

REPORT

Date : 19 May 2022

To : Ordinary Council Meeting, 31 May 2022

From : Chief Executive Officer, Aileen Lawrie

Subject : **INFRASTRUCTURE ACCELERATION FUND**

File ID : A289255

EXECUTIVE SUMMARY

In the second stage of the Infrastructure Acceleration fund process council has been unsuccessful for the funding it sought for wastewater, stormwater and transport for growth in the Hukutaia Area. In anticipation of either negotiation on funding or being unsuccessful a revised proposal has been developed. Some development at Hukutaia is still possible albeit without the long term potential that the funding would have provided. Staff are in discussions on a reduced or short term option.

PURPOSE

The report provides an update to Council on the outcome of the application to the Infrastructure Acceleration fund.

BACKGROUND

Over the past 11 months Council has lodged an Expression of Interest in the Infrastructure Acceleration Fund, and following success in the first round, submitted a detailed application for placemaking infrastructure in wastewater, stormwater and transport. The application was to enable 1700 lots to be developed over the long term.

LTP

In the 2018 Long Term Plan Council consulted the community on Hukutaia as the growth area of Opotiki. The benefits identified were climate change outcomes, water quality outcomes and housing potential.

In the 2021 Long term Plan process council again consulted with detailed costings. There was significant opposition to the cost, and concern about being forced off septic tanks. A number of landowners however noted they were interested in developing their land for housing. The final LTP made assumptions of grant funding for growth rather than loan funding with rating impact.

Regardless of whether any extension to services takes place there will be rates impact across the service due to capacity and improvements required at the treatment end of the system and likely arising from the comprehensive stormwater consent process. The recent Three Waters funding however has provided some offset by funding a number of improvement projects.

IAF

Kāinga Ora (KO) called for Expressions of Interest to their newly created Infrastructure Acceleration Fund just under a year ago. Council had eight weeks to prepare the application and lodged it in August 2021. In October we were advised that we had been successful in the Expressions of Interest stage and were invited to submit a detailed application in accordance with the KO application template. Some seven weeks later Council submitted a detailed application, with a number of potential developers identified in the Hukutaia area. Further information was asked of us in early January. Unfortunately in May 2022 we were advised we were unsuccessful in securing the funding.

A debrief was held with KO and it was apparent that their criteria were designed for fast delivery of housing and our long term approach that included water quality and climate change outcomes, with the scale of the trunk infrastructure required for the long term, meant our application was of lower priority. They noted that of the 85 applications they invited, only 34 were funded. Refer attached for their letter.

Way Forward

In anticipation of either a negotiation with KO or being unsuccessful for funding staff have been working on an amended proposal and also reviewing the likely funding processes for climate change initiatives. A recast version of the proposal is attached for Council's information. This was supplied to Minister Kiritapu Allan at the request of her electorate office.

Discussions are ongoing with potential land developers about their aspirations and whether temporary arrangements can be considered.

SIGNIFICANCE AND ENGAGEMENT ASSESSMENT

Assessment of significance

On every issue requiring a decision, Council is required to determine how significant a decision is to the community, and what the corresponding level of engagement should be. Council uses the Significance Flowchart in the Significance and Engagement Policy to determine the level of significance.

The level of significance related to the decision in this report is considered to be low. Because the decision is determined to have low significance in accordance with the policy, the corresponding level of engagement required is Inform.

Assessment of engagement

As the level of significance has been determined to be low, the level of engagement required is Inform according to the Engagement Framework of the Significance and Engagement Policy:



Inform

To provide balanced and objective information to assist understanding about something that is going to happen.

The tools that council will use for the 'Inform' level of engagement include a report in the public agenda of the Council meeting and may include a combination of public notices in the newspaper and/or on Council's social media.

CONSIDERATIONS

Financial/budget considerations

There is not impact on rates as the assumption in the LTP was for grant funding for Hukutaia growth.

Risks

The ability to develop Hukutaia as proposed is now delayed pending further funding options.

Authority

Council has the authority to receive the report.

CONFLICTS OF INTEREST

Legal advice to Council (received last year and supplied to and discussed with Council) is that five of the seven Councillors have a potential conflict of interest in decision-making in relation to Hukutaia. The interests are varied and at one end of the scale as a potential developer and at the other end of the scale being an owner of a section that may end up being capable of subdivision.

