat Only)	\$105,336,824.72	50%
Activity Contingency Value	\$846,186.72	50%
Current (Threat Only) Contingency Value	\$0.00	50%
Proposed Contingency Value	\$846,186.72	50%

Results Statistics	
Statistic	Value
Activity Uncertainty	
Budget (\$104,690,838.00)	34%
50%	\$105,336,824.72
70%	\$106,234,666.03
85%	\$107,204,780.40
Mean	\$105,476,667.00
Mode	\$104,970,978.76

Model Percentile Values			
%tile	Activity Uncertainty	Uncertainty + Current (Threat + Opportunity)	Uncertainty + Current (Threat Only)
5%	\$103,014,702.82	\$103,014,702.82	\$103,014,702.82
10%	\$103,456,702.04	\$103,456,702.04	\$103,456,702.04
15%	\$103,781,333.62	\$103,781,333.62	\$103,781,333.62
20%	\$104,045,779.09	\$104,045,779.09	\$104,045,779.09
25%	\$104,280,802.32	\$104,280,802.32	\$104,280,802.32
30%	\$104,501,244.45	\$104,501,244.45	\$104,501,244.45
35%	\$104,710,666.66	\$104,710,666.66	\$104,710,666.66
40%	\$104,916,974.15	\$104,916,974.15	\$104,916,974.15
45%	\$105,126,420.19	\$105,126,420.19	\$105,126,420.19
50%	\$105,336,824.72	\$105,336,824.72	\$105,336,824.72
55%	\$105,544,383.88	\$105,544,383.88	\$105,544,383.88
60%	\$105,759,648.33	\$105,759,648.33	\$105,759,648.33
65%	\$105,996,502.33	\$105,996,502.33	\$105,996,502.33
70%	\$106,234,666.03	\$106,234,666.03	\$106,234,666.03
75%	\$106,534,336.20	\$106,534,336.20	\$106,534,336.20
80%	\$106,838,967.83	\$106,838,967.83	\$106,838,967.83
85%	\$107,204,780.40	\$107,204,780.40	\$107,204,780.40
90%	\$107,626,260.82	\$107,626,260.82	\$107,626,260.82
95%	\$108,226,487.02	\$108,226,487.02	\$108,226,487.02
100%	\$110,354,150.40	\$110,354,150.40	\$110,354,150.40



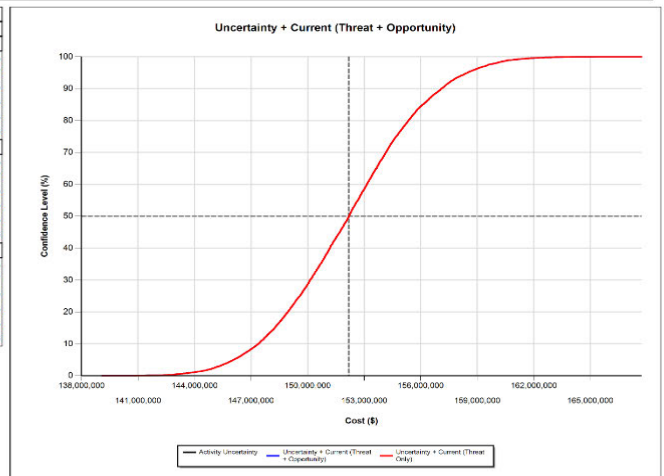
Approximate Individual Threat Contribution to Total Mean T&O Exposure			
Ranking	ID	Title	EMV
1	6755	Place Holder For Analysis	\$0.00

No Opportunities included

Results Summary		
Item	Value	Confidence
Budget	\$147,838,845.00	-
Activity Uncertainty	\$152,189,961.87	50%
Uncertainty + Current (Threat Only)	\$4,351,136.87	50%
Activity Contingency Value	\$0.00	50%
Current (Threat Only) Contingency Value	\$0.00	50%
Proposed Contingency Value	\$4,351,136.87	50%

Results Statistics	
Statistic	Value
Activity Uncertainty	
Budget (\$147,838,845.00)	12%
50%	\$152,189,961.87
70%	\$154,150,431.85
85%	\$156,109,561.53
Mean	\$152,284,837.33
Mode	\$152,537,247.88

