CHRISTCHURCH CITY COUNCIL AGENDA

EXTRAORDINARY MEETING

MONDAY 12 MAY 2014

12.30 PM

COUNCIL CHAMBER, CIVIC OFFICES,
53 HEREFORD STREET

AGENDA - OPEN

CHRISTCHURCH CITY COUNCIL

Monday, 12 May at 12.30pm
in the Council Chamber, Civic Offices, 53 Hereford Street

Council: The Mayor, (Chairperson).
Councillors Vicki Buck, Jimmy Chen, Phil Clearwater, Pauline Cotter, David East, Jamie Gough, Yani Johanson, Ali Jones, Raf Manji, Glenn Livingstone, Paul Lonsdale, Tim Scandrett and Andrew Turner

1. APOLOGIES

2. DECLARATION OF INTEREST

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

3. DEPUTATIONS BY APPOINTMENT

4. PRESENTATION OF PETITIONS

5. MAYORAL TASK FORCE ON FLOODING (TO BE SEPARATELY CIRCULATED)

6. AN ACCESSIBLE CITY – REVISED FIRST PHASE TRANSPORT PROJECTS - CONSIDERATION OF KILMORE AND SALISBURY STREET ENHANCEMENTS

		Contact	Contact Details
Executive Leadership Team Member responsible:	(Acting) General Manager, City Infrastructure Group	N	Terry Howes
Officer responsible:	Unit Manager, Transport and Research	Y	Richard Osborne, DDI 941 8407
Author:	Tim Cheesebrough, Senior Transport Planner	N	

1. PURPOSE AND ORIGIN OF REPORT

1.1 This supplementary report arises from the recommendations of the Earthquake Recovery Committee of the Whole meeting of 1 May 2014, Item 9 (An Accessible City – Revised First Phase Transport Projects)

1.2 The Committee's recommendations were as follows:

The Committee recommends that the Council:

(6.1) Support the proposed changes to the First Phase programme of An Accessible City transport projects as outlined in this report and within the original cost sharing Agreement between Council and the Crown.

(6.2) Authorise the Acting Chief Executive to sign an agreement with the Crown (or its agent) varying the Cost Sharing Agreement dated 26 June 2013 in accordance with the changes referred to in 6.1 above.

(6.3) Approve public and stakeholder engagement over the design concepts for the amended First Phase programme of Accessible City projects identified in this report, other than for Transport Project 4 - Manchester Street.

1.3 Following consideration of the report, the Committee passed an additional recommendation:

(6.4) As part of this report to Council, staff provide advice on how work on Kilmore and Salisbury Streets could be brought forward in line with community aspirations and the SCIRT repair programme.

1.4 This supplementary report addresses the fourth resolution of the Committee and explores options for addressing works on Kilmore and Salisbury Streets as part of the Accessible City first phase programme of works.

1.5 For the reasons outlined in this report, Council officers recommend the amended An Accessible City First Phase Transport Programme reported to the Earthquake Recovery Committee of the Whole on 1 May 2014 (resolutions 6.1, 6.2 and 6.3 above), with the addition of early enabling works on Salisbury Street at a notional value of $100,000 in order to minimise any re - work, and as outlined in Alternative Programme Option 4 of this supplementary report.

1.6 Officers also support priority for full streetscape and two way traffic conversions to Kilmore and Salisbury Streets being viewed as a high priority in further Crown / Council funding discussions over the implementation of the entire An Accessible City Plan.

2. EXECUTIVE SUMMARY

2.1 At its meeting on 1 May 2014, the Earthquake Recovery Committee of the Whole considered a report "An Accessible City – Revised First Phase Transport Projects" (refer **Attachments 1, 2** and **3**). Prior to the Council considering this matter further, the Committee requested a supplementary report by officers into the means by which two further projects might be included in a priority first phase programme of An Accessible City transport plan projects.

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2.2 The candidate projects for the first phase programme that the Committee requested an additional report over were:

2.1.1 The retention of a full two way traffic operation conversion and associated streetscape enhancements for Kilmore Street within the first phase projects.

2.2.2 The addition of a full two way traffic operation conversion and associated streetscape and cycleway enhancements for Salisbury Street within the first phase projects.

2.3 This supplementary report informs Council of the following:

2.3.1 What enabling provisions Council and CERA are making for the full enhancement projects for Kilmore Street as part of ongoing SCIRT repair work within the currently proposed First Phase Programme amendment.

2.3.2 Options for making alternative budgetary provision within a prioritised First Phase programme, for full improvements to be undertaken on these streets in order to achieve early accordance with An Accessible City (the transport chapter of the Christchurch Central Recovery Plan).

2.4 For the reasons outlined in this report, it is recommended that the Council does not include full streetscape enhancements to Kilmore Street and Salisbury Street in the revised first phase transport projects.

3. **BACKGROUND**

3.1 An Accessible City (AAC) identifies an initial suite of 'First Phase Transport Projects' to be delivered as a priority to support delivery of key Anchor Projects. Schedule 14 of the Cost Sharing Agreement of June 2013 between the Council and the Crown established a budget of $72 million for delivery of these First Phase Transport Projects, of which $27 million would be provided by the Council, $27 million by the Crown and with $18 million of financial assistance from the New Zealand Transport Agency, subject to normal Council funding application processes to the Agency.

3.2 Joint development of a programme of First Phase project definitions by CERA and Council staff undertaken since the gazettal of An Accessible City on 31 October 2013 has resulted in a number of proposed changes to the initial set of first phase projects. This has been undertaken through a business case process in accordance with the direction of the Cost Share Agreement. At the Earthquake Recovery Committee of the Whole meeting on 1 May, the Committee were informed of some recommended changes to that programme, primarily to enable three new projects to feature in the programme supporting the new bus interchange opening expected in April 2015.

3.3 The Committee were also informed of the key criteria that officers of Council and CERA have used to identify the most appropriate candidate projects against the agreed programme budget of $72 million. These criteria were as follows:

3.3.1 Does the project enable early anchor projects to be efficiently progressed?

3.3.2 Does the project enable early benefits of An Accessible City transport network principles to be realised?

3.3.3 Does the programme accord well with the planned opening of the new Bus Interchange in April 2015?

3.3.4 Does the project maximise as far as practicable its alignment with ongoing SCIRT repair programmes?

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3.4 In consideration of the report, Committee members sought advice on the opportunity to achieve full two way traffic operations and associated streetscape enhancements on two east – west streets across the northern part of the central city – namely Kilmore and Salisbury Streets as part of this first phase programme. The Committee also wished to ensure that sufficient account had been taken of the benefits of enhancing already scheduled repair work to both streets being undertaken this year by SCIRT.

4. **COMMENT**

4.1 An Accessible City makes a firm commitment to the conversion of both Kilmore and Salisbury Streets to two way traffic operations as an integral part of the central city transport plan. This is primarily as they perform an important east – west distributor street function through this primarily residential quarter of the northern central city.

4.2 Prior to the earthquakes, and as is presently the case, Salisbury and Kilmore Streets operated as a one way "pair" – offering journeys across the northern central city a clear route legibility. All the key one way streets in the central city have operated as pairs since they were established because of this desirable route legibility. It makes sense therefore that when works are undertaken to revert a street to two way traffic operations (as is proposed here), both halves of any pair should ideally be treated concurrently. Nevertheless, at the time of preparation of An Accessible City (and when Kilmore Street remained in the central city cordon), the full two way conversion of Kilmore Street was seen as an opportunity to align with earthquake repair works being undertaken by SCIRT along the corridor. No such proposal and financial provision was made for Salisbury Street.

4.3 The business case has identified that the original first phase package of transport projects should be re-scoped to better support delivery of anchor projects. It proposes adding three extra projects to meet the opening of the new Bus Interchange in April 2015 (namely Tuam Street, Colombo Street and Lichfield Street) and reducing the scope of other projects including the Kilmore Street two-way in order to stay within the agreed budget.

4.4 The important principle of achieving maximum synergy (and hence minimising abortive re-work) has however continued to be recognised for ongoing repair work to Kilmore Street. This has resulted in a retained enabling works budget of $100,000 to ensure the new carriageway surfaces and lane makings are aligned with a later two way conversion. Underground ducting works also intended to be undertaken as part of this enabling budget would enable repaired intersections to be subsequently converted to two way signal operations with lessened later disruption and costs. However, the $72 million funding agreement budget prevented officers from recommending to the Committee retention of the full package of upgrades to Kilmore Street (valued at circa $6.2 million) in order to make provision for the additional new projects. These same budget pressures also prevented officers recommending to the Committee a further addition of the Salisbury Street two way conversion, together with streetscape works and a separated cycleway into the programme – a package of works expected to be valued at a further circa $8 million.

4.5 In recognition of this overall budget constraint and the desire to re-consider the status of the Kilmore and Salisbury Streets works, the Committee asked officers to look further at potential savings elsewhere in the First Phase programme to accommodate a full early package of Kilmore and Salisbury Street conversion works. These two streets have therefore been taken to have an estimated combined construction value of circa $15 million. The Committee suggested that the focus in finding savings elsewhere should be placed on the early need for Cambridge Terrace / Durham Street enhancements. This alternative option is discussed below along with other alternative programme adjustments. The impact of the alternative programme adjustments against the key criteria for candidate First Phase programme projects is summarised in Table 1.

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Programme Amendment Option 1 – Defer Cambridge Terrace Enhancements

4.6 The enhancement of the Cambridge Terrace / Durham Street project (TP3) was proposed as a high priority for the first phase programme in An Accessible City at the time of its gazettal. This was as a result of the close synergy with the adjacent Avon River Precinct works. This justification is further reinforced by the desire to achieve a slower speed regime through the Inner Zone of the central city (i.e. between Kilmore and St Asaph Streets). The early introduction of measures to create a low speed zone is a further project identified as achieving good synergy with central city recovery and ongoing SCIRT programmes.

Programme Amendment Option 2 – Defer Manchester Street Boulevard Enhancements

4.7 The widening of Manchester Street to create a bus priority "boulevard" between Kilmore to Lichfield Streets was an early priority project identified for delivery at the time of the gazettal of AAC in October 2013. The early completion of the new bus priority corridor on Manchester Street is intended to enable a number of key bus services to use the corridor from the opening of the new Bus Interchange from April 2015. The works are envisaged to be undertaken in tandem with the widening of the corridor into the eastern frame, and for the works to complement development of the eastern frame.

Programme Amendment Option 3 – Increase Programme Value

4.8 A fundamental change to the agreed programme sum of $72 million by some $15 million to accommodate the full scope Kilmore and Salisbury Streets works would require the sum outlined in the Cost Share Agreement to be increased.

4.9 CERA officials support the re-prioritisation of projects and the associated funding as outlined and recommended in the earlier report to the Earthquake Recovery Committee of the Whole, as informed in turn by the business case. Therefore, Council officers consider it fiscally prudent to assume, for the purposes of this report, that it is unlikely there will be any additional Crown funding for the first phase transport projects. Further, while it remains possible that the Council might seek a partial funding contribution to these extra project costs from the NZ Transport Agency under normal application processes, it is Council officers' understanding that the Agency is currently only making provision to accept funding applications from Council up to the previously agreed funding contribution from the National Land Transport Programme of $18 million.

4.10 Therefore, as a result of these considerations, such a $15 million increase to the total first phase AAC programme might well require the Council's contribution to increase from the existing $27 million to circa $42 million. This would require a fresh budget provision for such early works to be made.

Programme Amendment Option 4 – Addition of Salisbury Street enabling works

4.11 The amended first phase programme proposed to the Committee on 1 May made no provision for early "enabling" works on Salisbury Street of a broadly similar nature to those envisaged for Kilmore Street. In a similar way, such works might help to minimise any re–work arising from ongoing SCIRT repair works to Salisbury Street during 2014. Although the Salisbury Street SCIRT led repairs are only planned to be undertaken between Manchester Street and Barbadoes Street and are planned to commence imminently, a provisional allocation of up to $100,000 to enable remarking changes and some limited ducting to be incorporated within the planned repair works would be sufficient to ensure that any re–work on the Salisbury Street repairs is similarly minimised at such time as the full enhancement budget at circa $8 million is programmed. Such provision could be made within the agreed total budget for the first phase works (of $72 million) and without a significant change to the programme recommended to Committee in 1 May.

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Programme Amendment Options – Comparison Table and Discussion

4.12 As was reported to the Committee in the report of 1 May, the Council and the Crown agreed in the Cost Share Agreement that it was open to them to vary, in writing, the terms of the Agreement. Variation of individual projects, their precise details and construction values within that programme is a matter that can be considered further - and is largely to be expected as the details of individual projects are developed, the results of community consultation is accommodated in detailed designs and the programme business case is refined.

4.13 Table 1 below summarises the chief impacts of the four programme amendment options considered in this report against the assessment criteria outlined in 3.3 above, together with the additional assessment criterion of impact on the overall $72 million funding allocation agreed for the AAC First Phase programme.

Table 1 - Programme Amendment Options – Key Impacts Comparison

Amended Programme Option / Assessment Criteria	Good alignment with early anchor projects?	Achieve early benefits of AAC principles?	Supports opening of new Bus Interchange (April 2015)?	Optimised alignment with SCIRT programme?	Achievable within AAC cost share agreement global fund?
Option 1 Defer Cambridge Terrace	**No** Weakens linkage with Avon River Precinct delivery, connectivity to retail precinct (Durham Street south two-way section) and bus interchange connections via Tuam Street	**No** Delays public realm enhancements for self-enforcing low speed zone and provision of key cycle route	**Limited Impact** Project would include part of Tuam Street.	**Limited impact**	**Yes** Currently included
Option 2 Defer Manchester Street	**No** Defers widening works and bus priority to corridor as part of Eastern Frame development	**No** Manchester Street provides bus reliability and a key visible public realm change to road network from AAC.	**No** Delays dedicated bus priority corridor to / from interchange	**No** Causes additional difficulties in aligning with SCIRT works	**Yes** Currently included
Option 3 Increase First Phase Programme Value to include Kilmore/Salisbury	**Limited** Limited impact on Anchor projects development as directly resulting from early Kilmore and Salisbury Streets works	**Yes** Enables first phase programme projects delivering against AAC principles to proceed	**Yes** Enables fresh projects directly supporting Interchange to proceed	**Neutral** Enables all proposed projects to proceed as planned, with addition of Salisbury and Kilmore Streets. Latter addition however may delay repair start to Salisbury Street, to enable design process and consultation over full two way conversion to be incorporated in works	**No** Would require around a $15m enhancement to total programme value

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Option 4 Add Salisbury Street early enabling works	**Yes** Enables first phase programme projects supporting Anchor Projects to proceed	**Limited** Due to delayed 2 way conversion and addition of separated cycle route plus streetscape enhancements on Salisbury Street. However, enables other projects with good AAC alignment to proceed	**Yes** As other projects supporting interchange can proceed	**Yes** Minimises abortive expenditure and re – work on both Kilmore and Salisbury streets. Enables early start (as planned) to Salisbury Street repairs	**Yes** Requires only minor alteration to programme project values to accommodate Salisbury Street enabling works

Discussion

4.14 Therefore, it is considered that the revised programme of works outlined in the report to the Earthquake Recovery Committee of the Whole, with the addition of Salisbury Street enabling works, is the most appropriate package of works when considered against the criteria outlined in section 3.3 of this report. Furthermore, that proposed programme does not require any additional funding, which the proposal to retain Kilmore Street and add Salisbury Street to the first phase programme of works would do. There may be further implications for the Council's Three Year Plan in such a proposal to increase the overall programme value.

4.15 Nevertheless, officers remain conscious that Committee members and the community are concerned that the lack of scheduling of enhancement measures on Salisbury and Kilmore Streets as early as possible in the recovery of the central city. This is seen to be a significant lost opportunity - and there are concerns that these streets may not be viewed with a sufficiently high priority in recovery of the northern central city housing quarter. Officers believe it would therefore be appropriate for such works on these two streets to feature as a high priority in future phases of AAC delivery transport funding, to be reflected both within any further Crown / Council funding agreement discussions and in the Council's own financial provisions for the 2016-18 Long Term Plan - in order that these comprehensive works can be completed as early as is practicable.

5. **FINANCIAL IMPLICATIONS**

5.1 If the Council supports Alternative Programme Options 1, 2 or 4 outlined in this report, then the only current financial implications are those as affecting the individual named schemes and values within the alternative programme.

5.2 However, if the Council adopts the Alternative Programme Option 3 (an increase in programme value by some $15 million), then the Council should make provision for that additional $15 million to be set aside to support the AAC First Phase programme of works. This could increase the Council's contribution from $27 million to $42 million. Such an increase would have an impact on the Council's published Three Year Plan (2013-16), and therefore is a matter that the Council and its Finance Committee would need to receive a further report on.

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6. **STAFF RECOMMENDATION**

It is recommended that the Council:

6.1 Support the proposed changes to the First Phase programme of An Accessible City transport projects as outlined in the report to the Earthquake Recovery Committee of the Whole and within the original cost sharing Agreement between the Council and the Crown.