Council staff have had engagement with the office of the Auditor-General, who are the ultimate arbiter of the Members Interest Act, to determine an appropriate way to manage this and it has been noted that whether a conflict exists depends on the nature of the decision to be made. The OAG will consider an exemption from the Members Interest Act requirements on a decision by decision basis. In this instance this is a "receive only" report that follows on from a fully consulted Long Term Plan decision and an exemption is not considered necessary. Any significant decision will require us to engage with OAG in advance to ensure that the interests requirements of the Members Interest Act can be complied with.

We also proposed an Independent member be brought into decision-making but that individual has yet to be determined by Council.

CONCLUSION

The Infrastructure Acceleration Fund application has been unsuccessful and therefore potential housing outcomes are delayed until funding can be secured. Some reduced scale development is still possible and staff are in discussion with several landowners about options.

RECOMMENDATION:

- 1. That the report titled "Infrastructure Acceleration Fund" be received.**

Aileen Lawrie

CHIEF EXECUTIVE



16 May 2022

Ōpōtiki District Council
PO Box 44
Ōpōtiki 3162

Attention: Chief Executive, Aileen Lawrie

Kia ora Aileen,

Infrastructure Acceleration Fund (IAF) – RFP Stage, P143 Hukutaia Housing Development

On behalf of Kāinga Ora, I would like to thank you for the Hukutaia Housing Development Proposal submitted by Ōpōtiki District Council in response to the IAF Request for Proposals (RFP) released on Friday, 15 October 2021.

As notified in our email on 2 May 2022, Kāinga Ora regrets to advise that this Proposal has not been selected to progress to the Negotiation Stage.

All applications at the RFP stage went through a robust process of thorough evaluation against the criteria set by Cabinet. The Hukutaia Housing Development Proposal had considerable merit and the need for development in Ōpōtiki to enable housing was made clear.

The IAF received a large number of Proposals that were of a very high calibre. Unfortunately not all can be funded through the IAF, therefore only those Proposals that best aligned to all criteria of the fund were progressed to the next stage of the process.

I want to stress that this outcome is not a reflection of the quality of the work that was put in by the Council team. We recognise a considerable amount of time and effort was involved and the application was prepared in a very thorough and professional manner.

Thank you again for the Proposal and the high quality mahi that was done by the Council team.

Ngā mihi,

A handwritten signature in black ink that reads "Andrew Brown".

Andrew Brown
Project Director
Infrastructure Acceleration Fund
Kāinga Ora – Homes and Communities

Hukutaia Development Plan

A strategic investment in
the future of Ōpōtiki

Briefing pack for Hon Kiritapu Allan
16 May 2022



newzealand.govt.nz



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Supporting growth in the Eastern Bay

Ōpōtiki is growing strongly thanks to Crown investment and needs expanded housing areas for our new workforce.

Minister,

I am writing to ask for your support in the further development of Ōpōtiki.

Since 2019, the Government has fostered the development of the Eastern Bay through the decision to construct the Ōpōtiki Harbour, which is already generating employment and growth for our region. The Government has also supported our community with investment in footpaths, cycle trails and our new library, Te Tāhuhu o Te Rangi.

And it is working! People have jobs, sometimes for the first time in a generation. There is hope and activity and new businesses starting, and many from Whakatōhea are returning to the rōhe to play their part in the rejuvenation of Ōpōtiki.

Our town and our District are growing again – and now the call has gone out for more homes, for the families and workers and managers and whānau that all wish to call Ōpōtiki home. So we are working hard to build houses and build solutions, sometimes with Whakatōhea, sometimes with Kāinga Ora, and sometimes with the private sector. And it is working, but too slowly.

We are a place of clever ideas and long term perspectives, so we are thinking not just of today or next year, but of what we must do for the coming decades, to make sure our people have homes. And so we wish to develop Hukutaia, and enable houses to be built across the slopes and hollows of the ridge that lies to the south and west of town, across the Waioeka River.

There are already homes in Hukutaia, with all the infrastructure we need – except for wastewater. We have roads and footpaths and streetlights and rubbish collection, and good access to schools and work. But there is insufficient wastewater to provide for more homes at greater density, because Hukutaia was developed using septic tanks.