Model Percentile Values			
%tile	Activity Uncertainty	Uncertainty + Current (Threat + Opportunity)	Uncertainty + Current (Threat Only)
5%	\$146,073,546.88	\$146,073,546.88	\$146,073,546.88
10%	\$147,383,915.94	\$147,383,915.94	\$147,383,915.94
15%	\$148,257,957.03	\$148,257,957.03	\$148,257,957.03
20%	\$148,950,213.40	\$148,950,213.40	\$148,950,213.40
25%	\$149,588,913.80	\$149,588,913.80	\$149,588,913.80
30%	\$150,125,360.86	\$150,125,360.86	\$150,125,360.86
35%	\$150,675,444.74	\$150,675,444.74	\$150,675,444.74
40%	\$151,175,277.29	\$151,175,277.29	\$151,175,277.29
45%	\$151,668,737.19	\$151,668,737.19	\$151,668,737.19
50%	\$152,189,961.87	\$152,189,961.87	\$152,189,961.87
55%	\$152,690,981.34	\$152,690,981.34	\$152,690,981.34
60%	\$153,137,086.35	\$153,137,086.35	\$153,137,086.35
65%	\$153,646,923.08	\$153,646,923.08	\$153,646,923.08
70%	\$154,150,431.85	\$154,150,431.85	\$154,150,431.85
75%	\$154,694,054.00	\$154,694,054.00	\$154,694,054.00
80%	\$155,246,140.58	\$155,246,140.58	\$155,246,140.58
85%	\$155,799,561.53	\$155,799,561.53	\$155,799,561.53
90%	\$156,351,774.88	\$156,351,774.88	\$156,351,774.88
95%	\$156,904,466.26	\$156,904,466.26	\$156,904,466.26
100%	\$167,714,987.83	\$167,714,987.83	\$167,714,987.83



Approximate Individual Threat Contribution to Total Mean T&O Exposure			
Ranking	ID	Title	EMV
1	6754	Place Holder For Analysis	\$0.00

No Opportunities included

Appendix O Option 6 Evaluation

This appendix provides supplementary information about:

- an alternative preferred option (Option 6) that may be considered if there is additional funding available for the Porirua LSP, and
- the implications of the recent Pacific affordable housing announcement on the Porirua LSP.

It is intended to be read in conjunction with the Porirua PBC, which sets out the strategic case for investment and the proposed delivery arrangements for the LSP (including commercial principles, governance and programme management).

Context

PBC Scope and Constraints

On 31 May 2021, Cabinet agreed to set aside \$307 million from the Housing Acceleration Fund (HAF) for the Porirua LSP. Tranche One funding of \$136 million was announced on 13 July 2021 and is fully committed to projects now underway. This PBC is required to draw down the balance of HAF funding to enable the planned infrastructure and land supply programme to continue.

The Economic Case in the PBC assesses the main options for the Porirua LSP and identifies the preferred way forward that will optimise value for money within the existing (Cabinet-agreed) funding envelope of \$307m. It uses qualitative and quantitative assessment to review the costs, risks and benefits against the investment objectives and the critical success factors.

A key constraint identified in the PBC – and one of the critical success factors – is affordability, which is standard to the Treasury Better Business Case approach. For a long list option to progress to the short list it must pass all critical success factors. Practically, this means if a long list option fails the affordability criteria, i.e. it costs more than \$307m, it cannot progress to the short list.

Taking this into account, the Economic Case of the PBC recommends Option 4 as the preferred way forward. If the \$307m HAF funding cap was increased the evaluation would have selected Option 6 as the preferred way forward in the Economic Case, as well as the assessment of affordability in the Financial Case.

Ministerial Feedback

In May/June 2022, the Ministers of Finance and Housing provided feedback on the direction of the draft Porirua PBC. In summary, Ministerial feedback was that they were prepared to consider options outside of the existing \$307m funding envelope, specifically they have indicated an interest in Option 6, which would cost \$340m (requiring up to an additional \$33m).

Ministers have also asked that consideration be given to opportunities to align the Porirua LSP with the Ministry for Pacific Peoples affordable housing announcement (made in May 2022 as part of Budget 2022), including consideration of Pacific housing needs in the options analysis.

This appendix responds to this Ministerial feedback and provides further information about Option 6, in the situation that the funding envelope for the Porirua LSP was increased to \$340m.

Pacific Affordable Housing Announcement

What was announced?