6.2 Authorise the Acting Chief Executive to sign an agreement with the Crown (or its agent) varying the Cost Sharing Agreement dated 26 June 2013 in accordance with the changes referred to in 6.1 above.

6.3 Approve public and stakeholder engagement over the design concepts for the amended First Phase programme of Accessible City projects identified in this report, other than for Transport Project 4 - Manchester Street.

6.4 Supports the addition of early enabling works on Salisbury Street at a notional value of $100,000 in order to minimise any re-work, and as outlined in Alternative Programme Option 4 of this supplementary report.

6.5 Supports priority for full streetscape and two way traffic conversions to Kilmore and Salisbury Streets being viewed as a high priority in further Crown / Council funding discussions over the implementation of the entire An Accessible City Plan.

AN ACCESSIBLE CITY – REVISED FIRST PHASE TRANSPORT PROJECTS

		Contact	Contact Details
Executive Leadership Team Member responsible:	(Acting) General Manager, City Environment Group	N	
Officer responsible:	Transport and Research Unit Manager	Y	Richard Osborne, 8407
Authors:	Tim Cheesebrough, Senior Transport Planner	N	

1. PURPOSE AND ORIGIN OF REPORT

1.1 To provide the Earthquake Recovery Committee of the Whole an overview of the outcomes of an updated analysis of expected benefits arising from the First Phase transport projects outlined in An Accessible City, the transport chapter of the Christchurch Central Recovery Plan.

1.2 To seek the Committee's recommendation to the Council to support an amended An Accessible City First Phase programme of works, and approval to engage with the community and key stakeholders over the concept designs for a number of the revised First Phase projects contained within that transport programme.

1.3 The origin of the report is the need to make a material change to the First Phase programme of transport projects contained in An Accessible City and referenced in the earthquake recovery works cost sharing agreement with the Crown of June 2013.

2. EXECUTIVE SUMMARY

2.1 In June 2013, the Council entered into an agreement with the Crown over a cost sharing arrangement for city-wide earthquake recovery capital works, including for specific projects incorporated in the Christchurch Central Recovery Plan. The latter included specific joint funding arrangements for Anchor Projects, plus an agreement for early phases of the "Transport Chapter" of the Christchurch Central Recovery Plan, An Accessible City. The proposed Accessible City projects had a combined value of $72 million, of which $27 million would be provided by the Council.

2.2 Following the gazettal of An Accessible City on 31 October 2013, further work has been ongoing jointly between staff of the Canterbury Earthquake Recovery Authority (CERA), the Central City Development Unit (CCDU) and the Council to further determine the details and order of that early phase of transport projects, to ensure they best support early anchor projects and begin the transformation of the central city transport network as envisaged by An Accessible City.

2.3 This report summarises for the Committee some recommended amendments to the first phase transport projects programme, primarily to ensure that those Accessible City projects which directly support the new Bus Interchange, are implemented prior to its opening in April 2015. This report also seeks Committee approval to engage with the community and key stakeholders over the concept designs for a number of the projects contained in the amended First Phase programme of transport works.

3. BACKGROUND

3.1 An Accessible City identifies an initial suite of 'First Phase Projects' to be delivered as a priority. Schedule 14 of the Cost Sharing Agreement sets out the funding available for these First Phase transport projects. As with all Cost Share Agreement projects with Crown funding, the scope of the projects is being progressively refined through a Business Case process, to ensure they deliver optimum outcomes in a timely way to maximise support for recovery.

3.2 The intention of the First Phase Projects is therefore to advance a tranche of transport projects that critically integrate with Anchor Projects and the wider Christchurch Central Recovery Plan, as well as maximising alignment wherever possible with ongoing SCIRT infrastructure repair works.

3.3 The Cost Sharing Agreement commits $72 million to the First Phase programme, of which Council's share is $27 million, with $27 million matched by Crown, and a further $18 million financial assistance sought from the New Zealand Transport Agency (NZTA).

3.4 Joint development of the First Phase project definitions by CERA, CCDU and Council staff (refer **Attachment 1**) has been ongoing since the gazettal of An Accessible City on 31 October 2013. At the same time, development work has also been undertaken on the new Bus Interchange, which is scheduled to be opened in April 2015. As a result of these parallel workstreams, staff have re-evaluated the First Phase programme of projects as determined in June 2013 to ensure that they continue to offer the optimum priority within the agreed budget.

3.5 The Council and the Crown agreed in the Cost Share Agreement that it was open to them to vary, in writing, the terms of the Agreement. Council and CERA staff wish to make the changes to schedule 14 (Phase 1 of the Transport Plan) set out in this report.

3.6 If the Council adopts the staff recommendations in this report the changes will be recorded in writing and signed on behalf of the Council and the Crown (or CERA if it is appointed as the Crown's agent for this purpose).

4. COMMENT

First Phase Programme Reprioritisation Principles

4.1 A review of the original schedule of early projects identified under the funding agreement was considered appropriate to ensure they continue to offer optimum fit for purpose network outcomes against the following key criteria:

4.1.1 Does the project enable early anchor projects to be efficiently progressed?

4.1.2 Does the project enable early benefits of An Accessible City transport network principles to be realised?

4.1.3 Does the programme accord well with the planned opening of the new Bus Interchange in April 2015?

4.1.4 Does the project maximise as far as practicable its alignment with ongoing SCIRT repair programmes?

4.2 These considerations have resulted in a recommendation to add four new projects to the First Phase programme. In order to achieve this change within the budget set under the existing funding agreement (the $72 million funding envelope), it is necessary to defer one project intended to achieve an early enhancement to the capacity of the Avenues to a later works phase. Additionally, the full two way conversion of Kilmore Street, which is not part of SCIRT’s earthquake repairs remit, will only be enabled at this time through initial works to achieve maximum alignment with the future street layout, including necessary underground ducting for future traffic signalisation of the two-way intersection layouts. The full two-way conversion and important further public realm enhancements will be deferred to later Accessible City works programmes and to enable concurrent delivery with the nearby Salisbury Street two-way conversion.

The Additional First Phase Projects

4.3 The new Bus Interchange is due to open to the public in April 2015. To facilitate the operation of the interchange, Tuam Street will need to be fully converted to a one way eastbound main distributor street between Hospital Corner and Madras Street by that date. The original First Phase Projects programme identified Tuam Street as being converted to a one way street between the Hospital and Durham Street only. Additionally, Lichfield Street will be converted to a two way local distributor street, with a priority on Metro bus operations between the Interchange’s northern Lichfield Street access and Manchester Street. Colombo Street, which acts as a key walking and cycling route and bus passenger access point to the new Bus Interchange will be subject to streetscape enhancements – especially in the vicinity of the Interchange.

4.4 Therefore, it is proposed that the following new projects feature in an amended First Phase programme, with the first three of these undertaken prior to the opening of the Interchange in April 2015:

4.4.1 **Tuam Street One Way Conversion (Durham to Madras).** This completes the remaining sections of the one way conversion of this street not being undertaken through pre-existing First Phase projects, and will therefore provide a full one way street between the Hospital and Madras Street. This is a key route for buses heading eastbound towards the new Interchange.

4.4.2 **Lichfield Street Two Way Conversion (Durham to Manchester Street).** This changes Lichfield Street to a two way street between Durham Street and Manchester Street, primarily for local access needs to parking facilities supporting the Retail Precinct. To the east of Colombo Street the street is prioritised for pedestrians, and between the new Interchange access and Manchester Street, it will be prioritised for buses. This will support the key public transport network link from the north and east, connecting to the new Manchester street boulevard – which is a bus priority corridor.

4.4.3 **Colombo Street (Hereford to St. Asaph Street).** This project is designed to enhance the street frontage outside the Interchange and the blocks either side. It will provide improved facilities for significant numbers of pedestrians who will be moving to and from the Interchange. This project also improves access on the key walking and cycling routes and enhances the streetscape for the new Justice and Retail Precincts.

4.4.4 **Slow core:** In order to achieve early adoption of the lower speed environment planned by An Accessible City for the inner zone of the central city, it is proposed that provision be made for this additional early works project to deliver the 30 kilometres per hour speed environment proposed for inner city streets. To achieve this, it is considered that every effort should be made to deliver an early slow inner zone environment - with later public realm enhancement works supplementing those early traffic measures. The early delivery of a consistent slow speed environment in the heart of the central city would also have the added benefit of reduced costs for temporary traffic management speed reductions associated with development and street works, that would otherwise be required project by project under the current 50 kilometres per hour speed limit.

The Original Programme – Key Features and Proposed Amendments

4.5 The Oxford/Tuam swap (TP1) includes the transformation of Tuam Street to a one way eastbound street as far as Durham Street, supporting early works to the Avon River precinct, Health Precinct and Hospital re-development. The conversion of the remainder of Tuam Street previously formed part of the second phase of transport projects. However, with the Bus Interchange now due for completion by April 2015, it is important that the one way conversion of the portion of Tuam Street that runs between Durham and Madras Streets is brought forward to be completed by that date. If these works are not brought forward it would pose a significant risk to the successful operations of the Bus Interchange on opening in the second quarter of 2015.

4.6 The Cambridge Terrace (TP3) adjacent to Avon River Precinct continues to be warranted to support the early Avon River Precinct anchor project works and achieve a slower speed environment on this busy southbound distributor street. Further detailing of the project has identified it should include a renewal of the carriageway surface and kerbing throughout, with full depth reconstruction of some carriageway sections only where this is warranted. The budget would permit high quality treatments to be installed at intersections and crossings, together with new footpaths, widened in places and new cycleway treatments. There will be improved landscaping throughout in order to complement the adjacent Avon River Precinct works.

4.7 The Manchester Boulevard (TP4) remains very important to support the Bus Interchange development and deliver the key north to south bus priority street across the central city – replacing the pre-earthquakes role of Colombo Street. Again, this project remains as part of the First Phase programme. However, no final decision on this project will be made until a final decision is reached on the future of the Majestic building.

4.8 Works at the Hagley/Moorhouse Avenue intersection remain a high early priority, and will focus as part of the First Phase programme on essential traffic changes to improve network efficiency and safety at this busy intersection and nearby streets – importantly helping reduce traffic pressures past Hospital corner - the aforementioned TP1 project.

4.9 Project TP6, the replacement of the Fitzgerald Avenue Twin Bridges is currently expected to be part of the SCIRT rebuild programme, which has identified a possible replacement of the twin bridge structures may be needed. If such works are confirmed as necessary by ongoing engineering assessments, then any replacement of the structures offers a unique opportunity to achieve improved network capacity on Fitzgerald Avenue. This would be achieved by widening the river crossing to three lanes in each direction as part of the Avenues enhancement programme envisaged by An Accessible City. At the same time, a new eastern bridge structure would enable the Accessible City's planned new bus routing on Kilmore Street to be achieved, through adding a further southbound right turn lane for buses from Fitzgerald Avenue north to Kilmore Street. Finally, in order to enable the new Avon River Precinct to be connected later to the coast and form part of Council's planned city – wide Major Cycle Routes network, a new cycle and pedestrian underpass would be delivered as part of the enhancement package project. Pending the outcome of ongoing structural assessments of the existing twin bridge structures, it is therefore assumed for the present that the above package of enhancements to the bridges and the adjacent Fitzgerald Avenue/Kilmore Street intersection should be accommodated within the amended First Phase Accessible City programme.

4.10 It is considered that the congestion at the Moorhouse/Fitzgerald intersection (TP7) is no longer as pressing a First Phase transport programme priority as when this project was identified at the time of the funding agreement. Therefore, this project is recommended to be deferred from the First Phase programme.

4.11 Project TP8 was the full Kilmore Street two-way conversion. This was included in full in the First Phase projects at the time of the cost sharing agreement, when the central city cordon was in place. SCIRT repair works to Kilmore Street have been speedily implemented of late and the full conversion to two way traffic operations is not part of SCIRT's remit. As a result, it is now proposed to undertake only such enhancement works attributable to An Accessible City as to enable later conversion to full two way operation to logically take place in tandem with the similar conversion of Salisbury Street (the other half of the one way pair) and importantly, designed to avoid any abortive re-working.

Project Summary

4.12 As a result of the recent further Phase 1 programme analysis, the most urgent projects not originally proposed as part of the agreed Phase 1 programme (June 2013) are those directly associated with the opening of the Bus Interchange in April 2015. These are:

4.12.1 The extension of Tuam Street one-way from Durham Street to Madras Street in order to connect with the new Bus Interchange;

4.12.2 Work on Colombo Street and Lichfield Street to achieve an improved slow speed pedestrian environment on approaches to the Bus Interchange, plus priority for bus movements on Lichfield Street between the Bus Interchange access and Manchester Street;

4.12.3 Early works to achieve a sub 30 kilometre per hour speed environment on streets in the heart of the central city, especially in the vicinity of the Bus Interchange and retail precinct.

4.13 The table in **Attachment 2** summarises the First Phase transport projects, including the recommended amendments, and their recommended status to progress to detailed stakeholder and public consultation and design.

4.14 In summary, these considerations have resulted a recommendation to add four new projects to the Phase 1 programme. For the present, the First Phase programme assumes that continued provision would be made for a comprehensive enhancement package at Fitzgerald Avenue twin bridges, pending the outcome of ongoing engineering assessments. Those assessments will also investigate fully the engineering implications of the proposed cycle / pedestrian underpass – where the estimated works costs for that element are at present only provisional.

4.15 In order to achieve these changes within the budget set under the existing cost sharing agreement, it is therefore necessary to:

4.15.1 Defer one project (at the Fitzgerald / Moorhouse Avenue intersection)

4.15.2 Consider further phasing of some other projects - notably the Hagley / Lincoln / Moorhouse intersection and the full two way conversion of Kilmore Street (the latter would instead be progressed in tandem with important public realm enhancements to both Kilmore and Salisbury Streets).

4.15.3 Achieve some cost savings through re-scoping the previously estimated works engineering costs for Transport Project 3 (Cambridge Terrace).

5. FINANCIAL IMPLICATIONS

5.1 As noted in section 4.2, while this report proposes to add new projects to the initial tranche - in order to stay within the previously agreed funding budget of $72 million, it is necessary to defer one project (at the Fitzgerald Avenue/Moorhouse Avenue intersection), intended to achieve an early enhancement to the capacity of the Avenues, to a later works phase.

5.2 Additionally, in order to conform to the agreed budget, some further amendments are also necessary to the scope of other First Phase programme projects:

5.2.1 The Hagley/Lincoln/Moorhouse intersection and the full two way conversion of Kilmore Street will be progressed initially as enabling traffic works only (avoiding later abortive expenditure as further public realm enhancements are implemented as part of later works programmes).

5.2.2 Some cost savings achieved through the re-engineering of Cambridge Terrace Transport Project 3.

5.2.3 Ongoing reviews of the engineering scope of each project in the programme (which will continue while engagement takes place over each project).

5.3 With these changes, the original $72 million allocation of funds remains sufficient to deliver the newly prioritised First Phase programme of Accessible City projects.

6. STAFF RECOMMENDATION

That the Committee recommends that the Council:

6.1 Supports the proposed changes to the First Phase programme of An Accessible City transport projects as outlined in this report and within the original cost sharing Agreement between Council and the Crown.

6.2 Authorises the Acting Chief Executive to sign an agreement with the Crown (or its agent) varying the Cost Sharing Agreement dated 26 June 2013 in accordance with the changes referred to in 6.1 above.

6.3 Approves public and stakeholder engagement over the design concepts for the amended First Phase programme of Accessible City projects identified in this report, other than for Transport Project 4 - Manchester Street.