So we need wastewater reticulation because there is none; we need increased water supply because it is insufficient; and we need more wastewater treatment because there is no capacity. We have the vision and the growth, but we do not have the resources to make these things a reality.

As the Government knows so well, infrastructure is critical to our growth as a nation – but it is expensive. To address the immediate requirements of Hukutaia and enable the development of up to 1,700 homes, we need to invest \$35-\$47 million. This is beyond the resources of our region of only 10,000 people, so we are asking again for your assistance.

At your invitation, we have sought funding through the Infrastructure Acceleration Fund. At the time we completed our application we had only begun the process of scoping and designing the projects, and there was much uncertainty about the solution and the costs. So we have continued to work on refining our approaches and reducing the costs.

And I have good news as a result. The infrastructure team at the Ōpōtiki District Council has significantly reduced the original investment requirements put to the Infrastructure Acceleration Fund and found a more cost-effective way to stage the development. Even so, the Infrastructure Acceleration Fund has declined our application and will not provide wastewater funding.

We will continue to seek other funding for transport via the NLTP, and we have changed our approach to stormwater to make it the responsibility of developers – which in turn is likely to impact the affordability of new homes in Hukutaia. But these seem like sensible steps to get development underway.

Because Hukutaia is more than just a place for houses. We are a low-lying town nestled in the embrace of two awa; we know about the threat of flooding and sea level rise. And so we are looking to the ridge lines and the rolling land in Hukutaia as a place of retreat, so that if the sea reclaims the town we have a plan for relocating our people and our businesses and our lives. Hukutaia is an investment in the immediate future, and it is an investment in the climate changed future our children and grandchildren will inherit.

Once again, we are asking for your help – not as a handout, but as a hand up. Help us build the infrastructure so our District can continue to grow and develop, as was planned when the Government had the foresight and vision to approve the development of our Harbour.

In this document you will find information about our plans in Hukutaia, the local landowners who wish to start building houses, and the infrastructure we need to make this a reality. We have much more detail to share, and we look forward to the Government once again giving consideration to the plans and ambitions of Ōpōtiki.

Lyn Riesterer
Mayor
Ōpōtiki District



The Hukutaia development in Ōpōtiki

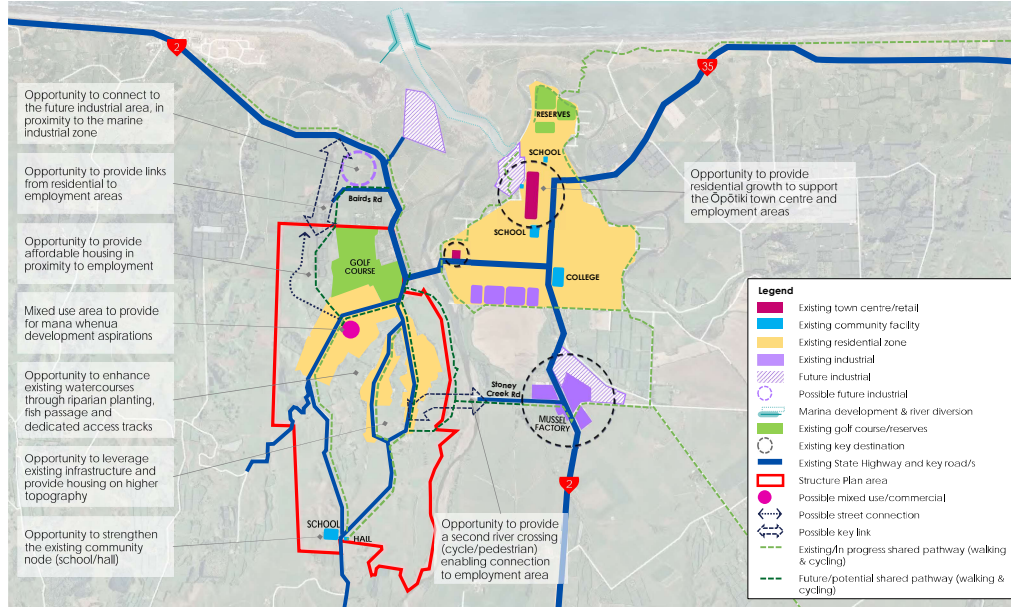
We have a considered and robust plan to expand housing by developing Hukutaia.