As part of Budget 2022, the Building Homes for Pacific in Porirua initiative was announced, which provides an opportunity to design new affordable housing solutions tailored to Pacific people's needs. The funding is subject to the development of a full business case within 12 months, led by the Ministry for Pacific Peoples (MPP).

What are the implications for the Porirua LSP?

The PBC has assumed that affordable housing land is sold at a s 9(2)(j) to the market value. This enables the houses developed to be priced in the lower quartile of eastern Porirua values and align with the proposed increased KiwiBuild price caps being considered by Cabinet. The sale of this land at a s 9(2)(j) results in an effective subsidy by the Crown of s 9(2)(j).

The Pacific housing initiative is dependent on the Porirua LSP receiving the remaining \$307m HAF funding and a further \$33m of additional Crown funding to enable a minimum of 300 market and affordable lots to be available. This dependency presents both opportunities and risks for the Porirua LSP.

Opportunities

There is an opportunity to better align the Porirua LSP and the Pacific Housing initiative. Currently the LSP project only has limited options available to deliver affordable housing and this Pacific Housing initiative could be more effective and targeted.

The preferred Option 4 within the \$307m HAF funding cap delivers a total of 182 market and affordable lots. This is less than the 300 lots anticipated by MPP for their programme.

Option 6 requires the \$307m HAF funding cap to be increased to \$340m, and results in a total of 57 market lots and 401 affordable lots (458 total). There would be sufficient number of lots to meet the requirements of the MPP Pacific housing initiative, but would require MPP to pay full market land rate for all 300 lots. This would avoid a double-up of Crown subsidy, as the MPP Pacific housing initiative is being funded directly the Crown.

If MPP pays full market land rate for all 300 lots, it would result in the Porirua LSP receiving additional revenue of s 9(2)(j). This is calculated as the affordable land subsidy s 9(2)(j) of market value) over (300 lots less 57 market lots allowed = 243 net). This additional revenue could be applied as additional contingency for the Porirua LSP.

Risks

Risks to Kāinga Ora will require ongoing active management. These include:

- Timing risk if funding for the Porirua LSP is delayed to await more clarity of the MPP business case. This would result in land development of the project being de-mobilised which would be a significant programme, reputational and media risk.
- Social license to operate – a lack of certainty about the MPP business case and associated implications for the LSP would impact on Kāinga Ora's ability to operate in the Porirua community, including with the local council and iwi.
- Perceived gentrification risks if the MPP business case fails.

Stakeholders

In addition to our key stakeholders described in the draft PBC, including the Porirua City Council and Ngāti Toa, going forwards we will also need to work with MPP to help ensure alignment and risk mitigation. To support this, Kāinga Ora will be closely involved in the development of the MPP business case.

How do we propose aligning the Porirua LSP PBC and delivery with the MPP business case process?

The draft Porirua PBC was well-advanced at the time of the MPP budget announcement. Land development and infrastructure works are underway and there is an urgent need for certainty of the remaining HAF allocation. It is critical that the LSP gets certainty of the remaining HAF allocation and maintains momentum with design and construction works.

Kāinga Ora will work closely with MPP in the development of their business case to ensure their assumptions of the size, quantity and timing of land is aligned with approved Crown funding and the LSP's land development programme.

Sequencing of decisions

In addition to Kāinga Ora involvement in the MPP business case process, we can support alignment as well as continued momentum through clear sequencing of decisions about HAF funding, additional funding and the MPP business case. We propose:

- In August 2022 Cabinet makes a decision about the draft PBC and the \$307m HAF allocation for the Porirua LSP. This decision allows for on-ramps, if additional funding is available;
- In parallel or shortly after, Cabinet or joint Ministers (under delegation) will make a decision about additional funding to achieve increased housing supply (this Option 6);
- In mid-2023 Cabinet and/or Ministers make a decision about the Pacific Housing Initiatives business case. The release of the \$307m HAF allocation and resulting programme of land development and infrastructure works underway means that an approval of the Pacific housing initiative can be easily accommodated via allocation of build-ready lots. Any variation to the land development works would be managed through change control processes as set out in the draft PBC and agreed by Cabinet in August 2022.

The above approach strikes a balance between allowing for certainty and continued momentum in the Porirua LSP, reduced programme and financial risk for Kāinga Ora, and flexibility to align outcomes with the Pacific housing initiative as required.