Overview of Original First Phase Transport Projects and Current Status of First Phase Works

First Phase Project	Project overview
TP1 Oxford / Tuam Swap	Reinstate network capacity and reduce localised traffic caused by partial closure of Oxford Terrace (part of the Avon River Precinct works including public realm / streetscape works). Includes delivering the superstop in the Health Precinct. Supports Hospital development, Metro Sports, Avon River Precinct, Bus Interchange, and SCIRT sequencing.
TP2 Armagh / Colombo Improvements	Delivers cycle / pedestrian network improvements adjacent to Victoria Square to coincide with works in the Avon River Precinct. Contains public realm enhancements adjacent to the Performing Arts Precinct and Convention Centre.
TP3 Cambridge / Durham Improvements	Network improvements adjacent to Avon River Precinct (speed reductions, safety and streetscape improvements, carriageway and kerbing renewals) to ensure streetscape enhancements are delivered to complement the Avon River Precinct, Provincial Chambers, Justice Precinct and private developments around the river and Retail Precinct.
TP4 Manchester Boulevard Public Transport Upgrades	Delivering bus priority transport network and superstop to support Bus Interchange and East Frame area. Includes amenity improvements alongside East Frame and Margaret Mahy Family Playground project.
TP5 Hagley / Moorhouse Intersection Improvements & associated works	Aligning strategic traffic movements onto the Avenues and new distributor street network, supporting traffic reductions in Health and Avon River Precincts. Improves separation of traffic and cycle network, with overall safety and efficiency enhancements.
TP6 Fitzgerald Ave Twin Bridges Enhancement Package	Aligning traffic volume onto the Avenues (the arterial routes) to provide network capacity / efficiency around the central city. This will assist with reducing strategic traffic volumes across the central city. Also supports the cycle / pedestrian and bus networks. (**Confirmation of works for First Phase programme pending structural assessment of existing bridge structures and further engineering assessment of cycle / pedestrian underpass feasibility design).**
TP7 Fitzgerald / Moorhouse Intersection Upgrade	Aligning traffic volume onto the Avenues (the arterial routes) to provide network capacity / efficiency around the central city. Will assist with reducing traffic volumes in the Core, supporting the cycle / pedestrian network, and increase central city liveability. (**Now proposed to be deferred).**
TP8 Kilmore Street Two-way Conversion	To convert street to full two-way operation to support PT network efficiency and development of the North Frame. **Revised First Phase works designed to tie in with completion of 2014 SCIRT works and avoid later re - work. Later public realm enhancements and full 2 way conversion to be carried out in tandem with Salisbury Street conversion.**

Revised Transport projects

Project Name	Indicative Costs for **Revised First Phase** *(rounded to nearest $0.1m)*	Recommended Status, and key changes from earlier First Phase Programme
TP1 – Oxford Tuam swap with Hospital superstop (funded separately)	$9.3m	Continue. (Council has prior approved concept design engagement)
TP2 – Armagh / Colombo	$4.6m	Continue
TP3 – Cambridge/Durham	$13.6m	Continue. Re – framed scope of carriageway and kerbline renewals, footpath and cycleway treatments, with landscaping to complement adjacent Avon River Precinct works.
TP4 – Manchester Street with superstop (funded separately)	$22m	This remains part of the 1st Phase projects, however, no final decision on this project will be made until a final decision is reached on the future of the Majestic building.
TP5 – Hagley south	$3.2	Continue. Subsequent works will enhance the public realm of Hagley Avenue.
TP6 – Fitzgerald Twin Bridges – Enhancement Package	$6.6m	Retained pending CCC/SCIRT bridge structural assessments. AAC works would permit capacity enhancements to 3 lanes in each direction for Fitzgerald Ave, plus additional right turn lane southbound on eastern structure. Adds a new cycle / pedestrian underpass (subject to further detailed design assessment).
TP7 – Moorhouse/ Fitzgerald		Defer – ie removed from First Phase programme
TP8 – Kilmore two-way	$0.1m	Interim lane marking and ducting to align with 2014 SCIRT work, in order to avoid later re – work. Defer full public realm enhancement project to deliver with Salisbury St one way pair conversion to full 2 way traffic operations
TP9 - Tuam conversion – Durham to Madras	$4.5m	Add to programme
TP10 - Lichfield St – Manchester to Oxford	$3.9m	Add to programme
TP11 - Colombo St – Hereford to St. Asaph	$3.8m	Add to programme
Establish 30 km/hr speed environment, early works	*$0.4m*	Do early work implementation as funds allow (remaining budget up to $72m funding envelope)
TOTAL Cost of First Phase	**$72m** ***(+ $4m super-stops)***	

7. PROPOSED RE-STRUCTURING OF THE COUNCIL'S SOCIAL HOUSING PORTFOLIO

		Contact	Contact Details
Executive Leadership Team Member responsible:	Jane Parfitt	N	
Officer responsible:	Carolyn Gallagher	N	
Author:	Ian Thomson	Y	941 6343

1. PURPOSE AND ORIGIN OF REPORT

1.1 At its meeting on 1 May 2014 Councillors requested staff to develop a statement of proposal for consultation that would enable the Council to have more flexibility in the future ownership, management and development of its social housing portfolio and that would enable the Council to more effectively address social housing issues in the city through all the options identified in staff reports.

1.2 Attached to this report is a draft statement of proposal for councillors to consider. If this or any amended draft is approved, the statement of proposal will be distributed for consultation with the community in accordance with the special consultative procedure.

2. EXECUTIVE SUMMARY

2.1 The Council is considering whether or not to change the way it provides social housing. The Council proposes to consult with the community before making decisions in respect of this matter.

2.2 Council staff have prepared a draft statement of proposal that covers issues that the Council may wish to include in the consultation process. The proposals are that the Council:

2.1.1 establishes as a limited liability company an entity that will be eligible for registration as a community housing provider under the provisions of the Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014;

2.1.2 subscribes for all the shares in the new company and appoints the first board of directors;

2.1.3 gifts, sells or leases to the entity certain assets comprising the Council's social housing portfolio;

2.1.4 enters into arrangements with the Council's social housing partners for the redevelopment of some of the land that has been identified as being suitable for low cost and other housing.

2.1.5 transfers the ownership or control of some of the Council's social housing portfolio to an entity in which the Council has an interest of 49% or to a third party;

2.1.6 takes the appropriate steps to comply with all relevant statutory and regulatory obligations, and the obtaining of all necessary approvals and authorities, that may be required before the Council can undertake the activities and transactions referred to above. This will include requirements under the Local Government Act 2002, Public Works Act 1981 and Reserves Act 1977.

7 Cont'd

3. **BACKGROUND**

Purpose of Local Government

3.1 The first point to consider is whether or not the proposal comes within the scope of section 10 of the Local Government Act 2002.

3.2 The relevant part of that section provides that the purpose of local government is to "meet the current and future needs of communities for good quality local infrastructure, local public services and performance of regulatory functions in a way which is most cost-effective for households and businesses".

3.3 The role of local authorities is to give effect to that purpose. In performing that role they must have particular regard to the contribution that a number of core services, set out in section 11A of the Act, make to a local authority's communities. One of these services is "libraries, museums, reserves, recreational facilities, and other community infrastructure".

3.4 The definition of "community infrastructure" in the Act involves Council ownership and control of assets for the provision of public amenities. Social housing lacks the public element of the term, in that housing is not generally open to the public at large.

3.5 The concept of local infrastructure is also its "public" nature. The advice to councillors however, is that the provision of public sector rental housing can be regarded as being "social infrastructure", a term that has been adopted by central government and which appears to be in more common usage. In the Government's National Infrastructure Report 2013 social infrastructure, including housing, is separately identified and addressed as a significant sector of infrastructure. It is the legal view that whilst it is not totally certain, social housing falls within the definition of local infrastructure for the purposes of the LGA 2002.

Options

3.6 Secondly the Council must identify and evaluate all reasonably practicable options and select the most cost-effective one available. The draft statement of proposal includes this analysis.

Proposal

3.7 Councillors may be aware that the Government has recently introduced new regulations that include additional rental assistance for organisations providing accommodation for social housing tenants. This assistance is only available to organisations that are eligible for registration as community housing providers. In an effort to encourage non-government organisations to increase their involvement in social housing, the Government has stipulated that local authorities cannot apply for registration.

3.8 The outcome is that if the Council wishes to access the higher level of assistance available through this scheme it could no longer control the tenancy management of its social housing units. Following discussions with staff at the Ministry of Business Innovation and Employment one option for the Council would be to lease some of its social housing portfolio to an entity in which the Council had a 49% or less interest.

3.9 Initially, it is proposed that the entity be a limited liability company and, a Council Controlled Organisation. It is therefore necessary for the Council to undertake a special consultative procedure before it could decide to establish the company. The proposal for this is included in the draft statement of proposal.

7 Cont'd

3.10 The proposal is that at some point in the near future the Council would need to divest itself of no less than 51% of the shares in the entity to enable it to be eligible for registration as a community housing provider. Until the Council can identify one or more non-government organisations that would be interested in taking up shares in the entity, it is difficult to give any guidance on how the divesting of shares would be carried out. The Ministry has advised however that such an arrangement would be acceptable under the new regulations.

3.11 Options include selling 51% of shares to other organisations, issuing new share capital that would dilute the Council's holding to 49% or less, or the new entity establishing a subsidiary, with 51% of the shares being transferred to a third party.

3.12 It is also proposed that the Council leases some of its social housing assets to the entity once the Council has no more than a 49% interest. This is set out in the draft statement of proposal.

Re-Development

3.13 The Council has previously resolved to identify and enter into arrangements with a number of social housing partners for the re-development of a number of the Council's social housing complexes. This is also a component of the projects the Council has agreed to undertake as part of the Land Use Recovery Plan. Council staff wish to get started on a number of these but before doing so there is a need to consult on the transfer of land and buildings out of the Council's ownership or control. This is because they are described as strategic assets in the LGA 2002 and a decision cannot be made to dispose of them unless a special consultative procedure is undertaken beforehand.

3.14 Any such arrangements would be subject to the Council taking the appropriate steps to comply with all relevant statutory and regulatory obligations, and the obtaining of all necessary approvals and authorities, that may be required. This would include requirements under the Local Government Act 2002, Public Works Act 1981 and the Reserves Act 1977.

Social Housing as a Strategic Asset

3.15 The Council's objective is to have more flexibility in the future ownership, management and development of its social housing portfolio. The proposed changes in the way the Council provides social housing reflects this objective.

3.16 Currently the land and buildings as a whole owned by the Council for its public rental housing provision are listed as a strategic asset in the Council's significance policy.

3.17 Section 97 of the Local Government Act 2002 states that a decision to transfer the ownership or control of a strategic asset cannot be made unless the decision is expressly provided for in the Council's Long Term Plan and the proposal to make the decision is included in the special consultative procedure to be undertaken before the LTP is adopted.

3.18 At present an Order in Council varies section 97 by allowing the Council to make a decision to transfer the ownership or control of a strategic asset, at any time, provided the special consultative procedure is used. The Order expires on 30 June 2015.

3.19 The Council may wish at some point to deal with its social housing portfolio as a whole, either through divesting itself of ownership or through some other proposal that could result in a loss of control of the asset. Because of the significance policy, any decision of this nature couldn't be made unless the consultative requirements of the Act or Order in Council were met. This may restrict the ability of the Council to act quickly or with the flexibility that may be needed in such situations.

3.20 Councillors may wish to consider whether or not steps should be taken to remove the Council's social housing land and building from the policy. If this was done, the asset would no longer be a strategic asset for the purposes of the LGA 2002.

7 Cont'd

3.21 The Council will be required to prepare a new significance and engagement policy later this year (if the current Local Government Bill is enacted) or to review its existing policy as part of the 2015-22 LTP consultative process, which means that there are upcoming opportunities to deal with the matter.

4 COMMENT

4.1 Further comments relevant to this matter are set out either in the above paragraphs or in the draft Statement of Proposal.

5 FINANCIAL IMPLICATIONS

5.1 The financial implications of the proposals set out in the draft Statement of Proposal are identified and referred to in that document.

6 STAFF RECOMMENDATION

It is recommended that the Council:

6.1 receives the staff report;

6.2 approves for distribution and consultation the draft Statement of Proposal attached to the staff report;

6.3 adopts the following timetable for consultation:

(i) public notification (The "Star", "The Press" and the Council's website) by 21 May 2014;

(ii) closing date for submissions – 5.00 pm on 26 June 2014;

(iii) hearing date for submissions –to be advised;

6.4 authorises the Acting Chief Executive to make any necessary amendments to the documents referred to in this resolution and to determine the form of a Summary of Information and its distribution.

Attachment 1:

Statement of Proposal

that

The Council Restructures its Social Housing Portfolio

REASONS FOR THE PROPOSAL

1 Introduction

1.1 The Christchurch City Council is considering the Council's role in the provision of social housing both in the repair and rebuilding of current housing stock and in future ownership and/or management structures.

1.2 In accordance with the requirements of the Local Government Act 2002, this Statement of Proposal includes the details of the proposal, the reasons for it and, an analysis of the reasonably practicable options that are available to the Council.

2 Objective

2.1 The Council's objective is to have more flexibility in the future ownership, management and development of its social housing portfolio.

2.2 The purpose of this is to better address the shortage of social housing and the implementation of the Government Social Housing Reform Programme.

3 Summary

3.1 The following is a summary of the matters being consulted on through this special consultative procedure. The Council is proposing that it approaches the issues and objectives with a combination of initiatives.

3.2 The Council's preferred options is that it:

- Establishes as a limited liability company an entity that will be eligible for registration as a community housing provider under the provisions of the Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014.
- Subscribes for all the shares in the new company and appoints the first board of directors.
- Gifts, sells or leases to the entity certain assets comprising the Council's social housing portfolio.
- Enters into arrangements with the Council's city housing partners for the redevelopment of some of the land currently used for social housing.
- Transfers the ownership or control of some of the Council's social housing assets either to an entity in which the Council has an interest of 49% or to a third party.
- Takes the appropriate steps to comply with all relevant statutory and regulatory obligations, and the obtaining of all necessary approvals and authorities, which may be required before the Council can undertake the activities and transactions referred to above. This would include requirements under the Local Government Act 2002, Public Works Act 1981 and Reserves Act 1977.

4 Consultation

4.1 To comply with its statutory obligations under section 56 of the Local Government Act 2002 the Council is undertaking a special consultative procedure (section 83 of the Act) before it makes a decision on whether to establish a new entity as a Council-controlled Organisation.

4.2 Transferring ownership or control of social housing assets to the entity or one of the city housing partners also requires the use of the special consultative procedure (section 97 of the LGA 2002). It is one of the options under consideration.

4.3 Any decision to change the ownership and/or management structures of social housing assets would also be reflected in an amendment to its 2013/16 Three Year Plan. The Council can only achieve this by first undertaking this special consultative procedure.

4.4 The procedure requires the Council to prepare a statement of proposal that provides relevant information about the matters being considered.

5 Issues

5.1 Over 90% of Housing New Zealand Corporation houses were damaged in the Canterbury earthquakes and aftershocks. Approximately 500 are vacant pending repair or replacement. Housing NZ is planning to build up to 700 replacement houses by 2015, at a current rate of 31 per month.

5.2 The next largest landlord in New Zealand is the Christchurch City Council.

5.3 Prior to the earthquakes the Council owned and operated a portfolio of 2649 social housing units at 117 complexes. Currently over 400 units are no longer available to rent due to damage, issues with the seismic strength of some buildings or other health and safety matters.

5.4 113 social housing units at five complexes are in the red zone and will be transferred to the Crown at 2007 valuations.

5.5 The Land Use Recovery Plan prepared by territorial authorities in the Canterbury region notes that in Christchurch there are areas of residential development where a significant proportion of the housing is owned by social and community housing providers. These organisations are supplying housing for some of the most vulnerable communities. With many of these houses damaged and requiring rebuilding there is now an opportunity to provide more effectively for the community's needs.

5.6 In 2013 the Government announced its Social Housing Reform Programme. If fully implemented the programme would mean that the Government would purchase services in a social housing environment that would enable greater consumer choice and diversity. The emphasis would no longer be on the Government providing social housing primarily through ownership (e.g Housing NZ) but on a greater percentage of social housing being delivered by non-government providers.

5.7 The Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014 came into force on 14 April 2014. The regulations include the criteria for the registration and management of non-government providers (defined as community housing providers). Local authorities, Council controlled organisations and their subsidiaries (unless operating at arms length) are not eligible for registration.

5.8 The effect of this is that although some current Council social housing tenants will still be paid the accommodation supplement the Council (as landlord) would not be entitled to receive the Government's new rental subsidy (the Income Related Rental Subsidy). To qualify, tenants must be renting accommodation owned or operated by a community housing provider registered under the Act.

5.9 The Land Use Recovery Plan prepared by territorial authorities in the Canterbury region notes that in Christchurch there are areas of residential development where a significant proportion of the housing is owned by social and community housing providers. These organisations are supplying housing for some of the most vulnerable communities. With many of these houses damaged and requiring rebuilding there is now an opportunity to provide more effectively for the community's needs.

5.10 The regulations set out eligibility criteria for registration as a community housing provider. An applicant for registration must not be a local authority, a CCO, or *"a subsidiary of a local authority or council-controlled organisation unless the subsidiary is operating at arm's length from the local authority or council-controlled organisation."* The only ownership structure option available to secure eligibility for registration as a community housing provider would be for the Council to own no more than 49% of any registered provider, and for that provider to operate at arm's length from the Council.

5.11 While the Regulations do not define what is meant by "subsidiary" of a local authority, the Council has been advised by the Ministry for Business Innovation and Employment that leasing social housing assets to an entity in which the Council has a 49% or less interest would be permitted under the Regulations. This would enable the entity to be eligible for registration as a community housing provider.

6 Financial Implications

6.1 Council staff have identified that in order to meet the current and long term cost of owning and operating its social housing a significant rent increase (46%) would be required. At present tenants who are eligible for assistance receive an accommodation supplement from the Government that may reduce the effect of such an increase.

6.2 The Council could decide to do nothing. The effect of this would be that minimal rent increases (say at CPI levels) would not be sufficient to meet normal repair and maintenance costs.

