

REPORT

Date : 24 March 2021

To : Extra Ordinary Council Meeting, 1 April 2021

From : Engineering and Services Group Manager (Acting), Glen McIntosh

Subject : **HUKUTAIA GROWTH AREA, RISKS AND MITIGATION**

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EXECUTIVE SUMMARY

The provision of infrastructure to Hukutaia will unlock the development potential of the existing residential area and adjoining rural land. The cost and impact of such service provision creates a number of risks for Council and the community. This report outlines these risks and associated mitigation measures to ensure that Council has a mandate to plan, budget for, and action appropriate risk mitigation measures.

PURPOSE

To outline risks associated with the provision of infrastructure to Hukutaia, alongside measures to mitigate identified risks.

BACKGROUND

As part of its Long Term Plan (LTP) process, Council identified capital projects necessary to give effect to its vision and community outcomes regarding growth and development across the district. One such capital project involves the provision of infrastructure to Hukutaia.

A report from the Finance and Corporate Services Group Manager dated 18 February 2021 (as tabled at the Ordinary Council Meeting of 9 March 2021) identified that:

- the provision of infrastructure to Hukutaia carries with it a significant amount of risk; and
- Council will need to implement various mitigation measures in order to reduce such risk.

This report now identifies the risks associated with the provision of infrastructure to Hukutaia alongside a range of measures to mitigate them. This will inform future Council decision-making and work

programming to ensure that risk is managed appropriately, in accordance with Council's risk management policy and framework.

It also provides a starting point for Council to discharge its responsibility under section 14(1)(fa)(ii) of the [Local Government Act 2002](#) to satisfy itself that the expected returns are likely to outweigh the *risks inherent in the investment or activity* (in this case, the provision of infrastructure to Hukutaia).

DISCUSSION

Council's 2021 - 2051 Infrastructure Strategy highlights the need for water supply and wastewater infrastructure, and new stormwater assets, to provide additional capacity to support anticipated growth in the 'greenfield' area of Hukutaia (as illustrated in Figure 1).

Such work would also improve services to the existing residential area (comprising approximately 400 existing properties), which are not currently served by wastewater infrastructure and have limited stormwater reticulation.



Figure 1: Map of the existing Hukutaia residential area and indicative potential greenfield area (currently in the rural zone).

Council is currently consulting on two options for the provision of infrastructure to Hukutaia, including:

- Providing infrastructure to the greenfield area and existing properties at the same time (anticipated cost of approximately \$22 million); or
- Providing infrastructure initially for the greenfield area only, with services to existing properties deferred by a number of years (anticipated cost of approximately \$24 million).

The risks and mitigation measures outlined in this report apply generally to both of these options; and are outlined in the following sub-sections.

Risk 1. Lack of demand for sections as more residential land becomes available (high risk)

Current growth assumptions signal that about 60 houses (or sections) per year will be needed over the next 15 years (about 900 in total) to accommodate the projected maximum population across the whole of the Ōpōtiki district. The greenfield section of Hukutaia has the ability to accommodate 500-700 sections, providing an 8-12 year pipeline of developable residential land for total expected growth. The existing residential area of Hukutaia, once serviced, could also be subdivided to provide infill development, introducing even more developable residential land to market.

A risk therefore exists that a surplus of serviced residential land in Hukutaia, with associated carrying costs for Council and ratepayers, could occur if growth does not eventuate at, or near, the scale anticipated.

It is also possible that growth may occur in other parts of the district first (i.e. not in Hukutaia) that would reduce demand for sections in Hukutaia, and further exacerbate this risk. Other locations such as Raukokere, Ōmaio and Te Kaha, for example, could see development through government interventions and/or settlement. Similarly, there are approximately 130 lots likely to come onto the market at the Drifts, alongside potential for papakāinga housing at various marae, infill development opportunities in Ōpōtiki township, and additional land potentially becoming available for development through the Whakatohea settlement.