Note the above sequence of decisions represents Kāinga Ora's view and the final decisions about alignment between the Porirua LSP and Pacific housing initiative will be subject to Ministerial decision-making.

Options 6: increased housing yield

Option 4 within PBC achieves the optimum housing and regeneration outcomes within the \$307m HAF funding cap.

If Ministers choose to increase the \$307m HAF funding cap there are further options that deliver more market and affordable housing lots. These options leverage the increased infrastructure capacity and increased housing density that has been enabled by recent legislation changes.

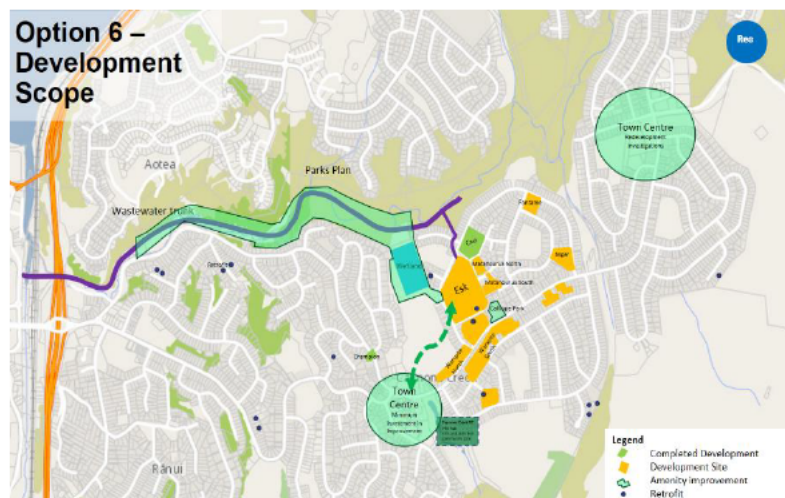
Below is a summary of the long-list of options and Option 6 is highlighted as providing the optimum increase in housing supply if the funding envelope was increased to \$340m.

Note that Pacific housing outcomes are evaluated via the assessment criteria to 'enable an appropriate mix of housing for the community and future generations'.

Long list options

	Description	Nett New Homes	Nett Cost (\$m)	Amenity spend (\$m)
Option 1	Tranche 1 commitments and activities required to complete development to a reasonable level	197	271.14	10.04
Option 2	Maximum housing delivery with no affordable housing and minimal amenity	497	307.21	16.18
Option 3	Less housing delivery than option 2, increase focus on affordable homes (40%) and amenity	317	307.21	20.79
Option 4	Less housing delivery than option 2 or 3, greater focus on affordable homes (70%), amenity and town centre improvements	282	307.21	19.74
Option 5	Lowest housing yield based on current commitments, with a focus on transport (the spine project)	197	325.87	42.24
Option 6	Maximum housing yield with greater focus on affordable homes (87%) and the Pacific housing initiative. Limited to two neighbourhoods	558	340.63	26.96
Option 7	Budget Bid Updated with Today' numbers	413	340.47	23.43

This schematic illustrates the scope of Option 6. This option leverages the increased infrastructure capacity (trunk sewer, wetland and reservoir) contained in Option 4, and increases housing density which has been enabled by recent legislation changes. Land development extends in to two neighbourhoods, town centres master planning with a community facility, pedestrian links and additional parks works within Bothamley and Calliope parks.



Evaluation of the long list with an increased funding envelope:

		Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
State (demolished)		-96	-170	-130	-113	-96	-186	-155
State (total built)		183	183	130	213	183	286	231
Market		110	484	192	55	110	57	337
Affordable		0	0	125	127	0	401	0
Total new homes		293	667	447	395	293	744	568
Net new homes		197	497	317	282	197	558	413
Net Cost		-\$271m	-\$307m	-\$307m	-\$307m	-\$325m	-\$340m *	-\$340m *
Investment Objectives								
	Weighting							
Develop places, amenity value, and a sense of community.	0.1	0	2	3	3	3	3	3
Improve opportunities and access to jobs, education, and amenities.	0.1	2	3	3	3	3	3	3
Provide opportunity to partner with iwi to realise aspirations.	0.1	2	3	3	3	2	3	3
Improve the environmental impact of the local water and transport infrastructure.	0.3	3	3	3	3	3	3	3
Enable an appropriate mix of housing for the needs of the community and future generations.	0.4	0	2	2	3	0	3	3
Critical Success Factors								
Strategic fit and business needs		Fail	Pass	Pass	Pass	Fail	Pass	Pass
Potential value for money		Fail	Pass	Pass	Pass	Pass	Pass	Pass
Supplier capacity and capability		Pass	Pass	Pass	Pass	Pass	Pass	Pass
Potential affordability		Pass	Pass	Pass	Pass	Pass *	Pass *	Pass *
Potential achievability		Pass	Pass	Pass	Pass	Pass	Pass	Pass
Overall Assessment								
Investment Objectives		1.3	2.5	2.6	3	1.7	3	3
Critical Success Factors		Fail	Pass	Pass	Pass	Fail	Pass	Pass
Outcome from Assessment		Discounted	Possible	Possible	Possible	Discounted	Possible	Possible
Assessment Key								
Fully meets the criteria		3						
Partially meets the criteria		2						
Does not meet the criteria		0						

Choices for Ministers within Option 6

Option 6 provides Ministers with choices to best reflect their desired outcomes, while still delivering a minimum of 300 lots for Pacific housing. These choices include changes to the:

- Level of investment;
- Level of contingency;
- Level of outcomes; and/or
- Number of affordable homes.

Note that if a Crown subsidy is provided to sell land at a [s 9\(2\)\(j\)](#) to market value, and MPP then builds their Crown funded Pacific housing on the land it would result in a duplication of Crown subsidies. This risk would need to be closely managed.

Option 4 compared to Option 6

Option 4 delivers the best mix of regeneration and housing supply outcomes within the Cabinet approved \$307m HAF funding cap, and remains the preferred option in the PBC. This provides 100 net additional public homes, 182 market and affordable lots, and some wider amenity and regeneration. However, Option 4 does not provide sufficient land to meet the expectations of 300 lots for Pacific housing, as announced as part of Budget 2022.

Option 6 sees a significant increase in housing development, optimising new infrastructure capacity within two neighbourhoods, but does not currently meet the PBC's affordability criteria. It provides 100 net additional public homes and 458 market and affordable lots, and some wider amenity and regeneration. To meet the affordability criteria, this option requires an additional investment of \$33m above the current \$307m HAF funding cap.

Both Option 4 and Option 6 meet the obligations that Kāinga Ora has to Ngāti Toa.

Overall, Option 6 provides the baseline of 300 homes required for Pacific housing whilst providing much-needed certainty regarding the outcomes sought from the \$307m HAF allocation. This enables Kāinga Ora to continue to maintain momentum in the Porirua LSP, while additional outcomes are confirmed and then on-ramped. If additional funding of approximately \$33m was available, Option 6 would be the preferred option given the increased supply of market and affordable homes it would enable when compared to Option 4.

Financial implications

A summary of key financial information associated with Option 6 is set out below. This includes cost and revenue breakdowns and contingency assumptions.

Detailed description and breakdown of Option 6: revenues and costs

Options Detailed Cost Breakdown	Option 6: Return to Development Plan Housing Delivery with 2022 costings (CCNE & CCSE).
	\$m Excl GST
Superlot Sales - Market	
Superlot Sales - Affordable	
Superlot Sales - State	
Other Revenue	
Total Revenue	
Development Costs	
Land Development Costs	
Infrastructure	
Neighbourhood Infrastructure	
Soft Infrastructure	
Residential Acquisition	
Non Residential Costs	
UDD Alliance Overhead	
UDD Overhead	
Starting Rents	
Wider Wellbeing Outcomes	
Community Engagement, Comms & Marketing	
Total Development Costs	
Net Development Costs	
Capitalised GST - Hybrid Rate	
Total Development Costs (incl Capitalised GST)	
Net Development Costs (incl Capitalised GST)	
Contingency Included	
Inflation Included	
Contingency % of Total Cost	
Inflation % of Nett Cost	
Remediation of Existing & Aquired Land (m2)	
Direct Development Cost Per m2 (Shown in \$)	\$

Contingency Assumptions

A contingency level of P50 has been applied to the Option 6 financial modelling. This is consistent with the approach taken with the Auckland LSP PBCs.

s 9(2)(j)

Contingency applied to the state development on state has the additional cost of the Capitalised GST, therefore the delta to be mitigated to get to P90 within the parameters of the P50 option

Note the additional budget required for P90 contingency would exceed the \$340m forecast, and would therefore also require additional Crown funding.