6.3 In addition, the Council would not be eligible for IRRS assistance if it was not a registered community housing provider. Under the IRRS scheme the provider will be able to set rents at market levels and the Government would pay the provider the difference between what a tenant is able to pay and a market rent. This means tenants pay rents they can afford. For registered providers it means additional income and the ability to maintain and develop their properties to a better standard than might otherwise be the case. Under the existing scheme, the Council's tenants are paying just over 50% of market rents, following a recent increase of 4.9%.

7 City Housing Partners

7.1 In 2013 the Council approved 12 private companies and non-government organisations as city housing partners. A memorandum of understanding was signed with each entity.

7.2 The purpose was to identify organisations that were interested in working with the council to re-develop a number of social housing sites. The Council was looking for innovative options for the replacement of existing “old and cold” units.

7.3 Social housing complexes at Andrews Crescent, Brougham Village, Willard Street, Coles Street and Carey Street contain some of these units, as well as more recent buildings that are earthquake damaged, requiring seismic strengthening and those that are functionally obsolete.

7.4 In the case of Andrews Crescent there are currently 36 social housing units situated on a large area of land. The Council proposes entering into an arrangement with one of its city housing partners for the replacement of the existing social housing stock (on part of the site) at no or little cost to the Council. In return the Council would transfer the balance of the land to the partner for the development of market and low cost housing.

DETAILS OF THE PROPOSAL

8 The Council proposes to:

8.1 Establish an entity, a limited liability company, in which the Council holds all the shares. The company would initially be a Council-Controlled Organisation.

8.2 Subscribe for all the shares in the new company and appoint the first board of directors.

8.3 Seek investment in the company from organisations interested in being involved in the provision of social housing in Christchurch.

8.4 In due course structure the company so that the Council owns no more than 49% of the shares. The purpose of this is to enable the company to become eligible for registration as a community housing provider.

8.5 Negotiate the gifting, sale or lease to the company of such of the Council's social housing portfolio (buildings and improvements only) that would enable the company to operate a sustainable business managing rental accommodation for tenants receiving the Government's income related rental subsidies. Assets not included in this arrangement are likely to be situated in the red-zone. Those that are a total constructive loss as a result of earthquake damage and Andrews Crescent complex.

8.6 Enter into arrangements with the Council’s social housing partners for the redevelopment of social housing land that has been identified as being suitable for social housing, low-cost and /or other forms of housing.

OPTIONS ANALYSIS

9 The Council has identified and considered the costs and benefits of up to 20 options for the re-structuring of its social housing portfolio. The results of this analysis are set out in the attachments to this statement of proposal.

9.1 If the objective is to have more flexibility in the future ownership management and development of the Council’s social housing portfolio, then a number of the options indentified would not achieve that.

For example, retaining ownership of most of the portfolio would not be financially sustainable, nor would the council be eligible for registration as a community housing provider.

Opportunities for increasing the return on the Council's investment in social housing would be limited.

9.2 However, other options indentified could achieve the objective sought.

9.3 For example, the Council could negotiate the sale to the entity that is established, of social housing assets comprising buildings but not land. The value of the Council's portfolio (buildings only) has been estimated at $215 million.

This option is unlikely to be financially viable to the entity given the cost of borrowing such a large capital sum.

9.4 Four broad entity structures have been identified that could be used to enable the entity to qualify as a community housing provider, and the additional income that would be generated as a result. They are:

a) Establish a limited liability company as a jointly owned entity with other organisation(s) owning 51% or more of shares.

b) Establish a fully Council owned company and then sell 51% of shares to other organisation(s);

c) Establish a CCO as a fully Council owned company and then issue new shares (51%) to other organisation(s);

a) Establish a CCO, which then sets up a subsidiary company/organisation with 51% of shares, and/or voting rights as the case may be, being transferred to a third party.

9.5 Option a) is not practical in the present circumstances, because no other party or parties have yet been identified to be part of the establishment of the company.

9.6 As a variation on options b) and c) above, it would be possible to establish a CCO as a fully Council owned company and then create new classes of shares for sale/issue to a third party, in such a manner that the different classes of shares allocated would have the consequence of the organisation no longer being a CCO.

These options would need to be considered alongside other eligibility criteria for registration as a community housing provider.

9.7 The Council could negotiate the sale of land and buildings. Again this may not be financially viable for an entity hoping for registration as a community housing provider. The current rateable value of the Council's social housing portfolio is approximately $343 million.

9.8 It could also gift the buildings only to the new entity and recoup their value through the Council's share of profits generated by the entity and a ground lease in respect of the land.

9.9 Another option is to seek a capital injection from Central Government. The Council has sought such assistance in the past and has been turned down. This is unlikely to change, given the level of the Government's commitment to the Christchurch re-build.

9.10 A further option is to sell the assets (land and buildings) to an investor either with or without a long-term lease to a community housing provider already in place.

The risk with this option is that the price achieved may be less than the full value of the assets, also the investor may not continue to use the assets to provide social housing.

9.11 Also considered, were options that would involve the Council retaining its social housing portfolio but taking steps to improve the financial viability of operating that asset.

As indicated earlier rents would need to increase by 46% to ensure that the activity was sustainable. This could not be achieved if rent increases were smaller and incremental.

Alternatively the Council could amend its current policy and use rates income to fund the provision of social housing. It is estimated that this would require $9 million per year with an expected rate increase of 2.3 – 2.7%.

An important aspect of these options is that the Council would not be able to access the Government's income related rents subsidy scheme.

GENERAL COMMENTS WITH REGARD TO OPTIONS

10.1 Attachment A sets out the twenty options identified and assessed by the Council. Ten of these involve an entity either established by the council for the purpose of it becoming a community housing provider, or that is already a third party, "arms length" organisation.

10.2 The other ten involve the Council retaining its social housing portfolio, with varying levels of financial sustainability.

10.3 Attachment B is a more detailed financial an analysis of the twenty options.

10.4 Whilst actual figures may vary, it is assumed that the Council's social housing portfolio has a value the same as or similar to the 2013 rateable value, which is $215 million for the buildings and $343 million for land and buildings.

10.5 The methodology adopted for the 2013 general re valuation of properties in Christchurch excluded the effect of earthquake damage. It was considered that this was essentially an insurance issue and that damaged properties would be repaired, or rebuilt, to pre-earthquake standards.

10.6 The Council has yet to settle its own insurance claim in respect of material damage caused by the earthquakes. Until it is, it is difficult to assess more accurately the benefit to the Council of any sale or lease.

10.7 It would also be relevant in the negotiation of any lease arrangements. The Council is unlikely to be able to sell, or lease earthquake-damaged properties.

10.8 Attachment C contains an assessment of options for the provision of social housing by the Council prepared by one of its external legal advisors, Simpson Grierson.

10.9 Finally, a summary of the options has been prepared (attachment D).

10.10 To meet the purpose of local government, the preferred option should be the most cost effective for households and businesses.

10.11 As the Council is ineligible for the Government's IRRS assistance it is difficult for the Council itself to satisfy this requirement. It will always be more cost effective for the local community to have a tax-payer contribution. The council therefore has little choice but to restructure its involvement in social housing so that eligibility can be secured. This will necessarily involve ownership or control of the existing social housing portfolio being divested to a new entity that is eligible for IRRS.

10.12 Of all the reasonably practicable options identified, it has been assessed that [Option 1] is most the most cost effective option for households and businesses. The reasons for this are considered in the financial analysis and other supporting documents contained in the Attachments.

CONCLUSION

11.1 Council staff have carried out an analysis of twenty options that they have identified as being reasonably practicable.

11.2 Four of those options have been assessed as being of sufficient viability to meet the Council's objective.

11.3 The Council's preferred option is that it:

- Establishes as a limited liability company an entity that will be eligible for registration as a community housing provider under the provisions of the Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014.

- Subscribes for all the shares in the new company and appoints the first board of directors.

- Gifts, sells or leases to the entity certain assets comprising the Council's existing social housing portfolio.

- Enters into arrangements with the Council's city housing partners for the redevelopment of some of the land currently used for social housing.

- Transfers the ownership or control of some of the Council's social housing assets either to an entity in which the Council has an interest of 49% or to a third party.

- Takes the appropriate steps to comply with all relevant statutory and regulatory obligations, and the obtaining of all necessary approvals and authorities, which may be required before the Council can undertake the activities and transactions referred to above. This would include requirements under the Local Government Act 2002, Public Works Act 1981 and Reserves Act 1977.

LEGAL CONSIDERATIONS

12.1 A number of issues arise with regard to the proposals set out in this document apart from the need to comply with the procedural requirements of the Local Government Act 2002. In particular:

- Whether the proposals come with the scope of the purpose of local government;

- Whether the proposal is most cost-effective for households and businesses;

- Compliance with the requirements of the Public Works Act 1981, Reserves Act 1977 and other relevant legislation.

12.2 The following matters are also relevant:

- Balancing the interests of different sectors in the community.

- Consideration of the fact that social housing is a strategic asset;
- Whether the Council is undertaking commercial transactions in accordance with sound business practices;
- Whether the Council is exercising prudent stewardship and the effective and efficient use of resources.

13 Purpose of Local Government

13.1 The role of a local authority, which is is set out in section 11 of the Local Government Act 2002. This is to give effect to the purpose of local government stated in section 10 of the Act.

13.2 Unless there is an express statutory duty or right expressed in that or any other Act, it is necessary to consider whether or not any existing or new activity comes within the scope of section 10. Following a recent amendment, that section now provides that the purpose of local government is to:

- Enable democratic local decision-making and action by, and on behalf of, communities; and
- Meet the current and future needs of communities for good quality local infrastructure, local public services and performance of regulatory functions in a way which is most cost-effective for households and businesses.

13.3 "Good quality" is defined in section 10(2), as meaning infrastructure, services and performance that are efficient, effective, and appropriate to present and anticipated future circumstances.

13.4 The changes to the purpose statement narrow, to a material degree, the powers of local government as set out in section 12 of the LGA 2002. For the Council to use those powers lawfully with regard to the provision of social housing it would first need to establish that this activity comes within the role of the Council, and the purpose of local government.

13.5 A court is unlikely to conclude that the Council’s existing social housing portfolio has now become unlawful because of the change of purpose of local government. It is also unlikely that a lease of the social housing assets to a new entity would be unlawful on the basis that it does not give effect to the purpose of local government.

13.6 Neither “local infrastructure” nor “local public services” is defined in the LGA 2002, although "community infrastructure" is listed in section 11A as one of the core services of a local authority. Its definition in section 197(2) of the Act involves Council control and ownership of assets for the provision of public amenities. However, social housing lacks the public element of the term in that housing is not generally open to the public at large.

13.7 The concept of local infrastructure is essentially its "public" nature. In that context, the Council believes that provision of public sector rental housing is "social infrastructure", a term that has been adopted by central government and which appears to be in more common usage. In the Government's National Infrastructure Report 2013 social infrastructure, including housing, is separately identified and addressed as a significant sector of infrastructure. In the Council’s view, affordable and social housing fall within the definition of local infrastructure.

13.8 The Council has interpreted “local” as simply referring to activities undertaken within the Council's district. It further believes that as a result of the effects of the earthquakes the Council's involvement in the provision of social housing is for the purpose of meeting the particular current and future needs of the Christchurch community.

13.9 The Government has itself recognised this by looking to work together with the Council to address housing supply and affordability issues in Christchurch, through the Housing Accord.

14 Cost-effectiveness

14.1 There is the issue of cost-effectiveness. To comply with its obligations under the LGA 2002 the Council must identify and evaluate all reasonably practicable options and select the most cost-effective option available for developing its role in the provision of social housing

14.2 The ultimate aim is the addition of 700 social housing units in Christchurch. This estimated to cost $0.17 - 0.24 billion (at $250 - 350,000 each).

ATTACHMENTS

Attachment A: Description of Options for Social Housing Portfolio
Attachment B: Social Housing Options Financial Analysis
Attachment C: Potential Structures for Christchurch City Council to Provide Social Housing
Attachment D: Summary of Options

SUBMISSIONS

This Statement of Proposal will be available for inspection during ordinary office hours at the following places:

- Civic Office, 53 Hereford Street, Christchurch
- Christchurch City Council libraries and service centres.

A copy of the document may also be viewed on the Council's website http://www.ccc.govt.nz/haveyoursay. A summary of the information contained in the Statement of Proposal will be distributed as a basis for general consultation.

Submissions may be made in writing to the Council between Wednesday 21 May 2014 and 5.00pm on Thursday 26 June 2014. Submissions may be made:

- electronically at http://www.ccc.govt.nz/haveyoursay
- by using the submission form attached to the Statement of Proposal
- or in any other written form to the Christchurch City Council, PO Box 73013, Christchurch, 8154

Any person who makes a submission will have the opportunity to be heard by the Council if this is requested. Dates for hearings will be notified once they can be confirmed, but are likely to be sometime in July 2014.

The Local Government Act 2002 required the Council to make all written submissions available to the public. This requirement is subject to the provisions of the Local Government Official Information and Meeting Act 1987. Any persons wishing to have information contained in their submission withheld should first discuss this with the Council Secretary, Clare Sullivan.

Attachment A : Description of Options for Social Housing Portfolio			
Entity	1	Lease land and buildings to a Community Housing Provider	Christchurch City Council would lease the social housing land and buildings to a Community Housing Provider.
Entity	2	Sell social housing buildings to a Community Housing Provider and Christchurch City Council keep the land	The buildings are sold to a Community Housing Provider and Christchurch City Council receive money from the lease of the land.
Entity	2a	Sell social housing buildings to a Community Housing Provider at a price that allows the Community Housing Provider to be financial viable	The buildings are sold to a Community Housing Provider and Christchurch City Council receive money from the lease of the land.
Entity	3	Sell social housing buildings and land to a Community Housing Provider	All social housing buildings and land are sold at market value to a Community Housing Provider.
Entity	3a	Sell social housing buildings and land to a Community Housing Provider at a price that allows the Community Housing Provider to be financially viable	All social housing buildings and land are sold at market value to a Community Housing Provider.
Non-Entity	4	Central Government capital injection to social housing	Formally ask Central Government to invest in social housing buildings in order to make Christchurch City Council social housing financially sustainable (not asking for any Income Related Rent Subsidy and Christchurch City Council retain full ownership). *Please note: this could relate to a one off capital injection or on-going financial contribution.
Entity	5	Gift social housing buildings to a Community Housing Provider and Christchurch City Council retain ownership of the land	The building is gifted to a Community Housing Provider and Christchurch City Council receive money from the lease of the land.
Entity	6	Sell social housing land and buildings – with a Community Housing Provider lease in place.	Christchurch City Council sell the social housing complexes (land and buildings) with a Community Housing Provider lease in place for an agreed period of time.
Non-Entity	7	Rates injection to social housing	Ask Council for rates money to put into social housing to ensure the financial sustainability of social housing. *Please note: this could relate to a one off capital injection or on-going financial contribution.
Entity	8	Gift social housing buildings and land to a Community Housing Provider	All social housing buildings and land are gifted to a Community Housing Provider.
Non-Entity	9	Rent increase 46%	46% rent increase would result in the social housing portfolio becoming financially sustainable and includes cost to strengthen the buildings.
Non-Entity	10	Do nothing and continue with minimal rent increases	Small percentage increases of rent on an annual basis. All social housing buildings and land would remain financially unsustainable. Continue with Partnerships Programme.