The announcement by Cabinet of funding for the Ōpōtiki Harbour is supercharging the economy of one of Aotearoa's most deprived regions. Businesses are growing, employment is on the upswing after nearly four decades of decline, and the population is increasing.

People are returning to Ōpōtiki because of the opportunities in aquaculture, kiwifruit, construction, primary industries and supporting businesses – and because the COVID-19 pandemic has created a unique impetus to return home to whānau.

All of this is putting enormous stress on housing – prices and rents have all rocketed. During February 2021, house prices increased in value faster in Ōpōtiki than anywhere else in New Zealand. According to CoreLogic's House Price Index, the average value of homes increased by \$61,938 in February, rising to \$434,577. During 2021 Ōpōtiki house prices have continued to soar, with the average house price rising to \$551,000 in October.

In response, the Ōpōtiki District Council is proposing the development of the Hukutaia area on the ridgelines to the south and west of the township. And to support development at the scale necessary to address the housing issues, ŌDC has applied for financial assistance to the Infrastructure Acceleration Fund, administered by Kāinga Ora. The diagram below shows the extent of the planned development area.



The development approach

- The first stage of the Hukutaia development sees **484 homes constructed** at the northern end of the neighbourhood.
- Later stages allow for a further **1,400-1,500 homes** extending into the southern and western development areas.
- The initial infrastructure build-out provides **core three waters and transport infrastructure** to enable the first stage to proceed, with later stages self-funding from development contributions.
- The size of the development allows the Ōpōtiki township to address its **acute housing challenges** in the short term and allows a **managed retreat** from the low-lying areas within the river oxbow in the medium term.
- The development approach uses **inclusionary zoning** to ensure **social and affordable housing goals** are achieved, with the active support of local landowners and developers.
- Landowners are looking to **commence development in Q3 FY22/23**, assuming sufficient three waters infrastructure is in place to support the required housing density.

Hukutaia gives us climate change options

Ōpōtiki will be adversely impacted by rising sea levels, and Hukutaia allows us to build for the future.

Ōpōtiki town is low-lying and is vulnerable to the effects of sea level rise. Recent work by the NZ SeaRise project – based on the IPCC 5th Assessment Report – has overlaid the impending sea level rise due to climate change with the effects of Aotearoa’s unique geology, which results in much of our land sinking over time. The results are sobering.

As the SeaRise analysis shows, oceans have already risen 20cm since 1900, and based on the projections for Ōpōtiki there will be a further 50cm of increase over the next 30-40 years. This will be sufficient to significantly raise the risk of major flooding events, leading to the loss of homes, businesses and infrastructure within the town.

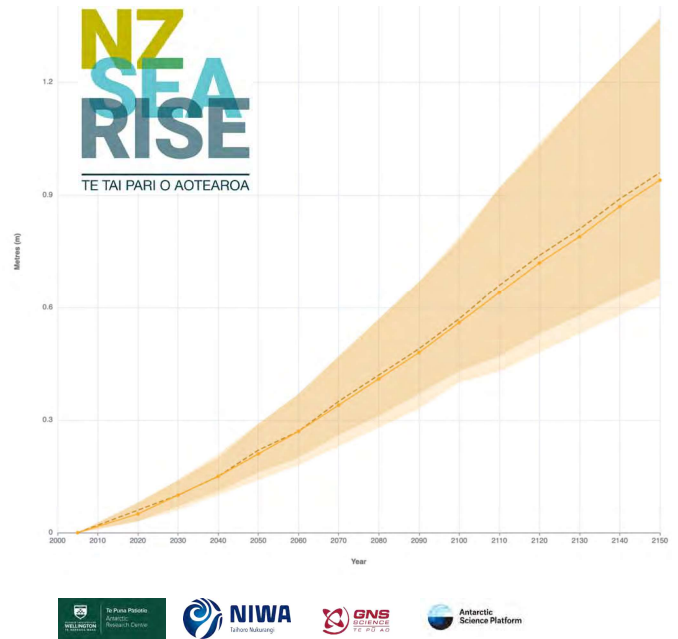
There is no easy or straightforward solution to this challenge. There is no combination of flood protection measures that will serve to keep back the ocean – so a gradual and managed retreat is the only sensible course. There is yet time to plan for and facilitate a gradual move from the existing town centre to higher ground.