Measures that Council could take to potentially mitigate the risk of an over-supply of serviced residential land (which could reduce demand for sections in Hukutaia and create carrying costs for service provision) include:

- 1.1 Estimate the potential demand locations for the district wide growth projections.** The current growth projections estimate total growth across the whole district but this demand will be supplied by a range of locations. Clarifying possible supply locations provides important context for estimating actual demand in Hukutaia. Low, medium, and high estimates of growth demand for Hukutaia should be developed. This would be in conjunction with Mitigation Measure 2.3, which clarifies the likely target market creating housing demand in Hukutaia.

- 1.2 Regularly monitor and report on indicators** such as subdivision and building consents, industry enquiries, school rolls, and the census; to understand uncertainty in terms of the rate and location of growth (as stated in the Infrastructure Strategy). Such monitoring and reporting would provide oversight of growth realisation and trigger any necessary discussions regarding the reconsideration of timing and/or location of infrastructure projects needed to support emerging growth.
- 1.3 Investigate options to incentivise residential development in Hukutaia**, once infrastructure is in place, as opposed to residential development elsewhere in the district. This could include measures such as reduced development contributions for Hukutaia, fast-track consenting pathways, or rates relief for a certain period of time, noting the tension with affordability for the rest of the community. In addition, development could be incentivised in Hukutaia by completing a **District Plan change** to more clearly dictate the location and sequencing of growth, and make it harder to develop outside reticulated areas (being those with infrastructure in place) or within flood risk areas.
- 1.4 Engage with development stakeholders** on a regular basis to determine the likely uptake of serviced residential land in Hukutaia (i.e. how likely developers are to purchase and build, what market demand real estate agents see for comparable sections). It would also be useful to understand the **current build capacity** of local builders or offsite manufacturers to determine the likely rate of build-out in Hukutaia (for example, how many houses are currently built a year and how rapidly are builders likely to scale-up to meet the anticipated demand in residential construction).
- 1.5 Undertake an abbreviated Housing and Business Development Capacity Assessment (HBA)** as required by the [National Policy Statement on Urban Development](#) for larger councils experiencing growth. Although Ōpōtiki is not legally required to complete an HBA, some smaller councils¹ are undertaking an abbreviated HBA process to understand current and future residential and business land capacity across the district to ensure they can meet projected demand. This enables them to effectively plan for emerging growth within an existing capacity assessment framework. In this case, it may enable a greater overview of development capacity and demand across Ōpōtiki district, so that Council can anticipate, and mitigate, risks similar to those raised for Hukutaia, for all parts of Ōpōtiki.

¹ Such as Horowhenua District Council

This risk has been assigned a 'high risk' categorisation, reflective of the intergenerational financial impacts of infrastructure investment in an area that may not attract development demand in the short to medium term. This would have implications for current and future ratepayers, who would be left to carry the cost of such infrastructure, even if it is not utilised.

Risk 2. Land banking (medium risk)

There is also a risk that landowners in and around Hukutaia may not release land for development within the short to medium term, effectively 'land banking' future development capability. This is the opposite of the risk identified above (regarding an over-supply of serviced residential land potentially reducing the realisation rate of development in Hukutaia).

If land banking in and around Hukutaia does occur, this means that infrastructure provision will exceed demand and the question arises as to where the debt burden for this infrastructure will fall. This may impact current landowners in Hukutaia if a targeted rate is introduced, and/or all district ratepayers if the general rate is used to fund the provision of services to Hukutaia. It is anticipated that either option may be an unwelcome outcome for a district with high deprivation levels² (refer to Risk 3 for further details).