Non-Entity	11	Sell and lease back 17 under-capitalised sites	Sell under-capitalised properties on the market, or to a developer and then Christchurch City Council lease back to use as social housing for an agreed period of time. The developer could then change the use at the end of the lease.
Non-Entity	12	Christchurch City Council retain and operate social housing buildings and land, however no longer fund for replacement	The Local Government Act 2002 requires Councils to fund for replacements so Christchurch City Council would no longer fund for replacement and over time exit social housing.
Entity	13	Rent increase 35%, and sell 17 under-capitalised sites to a Community Housing Provider	Selling the under-capitalised complexes to a Community Housing Provider and applying a rent increase of 35% to the retained sites brings the social housing buildings and land to a sustainable level. The Community Housing Provider could access Income Related Rent Subsidy to maintain / re-develop these sites.
Non-Entity	14	Affordable housing and social housing portfolio	Use the social housing buildings and land for both affordable rental housing and social housing purposes. Make use of the higher income received from affordable housing to subsidise social housing (returning to the former public housing model).
Non-Entity	15	Sell social housing buildings and land and build new stock	Sell social housing buildings and land to get the greatest return and reinvest capital into new social housing developments.
Non-Entity	16	Buy new social housing stock – Invest	Attempt to get out of the current financial situation by increasing revenue for the new properties to off-set the loss on some of the worst properties.
Non-Entity	17	Rent increase to market level - Exit social housing	Christchurch City Council increase rents to a market level to make all social housing buildings and land financially sustainable and return a dividend to Christchurch City Council rate payers.
Non-Entity	18	Rent increase of 32% and sell 17 under-capitalised sites	Selling the under-capitalised complexes and applying a rent increase of 31% to the retained sites results in all social housing buildings and land being financially sustainable.
Non-Entity	19	Demolish all social housing buildings and land and re-develop through a build, own, operate and transfer scheme; or a build, own, and transfer scheme	Christchurch City Council agrees to demolish all social housing buildings and land and use the land to build better quality housing via a build, own, operate and transfer scheme. This means that Christchurch City Council would operate a lease to own scheme over an agreed period of time.
Non-Entity	20	Sell all social housing buildings and land and exit provision of social housing	Sell all social housing buildings and land in accordance with relevant legislation, exiting social housing provision.
TRIM 14/397041			

Attachment B: Social Housing Options Financial Analysis

Option	CCC Net Financial Impact (refer following sheets for detail)	Financial Viability	
		CHP	Social Housing
1 Lease land and buildings to a Community Housing Provider	$3.8 million annual surplus funds	Yes	Yes
2 Sell Social Housing buildings to a Community Housing Provider and Christchurch City Council keep the land	$3.55 million annual surplus funds	No	Yes
2a Sell Social Housing buildings to a Community Housing Provider at a price that allows the CHP to be financially viable	$3.55 million annual surplus funds	Yes	Yes
3 Sell Social Housing land and buildings to a Community Housing Provider	No impact but a reduction in total debt	No	Yes
3a Sell Social Housing land and buildings to a CHP at a price that allows the CHP to be financially viable	No impact but a reduction in total debt	Yes	Yes
4 Central Government capital injection to Social Housing	No impact	N/A	Yes
5 Gift Social Housing buildings to a Community Housing Provider and Christchurch City Council retain ownership of the land	$8.6 million annual surplus funds if buildings are not replaced $3.8 million annual surplus funds if fund created to replace buildings	Yes	Yes
6 Sell Social Housing land & buildings – with a Community Housing Provider lease in place	No impact but a reduction in total debt	Yes	Yes
7 Rates injection to Social Housing	$9 million increase in rates funding	N/A	Yes
8 Gift Social Housing buildings and land to a Community Housing Provider	No impact	Yes	Yes
9 Rent increase 46%	No impact	N/A	Yes
10 Do nothing and continue with minimal rent increases	Potential requirement to fund $150 million	N/A	No
11 Sell and Lease back 17 under-capitalised sites	No impact	N/A	Yes
12 Christchurch City Council retain and operate Social Housing buildings and land, however no longer fund for replacement	No impact	N/A	Yes
13 Rent increase 35%, and Sell 17 under capitalised sites to a Community Housing Provider	No impact	Yes	Yes
14 Affordable Housing and Social Housing portfolio	Requires Council to fund the gap in funding	N/A	No
15 Sell Social Housing buildings and land and build new stock	Potential requirement to fund $358 million difference between sales price & rebuild cost	N/A	No
16 Buy new Social Housing stock – Invest	Requires Council to fund the gap in funding	N/A	No
17 Rent increase to market level - Exit Social Housing	$6.8 million annual surplus funds	N/A	No
18 Rent increase 32% and sell 17 under capitalised sites	No impact	N/A	Yes
19 Demolish all Social Housing buildings and land and re-develop through a build, own, operate and transfer scheme; or a build, own, and transfer scheme	Requires Council to fund the gap in funding	N/A	No
20 Sell all Social Housing buildings and land and exit provision of Social Housing	No impact but a reduction in total debt	N/A	No

Option		Modelling information	Financial Analysis			
			Impact on Rates	**Impact on Council**	**Risks**	**Recommendation**
1	Lease land and buildings to a CHP	Council retains ownership of the land and buildings and leases the properties to a CHP. Under this option the CHP has a lease for up to 45 years and is responsible for all operational costs, maintenance and renewals (roofs / carpets etc) but not replacement of the buildings at the end of the lease. The CHP receives income equivalent to market rents and taking into account all of the costs mentioned above the CHP could afford to pay a rent of approximately $8.6 million per year. This would leave the CHP with a small annual surplus. The Government's Income Related Rental Subsidy (IRRS) can be accessed.	The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives. After applying the $8.6 million income from the CHP to be set aside for replacement of stock, there would remain a surplus of $3.8 million for Council consideration. With a change in current policy, the surplus funds of $3.8 million could be applied to other Council activities – potential rates reduction of 1-1.15% over life of lease. Applying the $3.8 million annual surplus to borrowing reduces debt by $45 million in the first 10 years.	Council's rental income equates to a return on investment in land and buildings of 2.5%. With a change in current policy, Council could use the rental receipts: • To create a fund to pay for the replacement of the portfolio at end of lease and the surplus of $3.8 million is used for other housing initiatives. • Create a fund to pay for the replacement of the portfolio and the surplus $3.8 million is used to fund operational activities this will reduce rates by approximately 1-1.15% per annum. • Create a fund to pay for the replacement of the portfolio and the surplus $3.8 million per annum is used to reduce debt; this will reduce the Council's projected maximum debt by $45 million in the first 10 years.	Replacement of buildings costs more than expected at the end of the lease Council retains the risks of ownership and operation of the social housing activity, although these are minimised by the terms and conditions of the lease. A peer review of the Social Housing modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Recommended Option** Additional government subsidies can be accessed. Potential to reduce Council's borrowing and/or operational costs to reduce rates requirement. Council will have sufficient funds in the Housing Fund to fund the replacement of the buildings at the end of the lease.

Option		**Modelling information**	**Financial Analysis**			
			Impact on Rates	**Impact on Council**	**Risks**	**Recommendation**
2	Sell Social Housing buildings to a CHP and CCC keep the land	Council retains ownership of the land but sells its social housing buildings to a CHP who then provide the service allowing the Government's IRRS to be accessed. Detailed valuations would be needed to make this happen but in the interim the 2013 Rateable Values have been used to consider how this option might work. The key assumption is that the rateable value assumes all earthquake repairs are completed and that the Council has sufficient funds to enable this to occur. This equates to $215 million. Council would charge the CHP a Ground Lease for the use of the land. Using the rateable values and current market rents for land this equates to $8.35 million per year (based on $128.5 million rateable value of land at 6.5%). In this option the CHP is not the long term owner of the land and may be unwilling to invest in the replacement of the housing stock over time. Council would need to set aside funds to replace the housing stock at the expiry of the lease if it wants social housing to be available for future generations. In 45 years time the Social Housing fund would have a balance of around $4.1 billion after allowing for replacement of the housing stock. (If the funds were not used elsewhere). By comparison the CHP earns market rent (almost double the current rent earned by Social Housing) but this is insufficient to cover the asset and operating costs and the mortgage required to purchase the asset and deal with the 10 year funding shortfall. With all outgoings being higher than income the CHP would end up owing in the order of $3.8 billion by the year 2060 (largely due to mortgage and ground lease costs).	The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives. With a change in current policy, proceeds could be used for other activities: • Other rebuild projects reducing borrowing by $215 million and financing costs by approximately $12.9 million in year one. This would reduce the Council's projected maximum borrowing from $1.9 billion in 2022 to $1.6 billion in 2019. • The annual rental income could be used to create the fund to finance the replacement of the social housing properties at the end of their life. The Social Housing Options modelling estimates in Option 1 that $4.8 million per annum for the life of the lease would be required for this purpose. The surplus annual rental of $3.55 million could be used to reduce borrowing by $41.5 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 0.9 – 1.0% per annum. • The annual rental income $8.35 could also be used to reduce borrowing by $98 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 2.5-2.1% per annum).	If the proceeds are applied to other housing initiatives, Council will expand this activity. With a change in current policy, proceeds could be utilised for non-housing activities such as: • Reducing borrowing by $215 million this would reduce interest costs by approximately $12.9 million in year one. The Council's projected maximum borrowing would reduce to $1.6 billion in 2019. • Using the annual rental income to create the fund to finance the replacement of the social housing properties at the end of their life. The Social Housing Options modelling estimates in Option 1 that $4.8 million per annum for the life of the lease would be required for this purpose. The surplus annual rental of $3.55 million could be used to reduce borrowing by $41.5 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 0.9 – 1.0% per annum. • The annual rental income from the land could also be used to reduce borrowing by $98 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 2.5-2.1% per annum. Council is likely to have to provide additional funding to the CHP due to the sizable debt of the CHP.	Market value of buildings is less than $215 million given the structure that is in place and that any future sales price may need to be discounted. Council would need to fund the replacement of the housing stock at the end of each property's life if a portion of the annual rental income is not applied to this purpose. CHP is not economically viable and may not be able to get funding for the purchase. As a result the CHP may require shareholder guarantees or further funding. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Not recommended** The financial implications and risk to Council mean this option cannot be recommended.

Option		Modelling information	Financial Analysis Impact on Rates	Impact on Council	Risks	Recommendation
2a	Sell Social Housing buildings to a Community Housing Provider at a price that allows the CHP to be financially viable	The same as Option 2 but rather than sell the buildings to the CHP at market value the Council sells the buildings at a value which allows the CHP to be financially viable. The CHP can access the Government's IRRS. This price has been assessed at $17 million Council would charge the CHP a Ground Lease for the use of the land. Using the rateable values and current market rents for land this equates to $8.35 million per year (based on $128.5 million rateable value of land at 6.5%). Council would still be required to assist in the replacement of the buildings at the end of their life. Over 51% of this is required in approximately 45 to 55 years time.	Based on a sales price of $17 million: The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives. With a change in current policy, proceeds could be used for other activities: • Other rebuild projects reducing borrowing by $17 million and financing costs by approximately $1 million in year one. The Council's projected maximum borrowing would remain at $1.9 billion in 2022. • The annual rental income could be used to create the fund to finance the replacement of the properties at the end of their life. The Social Housing Options modelling estimates in Option 1 that $4.8 million per annum for the life of the lease would be required for this purpose. The surplus annual rental of $3.55 million could be used to reduce borrowing by $41 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 0.9 – 1.0% per annum. • The annual rental income could also be used to reduce borrowing by $98 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 2.5-2.1% per annum).	Based on a sales price of $17 million: If the proceeds are used for other housing initiatives, Council will expand this activity. With a change in current policy, proceeds could be utilised for non-housing activities such as: • Reducing borrowing by $17 million this would reduce interest costs by approximately $1 million in year one. The Council's projected maximum borrowing would remain at $1.9 billion in 2022. • Using the annual rental income to create the fund to finance the replacement of the social housing properties at the end of their life. The surplus annual rental of $3.55 million could be used to reduce borrowing by $41 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 0.9 – 1.0% per annum. • The annual rental income from the land could also be used to reduce borrowing by $98 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 2.5-2.1% per annum. Council would recognise a loss on sale of the buildings of $196 - $211 million and would need to fund the replacement of the buildings at the each of property's life.	The sales price at which this option becomes financially viable to the CHP could be different from the current estimate. Council would need to fund the replacement of the housing stock at the end of each property's life. Further modelling is required to determine at what price the CHP would be able to fund the replacement of the buildings. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Not Recommended** The CHP is financially viable but Council still needs to fund the replacement of buildings. Further investigation is required of the sales price that would allow the CHP to be financially viable and fund the replacement of the buildings.

Option		Modelling information	Financial Analysis			
			Impact on Rates	Impact on Council	Risks	Recommendation
3	Sell Social Housing buildings and land to a CHP	Council sells its Social Housing properties to a CHP who would then provide the service allowing the Government's IRRS to be accessed. Detailed valuations would be needed to make this happen but in the interim the 2013 Rateable Values have been used to consider how this option might work. This equates to $343.5 million. The CHP earns market rent (almost double the current rent earned by Social Housing) but this is insufficient to cover the asset and operating costs and the mortgage required to purchase the land and buildings and deal with the funding shortfall. The CHP would not be able to replace the buildings in a timely way. It is expected that with the outgoings being higher than income the CHP would end up owing in the order of $3.64 billion by the year 2060 (largely due to mortgage costs).	The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives. With a change in current policy, the sales proceeds could be applied to: • Other rebuild projects this would reduce borrowing by $343.5 million and interest costs by approximately $20.5 million per annum. This would consequently reduce the Council's projected maximum borrowing from $1.9 billion in 2022 to $1.5 billion in 2019.	With a change in current policy, these funds could be applied to other rebuild projects. Or the funds could be applied to other social housing or affordable housing initiatives. • Applying to other rebuild projects reduces the maximum Council borrowing from $1.9 billion in 20122 to $1.5 billion in 2019.	Any sale must preserve the insurance position. Market value of the land buildings is less than $343.5 million given the structure and condition of the buildings. Under this scenario the CHP is not economically viable (based on assumptions within the Social Housing options modelling – in particular the debt servicing requirements). There is a risk that additional funding, shareholder guarantees or investments would be required from shareholders A peer review of the Social Housing options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Not recommended** The financial implications and risk to Council mean this option cannot be recommended.

Option		Modelling information	Financial Analysis Impact on Rates	Impact on Council	Risks	Recommendation
3a	Sell Social Housing land and buildings to a CHP at a price that allows the CHP to be financially viable	The same as Option 3 but rather than sell the buildings and land to the CHP at market value the Council sells the land and buildings at a value which allows the CHP to be financially viable. This price has been assessed at $154.27 million The CHP earns market rent (almost double the current rent earned by Social Housing) and this is sufficient to cover the asset and operating costs and the mortgage required to purchase the land and buildings (at the discounted price). This mortgage lasts for 45 years. As an owner the CHP would be responsible for replacing the buildings. Over 51% of this is required in approximately 45 to 55 years time requiring it to again go into debt for 35 to 40 years but the CHP has sufficient income to do this.	Based on a sales price of $154.27 million: The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives. With a change in current policy, the sales proceeds could be applied to: • Other rebuild projects this would reduce borrowing by $154.27 million and interest costs by approximately $9.2 million per annum. This would consequently reduce the Council's projected maximum borrowing from $1.9 billion in 2022 to $1.72 billion in 2021.	Based on a sales price of $154.27 million: With a change in current policy, these funds could be applied to other rebuild projects. Or the funds could be applied to other social housing or affordable housing initiatives. • Applying to other rebuild projects reduces the maximum Council borrowing from $1.9 billion in 20122 to $1.72 billion in 2021. Council would recognise a loss on sale of the land and buildings of $189.23 million.	Any sale must preserve the insurance position. Under this scenario the CHP is economically viable The sales price at which the CHP obtains economic viability could be different from the current estimate. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Potential Option** The CHP is financially viable. Further investigation is required of the sales price and impact to Council.

Option		Modelling information	Financial Analysis Impact on Rates	Impact on Council	Risks	Recommendation
4	Central Government capital injection to Social Housing	An alternative to increasing rents for tenants is to request direct support for social housing from the Government. A similar request was made in 2009 and rejected. Since that request the earthquake and changes in Government's policy have occurred. A revised request could be made for direct support. A lump sum contribution of around $230 million would be required to avert the need for the rent increase to tenants. The Government's IRRS cannot be accessed. Again future cost escalation above anticipated inflation or unforeseen expenditure may result in the need for further increases above those allowed for in the forecasts.	No impact to ratepayers.	No impact to Council as funds can only be utilised by Social Housing.	Unlikely, given the Government's other commitments to Christchurch. Council retains the risks of ownership and operations of the social housing activity.	**Not Recommended** While financially viable for Council to continue to provide Social Housing without the need for a significant rent increase the additional government assistance is highly unlikely to be able to be accessed.