Appendix P Detailed costings of Options 1 to 7

Options Detailed Cost Breakdown	Escalation Applied	Option 1: Tranche 1 commitments and activities required to complete development to a reasonable level	Option 2: Maximum housing delivery with no affordable housing and minimal amenity	Option 3: Less housing delivery than option 2, increase focus on affordable homes (40%) and amenity	Option 4: Less housing delivery than option 2 or 3, greater focus on affordable homes (70%), amenity and town centre improvements	Option 5: Lowest housing yield based on current commitments, with a focus on transport (the spine project)	Option 6: Return to Development Plan Housing Delivery with 2022 costings (CCNE & CCSE).	Option 7: Budget Bid Updated with Today' numbers
		\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST
Superlot Sales - Market	s 9(2)(j)							
Superlot Sales - Affordable								
Superlot Sales - State								
Other Revenue								
Total Revenue								
Development Costs								
Land Development Costs								
Infrastructure								
Neighbourhood Infrastructure								
Soft Infrastructure								
Residential Acquisition								
Non Residential Costs								
UDD Alliance Overhead								
UDD Overhead								
Starting Rents								
Wider Wellbeing Outcomes								
Community Engagement, Comms & Marketing								
Total Development Costs								
Net Development Costs								
Capitalised GST - Hybrid Rate								
Total Development Costs (incl Capitalised GST)								
Net Development Costs (incl Capitalised GST)								
Contingency Included								
Inflation Included								
Contingency % of Total Cost								
Inflation % of Nett Cost								
Remediation of Existing & Aquired Land (m2)								
Direct Development Cost Per m2 (Shown in \$)								

Amenities breakdown	Option 1: Tranche 1 commitments and activities required to complete development to a reasonable level	Option 2: Maximum housing delivery with no affordable housing and minimal amenity	Option 3: Less housing delivery than option 2, increase focus on affordable homes (40%) and amenity	Option 4: Less housing delivery than option 2 or 3, greater focus on affordable homes (70%), amenity and town centre improvements	Option 5: Lowest housing yield based on current commitments, with a focus on transport (the spine project)	Option 6: Return to Development Plan/ Treasury BC with 2022 costings.	Option 7: Budget Bid Updated with Today' numbers
	\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST	\$m Excl GST
	s 9(2)(j)						
Total Amenity Spend							
Town Centres							
Parks							
Pedestrian Links/Path/Cycleways							
New Roads							
Road Upgrades							

Appendix Q Cost Benefit Analysis - memo



Kāinga Ora – Eastern Porirua benefit assessment

Summary

This memo summarises the results of adding the additional benefits to the cost-benefit analysis for the development in Porirua.

The additional benefits included:

- Social benefit of improved water quality
- An additional 154 full-time equivalent (FTE) jobs per annum across the Wellington region
- Social value for wetland regeneration
- Social value of increasing access to green space
- Economic value of more resilient infrastructure.

The assessment of the benefits was based on estimates of the size of the impacts provided by the project team, combined with conventional economic appraisal methodologies for cost-benefit analysis and peer-reviewed academic literature.

Overall results

Overall the revised results were as follows

- A benefit-cost ratio (BCR) of 2.1 – (ranging from 2.0 to 2.3)
- A net present value of \$354.8 million (ranging from \$321.1 million – \$422.2 million).

The ranges depend on the economic benefits of resilient infrastructure.

As agreed, we have chosen to use a conservative approach consistent with the previous work on other localities.

We note that if, as seems likely climate change may lead to more frequent and severe weather events, there is likely to be further upside as a result of the improved resilience being built into Eastern Porirua. Consequently we consider that further. If this is the case, we would expect that the BCR and NPV may be higher in the expected ranges.

Costs that have been used in developing this model

The cost figures that have been used are derived from the UDC numbers, and we have reconciled them against the approach used in the original Programme Business Case. This gives rise to the figures as shown in Table 1 below:



Summary Table Eastern Porirua Source: DRAFT - Porirua LUP Model V2018 April 2022

P&L summary	
Revenue	
Market support sites	
ATU/ARU support sites	
State support sites	
Porirua City Council Contribution	
Total Revenue	
Costs	
Land development	
Pecked Infrastructure	
Other project costs	
Shedding rents	
Contingency	
Total Costs	
Net Costs	

These are the costs that have been used in the model.