Measures that Council could take to potentially mitigate the risk of land banking in and around Hukutaia service include:

- 2.1 Engage with land owners** to determine their appetite for sale and/or development of land in Hukutaia. This could be undertaken at regular intervals (i.e. annually) to track trends (increasing or decreasing likelihood of sale/development) over time to inform Council decision-making.
- 2.2 Undertake a district plan change** to upzone³ land in the 'greenfield' area depicted in Figure 1. This would include rezoning from rural to residential, signalling Council's clear intention where development should occur and enabling subdivision. It would be beneficial, however, to complete an HBA (as outlined in Mitigation Measure 1.5) before undertaking any district plan changes, to ensure that a strategic approach to zoning is taken. For example, to ensure that upzoning in Hukutaia would not have unintended consequences for development realisation rates in other parts of the district.

² As noted in the Ōpōtiki District Economic Development Strategy.

³ Upzoning relates to the changing of zoning to allow for higher-value (for example, from industrial to residential) or more dense land use (for example, higher number of household units per land area). However, upzoning can typically only be successfully deployed when sufficient market demand exists.

2.3 Complete a **market assessment** to determine likely demand for residential sections in Hukutaia (and the wider district) over the short to medium term and the characteristics of potential purchasers. Hukutaia land owners may be more likely to sell and/or develop their land if market demand is demonstrated to be sufficiently high for them to take a risk and divest their properties. This may also provide a sense-check of the growth assumptions identified in Mitigation Measure 1.1. It would also be useful to understand the possible profile of potential purchasers to ascertain whether this is reflective of the existing community (i.e. whether current local people are likely to purchase property in Hukutaia).

This risk has been assigned a 'medium risk' categorisation given that land banking behaviours can generally be countered through established market demand and appropriate zoning. In addition, Council can proactively engage with land owners and developers to ensure that these parties are aware of development potential in Hukutaia.

Risk 3. Inequitable allocation of cost (high risk)

As noted in Council's Infrastructure Strategy, *'providing for growth that has not yet happened exposes the community to the risk of investing in infrastructure that is not ultimately required because the growth is less than expected'*. This relates to financial risk, being the upfront and carrying costs of infrastructure provision on ratepayers when that investment is not offset by a growing number of ratepayers to share such cost.

Council will have to carefully consider options through its Revenue and Financing Policy regarding who benefits from the cost of providing infrastructure to Hukutaia and therefore, who should pay. This should balance the cost of infrastructure provision and maintenance against rates affordability for current and future generations.

Measures that Council could take to potentially mitigate the risk of inequitable allocation of cost for Hukutaia service provision include:

3.1 Develop scenarios for cost allocation of Hukutaia infrastructure provision and consult the community on these. Such options could include the use of targeted rates, the general rate, development contributions, a public/private partnership, or a mix thereof. It is recommended that Council is highly transparent in any such cost allocation discussions, to ensure understanding of the final outcome and enable future residents of Hukutaia to understand any difference in rates for their properties (if, for example, a targeted rate is utilised).

3.2 Use the **total costs of infrastructure provision** (both capital and operational) for various growth scenarios, to explicitly understand the intergenerational financial implications for residents and ratepayers. This is critical to inform Council's Finance Strategy and Revenue and Financing Policy, and to understand the cost of infrastructure maintenance over the short, medium, and long term if growth does not occur as expected.

This risk has been assigned a 'high risk' categorisation given the potential financial impact on a community that already struggles with rates affordability, noting that some 20% of properties in the district are in arrears of their rates. If growth does not occur in Hukutaia at the level necessary to generate sufficient development contributions or targeted rates, the wider ratepayer base will be left to shoulder the cost of capital works and ongoing maintenance for infrastructure that may not be required.

Risk 4. Changes in cost to Council (high risk)

The initial capital expenditure and ongoing operational expenditure required to provide infrastructure to Hukutaia presents a risk to Council's financial position, as well as that to ratepayers (as outlined in Risk 3). Such risk presents in a variety of ways, including:

- Risk of changes in interest rates affecting Council's debt servicing costs (for example, rises in interest rates would increase debt repayments); and
- Reduced debt capability for Council in the medium term. For example, Council may not be able to take on additional debt to fund other projects or activities that may be required over the next 10 year period and potentially, beyond.