Option		**Modelling information**	**Financial Analysis**			
			Impact on Rates	**Impact on Council**	**Risks**	**Recommendation**
5	Gift Social Housing buildings to a CHP and Council retain ownership of the land	Council retains ownership of the land but gifts the social housing buildings to a CHP who then provides the service. The value of the gift is the market value of the buildings transferred to the CHP's ownership, $215 million based on 2013 Rateable Value (assumed market value). The CHP can access the Government's IRRS Council would need to set aside funds to replace the housing stock at the expiry of the lease if it wants social housing to be available for future generations. The CHP will pay a ground lease of $8.6 million per annum to Council.	The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives. With a change in current policy, the annual rental income could also be used to: • The annual rental income could be used to create the fund to finance the replacement of the social housing properties at the end of their life. The Social Housing Options modelling estimates in Option 1 that $4.8 million per annum for the life of the lease would be required for this purpose. The surplus annual rental of $3.8 million could be used to reduce borrowing by $44 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 0.9 – 1.1% per annum. • reduce borrowing by $8.6 million per annum which will reduce the Council's projected borrowing by $100 million in the first 10 years; • reduce operating costs by $8.6 million per annum which in turn will reduce rates by approximately 2.5-2.1% per annum.	No impact on Council's maximum debt levels unless ground lease revenue is used to reduce borrowing. Using the annual rental income to create the fund to finance the replacement of the social housing properties at the end of their life. The Social Housing Options modelling estimates in Option 1 that $4.8 million per annum for the life of the lease would be required for this purpose. The surplus annual rental of $3.8 million could be used to reduce borrowing by $44 million in the first 10 years or used to reduce operating costs which would reduce rates by approximately 0.9 – 1.1% per annum. Council's total assets would reduce by approximately $110 million (51% of the assets gifted). Council's investment in the CHP could become a significant asset depending on the value of its assets and financial performance.	Council may not be able earn a return on the investment in the CHP. Council would need to fund the replacement of the housing stock at the end of each property's life if a portion of the annual rental income is not applied to this purpose. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Potential Option** Financially viable for CHP and Council (based on assumptions with-in the Social Housing Options modelling)

Option		**Modelling information**	**Financial Analysis**			
			Impact on Rates	**Impact on Council**	**Risks**	**Recommendation**
6	Sell Social Housing land & buildings – with a CHP lease in place	Council establishes a lease of the properties to a CHP and then sells the properties on the open market. Under this option the CHP has a lease for up to 45 years and is responsible for all operational costs, maintenance and renewals (roofs / carpets etc) at the end of the lease but not replacement of the buildings. The CHP can access the Government's IRRS receiving a total income equivalent to market rents and taking into account all of the costs mentioned above they could afford to pay a rent of approximately $8.6 million per year. This leaves them with a small surplus but the rental income equates to a return on investment of just 2.7% relative to the rateable value of $343.5 million. Private landlords are highly likely to be interested in the property for redevelopment purposes at the end of the lease with rental revenue providing the 'holding' costs. The estimated sales proceeds would be $98.6 million.	The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives. With a change in current policy, the sales proceeds could be applied to: • Other rebuild projects this will reduce borrowing by $92 million and interest costs by approximately $5.5 million per annum. This would reduce the Council's projected maximum borrowing from $1.9 billion in 2022 to $1.8 billion in 2022.	The market price is likely to be reduced to $92 million as a result of the lease. The sales proceeds and rental income until the time of sale could be applied to rebuild or other social housing or affordable housing initiatives. With a change in current policy, Council could apply the funds to: • social or affordable housing initiatives would have no significant financial impact to Council. • other rebuild projects reduces the maximum Council borrowing from $1.9 billion in 2022 to $1.8 billion in 2022. Council would recognise a loss on sale of $251.5 million.	The Council sells the land and buildings at less than $92 million recognising a larger loss on sale. Reduction in the number of Social Housing properties in the City as at the end of the lease the new owner may not replace with new Social Housing. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Not Recommended** Financially viable for CHP and Council (based on assumptions within the Social Housing options modelling) Risk that social housing is not maintained at end of lease.

Option		Modelling information	Financial Analysis Impact on Rates	Impact on Council	Risks	Recommendation
7	Rates injection to Social Housing	An alternative to increasing rents for tenants is to fund the current funding gap from rates. Over many decades the Council has kept its social housing service separate and rates funding has not been used. The Government's IRRS cannot be accessed.	The funding shortfall is expected to require rates funding of just less than $9 million per year on an ongoing basis. Spread across all ratepayers this equates to approximately a 2.7-2.3% rates increase.	There is minimal impact to Council from this option.	Future cost escalation above anticipated inflation or unforeseen expenditure may result in the need for further increases above those allowed for in the forecasts. Council retains the risks of ownership and operations of the social housing activity. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes including the annual rates funding requirement which will amend the impact to ratepayers and Council.	**Not Recommended** While financially viable for Council to continue to provide Social Housing without the need for a significant rent increase the increase in rates required is not in line with the Council's financial strategy. Cannot access the additional Government assistance.
8	Gift Social Housing buildings and land to a CHP	Council gifts the land and buildings to the CHP. The CHP can access the Government's IRRS and receive a market rent for the properties from tenants. The CHP will need to borrow funds over the first 10 years to pay for the gap in funding but will have sufficient revenue to cover this. It can repay the loan and then start saving for future lifecycle expenditure and replacement of the housing stock in approximately 50 years. The CHP would have a surplus estimated at $1.9 billion in 50 years time, after it has replaced approximately 80% of the buildings.	The current Council approved policy is for Social Housing to be rates neutral. Therefore there would be no impact on rates if any surplus is used for other housing initiatives.	Council's total assets would reduce by approximately $175 million (51% of the assets gifted based on the 2013 Rateable Value of $343.5 million). These assets are not income earning assets so this is unlikely to affect Council's ability to borrow. Council's investment in CHP could become a significant asset depending on the value of its assets and the expected surplus of $1.9 billion in 50 years time. The ability of the CHP to charge market rents mean it can replace buildings at the end of their life. Council has the potential to earn dividend income (subject to potential legislative restrictions). The estimated surplus of the CHP could be applied into other social and affordable housing projects.	Council may not earn a return on the investment in the CHP. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Potential Option** Financially viable for CHP and Council (based on assumptions within the Social Housing options modelling)

Option		Modelling information	Financial Analysis			
			Impact on Rates	Impact on Council	Risks	Recommendation
9	Rent increase 46%	Tenants rent is increased 46%. The Government's IRRS cannot be accessed. Such a rent increase would result in a portfolio becoming financially sustainable and would fund the; replacement of severely damaged units, strengthening where required and all operating and life cycle costs including the replacement of the buildings at the end of a 90 year life. NB; this option can be tailored to align with the level of financial sustainability attempting to be achieved.	No impact on ratepayers as social housing would remain totally self funding.	No impact on Council on basis that social housing remained self funding.	Tenants cannot access new market rent subsidies but will continue to access the accommodation supplement and some may end having to pay more than 30% of their income in rent. Council retains the risks of ownership and operations of the social housing activity. A peer review of the Social Housing Options modelling is still to be undertaken which may result in changes which will amend the impact to ratepayers and Council.	**Not recommended** Cannot access the additional Government assistance.

Option		Modelling information	Financial Analysis Impact on Rates	Impact on Council	Risks	Recommendation
10	Do Nothing and continue with minimal rent increases	Current rents are on average 49% of the market rate, barely cover operating costs for the social housing service. Over the next four years significant expenditure is required to strengthen buildings and cover unfunded earthquake repairs. The Government's IRRS cannot be accessed. Additional expenditure is required over the next ten years to upgrade housing stock so it can meet an acceptable standard that will last for another 40 to 50 years. Total expenditure over the next ten years is estimated to be $395 million.The funding shortfall over the next ten years is approximately $105 million. Within one to two years Social Housing will have to start borrowing in order to pay the interest. The total interest due adds up to approximately $45 million. This is a shortfall of $150 million over the first ten years. Social Housing will need to pay back the $150 million borrowed but has insufficient revenue to do this. It should also be saving for the 'retirement' or replacement of the housing stock at approximately 90 years of age, as required under the local Government Act. Most of the housing stock was built in the 1960's and 1970's and is due for replacement in approximately 50 years. The income generated from minimal rent increases will not achieve this.	No initial impact on rates unless future Council's decide to provide rates funded assistance to reduce the level of borrowing	Given the estimated funding gap the Social Housing activity is not sustainable without some form of intervention.	The funding gap increases more than expected. Council retains the risks of ownership and operations of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP. Not financially viable for Council to continue to provide Social Housing

Option		Modelling information	Financial Analysis			
			Impact on Rates	Impact on Council	Risks	Recommendation
11	Sell and Lease back 17 under-capitalised sites	Sell 17 under-capitalised properties on the market, or to a developer for $45 million (2014 Rateable Value less unfunded EQ works). Social Housing lease back the units for social housing for the next 15 years at a market rent (Social Housing have to subsidise these rents). Site specific legal and valuation advice will be required to progress this option. The new owner / developer may change the use at the end of the lease. Beyond year 15 the social housing stock is reduced by 479 units. However due to the sale of the 17 sites the social housing portfolio does not need to borrow significant funds over the next 15 years as it funds the imminent shortfall in funding and avoids substantial expenditure on interest payments. To become financially sustainable the social housing portfolio would require a rent increase of 41.5%. However, this option does not present that scenario.	No initial impact on rates unless future Council's decide to provide rates funded assistance.	The estimated funding gap is delayed and beyond 15 years the Social Housing activity is not sustainable without some form of intervention.	The funding gap increases or occurs prior to the 15 years forecast. That the lease payments are set at a level that exceeds the Council's rental income. Council retains the risks of ownership and operation of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP. Not financially viable beyond 15 years.

Option		Modelling information	Financial Analysis			
			Impact on Rates	Impact on Council	Risks	Recommendation
12	CCC retain and operate Social Housing buildings and land however no longer fund for replacement	Current rents are on average 49% of the market rate, barely cover operating costs for the social housing service. Over the next four years significant expenditure is required to strengthen buildings and cover unfunded earthquake repairs. The Government's IRRS cannot be accessed. Additional expenditure is required over the next ten years to upgrade housing stock so it can meet an acceptable standard that will last for another 40 to 50 years. Total expenditure over the next ten years is estimated to be $395 million.The funding shortfall over the next ten years is approximately $105 million. Within one to two years Social Housing will have to start borrowing in order to pay the interest. The total interest due adds up to approximately $45 million. This is a shortfall of $150 million over the first ten years. Social Housing will need to pay back the $150 million borrowed but has insufficient revenue to do this. It should also be saving for the 'retirement' or replacement of the housing stock at approximately 90 years of age, as required under the local Government Act. Most of the housing stock was built in the 1960's and 1970's and is due for replacement in approximately 50 years. Unlike option 10, this scenario proposes not to fund the 'retirement' or replacement of the housing stock and CCC would over time exit social housing. To close this funding gap requires a rent increase of 30.3%	No initial impact on rates unless future Council's decide to provide rates funded assistance.	The need for Social Housing to borrow to fund the $395 million shortfall will increase the Council's overall total borrowing. The sale of the land when it becomes surplus will allow the proceeds to be applied to other uses including the repayment of debt.	The shortfall is greater than $395 million. The sale of the surplus land is at the end of life which will happen progressively over the next 90 years and is subject to movements in market price and demand for land. Council retains the risks of ownership and operation of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP. Increases the Council's total debt.

Option		**Modelling information**	**Financial Analysis**			
			Impact on Rates	**Impact on Council**	**Risks**	**Recommendation**
13	Rent increase 35% and Sell 17 under-capitalised sites to a Community Housing Provider	CCC sells 17 under-capitalised properties to a CHP at a price that accounts for unfunded earthquake works and is affordable for the CHP to be viable. This equates to approximately $31 million. The CHP can access IRRS for the 479 units allowing it to maintain / re-develop the sites. The remaining portfolio cannot access the Government's IRRS. Due to the sale of the 17 sites the social housing portfolio does not need to borrow as much and avoids substantial expenditure on interest payments. It still needs to cover the operating and lifecycle costs for the rest of the portfolio including savings required for the 'retirement' or replacement of the housing stock. A rent increase of 35% is required to become financially sustainable.	No initial impact on rates unless future Council's decide to provide rates funded assistance.	While Social Housing is financially sustainable in the long term there remains a need for Social Housing to borrow to fund the funding gap which will increase the Council's overall total borrowing.	The funding gap is greater than expected and requires increased borrowing. Council retains the risks of ownership and operation of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP for the remaining portfolio. Increases Council's total debt.

Option		Modelling information	Financial Analysis			
			Impact on Rates	Impact on Council	Risks	Recommendation
14	Affordable Housing and Social Housing portfolio	This option stops providing 780 social housing units (who pay 50% of market rents) and uses them instead for affordable rental housing. This equates to 30% of the portfolio. This utilises the higher income from Affordable Housing (based on a discounted rent at 80% of market) to cross subsidise Social Housing. This is similar to historical public housing model used in the 1980's. The portfolio is still not viable under this scenario as new revenue is still insufficient to cover debt servicing of the expenditure required over the next 10 years and the need to fund replacement of the aging housing stock in the future. If the option was extended to show the required rent increase for the balance of the social housing portfolio a rent increase of 22.5% would be required.	No initial impact on rates unless future Council's decide to provide rates funded assistance.	Given the estimated funding gap the Social Housing / Affordable Housing activity is not sustainable without some form of intervention.	The funding gap increases more than expected. Council enters into a new activity "Affordable Housing" which it will be required to consult on. Council retains the risks of ownership and operations of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP. Not financially viable for Council to continue to provide Social Housing / Affordable Housing

Option		Modelling information	Financial Analysis			
			Impact on Rates	Impact on Council	Risks	Recommendation
15	Sell Social Housing buildings and land and build new stock	The existing social housing land and buildings are sold on the open market at $314 M (Rateable Value less unfunded strengthening & EQ repairs and repayment of Governments loan for Whakahoa Village). Site specific legal and valuation advice will be required to progress this option. The proceeds of the sale are reinvested into new social housing developments. Acquisition of land and new buildings are estimated to cost $672 Million ($240,000 / unit). 2601 new social housing units are available in the market with a life span of approximately 90 years. The portfolio is viable at a rental rate equivalent to 83% of market. This allows for operating and lifecycle costs along with the replacement of the portfolio at the end of 90 years. This cash flow is dominated by the need for a mortgage extending over a 70 year period – a key risk to this option. Modelling has not yet extended to the treatment of the initial development phase and it is likely the financial position will be worse if account is made for a transition period such as a lease back arrangement (to continue providing the social housing service during the construction phase.	No initial impact on rates unless future Council's decide to provide rates funded assistance.	Potential reduction in Council's total income as units are sold and replaced which could reduce the Council's maximum borrowing limit. An additional $358 million of borrowing will be required to fund the difference between the sales price and acquisition cost. This borrowing is currently not been included in the Council's financial strategy.	The Council sells the existing portfolio for less than $314 million. The acquisition cost increases beyond $672 million. Council retains the risks of ownership and operations of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP. Significant additional borrowing is required by Council

<table>
<tr><th colspan="2" rowspan="2">Option</th><th rowspan="2">Modelling information</th><th>Financial Analysis</th><th></th><th></th><th></th></tr>
<tr><th>Impact on Rates</th><th>Impact on Council</th><th>Risks</th><th>Recommendation</th></tr>
<tr><td>16</td><td>Buy new Social Housing stock – Invest</td><td>This option is in effect an attempt to trade out of financial predicament by obtaining a better return on investment from developing new properties, to offset the loss making properties.

The acquisition cost of land & buildings at $240,000 with no capital injection (from a sale) results in a negative cash flow. The land & building cost per unit of $240,000 results in an interest bill alone of $323 per week ($16,800/ year). Existing market rents for an average 1 bedroom unit are $254 (our average one bedroom rents are $123 / week).

The portfolio is still not viable and the more that units are developed the worse the portfolio’s financial viability becomes.</td><td>No initial impact on rates unless future Council’s decide to provide rates funded assistance to reduce the level of borrowing</td><td>Given the estimated funding gap the Social Housing activity is not sustainable without some form of intervention.</td><td>The funding gap increases more than expected.

Council retains the risks of ownership and operations of the social housing activity.</td><td>Not recommended

Cannot access the additional Government assistance available to a CHP.

Not financially viable for Council to continue to provide Social Housing</td></tr>
<tr><td>17</td><td>Rent increase to market level - Exit Social Housing</td><td>CCC in effect exits the social housing service by increase rents to a market level. At market rents there is sufficient revenue to cover the expenditure over the next decade savings required to fund replacement of buildings at the end of their economic life.

In addition to the above the portfolio generates a return that could be returned to CCC and ratepayers as a dividend.

The profit is $6.8 Million per year is the difference between the market rent ($35.1 million) and the base rent required to make the portfolio sustainable over the long term ($28.3 million) i.e. the 46% rent increase option.

Social housing is reduced by 2601 units.</td><td>The current Council approved policy is for Social Housing to be rates neutral. However, by moving rents to market levels Council are exiting Social Housing which with a change in policy would allow the surplus to be used to help fund other activities.

• Other rebuild projects reducing borrowing by $6.8 million per annum. The Council’s projected maximum borrowing would reduce from $1.9 billion in 2022 to $1.88 billion in 2021.
• The annual surplus could be used to reduce operating costs which would reduce rates by approximately 2.0-1.75% per annum.</td><td>With a change in current policy, any surplus could be utilised for non-housing activities such as:
• Reducing borrowing by $6.8 million per annum. The Council’s projected maximum borrowing would reduce to $1.88 billion in 2021.
• The annual surplus could used to reduce operating costs which would reduce rates by approximately 2.0-1.75% per annum.</td><td>Change in Council activity which may impact operational risks.

Council retains the risks of ownership and operations of the social housing activity.</td><td>Not recommended

Financially attractive option but requires the Council to exit its involvement in Social Housing.</td></tr>
</table>

Option		**Modelling information**	**Financial Analysis**			
			Impact on Rates	**Impact on Council**	**Risks**	**Recommendation**
18	Rent increase 32% and sell 17 under-capitalised sites	Sell 17 under-capitalised properties on the market, or to a developer for $45 million (2014 Rateable Value less unfunded EQ works). Site specific legal and valuation advice will be required to progress this option. Social housing stock is reduced by 479 units. The new owner / developer may change the use of the property. However, due to the sale of the 17 sites the social housing portfolio does not need to borrow significantly over the next 15 years and as a result avoids substantial expenditure on interest payments. To become financially sustainable the social housing portfolio would require a rent increase of 32%.	No initial impact on rates unless future Council's decide to provide rates funded assistance.	No impact on Council on basis that social housing remained self funding.	The funding gap is greater than expected and requires increased borrowing such that it is not financially sustainable. Council retains the risks of ownership and operation of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP for the remaining portfolio.