The social benefit of improved water quality

An important benefit of investing in three-waters infrastructure was avoiding future overflow incidents into surrounding waterways. To value this, we estimate the social value of water quality improvements based on New Zealand-based estimates of the willingness to pay for improvements among Māori and others. Estimates suggest that Māori are willing to pay \$40 per year and others are willing to pay \$28 per year.¹ Applying these values to the population estimates for Porirua means that better water quality would be worth around \$1.94 million in 2023, and this value will increase as the population grows.

An additional 154 FTE jobs per annum across the Wellington region

Job creation from a major investment is a source of debate. The question is whether the investment increases economic activity or is a trade-off for other alternative investments. Infometrics² estimated the number of new FTEs created across the Wellington region, and Treasury estimated that the social value of employment was \$79,287.82. This means the jobs from the investment add up to an additional benefit of \$12.05 million a year. We have assumed that once the jobs are created, they persist in the regional economy due to increased demand for consumption and investment.

Social value for wetland regeneration

The development includes the addition of a 15,000m² wetland into an existing park to add recreation benefits, connecting with nature – increasing biodiversity, active outdoor space, immersive walkways and connection to the natural environment. To value the wetlands, we looked at the international literature on the value of the ecosystem services from wetlands. This includes the provision of resources/habitat and regulation of the environment (e.g. flood mitigation, supporting services and cultural value). The literature indicates that the

¹ Miller, Sini, Peter Tait, and Caroline Saunders. "Estimating Indigenous cultural values of freshwater: A choice experiment approach to Māori values in New Zealand." *Ecological Economics* 118 (2015): 207-214.

² Infometrics. Economic analysis of Bothamley Park Trunk Sewer Stage 1 upgrade for Te Aranga Alliance. September 2021



value of a hectare of wetlands has a social value of \$70,560.³ 1.5 hectares of new wetland would add \$105,841 per annum to the value of the benefits from the project.

Social value of increasing access to green space

The project involves a complex array of developments and redevelopments to green space in Porirua. Some of these benefits have already been captured in the analysis. However, the development of 3.2 hectares of inaccessible pine forest into accessible open park space was not included. International literature suggests that the ecosystem services social benefit of one hectare of grassland ecosystem services from grassland was \$10,166 (see Mitsch et al. in footnote 3) in 2022 dollars. This means the value of additional access to open space to the wider Porirua community was estimated to be \$32,531 per year.

Economic value of more resilient infrastructure

The economic value of more resilient infrastructure is a developing area. There's consensus that the benefits of resilience are material but hard to quantify.⁴ Research from the World Bank suggests the benefits of resilient distributive pipes could be equivalent to between 5% and 50% of the original capital investment.⁵ This research was based on infrastructure in developing countries which is not necessarily a suitable comparison for infrastructure in developed countries. Therefore, we applied a conservative estimate of 5% for Porirua. This conservative estimate is an additional material benefit when applied to the total infrastructure investment, as it amounts to an additional \$6.5 million benefit per year – the largest of the additional benefits. If the World Bank's upper estimate for the value of resilient infrastructure is applied, the BCR ratio jumps to 3.9, which is a significant change and a reason to be conservative. In the analysis, we have assumed a central estimate of 5% of the total cost of infrastructure and a sensitivity range of 2.5% to 10%.

We should also note that there may be a further upside due to the importance of resilience in the context of climate change and the impact of more frequent and severe weather events on built assets and communities.

Note, the complete CBA report from Morrison Low/NZIER is available. Please request from Kāinga Ora if it is required.

³ Mitsch, William J., Blanca Bernal, and Maria E. Hernandez. "Ecosystem services of wetlands." *International Journal of Biodiversity Science, Ecosystem Services & Management* 11, no. 1 (2015): 1-4.

⁴ McWha, Vbad, and R. Tooth. Better measurement of the direct and indirect costs and benefits of resilience. No. 669. Waka Kotahi= NZ Transport Agency, 2020.

⁵ <https://openknowledge.worldbank.org/handle/10986/36407>



TO FIND OUT MORE

poriruadevelopment.co.nz