Which is where the role of Hukutaia becomes important. Because of its location, size and development potential, Hukutaia is the logical place to gradually relocate Ōpōtiki, moving people, homes and businesses as the current town location becomes less tenable.

For instance, a major flooding event in Ōpōtiki will badly damage homes and trigger replacement insurance for homeowners and businesses. Rather than rebuilding on the vulnerable flat areas, we can offer insurance companies the ability to rebuild within Hukutaia, away from the flood risk and further claims on policies – but only if we have the infrastructure to support the relocation.

This is why Hukutaia is critical to the future of the Eastern Bay – because it not only provides housing for whānau in the near future, it gives us a future for our town and our way of life in the medium term.

Ōpōtiki has proven itself resilient and adaptable in the face of change – and we can adapt to climate change as well. But only if we have the support needed to build the infrastructure today that will give us choices about how and when to move our families and livelihoods.

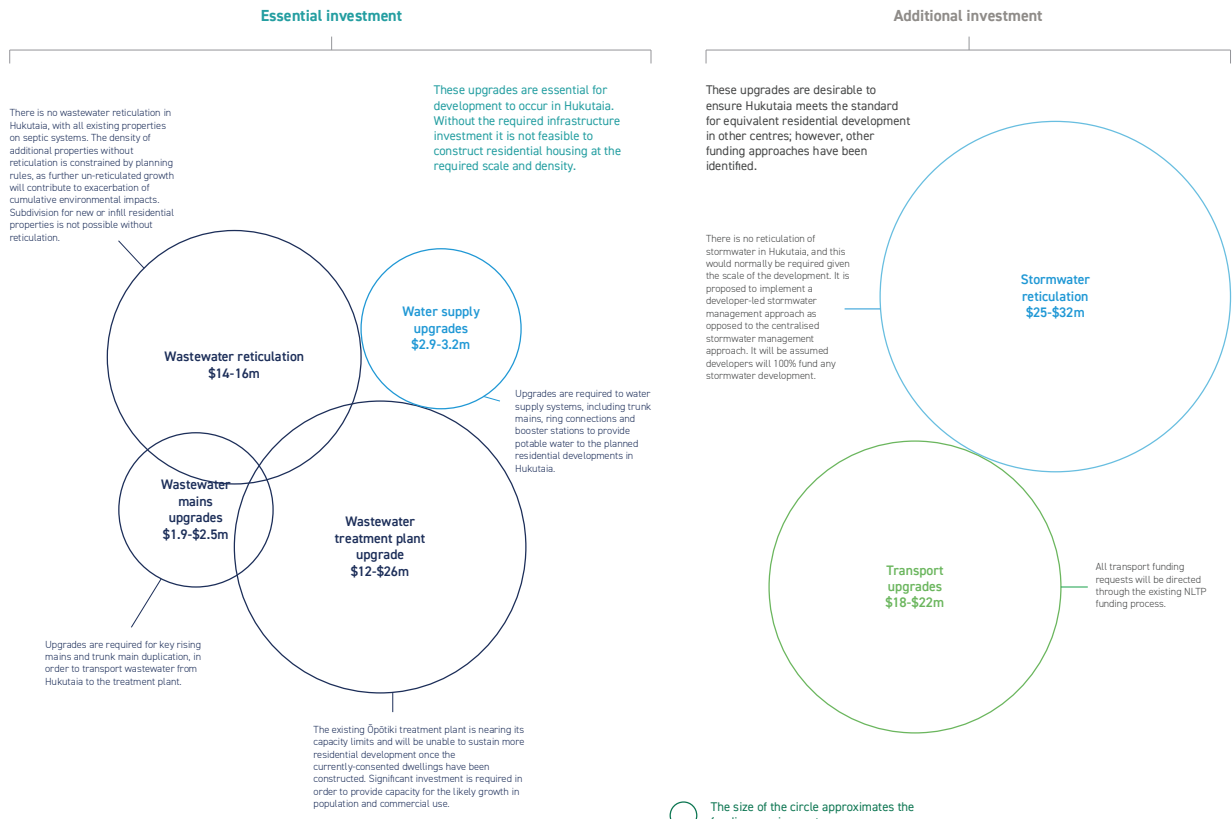


The elements of the infrastructure investment



Opotiki District Council
STRONG COMMUNITY STRONG FUTURE

There are a number of components to the infrastructure required to develop Hukutaia.