Option		Modelling information	Financial Analysis			
			Impact on Rates	**Impact on Council**	**Risks**	**Recommendation**
19	Demolish all Social Housing buildings and land and re-develop through a build, own, operate and transfer scheme; or a build, own, and transfer scheme	Social Housing demolishes the existing housing stock, retains the land and builds 2601 better performing assets via a BOOT scheme. Essentially CCC would operate a lease to purchase scheme over an agreed period of time. Many variables exist with BOOT schemes and further modelling is required for this option. The main benefit of entering a BOOT is that short to medium term borrowing requirements are offset with an operational lease. However, the terms of such a lease are likely to be for an extended period of time and would need to cover the cost of financing the new build (on the assumption that CCC retain the land ownership). It would also need to allow for the cost of operating the service for a period of time. In addition to the actual costs a third party would reasonably be expected to require a profit margin (or an allowance for risk). Council still needs to set aside funds for long term lifecycle costs and replacement of the portfolio, unless it states it is discontinuing social housing in the future. At an assumed development cost of $190,000 per unit (with no capital injection from a sale) the cash flow is negative. The interest bill alone amounts to $256 / week ($13,300/ year) for an average 1 bedroom unit (market rents are $254 and our average rents are $124 / week). No funds are available for debt repayment, operating costs or long term maintenance. The new portfolio is not viable. The more units developed the worse the portfolio financials become.	No initial impact on rates unless future Council's decide to provide rates funded assistance to reduce the ongoing deficit	Given the estimated funding gap the Social Housing activity is not sustainable without some form of intervention.	The funding gap increases more than expected. Council retains the risks of ownership and operations of the social housing activity.	**Not recommended** Cannot access the additional Government assistance available to a CHP. Not financially viable for Council to continue to provide Social Housing

Option		Modelling information	Financial Analysis			
			Impact on Rates	Impact on Council	Risks	Recommendation
20	Sell all Social Housing buildings and land and exit provision of Social Housing	Sell social housing portfolio in accordance with relevant legislation, exiting social housing provision. Social housing is reduced by 2601 units. Site specific legal and valuation advice will be required to progress this option and it is likely to require several years to work through sale process (buy back / bequeaths etc). The sale price has been assumed at $314 million. This is based on the 2013 Rateable Value less unfunded EQ works (and repayment of approximately $2.8 million - Whakahoa pay back to Govt who paid 50% of that development). No portfolio modelling is required for this option.	Exiting Social Housing would allow Council to change its current policy, the sales proceeds could be applied to: • Other rebuild projects this would reduce borrowing by $314 million and interest costs by approximately $18 million per annum. This would consequently reduce the Council's projected maximum borrowing from $1.9 billion in 2022 to $1.5 billion in 2019.	With a change in current policy, these funds could be applied to other rebuild projects. • Applying to other rebuild projects reduces the maximum Council borrowing from $1.9 billion in 20122 to $1.5 billion in 2019.	Any sale must preserve the insurance position. Market value of the land buildings is less than $314 million given the structure and condition of the buildings.	**Not recommended** Financially attractive option but requires the Council to exit its involvement in Social Housing.

ATTACHMENT C

POTENTIAL STRUCTURES FOR CHRISTCHURCH CITY COUNCIL TO PROVIDE SOCIAL HOUSING

Note: It is anticipated that many structures could potentially be utilised in conjunction with one or more other structures.

POTENTIAL STRUCTURES FOR PROVISION OF SOCIAL HOUSING BY COUNCIL					
PROVISION OF LAND					
Proposed structure	**Description**	**Factors to be taken into account**	**Critical Actions**	**Advantages**	**Disadvantages**
Use of existing Council Social Housing Portfolio Land and buildings	• Use existing social housing portfolio land and building; for the o Redevelopment of part of the Council's portfolio of surplus social housing land for new social housing; and/or o Upgrade of existing social housing properties to	• This could take on a number of forms of intervention based on the structures outlined below. • Public Works Act (**PWA**) implications for specific parcels of land.	• Due diligence exercise on land o How acquired (relevant to PWA issues). o Other road blocks to transfer.	• No time needed to negotiate acquisition from a third party if land already available.	• Possible PWA offer back implications may need to be addressed depending on ownership structure and acquisition history of land.

	better suit modern requirements eg regarding unit size and layout and possible provision for more intensive land use.				
Use of other surplus Council land	Use of other Council owned land (held for uses other than social housing).	• This could take on a number of forms of intervention based on the structures outlined below. • Possible issues associated with the tenure of land and use of Council owned land for social housing. • PWA implications for specific parcels of land. • Section 52 PWA – process to follow to undertake change of purpose for land held for a public work. • Other possible legislative issues eg compliance with the Reserves Act if it were proposed to use	• Due diligence exercise on land o How acquired (relevant to PWA issues). o Other title issues that may be road blocks to transfer.	• No time needed to negotiate acquisition from a third party if Council land already available.	• Possible PWA offer back implications may need to be addressed depending on ownership structure and acquisition history of land. • May be other (better) uses for the land.

		reserve land – may need to revoke (or reclassify) reserve.			
Purchase of land from private owner by Council	Council acquires land from private owner and uses it for development of new social housing.	•	• Identify any suitable land that may already be available/on the market.	• To the extent that "new" land is acquired it might be possible to negotiate a waiver of offer back rights (to the extent they might apply) to minimise on-going risk).	• May take time to identify land and negotiate its acquisition.
Use of Crown owned land	Crown provides land for social housing project.	• Similar factors to use of Council owned land for PWA compliance but Crown not exempt from offer back obligation for sale to a CCO. • This option (if available) would need to be combined with other options.	• Identify any suitable land that may already be available eg CERA land or other land-banked land.	• Possibly reduces time needed for negotiations for acquiring land.	• Possible offer back issue for Crown.
Lease	Lease existing social housing portfolio to community housing provider to continue to	• Would need to comply with Housing Accords and Special Housing Areas Act (**HASHA Act**).	• Identifying suitable CHP for lease in timeframe available. • Identifying any	• Council able to retain a level of long term control over the portfolio	• Need to identify a suitable community housing provider prepared to take a long

	provide social housing.	• Need to determine the financial basis of a lease. • This could encompass a ground lease under which the buildings and improvements were sold or gifted to a CHP, or to a lease of the buildings and improvements, with ownership remaining with the Council	suitable land.	via lease terms.	term lease.
Transfer	Transfer full ownership of Council's existing social housing portfolio to a new or existing community housing provider to continue to provide social housing, or lease to a CHP with the freehold interest in the land either retained or sold.	• LGA compliance – disposal of strategic asset. • PWA implications for specific parcels of land.	• Identifying suitable CHP for transfer in timeframe available.	• No long term management or administration required by Council once portfolio sold.	• Loss of future control of the portfolio – but potentially could be managed via sale process e.g. via restrictive covenant or encumbrance on title or other methods.
Status quo	Continued management/repair of existing portfolio of social housing by Council.	• Inability to obtain the income related rent subsidies unless rules changed. • Insurance issues relating to earthquake damage.	• Need to obtain certainty regarding insurance position.	• Less commitment by Council to further funding.	• Would not address the need for further social housing. • Tenants cannot obtain income related rent

	• Funding upgrading and repairs.			subsidies. • Unlikely to meet commitments in the proposed housing accord.

OWNERSHIP/MANAGEMENT STRUCTURES					
Proposed option	**Description**	**Factors to be taken into account**	**Critical Actions**	**Advantages**	**Disadvantages**
Public/Private Partnership	Council, Crown and Private Sector PPP to carry out social housing.	• Compliance with current legislation. • Will need to comply with LGA requirements for establishing a CCO, if the proposal falls within the relevant definition. • May trigger PWA and other sale restriction issues eg. relating to social housing being a strategic asset • Compliance with HASHA Act.	• Identifying potential partners in timeframe available. • Assuming that a potential partner can be identified, identifying a workable capital control structure.	• Provision of capital funding. • Flexible.	• Identifying potential partners in timeframe available. • Possible tax implications. • Complications or conflicts of dealing with a commercial partner whose main aim is to achieve a profit.
Joint venture with Crown	Joint venture between Crown and Council to carry out social housing.	• Compliance with current legislation. • Would need to comply with LGA requirements for establishing a CCO if the proposal falls within the relevant definition. • May trigger PWA and other sale restriction issues eg. relating to social housing being a strategic asset ? • Compliance with HASHA Act.	• Need for discussions with the Crown to ascertain whether the Crown is prepared to become a funder/have another interest in the new entity.	• Less risk than joint venture with private sector. • Enhanced ability to meet objectives of proposed housing accord.	• Unclear whether the Crown wants a "shareholder" role and wants to contribute any funding to a new joint venture.

Council Business Unit	Council retains full control of social housing with new development, management and administration carried out by a Council Business Unit.	• Either use existing Council land or acquire new land and retain ownership with development and administration carried out by a Council Business Unit. • Full management, control and administration responsibility would remain with the Council with associated administrative cost and burden.	•	• Little or no set up requirements. • Could become CCO later. • Maintains most flexibility to give effect to a Housing Accord.	• Funding limitations – Council has only limited ability to fund further housing units to address the identified problem alone and may not be able to attract additional investment if operating as part of Council. • All responsibility and risk remains with Council. • Less transparent governance if part of Council. • No access to rental supplement.
Form a special purpose company or other incorporated entity as a CCO	Council sets up a CCO to build and develop social housing.	• Either use existing Council land or acquire new land and transfer to a CCO set up to develop social housing. • Would need to comply with LGA requirements if establishing a CCO. • May trigger PWA and other sale	• Identifying ownership structure and shareholding.	• Separate corporate entity. • Transparent governance . • Set up under Companies Act with limited liability etc.	• Securing potential partners in timeframe available if capitalisation is required beyond existing Council resources.

		restriction issues eg. relating to social housing being a strategic asset • No rental supplements available mean that the Council continues to incur the cost of the rental subsidy. • Transfer of Council owned land to a CCO not subject to section 40 PWA, but any subsequent transfer by the CCO would be subject to section 40 (schedule 9, clause 2, Local Government Act 2002 (**LGA**)). • Funding options will need to be addressed.		• Ability to issue share capital and different classes of shares.	• Possible tax implications. • No rental supplement available
Form a charitable trust or other incorporated entity as a CO	Council sets up a charitable trust or other entity to develop social housing as a CO so that it qualifies as a registered community housing provider.	• Must comply with Charities Act 2005 and/or other relevant legislation. • Need to determine whether there is any significance on limitations on distributing surplus funds from charities? • Need to consider tax implications? • May not be a suitable vehicle to use for commercial arrangements in	• Determining the structure of the new entity, including the involvement of other interested entities.	• Separate corporate entity. • Income not taxable if not carried out for the purpose of making a profit. • Potentially easier to design a structure that does not involve capital	• May need to be exclusively for charitable purposes. • Potential for trustees to be liable. • Trustees would be led by requirements of Trust Deed and Charities Act rather than Council's interests.

		conjunction with the private sector? • Land assets would be vested in trustee names.		injections from another entity. • Would qualify as a registered community housing provider	• Any surplus may need to be distributed for further charitable purposes. • Unlikely to be favoured in any arrangements with commercial entities.
Housing Accord with Crown	Enter into a housing accord under the Housing Accords and Special Housing Areas Act 2013 (**HASHA Act**) with Minister of Housing/MBIE.	• Could use Council owned land or new land could be acquired for project (see further discussion on issues associated with these options below). • Need to identify any HASHA Act compliance issues? • Probably cannot be considered in isolation from other options as it is likely to require other mechanisms. • May duplicate in part the Land Use Recovery Plan (**LURP**).	• Draft Housing Accord needs to be finalised in the same timing as a SOP.	• Gives greater clarity to actions in dealing with social housing issues.	• Unlikely to be sufficient in itself to respond to the current problems faced in Christchurch in relation to new social housing.
Council become a CHP	Council become a 100% owned Community Housing Provider.	• Likely not to be an option as it is under the current Regulations local authorities will be excluded from eligibility.	• Address possibility of CCC being given a specific exemption with Crown.	• n/a	• n/a

Creation of special housing areas under HASHA Act and/or use of LURP	Use HASHA Act and or LURP to streamline resource consent and plan change approvals or otherwise fast-track regulatory activities.	• May not be sufficient as an option in itself, but it may assist in conjunction with other interventions.	•	• Gives greater clarity to actions in dealing with social housing issues.	• Unlikely to be sufficient in itself to respond to the current problems faced in Christchurch in relation to new social housing.

REGULATORY INITIATIVES					
Proposed option	**Description**	**Factors to be taken into account**	**Critical Actions**	**Advantages**	**Disadvantages**
Implement LURP	The LURP provides the means to reduce housing prices and greater intensification.	• Potential overlap with Housing Accord. • Would need to implement a comprehensive development mechanism under the LURP.	• Need to make urgent progress on implementing.	• Could be used in conjunction with other options.	• Assumes that the private sector will take up the opportunities presented.

GENERAL LEGAL FACTORS

Legislation	Factors to be taken into account for all options
Local Government Act 2002	• Power to provide or otherwise be involved in social housing in the manner or manners proposed. • Sections 10-12 role and purpose, and any specific power to undertake a certain activity. • cost effectiveness for households and businesses. • Requirement to act in accordance with the principles in section 14? • In particular: o must undertake commercial transactions in accordance with sound business practices o must exercise prudent stewardship and efficient and effective use of its resources? • Section 101(1) - favoured options must be financially prudent • Need to assess significance of decisions in terms of the Council's Significance Policy. • Strategic assets – including social housing portfolio • Financial implications • Consultation requirements • Impact on the City • Views and preferences of persons likely to be affected by, or to have an interest in, the matter
Common law obligations	• Compliance with fiduciary duties to ratepayers and residents • Need to balance interests of different groups

Public Works Act 1981	• **IF PROPOSING TO USE COUNCIL OWNED LAND FOR SOCIAL HOUSING BUT LIKELY TO INVOLVE A CHANGE OF OWNERSHIP:** o Need to determine acquisition history of specific land and any PWA obligations that might apply. • **IF COUNCIL OR A CCO PROPOSES TO ACQUIRE PRIVATELY OWNED LAND FOR SOCIAL HOUSING:** o Need to determine the power to acquire the land, and the funding.

ISSUES ASSOCIATED WITH DIFFERENT FORMS OF LAND TENURE FOR SOCIAL HOUSING WHERE COUNCIL LAND IS USED FOR PROVISION OF NEW SOCIAL HOUSING

SALE/TRANSFER

Proposed option	Description	Factors to be taken into account
Sale of fee simple estate by Council	Sale of the land for current market value and Crown or third party or CHP manages a social housing project on its own	• The identity of the purchaser (Crown or third party developer) may impact on the structure of arrangements. • Power to sell will need to be established.
Gift of fee simple estate by Council for social housing	Transfer of the land for nominal or no consideration and Crown or CHP manages project on its own	• Will need to determine whether such an option is financially prudent and in accordance with statutory and common law fiduciary obligations?
Sale with Deferred Payment	Transfer of the land with payment deferred until a later date or dates	• Will need to determine whether such an option is financially prudent and in accordance with statutory and common law fiduciary obligations? • Consider ability to protect Council interests pending payment.
Exchange	Sale of land to a third party (Crown or developer) with consideration taking the form of	• Will need to determine whether such an option is financially prudent and in accordance with statutory and common law fiduciary obligations?

	completed housing units being returned to form part of Council's social housing portfolio	
Development Lease/Licence	Short term development lease or licence with option to acquire freehold interest upon completion of development	Will need to determine whether such an option is financially prudent and in accordance with statutory and common law fiduciary obligations?

LEASE		
Proposed option	**Description**	**Factors to be taken into account**
Ground Lease	Grant a registered ground lease to a CHP	• Determine statutory authority for lease • Terms of lease would need to be worked out and would need to address the ongoing requirement for the land to be used for social housing for people most in need of social housing assistance. • Rent and rent review process would need to be assessed • Management and administration obligations would need to be considered

Attachment D

Summary of Options

The table below outlines the twenty options considered in the SCP document and assesses whether they support Council:

- maintaining an involvement for the short term (up to 2 years);
- maintaining a long term (beyond 45 years) involvement, this involvement could be as simple as a landlord or as complex as full ownership and operation of Social Housing; or
- ending its ongoing involvement in social housing.