Measures that Council could take to mitigate changes in the cost to Council of infrastructure provision to Hukutaia include:

- 4.1** Undertake a **sensitivity analysis** of current Council borrowings, to provide a clear picture of the magnitude of risk associated with interest rate changes. This could also include sensitivity regarding the non-realisation of growth.
- 4.2** Complete a **trade-off analysis** by identifying what current and future projects may not be able to proceed if funding is diverted to provide infrastructure to Hukutaia. Trade-offs should be benchmarked against alignment with the community outcomes currently being consulted on for the LTP, and take into account issues of intergenerational wellbeing as directed by the Local Government Act 2002.

This risk has been assigned a 'high risk' categorisation given the high likelihood of changes in interest rates and reduced debt capability occurring as a result of funding infrastructure to Hukutaia, and the magnitude of impact on current and future generations. This is particularly with regard to Council's potential inability to fund other projects in the short to medium term.

5. Delivery failure (high risk)

As with all major infrastructure projects, there is a risk of delivery failure in relation to the provision of services to Hukutaia. This includes the risk of the project running over time and over budget, with consequent financial impacts on Council and ratepayers. The project will also require significant staff resourcing and governance, most likely at additional expense.

The risk of delivery failure is considered likely to increase if such resourcing and oversight is not in place to encourage accountability and transparency around service delivery progress. This was observed in the case of Kaipara District Council's delivery of its Mangawhai wastewater project almost a decade ago. [An inquiry](#) completed into this wastewater project by the Office of the Auditor General identified (amongst other factors) the importance of governance, management, and project management capability.

Measures that Council could take to potentially mitigate the risk of delivery failure include:

- 5.1 Establish a steering group** to provide governance for the project. This could be similar in nature to the steering group established for governance of the harbour project.
- 5.1 Prepare** (either internally or externally) a **business case** to document options regarding, resourcing, timing/phasing, delivery mechanism, financing, and detailed risk mitigation. This should include a reporting framework and specify expected returns in relation to inherent risks of project delivery. Once approved, the business case should be supported by a detailed project plan outlining specific milestones and minimum requirements, to inform future procurement processes.
- 5.2 Regularly report on project delivery** in accordance with the reporting framework mentioned in Mitigation Measure 5.1 above. Elected members, management and staff should be provided with sufficient information to inform ongoing project decision-making and understand any wider implications for Council (such as on rates).

This risk has been assigned a 'high risk' categorisation given the magnitude of impact if delivery failure occurs. This includes financial risk associated with budget blow-outs on Council as well as current and

future ratepayers of the district. As noted in Risk 4, any increase in the cost of the project will reduce Council's ability to carry debt, at the expense of other projects and initiatives that may benefit the district.

SIGNIFICANCE ASSESSMENT

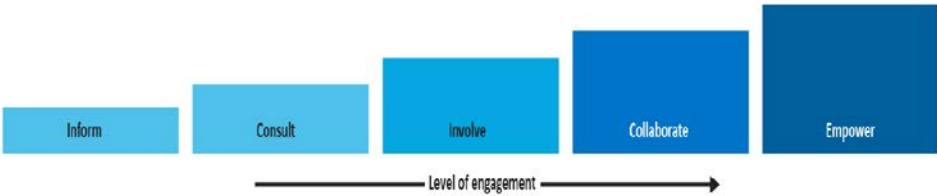
Assessment of significance

Under Council's Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance of risk and mitigation for the provision of infrastructure to Hukutaia is considered to be low as determined by the criteria set out in section 17 of the Significance and Engagement Policy. The community will be consulted on options for the provision of infrastructure to Hukutaia through the upcoming LTP process. It will then be necessary for Council to respond to the risk created by the preferred option.