Developers wish to proceed with new housing

Development 1: the Kiwifruit orchard can commence in 2023 and deliver 60 new homes quickly.



Old hospital site
Proposed development site for Whakatāhea, planned to incorporate some light commercial spaces.

Existing residential development
Recent subdivision in Hukutaia has been focused on the areas adjacent to the kiwifruit orchard, so there is clear demand for sections and houses. The lack of wastewater reticulation is now the constraining factor for further intensification.

Development area
A single land parcel with potential for around 60 medium and mid density houses, on land with a largely flat profile and good outlook to the north. The landowner has commenced surveying and geotechnical work as the precursor to development commencing.

Kiwifruit orchard

- Around 60 houses with a mix of affordable and market solutions
- The land is a working and profitable golden kiwifruit orchard, with surrounding residential development
- Landowner has development experience and financial resources, and wishes to move quickly
- Possible completion date 2023-25

This site is a productive and profitable golden kiwifruit orchard on Hukutaia Road, south of the old hospital site. The general area has been the recent focus of residential subdivision in Hukutaia, so there is development on the north and south of the site, as well as across the road. The constraining factor on further intensification is the lack of wastewater reticulation.

The current landowners are keen to proceed with development at pace, and have commenced survey and geotechnical work in preparation. The site will support around 50-60 sections of approximately 600m² each, based on current designs.

The landowners have the financial resources to begin development quickly, along with the expertise to undertake subdivision. They have strong links to community trusts and are committed to enabling affordable housing as part of the development.

Developers wish to proceed with new housing

Development 2: the dairy farm redevelopment has commenced planning and will deliver around 150 homes.



Residential development

The development area is largely surrounded by existing residential housing, including high quality executive homes in places.

Development area

A single land parcel with potential for around 100 medium, mid and low density houses. Centred on an existing reserve which will be developed as a neighbourhood green area, retaining the native ngāhere.

Existing reserve

Intersection upgrade

The current intersection will be inadequate for the increased volume of traffic in the area and will require engineering and safety upgrades.

Dairy farm

- More than 150 houses with a mix of affordable and market solutions, centred on a ngāhere reserve
- The same landowner as the Woodland Road development will ensure an efficient approach
- Wastewater infrastructure will need to be delivered to the intersection and roading improvements made
- Possible completion date 2024-26

This site is part of an existing farm. The scale of the development is significant, with 100-150 sites likely to be available, depending on configuration. The presence of an existing reserve at the centre of the property will allow for some innovative and highly attractive approaches, perhaps based on a village green.

The site itself is well suited to residential development as it is largely surrounded by existing homes and has a gently rolling contour. There are multiple points of access, although some engineering and safety improvements will be required at the Grant Rd/Woodland Rd intersection to accommodate the predicted traffic growth.

This site is particularly well placed for active mode connection across the Waioeka River using the planned bridge at Stoney Creek Road.

The project is regarded as an efficient site to develop from an engineering and commercial perspective.

The capital requirements

There are significant challenges in funding the necessary infrastructure investments.

The diagram below shows the scale of the infrastructure funding challenge. Using our low-range estimates for only the essential minimum infrastructure, investment of \$30.8 million is required – against total Long Term Plan funding of only \$6.4 million from Ōpōtiki’s ratepayers.

To put our LTP contribution in perspective, the servicing cost on the additional debt amounts to a 2.5% rates increase – for one of the most

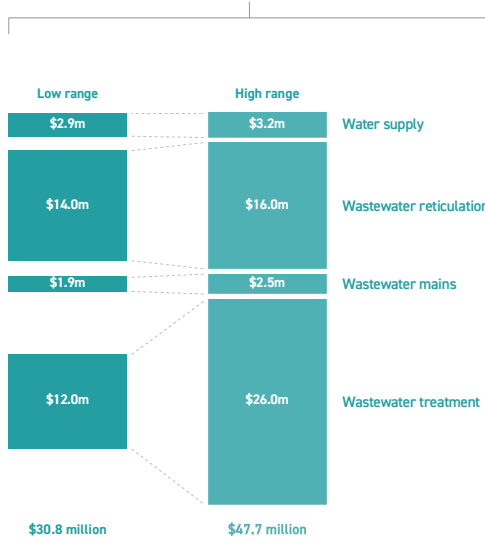
deprived communities in Aotearoa, where the median income is around \$22,000 per annum. While every community needs to pay its fair share of the infrastructure it uses, investments of this scale are simply beyond the capability of local ratepayers.