Option		Short Term involvement	Long Term involvement	No future involvement
1	Lease land and buildings to a CHP		X	
2	Sell social housing buildings to a CHP and Council keep the land		X	
2a	Sell buildings to a CHP at a price that allows the CHP to be financially viable		X	
3	Sell social housing building and land to a CHP			X
3a	Sell land and buildings to a CHP at a price that allows the CHP to be financially viable			X
4	Central Government capital injection to Social Housing		X	
5	Gift Social Housing buildings to a CHP and Council retain ownership of the land		X	
6	Sell Social Housing land & buildings – with a CHP lease in place	X		
7	Rates injection to Social Housing		X	
8	Gift Social Housing buildings and land to a CHP			X
9	Rent increase 46%		X	
11	Sell and Lease back 17 under-capitalised sites		X	
12	Christchurch City Council retain and operate Social Housing buildings and land however no longer fund for replacement		X	
13	Rent increase 35%, and Sell 17 under capitalised sites to a CHP		X	
14	Affordable Housing and Social Housing portfolio		X	
15	Sell Social Housing buildings and land and build new stock		X	
16	Buy new Social Housing stock – Invest		X	
17	Rent increase to market level - Exit Social Housing			X
18	Rent increase 32%, and sell 17 under capitalised sites		X	
19	Demolish all Social Housing buildings and land and re-develop through a build, own, operate and transfer scheme; or a build, own, and transfer scheme		X	
20	Sell all Social Housing buildings and land and exit provision of Social Housing			X

Option 10 - Do nothing and continue with minimal rent increases - has not been included in the table above as this option is not a viable option and not sustainable in the long term.

Summary of Social Housing Options - Financial Sustainability

Financial modelling methodology

The financial modelling tool used by Council is called the Cost of Consumption. It was developed by Council's Property Asset Management team in 2002 for City Housing to help establish a rental level that was as low as possible while still providing enough funds to cover the current and forecast expenditure. The model uses 'Life Cycle Costing / Analysis' [1] (LCC / LCA) and in it's simplest form is a budget that considers current and future expenditure and converts that into an annual cost in today's dollars. This is then compared with the income the 'household' has. If there is a shortfall either the level of service provided by social housing provider has to be reduced or the income increased.

The model takes into consideration development capital, component renewals and replacement (capital), reactive repairs and planned maintenance (both annual and periodic), management and overheads as well as other operating costs. The earthquake related expenditure, consequential compliance upgrades and strengthening works are all modelled, while allowing revenue from insurance proceeds to offset these costs to some extent.

The model takes into account the need for replacement of the asset at the end of its economic life[2]. It does this by identifying the sinking fund required to enable replacement. This fund operates much like a Kiwi-saver fund to retire a building [3]. Under Schedule 10 of the Local Government Act councils are required to identify all future asset expenditure and how their replacement is to be funded [4].

A large portion of the data and information used in the model comes from Council's asset management information system (AMiS) however by necessity the model also relies on a number of external parameters and assumptions. The model allows for inflation but then applies a discount to the cash-flow to derive an annualised cost in today's $ values. This addresses the 'time value of money' considerations i.e. a dollar in 10 years time from now is worth less (in buying power) than it is today.

Social Housing Options - Financial Sustainability compared

The graphics shown on the following page shows the 'end of year' bank balances for of each of the options over the duration of the modelling. This shows either a negative balance from cumulative borrowing (to fund any deficits between revenue and expenditure) or funds being set aside in profitable years to cover future identified asset expenditure. In the case of a continuation Council direct ownership (City Housing) this extends to a 90 year timeframe. For the options where a Community Housing Provider operates the service under a lease, viability (for the CHP) is shown over 45 year period.

To provide affordable and appropriate housing under the current ownership arrangements the model is either set to break even over 90 years (to enable the lowest rent possible while still remaining financial sustainability of the long term) or the deficit / surplus at the end of the 90 years. In the situation where the assets or operation of the social housing service are transferred to the Community Housing Provider (under a lease) the model assumes that a market rent is available (a mix of tenant and government payments). Again the model's settings are either for a breakeven status or a deficit / surplus (but at year 45).

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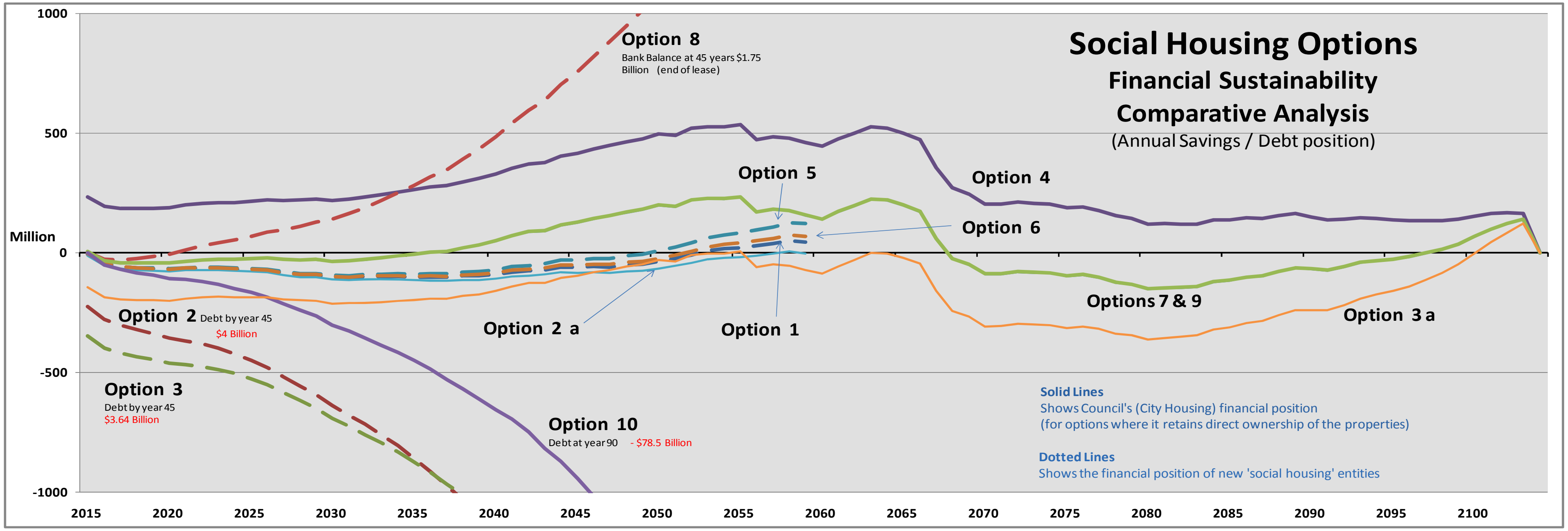
[1] Literature Review EU May 2007 – **Lifecycle costing (LCA) as a contribution to sustainable construction**.
The use of LCA within the construction and development communities is relatively immature. Studies in Europe show that government and municipal projects have led the 'thought' leadership in this - developers and property investment entities tend to focus on short term returns.

[2] Key drivers for building demolition are poor maintenance & renewal planning, functional obsolescence & rising land values forcing alternate 'higher & better uses'. The Building Act requires buildings to last a minimum of 50 years, although this does not guarantee they will. In NZ there is documented evidence that the average life span of housing is approximately 90 years of age.

[3] Aligns with the rationale behind depreciation charges (the gradual degradation or consumption of the asset) but, with a forward cash-flow model revenue from interest earned acts as a sinking fund hedge against inflation & has the potential to generate a growing fund in it's own right (from compounding interest).

[4] The requirement to fund asset replacement can be set aside by council only if council consults with the public and clearly states the asset / activity will come to an end at a given date

This following graph shows the annual balance of savings or debt (based on the respective cash-flows) for the first 10 options.



The status quo option (10) is not financially viable. Neither is option 2 or 3, unless the entity brings or receives significant injections of capital. Options 4, 7 and 9 are financially sustainable but come with political and social implications. Council retains ownership and governance over the future of the service however this also involves more Council accountability and management, along with direct exposure to risks.

Option 8 is viable for the new entity and it begins to make a significant profit within 10 years. This comes at the expense of Councils balance sheet.

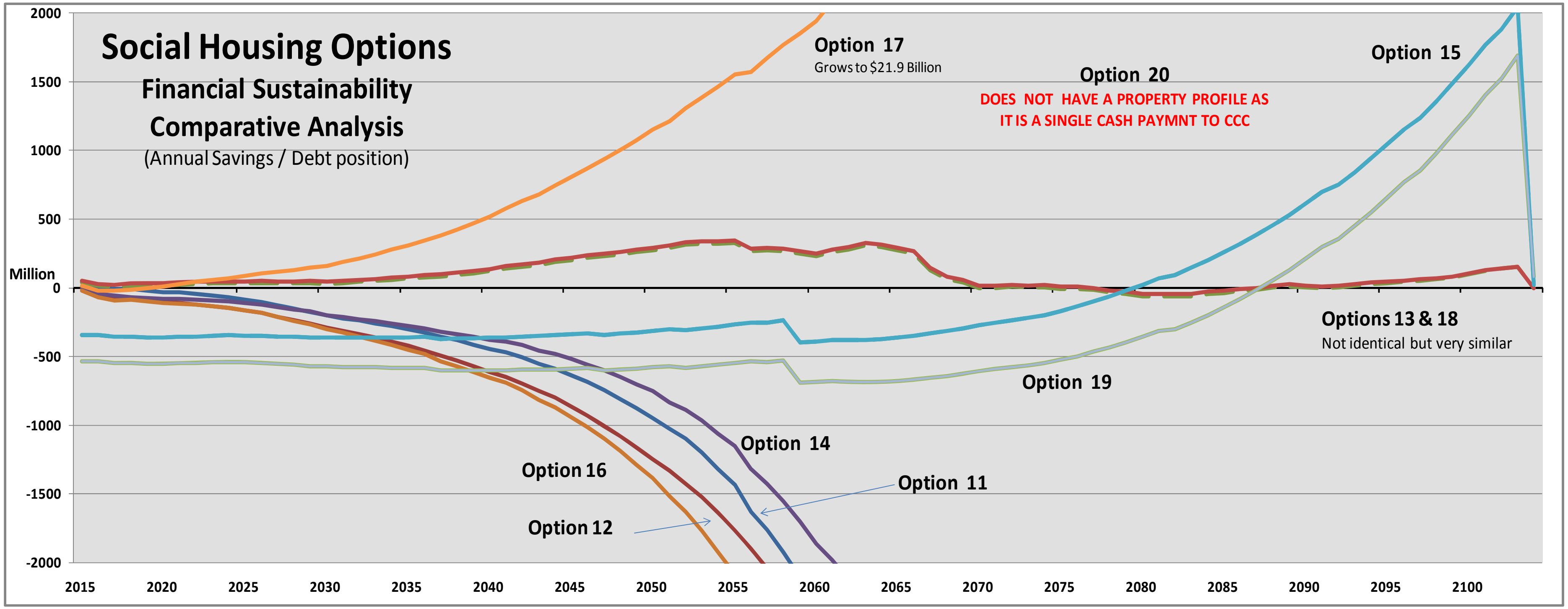
Options 1, 2A and 5 are viable for the CHP, with Council earning sufficient revenue to replace the housing portfolio at the end of the lease if it chooses to.

Council receives more revenue than is required to cover the replacement of the housing stock and has choices over how to use these funds. In both of these options Council retains a long term partnering relationship with the CHP (Community Housing Provider) by virtue of either gifting of the buildings or a rent set at a relatively low return on investment.

Option 5 relies on an independent market based ground lease with Council having no direct influence or responsibility for the buildings over the next 45 years. By comparison option 1 involves a less prescriptive means of adjusting rents as the initial rent has been set on the basis of a ‘viable’ rent for the CHP. Council owns the buildings and has more influence on the service. However, it does involve more Council management and residual risk and accountability.

Option 6 provides a one off payment to Council that could be used for a variety of purposes. The new owner is unlikely to re-invest in social housing at the end of the 45 year lease. By comparison, Option 3a is viable for a CHP to continue providing social housing and Council receives a higher sale price.

This following graph shows the annual balance of savings or debt (based on the respective cash-flows) for the options 11 to 20.



Options 11,12,14 and 16 are not financially viable. In all cases Council risks either failure of the social housing service, the need to subsidise the service from rates in the future or gradually sell off the properties and exit social housing.

In Options 17 and 20 Council stops providing social housing. This either generates an annual return of $6.8 million per year or if sold saves Council approximately $18 million a year in debt servicing for non housing projects.

For options 13 and 18 rent increases 35% and 32 % Council sells the under capitalised sites(17), either to a CHP (retaining social housing) or on the open market. The sale prices varies slightly however the revenue is not enough to off-set the need for a rent increase on the remainder of the portfolio (35% for option 13 and 32% for option 18).

In option 15 Council sells the existing portfolio for $314 million and develops new social housing stock (at a cost for land and buildings of $672 million). With operating and lifecycle costs (along with finance and saving for replacement in 90 years), the service is viable at a rental that of approximately 83% of market rents. Issues exist with selling the land, obtaining finance over a 70 year period and dealing with the existing tenants during construction. In Option 19 all existing stock is demolished and redeveloped in partnership with the private sector. The graph shows this as viable but rents significantly exceed the market rate. Unless Council provide a subsidy to fund this gap Option 19 is not viable.

Background to existing Social Housing portfolio

Most of Council's social housing stock was built in the 1960's and 1970's and need refurbishment to keep them fit for purpose for another 40 to 50 years. With the average lifespan being approximately 90 years a very large spike of replacements occurs between 2055 to 2070. With over 350 housing units needing to be replaced due to the earthquake these will then need replacing around the year 2100. Over the next 10 years the cash flow is dominated by the earthquake and 'mid-life' expenditure and the need to replace the housing stock when it becomes uneconomic to repair or retain.

Long term financial sustainability was recognised as being critical to protecting Council's ability to continue provide social housing that was affordable for the most needy residents of Christchurch. The Cost of Consumption model has been calculated and applied to rent setting in 2003 and 2008/9. In other years a mix of indexing and stepped rent increases has been applied. The indexing approach has failed to keep pace with actual inflationary pressures, for example the housing boom from 2003 to 2007. Rates and other non construction related costs have also risen faster than the index's used for rent adjustments.

Indexing has also failed to account for changing circumstances such as the adjustment to GST, the significant jumps in insurance premiums and earthquake related costs such as unfunded repairs or the need to replace lost housing stock from damage or the red zone negotiations. The scale of these changes for City Housing has again created a significant gap between the cost of providing the service and the revenue currently being received.

Options have been modelled to show the current position alongside a number of alternate scenarios. These include the status quo, a rent increase to tenants and either ratepayers or the government funding the gap.

Central Government Policy shift

In mid 2013 the Government initiated several policy changes in relation to funding for social housing, culminating in the Social Housing Reform Act. A key change was extending the rental and funding approach used with Housing NZ to existing or new housing trusts that provide social housing. A housing trust that meets the government's criteria is called a Community Housing Provider (CHP).

Under this approach tenants that meet certain criteria only pay 30% of their gross income in rent. This is called an Income Related Rental Subsidy (IRRS). Most of Council's tenants would be better off if they were able to access this arrangement. The Government pay direct to the CHP a top up to bring the total rent received by the CHP to the market rent. If this applied to Council's social housing service the annual income would be almost double the current income. The Government have specifically excluded all Council's from this type of direct funding.

Council's key objective around social housing has been to provide affordable and appropriate housing for particular groups of people under financial stress. It is likely that most City Housing tenants would be better off being housed by a Community Housing Provider. It will take a considerable time for new Community Housing Provider's to build new housing stock. Options exist for Council to partner with or transfer to new Community Housing Provider's the current City Housing portfolio. The analysis of a number of options to bring this into effect have been modelled using the Cost of Consumption tool to consider the likely position for Council and the CHP.

Where appropriate, the same assumptions have been applied to the various options however the actual tax or funding position of a CHP is likely to result in the final position being different to outcomes modelled in this assessment. Where these variables are known they have been applied to the model, otherwise a consistent approach has been taken to enable a fair comparative assessment to be undertaken.

8. RESOLUTION TO EXCLUDE THE PUBLIC

Attached.

COUNCIL EXTRAORDINARY MEETING

RESOLUTION TO EXCLUDE THE PUBLIC

Section 48, Local Government Official Information and Meetings Act 1987.

I move that the public be excluded from the following part of the proceedings of this meeting, namely item 5.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER	GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF THIS RESOLUTION
9.	PORT HILLS MASS MOVEMENT	) GOOD REASON TO) WITHHOLD EXISTS)) UNDER SECTION 7	SECTION 48(1)(a)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

ITEM NO.	REASON UNDER ACT	SECTION	PLAIN ENGLISH REASON	WHEN REPORT CAN BE RELEASED
9.	LGOIMA	7(2)(h)	Sensitive commercial negotiations with Crown	
	LGOIMA	7(2)(i)	Sensitive commercial negotiations with Crown	

Chairperson's Recommendation: That the foregoing motion be adopted.

Note

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

"(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):

(a) Shall be available to any member of the public who is present; and
(b) Shall form part of the minutes of the local authority."