The decisions or matters in this report are part of a process to arrive at a decision that will/may be significant in accordance with section 2 of the Significance and Engagement Policy. This states that a matter shall be determined to be significant if/when five specific thresholds⁴ have been triggered. As a significant decision or matter, the Council must apply greater diligence in regards to the decision making requirements in sections 76-81 and the principles of consultation in section 82 of the Local Government Act 2002. This includes, but is not limited to, the degree to which different options are identified and assessed and the extent to which community views are considered, including whether consultation is required.

Assessment of engagement requirements

As the level of significance of risk and mitigation for the provision of infrastructure to Hukutaia is considered to be low (until community consultation through the LTP process provides a preferred option for Hukutaia), the engagement required is determined to be at the level of 'inform' according to schedule 2 of the Significance and Engagement Policy.



⁴ Including whether the proposal is likely to exceed financial thresholds, generate considerable community interest, create radically different effects on ratepayers, radically impact a specific demographic, or radically change levels of service.

COMMUNITY INPUT AND PUBLICITY

Consultation is not being undertaken specifically on risk and mitigation for the provision of infrastructure to Hukutaia at this stage. As stated above, the proposal will be consulted on during the upcoming LTP process, from which point Council can determine the level of need and appropriateness of informing the community about risk and mitigation in accordance with Council’s risk management framework and Consultation Policy.

CONCLUSION

Council is mindful of its obligations under the [Local Government Act 2002](#) to consider the risks inherent in its investment activity; in this case, the provision of infrastructure to Hukutaia. This report has identified the high-level risks and potential mitigation measures associated with this project, which are now summarised for Council’s information.

Risk		Risk level	Mitigation measures	
1	Lack of demand for sections as more residential land becomes available	High	1.1	Estimate potential locations of demand for housing across the district and confirm high/medium/low demand for Hukutaia in that context.
			1.2	Regularly monitor and report on indicators to understand uncertainty in terms of the rate and location of growth.
			1.3	Investigate options to incentivise residential development in Hukutaia, once infrastructure is in place, as opposed to residential development elsewhere in the district.
			1.4	Engage with development stakeholders on a regular basis to determine the likely uptake of serviced residential land in Hukutaia.
			1.5	Undertake an abbreviated Housing and Business Development Capacity Assessment (HBA) to understand growth capacity and demand.
2	Land banking	Medium	2.1	Engage with land owners to determine their appetite for sale and/or development of land in Hukutaia.
			2.2	Undertake a district plan change to incentivise growth in Hukutaia.
			2.3	Complete a market assessment to determine likely demand for residential sections in Hukutaia (and the wider district) and the characteristics of potential purchasers.

Risk		Risk level	Mitigation measures	
3	Inequitable allocation of cost	High	3.1	Develop scenarios for cost allocation of Hukutaia infrastructure provision
			3.2	Evaluate total (carrying and capital) costs for various growth scenarios, to explicitly understand the intergenerational financial implications for residents and ratepayers.
4	Changes in cost to Council	High	4.1	Undertake a sensitivity analysis of current Council borrowings, to provide a clear picture of the magnitude of risk associated with interest rate changes. This could also include sensitivity regarding the non-realisation of growth.
			4.2	Complete a trade-off analysis by identifying what current and future projects may not be able to proceed if funding is diverted to provide infrastructure to Hukutaia.
5	Delivery failure	High	5.1	Establish a management steering group to provide project governance
			5.2	Prepare a business case (including a reporting framework) and a detailed project plan.
			5.3	Regularly report on project delivery in accordance with the reporting framework as outlined in Mitigation Measure 5.1 above.

RECOMMENDATIONS

1. That the report titled "Hukutaia Growth Area, Risks and Mitigation" be received.
2. That Council considers and formalises into an Action Plan, the mitigation measures outlined in this report (and any others as deemed necessary), and responsibility for implementation assigned, following the adoption of the Long Term Plan for consultation.
3. That Council approves the report to be provided as underlying information to the Consultation Document as part of the LTP process.

Glen McIntosh

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