Development contributions also have limited ability to fund infrastructure at this scale. Allocating the infrastructure costs to developers results in

section prices rising between \$50,400 and \$85,300 for the first 484 sections, which is a 25%-40% increase in prices in Ōpōtiki – thus ruling out Hukutaia as a source of affordable housing for the District.

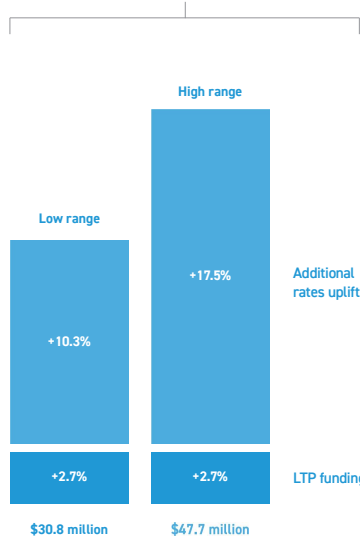
Essential investment

These upgrades are essential for development to occur in Hukutaia. Without the required infrastructure investment it is not feasible to construct residential housing at the required scale and density.



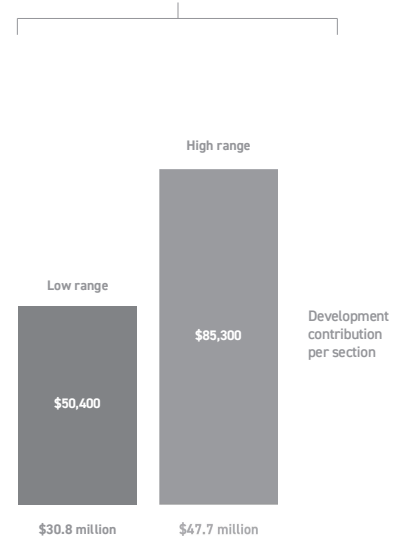
Ratepayer funding

Funding the investment via LGFA bonds results in a significant repayment burden for Ōpōtiki ratepayers, over and above the commitments agreed to in the 2021-31 Long Term Plan.



Developer funding

Funding the investment via development contributions will raise section prices around 25-40% in Ōpōtiki.



There are opportunities and challenges

Further housing development is an essential prerequisite for Ōpōtiki's continued growth.

There are both risks and opportunities for Ōpōtiki's future.

Thanks to early and decisive private sector investment in aquaculture following announcement of the Ōpōtiki Harbour, employment and business growth is running ahead of original projections – which means the investment risks for the harbour, seafarms and supporting processing plant have all decreased, and export volumes are set to rise rapidly in the years ahead.

However, this growth is critically dependant on workforce availability – which in turn is critically dependant on housing availability at scale. More than 500 homes are required within the next 5-10 years to support the projected growth in employment.

The diagram at right shows the scale of the opportunity and the extent of the challenge. Net national benefits – after the harbour, seafarms and processing plants have been paid for – are projected to exceed \$133 million, with very low commercial risks.

But a constrained workforce means seafarms cannot be developed as quickly, the harbour and the onshore processing runs inefficiently due to low volumes, and the value of the assets – to the Government, iwi and the private sector – declines. In this scenario, the net national benefits are only \$24 million and the commercial risks rise dramatically.

Hukutaia is the key to Ōpōtiki's growth – because the scale of housing development needs to match the scale of workforce growth.

But developing the essential three waters and transport infrastructure for Hukutaia is beyond the capability of Ōpōtiki acting on its own. Support is needed from central Government, acting as the foundation infrastructure investor through the Infrastructure Acceleration Fund, alongside ŌDC and the private sector.

Ōpōtiki is therefore requesting assistance to maximise the investments already made by Government, iwi and the private sector in the Eastern Bay of Plenty.

